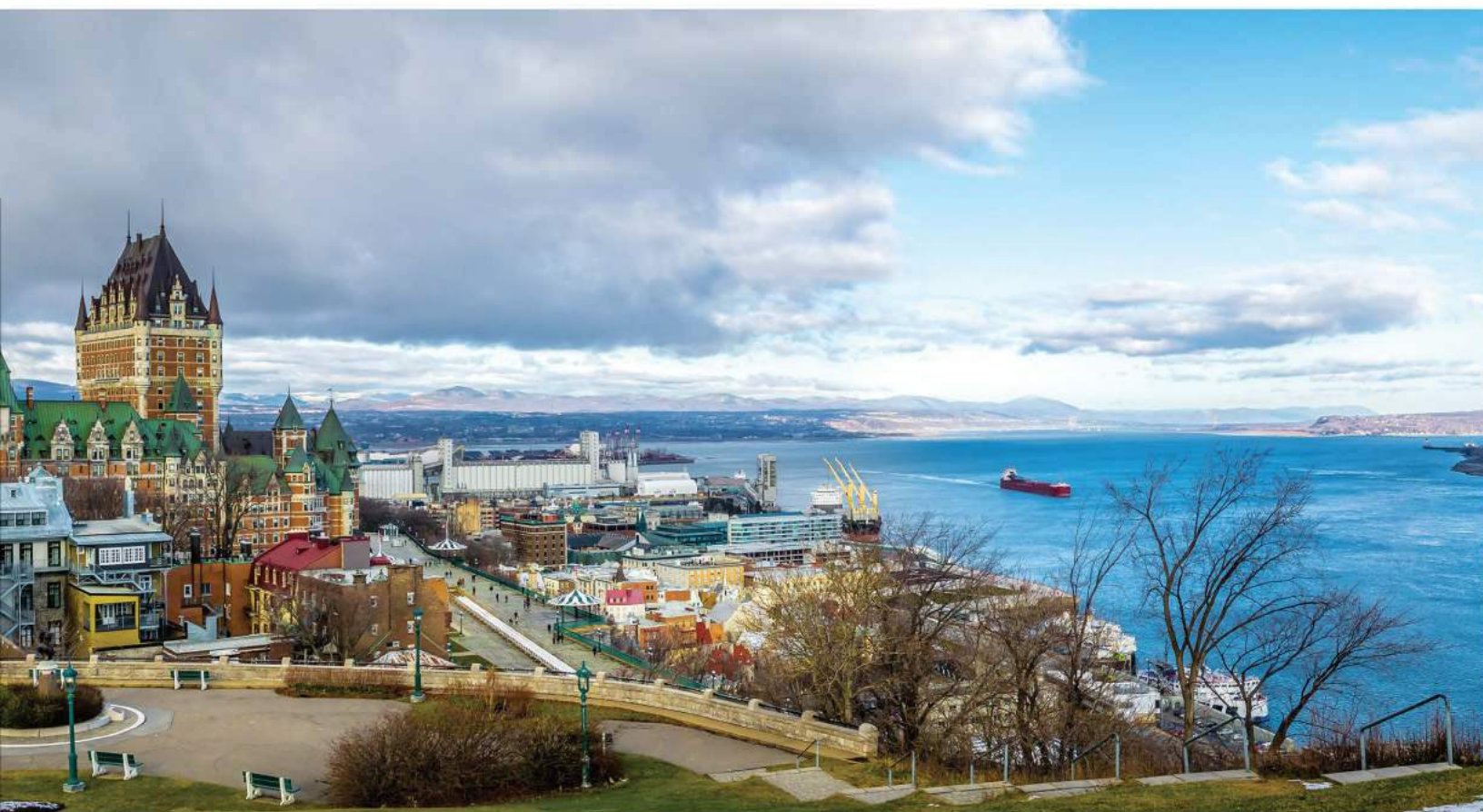


Case Studies
Frameworks
Conversations
Roadmaps

THE IMPACT INVESTING GUIDEBOOK

for Foundations



COMMUNITY
FOUNDATIONS
OF CANADA
all for community

FONDACTIONS
COMMUNAUTAIRES
DU CANADA
ensemble pour tous

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FOREWORD FROM MATTHEW BISHOP

As the world goes through unprecedented change, the good work that foundations do is needed more than ever. Today's challenges are increasingly complex and cut across society's traditional problem-solving lines. Tackling them demands the sense of purpose, bold thinking, risk-taking and long-term perspective that foundations at their best are uniquely able to provide. Indeed, the world needs foundations to perform better than ever, which is why I am so excited about the emergence of the field of impact investing, and the potential that has to be a game changer for philanthropists and others engaged in solving the world's biggest challenges.

When you are trying to make today's world a better place, I believe that foundations can no longer afford to leave 95% or more of your resources sitting idly by as they head out to fight the good fight. Yet that has been a downside of the endowed foundation model that has evolved in the past century in many countries, including Canada. The money that is granted each year to do tremendous amounts of good comes out of an endowment that is invested to maximize its total monetary value — even if some of the things it is invested in actually work against the mission of the foundation.

Happily, a better way is emerging, as this Guidebook makes clear: a new model in which all of the assets of the foundation can be harnessed all of the time to help advance the foundation's mission to improve the state of the world.

The first element of this model is that foundation executives, board members and trustees are free to look at everything they do with their endowment through the lens of risk, return and impact. Indeed, not only are they free to do so, it is what they should do. The G8 Taskforce on Social Impact Investment, led by Sir Ronald Cohen, of which I was the Official Report author, provided valuable clarification that fiduciary responsibility does not obligate a trustee to ignore the social impact of their investment strategy; on the contrary, a good fiduciary has a duty to see the full picture, and to ensure that nothing the foundation does through its investments undermines its mission.

The second element of the new model is that there is a rapidly growing industry catering to the needs of investors who want to take impact into account as well as risk and return. There are lots of different options, depending on how deeply you want to go, from responsible and sustainable investment products, to ESG (environmental, social and governance) screens to full on "impact investing", which explicitly sets out to make money and do good at the same time. And these impact strategies are increasingly being offered by the most blue-chip financial institutions, that have the sort of reputation for financial rigor that will reassure any trustee. BlackRock, the giant fund management firm, has a noteworthy impact investment offering, as do Goldman Sachs, Bain Capital, TPG and many others. This mainstreaming has made it possible for foundation presidents such as Darren Walker of the Ford Foundation to overcome the natural skepticism of their investment committee and commit to commit \$1 billion (almost 10% of the endowment) in impact investment.

The third element is that foundations no longer rely on grantmaking as the only tool they have to get their job of change done. Mission related investing (MRI) and program related investing (PRI) have been around for years, but never got out of a very small niche. The mainstreaming of impact investing has the potential to change that dramatically, by giving foundations new highly scalable tools that generate financial returns even as they do good. Increasingly, the most effective strategies for foundations will involve figuring out how to combine grants, loans, equity investments and so on to achieve the maximum positive impact on the world.

These are potentially extraordinarily exciting times, in which embracing the possibilities of impact investing can dramatically increase the effectiveness of foundations in building a better world.

Purpose Capital, Philanthropic Foundations Canada and Community Foundations of Canada have produced an excellent Guidebook, tailored to the foundation sector in Canada, that you can rely on to advance your progress on this important journey. Bon voyage!



Matthew Bishop

Senior editor, The Economist

Coauthor *Philanthrocapitalism: How Giving Can Save the World*

Official Report author, the G8 Taskforce on Social Impact Investment



PREFACE

Foundations have a long history of enabling social change, as they are uniquely positioned outside the constraining structures of business and government to address the most pressing of issues facing our society. These changes have primarily been achieved through mission-driven programs and grant making, even though the majority of a foundation's assets remain invested in traditional financial products without consideration of their impacts on the world.

Increasingly, foundations are seeking to place a greater portion of their endowed assets in investments that will generate financial returns and enhance their positive social and/or environmental impact. At the same time, there is an ever-increasing number of organizations that generate this kind of holistic return, examples of which can be found throughout this guidebook. Impact Investing is an approach to providing capital these types of organizations, companies and funds with the intention of generating positive social and environmental outcomes alongside a financial return.

Foundations have in turn become natural leaders in Impact Investing in Canada and across the globe, as it can serve as a strong complement and potentially transformative addition to grantmaking. With a history of only 3 - 5% of their total assets conventionally being used for grant making, there is potential to unlock up to 20 times more resources for mission than before. Beyond an opportunity — some have gone so far as to suggest that Impact Investing is a moral imperative for the philanthropic sector.

As the field has matured in recent years, Impact Investing has steadily gained more attention in the philanthropic community in Canada in particular. The Canadian Task Force on Social Finance has set a target for Canadian foundations to invest at least 10% of their capital in mission-related investments by 2020 — which would collectively redirect an estimated \$7 billion in assets toward greater impact.

While dozens of Canadian foundations of all types and sizes took to action, including those featured in this guide, more and more time was dedicated to discussing the topic at conferences and board meetings. Yet many interested executive directors and board members' progress was stalled when encountering a set of issues, both real and perceived, that could be easily resolved with a practical guide and dedicated suite of supports from experts and peers.

This guidebook, its online hub and coaching service are intended to address that need. It was created through a partnership between Community Foundations of Canada, Philanthropic Foundations Canada and Purpose Capital as a trusted resource rooted in the practical, day-to-day realities of foundations and impact investors.

The end goal of this project is simple: to help a wide range of Canadian foundations take informed action to align their investments with their values. In doing so, they will be joining a community of hundreds of foundations from around the world who have already taken major strides to invest their capital in accordance with their mission.

It is our hope that, if equipped with 21st Century tools and approaches, the philanthropic sector will be able to build on its history and collaborate to tackle head-on the problems of the 21st Century in all of their complexity. If our collective efforts prove successful, we believe the potential is vast for Canadian Philanthropy to work across sectors and create a better future.



Jonathan Glencross
Director, Purpose Capital
Lead Author – The Impact Investing Guidebook for Foundations



WHOM AND WHAT IS THIS GUIDE FOR?

This guidebook and its online hub and coaching services were created to inform and support interested Canadian foundations to begin or deepen their Impact Investing activity.

We created the guidebook and its network of supports for foundations large and small, with different capacities and levels of commitment. While the size of a foundation can increase its capacity to invest, foundations of all types and sizes have chosen to follow this path from a desire to have a greater positive impact in their communities and the world more broadly. It includes answers to many common questions, including, but not limited to:

- What is Impact Investing?
- Why is it important for foundations?
- What are other foundations doing about it?
- How can we begin, advance or improve Impact Investing at our foundation?

The guide was written to provide practical strategies and tactical support for executive directors and board members of foundations that are considering or beginning to make impact investments. It covers a range of materials, including:

- A roadmap to begin or deepen Impact Investing at your organization
- Success stories from foundation leaders
- Clear examples of Impact Investing in practice
- Myths that can get in the way of Impact Investing, and motivations that can help overcome barriers

This guide features stories from foundation leaders who have successfully introduced Impact Investing in their organizations. Each story links to extended content — interviews, videos and other material — created to support your journey. Read on to discover multiple paths, strategies and tactics for advancing your Impact Investing journey.

"This Guidebook is a powerful resource with a wealth of practical information to help senior staff and board members join the growing number of Canadian foundations that are investing their capital for greater impact."



Andrew Chunilall
CEO, Community
Foundations of Canada

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Hilary Pearson,
President, Philanthropic
Foundations Canada

"Foundations who are exploring approaches to investing with purpose and impact will find excellent case studies and clear and practical advice in this Guidebook. This is an important new resource for the Canadian philanthropic field."

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HOW TO USE THIS GUIDE AND ASSOCIATED RESOURCES

Associated Resources



Access the resource hub

This guide explains the basic principles and methodologies behind Impact Investing. To go deeper, click on the bolded links and logos and access fact sheets, case studies and other supplemental material.

A glossary of terms is available in the resource hub



Receive 1-on-1 support

Click on this support logo to access the Impact Investing Coaching Service, which provides one-on-one support for exploring, developing and implementing Impact Investing at your foundation.

Skip to the section that is relevant for you

"I am familiar with the concept of Impact Investing. I want to know what it looks like in practice before I proceed."

- > [Impact Investing in Action](#)
- > [Opportunities across asset classes](#)

"I am not sure if my organization has the capacity for Impact Investing. I want to understand the implications before I begin."

- > [Myths and Challenges](#)

"I am unsure how Impact Investing is different from other types of investment, such as sustainable investments and socially responsible investing."

- > [Definition of Impact Investing](#)

"I am already interested and inclined, but need a process to help me move forward."

- > [A Roadmap to Move Capital to Mission](#)

"I am ready to take action but lack resources or time to start. I want a simple first step."

- > [Quick Wins](#)

case studies

IMPACT INVESTING IN ACTION

Learning from Practitioners: Voices of Foundation Executives

Canadian foundations have been Impact Investing for decades — long before the term ‘Impact Investing’ was coined in 2007. These investments were often loans to charitable partners to support local communities.

A growing number of foundations are now using Impact Investing to support a wider set of organizations that share their mission. They are investing more capital to address issues such as sustainable food production, climate change, as well as access to housing, healthcare and education — while also making a financial return.

Below you will find first-hand stories from foundations that are using Impact Investing to deepen their commitments to social change.



For more than a dozen other foundation case studies like these, visit the resource hub.



OTTAWA COMMUNITY FOUNDATION

Why did the Ottawa Community Foundation start Impact Investing?

Impact Investing is a way for us to channel more dollars into the community and maximize our impact. We can leverage our endowment to make a social impact while also earning financial returns that drive our grantmaking.

The Ottawa Community Foundation was established in 1987 to seed, nurture and support initiatives that strengthen Ottawa's community. We have a pretty poor set of social statistics in Ottawa: 75,000 food insecure people, 10,000 households waiting for affordable housing, 7,000 people using shelters, and one in six kids growing up in poverty.

Who is responsible for driving these numbers to zero? Government isn't going to do this alone. And the private sector hasn't risen to the occasion. Comparatively, our money is a drop in the bucket — especially if we only rely on grant making. To make our dollars go further, we decided to use our investments as a catalyst.

How do you do it?

We initially committed 5% and then 10% of our endowment to impact investment, which is managed by a new Impact Investing Committee. Since we do not have the resources and expertise to source and perform due diligence on impact investments, we generally invest through intermediaries. We make a distinction between Market Investments and Direct Investments. Market investments are aligned with the foundation's mission and with our general investment committee's financial objectives, as they do not compromise on the expected financial return. On the market side, we committed \$5 million to sustainability-focused funds through the Mercer Sustainable Opportunities Fund, which makes investments in sustainable agriculture and alternative energy, among other areas. We are also

supporting affordable housing in Canadian cities through our \$1 million equity commitment to New Market Funds' affordable housing fund.

Within our Direct Investments, we're providing loans to local non-profits through intermediaries, for example a \$1 million investment in the Community Forward Fund (CFF). Our other investments in this pool include Youth Catalyst Funds and a Social Enterprise Platform. With these investments, we are targeting a very high social return and are willing to take a higher risk. We think we'll be able to continue to grow this allocation to up to 5% of our total capital thanks to the increased appetite from donors who increasingly look to support market solutions to social issues.

What is your impact?

One straightforward example: the foundation was an early investor in the Community Forward Fund. Our \$1 million commitment made an additional \$2.6 million in loan financing available to charities in Ottawa and nationally in under-funded sectors such as social services, arts and culture, social enterprises and affordable housing. We believe debt financing can create deep impact through supporting early-stage social enterprises, and we are looking to allocate more to this area in the future.

"our \$1.5 million commitment enabled an additional \$2.6 million in loan financing to charities in Ottawa."



In the words of Marco Pagani
President and CEO



Read our case study on the Ottawa Community Foundation's work in Impact Investing, the process they've taken, and how they view this work.



LAWSON FOUNDATION

Why did the Lawson Foundation start Impact Investing?

The impetus for the Lawson Foundation to become active in Impact Investing came initially from our members. They felt that in order to maximize the impact of the Foundation's philanthropy, we should look intentionally at how to better harness the Foundation's endowment assets for social and environmental good in addition to generating financial return.

Our interest in Impact Investing also stems from our convening work in the areas of diabetes and early child development, which demonstrated that there are other ways to support social change beyond traditional grant-making. At the Lawson Foundation, we now consider Impact Investing, convening and grant-making as three tools we can use to expand our reach.

How do you do it?

We started by committing 3% of our endowment to impact investments back in 2011. We wanted to get out there and do it — with the intent of learning as we go.

We quickly realized that we had much learning to do. Our research included connecting with early adopters, including the Ottawa Community Foundation and the McConnell Foundation, to gain insight into different approaches to Impact Investing. The Centre for Impact Investing at MaRS agreed to advise the Foundation on its strategy to move forward. We also considered how Impact Investing could be helpful for our grantee organizations and what tools and capacities would be required. We stayed intentionally broad to look at a wide range of impact investment opportunities beyond our grant-making areas of interest.

In 2014, the Foundation made its first two impact investments, including an investment in an intermediary fund which provided a relatively straight forward way to dip our toes in the water while supporting a key player in the Impact Investing landscape.

We gave ourselves three years to achieve that goal of 3%. During that time, the Foundation limited its Impact Investing to seven offerings, creating a manageable portfolio and giving us time to gain experience working with various investment vehicles. In 2017, we are undertaking a review of our investments, their financial and social impact, and the current landscape with a view to increasing the portion of our endowment that is used for impact investments.

What is your impact?

Our Impact Investing strategy is making an impact in two significant ways: through our investments and our participation in helping to build the field. We support a wide range of causes, from training immigrants through Immigrant Access Fund Canada, to supporting health and sustainability in the food and agriculture sector through our investment in InvestEco. We are actively engaged in exploring ways to address implementation issues, e.g., around due diligence, that could support some foundations' ability to participate in the market.

Innovation Works (IW) has been particularly interesting for us. Based in London, Ontario, where the Lawson Foundation was formerly headquartered, IW provides a collaborative, co-working space to support a variety of charities and social enterprises. We are a lead investor in the initiative's community bond, an interest-bearing loan that provides stable financial returns as well as social benefit. We also provided a grant to support IW's programming, to see what it would mean to blend our grant-making and investing. Within a year of our investment, Innovation Works was able to demonstrate strong interest and support from the community while helping to generate new social change businesses and unique collaborations.

For the Lawson Foundation, Impact Investing has become a key tool for us to achieve impact — but our strategy, available resources and the market for Impact Investing are all still in their infancy. As we look to the future, we plan to help grow the field and practice of Impact Investing in collaboration with other funders, grantees and partners who are committed to social change. It's a big shift for the Lawson Foundation and we're excited about the potential and opportunities that Impact Investing presents.

LAWSON
FOUNDATION

In the words of Karen
Shelstad, Program Director

"We started by committing 3% of our endowment to Impact Investing back in 2011."



MOTIVATIONS: WHY FOUNDATIONS ARE TAKING ACTION

In the process of creating this guidebook, Purpose Capital conducted an online survey of 40+ Canadian foundations, 20 one-to-one interviews and three focus groups in 2017 to ensure a representative sample. The motivations listed here are the most commonly referenced from that in-depth research with practitioners.

motivation

COMMIT MORE CAPITAL TO OUR MISSION

Endowment capital represents the vast majority of a foundation's assets but is rarely used for any purpose beyond a financial return. Impact investments help unlock this capital by generating financial returns while supporting the mission.

motivation

ALIGN OUR MONEY WITH OUR VALUES

Impact Investing can allow you to invest in opportunities that all stakeholders can feel morally comfortable generating financial returns from. They can help ensure that your investments aren't working against the world you want to create.

motivation

SUPPORT NEW SOLUTIONS TO OLD PROBLEMS

Impact Investing can support innovative, viable solutions to the issues we want to address, enabling social enterprises to scale and bring new projects and products to market.

motivation

MANAGE FOR RISK AND RETURN THROUGH DIVERSIFICATION

Impact investments in private markets can reduce portfolio risks and create growth through diversification into new sectors, geographies and business models — for example, you could focus on investments that complement your public portfolio.

motivation

ENGAGE DONORS AND TRUSTEES

Impact Investing can make fundraising foundations more attractive to young investors, entrepreneurs and trustees who believe in market-based solutions to social and environmental issues.



case studies

LESSONS FROM THE FIELD

Voices of Foundation Investees

What does Impact Investing look like on the ground? How does it benefit people or the planet? Read the impact stories of KUTERRA and New Markets Fund — two organizations receiving impact investment capital from foundations.



case study
KUTERRA

••• **What is the mission behind KUTERRA?**

KUTERRA is a for-profit business in British Columbia fully owned by the 'Namgis First Nation. For more than 4,000 years the 'Namgis community has depended on Pacific salmon not only for nourishment, but for survival. There has been a proliferation of aquaculture on our territory, which is killing off the wild salmon.

In recent years, we noticed two market trends: Atlantic salmon have become the salmon of choice for millions of seafood eaters and consumers are increasingly concerned about the health and sustainability of seafood. We started KUTERRA to meet this growing demand. Our land-raised salmon keeps the farm environment on the farm while preserving local ecosystems.

••• **What is your impact?**

Our objective is twofold: catalyze the new industry of land-based sustainable fish farming and create a profitable business for the 'Namgis people. KUTERRA dispelled a number of myths about RAS facilities, including the amount of water, energy and land required. Based on this experience, land-based facilities are being built in countries around the world. We actively protect the marine and land environment from contamination. Our facility relies on the latest energy-saving technologies, and we recycle and reuse most of our water using biofilters. We spent \$6 million to build the farm in an economically-depressed area of Northern Vancouver Island; this has had a positive impact on the local community.

••• **How do you achieve it?**

We raise our fish on land in a closed containment recirculating aquaculture system (RAS) facility in 'Namgis First Nation traditional territory on Northern Vancouver Island near Port McNeill, British Columbia. We use state-of-the-art energy-saving technologies, reuse water in the facility and create optimal conditions for fish to grow in a stress-free environment.

For over three years we worked hard to understand the best, most efficient operating parameters for growing fish. **Tides Canada and Vancity Community Foundation were instrumental in funding the costs associated with feasibility studies and building the pilot facility.**

In late 2016 the company broke even. We are now looking for growth capital to expand our operations.

"In November 2016, the company broke even after three-and-a-half years of intense activity to determine the best, most efficient operating parameters for growing fish."



In the words of Debra Hanuse,
'Namgis First Nation Chief

Select Investors:

Vancity
Community Foundation

 **Tides Canada**



case study

NEW MARKET FUNDS

What is the mission behind New Market Funds?

Governments and the non-profit sector are coming up short when it comes to tackling challenges such as providing people with affordable housing. We need new, market-based approaches that can deliver at scale.

For co-ops and non-profits, having access to sufficient equity is often the most significant barrier to building new affordable housing. New Market's Rental Housing Fund brought five foundations together to achieve the scale and impact that none of them could do on their own. The foundations provided much-needed early-stage financing to cover operational expenses, which allowed New Market Fund to set up the NMF Rental Housing Fund.

We are the first investment fund in Canada that brings commercial investors to the table to partner with non-profit and cooperative housing operators to develop new affordable housing units.

The targeted annual return for fund investors is 6%, net of fees, including a 4% quarterly distribution. To protect affordability of rents, we set a maximum on returns that the fund's properties can generate. In exchange, investors receive significant risk protection, as we invest in stabilized multifamily properties and our partners provide a large amount of higher-risk (subordinated) capital on each deal. This further mitigates risk for fund investors.

What is your impact?

The goal for the fund is to invest in 8 to 12 projects, ultimately creating a total of 750 affordable rental housing units in Vancouver, Toronto and other Canadian cities. The first investment in four housing developments will bring to market 358 rental homes for families, the elderly and people living with mental illness. On average, the units are affordable to households earning only 70% of an area's median income.

How do you do it?

We finished raising capital for the fund in the spring of 2017 with \$24.7 million committed. Roughly half the capital came from private and community foundations; the other half was from institutional investors and family offices. The fund's structure allows us to bring in more capital by unlocking opportunities for our investors that are not otherwise available in the conventional market.

As an example, we invested \$11 million in four new housing developments in Vancouver. This is approximately 9% of the \$120 million combined value of these projects. Our investment was key to moving the project into the construction phase. The goal is for co-op and nonprofit partners to pay down mortgages and build their equity in the properties from rental income over the first eight years of operations, then buy out the projects from the fund.

"The targeted annual return for Fund investors is 6%, net of fees, including a 4% quarterly distribution."



In the words of Garth Davis, Managing Director, New Market Funds

Select Investors:

The Bealight Foundation

HAMILTON COMMUNITY FOUNDATION

La Fondation McConnell

TRICO

LAWSON FOUNDATION

Vancity Community Foundation

Tides Canada

The Michael Young Family Foundation



HOW BUSINESS SOLUTIONS CAN ACHIEVE POSITIVE SOCIAL CHANGE

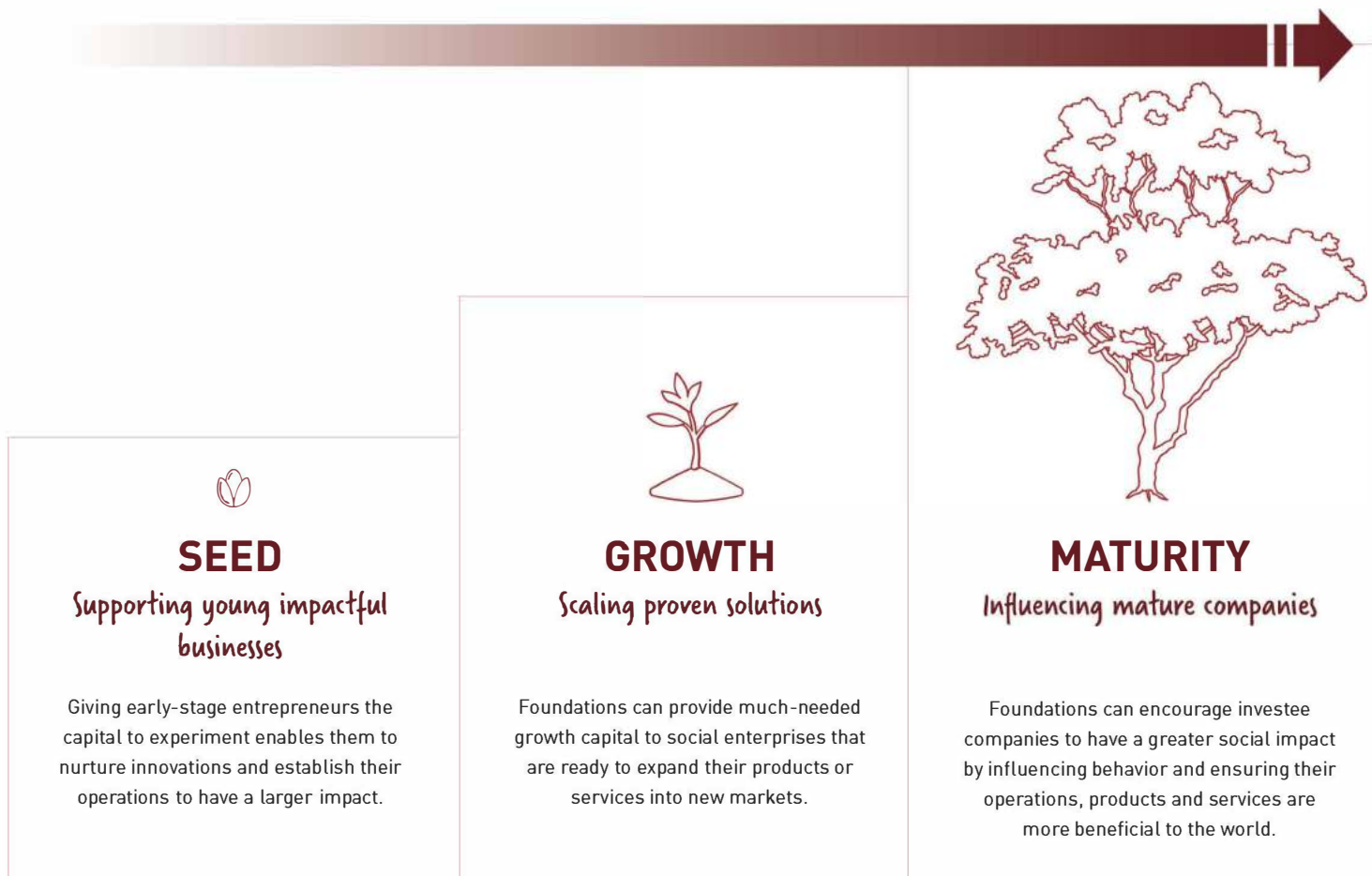
If you spend enough time in philanthropic circles, you may occasionally encounter the belief that organizations cannot make a profit while simultaneously bringing about positive social and environmental change. However, we also know that society must rely on more than traditional philanthropy and government grants to tackle the challenges we face today.

As the case studies above show, Kuterra and New Market Funds are both for-profit entities that are having significant social and environmental impact. These are just two of many examples of a larger wave of organizations that are bringing business solutions to causes often left to the public or charitable sectors to address on their own. The ever-increasing number of businesses that are focusing their core competences to bear on such causes represents a promising evolution of the role of the private sector in providing a public benefit.

For more examples of impact-focused businesses and funds, see the "[IMPACT INVESTING ACROSS ASSET CLASSES, THEMES AND GEOGRAPHIES](#)" framework in this document and visit openimpact.ca

How to support mission-aligned businesses at various stages of maturity

Foundation investments can support mission-aligned businesses at various stages of maturity. For a simple framework to help understand how your investment capital can make a difference, consider the following categories:



WHAT IS IMPACT INVESTING?

"I remember taking the Lundin family to see Frigoken, which is a green bean business just on the outskirts of Nairobi. They were buying beans from 100,000 small farmers in western Cairn. This was a very formative moment — I could just see the lights go on. The business was making money by improving food security and incomes for 100,000 people permanently in western Cairn. This was an Aga Khan company that had been in business forever. I can still remember the family kind of looking at this and you could just see them going, 'Wow.'"

"Impact investments are investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return."

Stephen Nairne
Managing Director
Lundin Foundation



- The Global Impact Investing Network

How is Impact Investing different from other types of investing?

Impact Investing is an approach to investing that intentionally seeks to have a positive social and/or environmental impact while also generating a financial return.

Impact investments:

- Can be applied across asset classes, sectors and geographies
- Have a range of return expectations and risk profiles
- Can be made in non-profit and for-profit companies through debt, equity, grants and credit guarantees
- Are part of a continuum of investment approaches that include traditional, responsible and sustainable investing, as described on the next page

Characteristics of Impact Investing

Investor Intention

Investors wish to have a positive impact and generate a financial return.

Investee Intention

Investees wish to have a positive impact and generate a financial return.

Measurable Impact

Investors and Investees have a demonstrable and measurable positive impact.

THE IMPACT INVESTING SPECTRUM

	Responsible Investing		Impact Investing		
Traditional Investing	Ethical Investing	Sustainable Investing	Thematic Impact Investing	Impact First Investing	Venture Philanthropy
	Seeking competitive returns				
	Mitigating Environmental, Social, and Governance (ESG) risks				
		Pursuing Environmental, Social, and Governance opportunities			
			Focusing on measurable high-impact solutions		
Financial returns with limited consideration of ESG factors or ethical constraints	Investments are screened out based on ESG risk or ethical constraints	Sustainability factors and financial returns drive investment selection and shareholder advocacy	Focus on issue areas where social or environmental need creates a commercial opportunity for market-rate returns	Focus on issue areas where social and environmental need requires some financial trade-off	Addresses societal challenges that cannot generate a financial return for investors
	Negative Screens: Tobacco Alcohol Weapons Gambling Pornography Nuclear Energy	Factors Considered: Resource use Waste reduction Compensation Product safety Gender equality	Solutions For: Climate Change Population Growth Urbanization Water scarcity Food systems	Support For: Innovation & Risk Taking Proof of Concept/Pilots Commercial Capital Leverage	
	Ethically-screened Investment Fund	"Best-in-Class" SRI Fund	Sustainable Agriculture Fund	Debt to Enterprising Charities	

As the diagram illustrates, responsible and sustainable investing approaches complement Impact Investing, but they lack the deliberate intentions of Impact Investing.

Ethical investing (or 'negative screening') excludes companies or industries (such as tobacco, pornography or arms manufacturing) that may have negative impact and additional risks.

Sustainable investing (or 'positive screening') considers environmental, social and governance (ESG) criteria in investment decisions, usually in order to mitigate risks or identify opportunities. Shareholder engagement is used to influence behaviour of holdings.

Impact Investing involves deliberately selecting and supporting organizations and projects that share your social or environmental mission.

IMPACT INVESTING ACROSS ASSET CLASSES, THEMES AND GEOGRAPHIES

Below are just a few examples of investable ‘products’ across asset classes, sectors, and regions in which foundations have invested.

We chose these examples to illustrate investments across different issue areas; they may not currently be open for new investment. They are provided for general information and are not investment recommendations. For more information on Canadian impact products see: www.openimpact.ca.

Investment Funds

SELECT FOUNDATION INVESTOR

PRODUCT



The CAPE Fund is a \$50 million private equity fund that provides capital to indigenous-owned or indigenous-engaged enterprises.



New Market Funds Rental Housing Fund is a \$24.7 million fund that supports construction of affordable housing in Canadian cities.



DBL Partners is a venture capital firm that invests in and nurtures high-impact and high-growth companies in cleantech, information technology, sustainable products and services, and healthcare.



Owl Ventures is a venture capital firm that helps entrepreneurs scale their businesses into transformative companies for the education system.

Direct Investments

SELECT FOUNDATION INVESTOR

PRODUCT



Green bonds are issued by governments, corporations and development finance institutions to finance projects that address environmental challenges.



In partnership with **Credit Unions**, many foundations have started **local loan programs** to address capital needs such as affordable housing in their communities.



Artscape creates affordable spaces for artists to live and work in Toronto by issuing community bonds (an interest-bearing loan) to build new facilities.



Efficiency Capital Corporation addresses climate change by providing financing to building owners to install upgrades and reduce greenhouse gases.

Cash and Deposits

SELECT FOUNDATION INVESTOR



PRODUCT

The Winnipeg Foundation deposits cash (through certificates of deposit, savings accounts and money market accounts) into socially conscious community banks and financial institutions.

Public Equity

SELECT FOUNDATION INVESTOR



PRODUCT

Greenchip Global Equity Fund invests globally in publicly listed **companies** that place a strong emphasis on sustainability, clean energy and resource efficiency.

Using Deposits to Drive Impact

Over the past decades, traditional banks had abandoned Winnipeg's North End, an area largely inhabited by low-income residents. This left fringe financial institutions to fill the gap, resulting in a general decline in available services.

The community needed a substantial deposit base to better enable services better in line with their needs and constraints. Like-minded organizations were asked to support the cause by committing new deposits in the area. **The Winnipeg Foundation** entered into an agreement with Assiniboine Credit Union (ACU) to create a \$5 million five-year Guaranteed Investment Certificate (GIC) portfolio, facilitating the opening of a new ACU branch in the North End of Winnipeg.

The new branch now provides affordable financial services to households, businesses and community organizations in the area. This includes financing community projects and social enterprises that are revitalizing the neighbourhood, and partnering with community groups to open accounts for unbanked and under-banked North End residents.

Making an Impact in Public Markets

It can be challenging to drive social impact by investing in public markets, because these are often secondary investments. When you are buying from another investor, not the company itself, those companies do not actually rely on that investment for their financing. As a result, it's more difficult to claim that investors are contributing to their growth or strategic direction.

However, opportunities still exist to intentionally invest in public markets. For example, many impact investors have created portfolios around themes such as water, infrastructure or clean energy, and many more engage with their public market holdings through shareholder activism to try to influence corporate change. To learn more about Impact Investing in public markets, refer to the **ImPact Public Equity Primer**.

MISSION AND PROGRAM-RELATED INVESTMENTS

In addition to considering your impact themes and goals, Canadian foundations can target market-rate investments (mission-related investments) or below market-rate investments in charities (program-related investments).

Program-Related Investments ("PRI")



PRI's enable Foundations to provide flexible financing and accept greater risks to 'catalyze' deep social impact among investees. Whereas most investments need to be considered financially prudent, program-related investments can be intentionally below market rate investments in charities, qualified donees or non-qualified donees for which the foundation maintains ongoing direction and control. For foundations, the difference between the return earned on a program-related investment and what could have been earned on a low-risk investment can also be applied against the disbursement quota if it's not otherwise met.

This flexibility can help foundations use their capital in catalytic ways, by:

- 1 Mitigating the risk of investments
- 2 Reducing the overall cost of capital for projects
- 3 Paving the way for other investors to participate with larger investments that address social and environmental challenges

Mission-Related Investments ("MRI")



Impact investments need to be considered prudent in the context of risk, return and other investment goals [\[see Section 3.4 for details on legal requirements\]](#). To differentiate these investments from intentionally below-market rate impact investments (which in Canada can be made to charities and qualified donees) these investments are called mission-related investments. All the examples described in section 3.2 are mission-related impact investments.

[For a detailed outline of Canada Revenue Agencies guidance on MRI and PRIs, click here.](#)

Derek Gent,
Executive Director, Vancity
Community Foundation



"We've been making program-related investments since the early nineties... where we purposely took more risk or subsidized the rate of return to drive more impact. Those investments are in charities, in which case if we lose the money it counts as grant... I think there's an interesting role for foundations to push for stuff that's impactful and doesn't quite fit the market test today, but perhaps can and should in the future."

ELIMINATING MYTHS, ADDRESSING CHALLENGES



There are still many common misconceptions about the nature of Impact Investing. This section will dispel common myths and address some of the challenges that foundations often encounter.

FALSE ⊗

1. Foundations are prohibited from making impact investments.

TRUE ✓

authored by  **MILLER THOMSON**
AVOCATS | LAWYERS

Impact Investing can be done. There are a number of ways a foundation can meet the prudent investor standard, CRA requirements, and the Board's responsibilities for oversight of the assets.

The prudent investor standard applies to a foundation's portfolio as a whole. A foundation can include prudent investments that are aligned with or will advance the foundation's mission. This is true even if impact investments carry greater risk or will lower the overall financial returns in the portfolio, provided that the portfolio as a whole is appropriately balanced and diversified so as to meet the foundation's current and future financial needs. There is considerable scope within the CRA's understanding of market rate investments to make impact investments within a balanced portfolio that accepts lower financial returns in favour of impact aligned with the foundation's mission. Of course, donor restrictions or provisions in the foundation's governing documents should be reviewed to ensure they don't limit scope for Impact Investing.

The Income Tax Act and CRA guidelines also give foundations scope to make impact investments. Impact investments in other registered charities can be made on any terms the foundation sees fit (subject to any conditions on the funds or in the purposes of the charity). Where the investee is not a qualified donee, an investment that is not at market rates must be structured as a Program-Related Investment ("PRI"). A PRI in a non-qualified donee requires the foundation to have some oversight or control in the investee's work. Generally, foundations will want to establish a connection between their impact investments and their overall charitable mission. Foundations are also now eligible to invest directly in limited partnerships, provided they are a true passive investor and stay within certain defined thresholds. This opens up an opportunity for foundations to invest in Funds that are structured to invest for impact.

FALSE ⊗

2. Impact investing involves taking lower returns or greater risk.

TRUE ✓

Impact investments can generate competitive risk-adjusted returns.

A foundation is likely to have a portfolio with a range of expected financial returns. Of these, only program-related investments can deliberately target a lower return in exchange for a deeper impact in line with a foundation's charitable goals. Thankfully, a growing body of research and market data shows that market-rate-seeking impact investments can generate their target returns and even outperform the market.

A recent study by **Cambridge Associates** found that the overall returns of private equity impact investment funds were comparable to those of conventional funds. These funds can also outperform; smaller impact funds under \$100 million returned a net internal rate of return (IRR) of 9.5% compared to 4.5% for similarly sized traditional funds.

[continued on next page...](#)

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91%

of Impact Investors had financial performance that either met or exceeded their expectations.

A separate study by the **Wharton School of Business** found that market-rate private equity impact investments can be financially competitive with other equity investments. Looking at other asset classes, Cambridge Associates found that risk-adjusted market rates of return are achievable in real asset impact funds, with a distribution of fund returns that mirrors those for conventional funds.

Recent surveys by the Global Impact Investment Network (GIIN) show that Impact Investments met or outperformed investor expectations for risk, return and impact across asset classes:

- 89% of 158 global impact investors surveyed in 2015 said their investments performed in line with, or better than expectations.
- 91% of 209 global impact investors surveyed in 2016 said their investments performed in line with or better than expectations.
- In 2016, 90% of 80 Canadian impact investors surveyed said their investments met or outperformed expectations.

FALSE ❌

~~3. In the long run, impact investing will take dollars away from charities.~~

TRUE ✅

Impact investments complement grant making.

In many cases, recipients of impact investments are local charities that are ready to take on investment. Impact Investing is a tool for foundations to generate more good by using untapped resources (endowment funds, program-related investments, and local knowledge and networks). They enable foundations to provide much-needed capital while they grow socially and environmentally focused enterprises that align with their charitable missions.

FALSE ❌

~~4. Only large foundations with significant staff resources can make impact investments.~~

TRUE ✅

Foundations large and small are making impact investments. To succeed, investments must be right-sized to your ambitions.

As with all investing, large foundations may be able to access different opportunities or more easily diversify their impact investments. They may also be able to dedicate resources to overseeing impact investments, even if they're not a top priority.

However, it's not the size of an organization that inspires it to begin Impact Investing; organizations are driven by interest and ambition. Indeed, two global leaders in Impact Investing — the KL Felicitas Foundation and the New Belgium Family Foundation — are mid-sized, with assets of approximately \$13 million and \$8 million (USD) respectively. This hasn't stopped them from investing 92% of their respective portfolios in impact investments.

Of course, going all-in for Impact Investing isn't right for everyone; there are a growing number of options available for smaller foundations that need a lighter touch or more passive opportunities. For some starting points, consider these **Quick Wins**.

MYTH ⊗

5. Due to their uniqueness, impact investments must be considered stand-alone holdings.

Impact investments can integrate into a holistic portfolio.

While mission-based investments have some special characteristics, we believe all investing is best done in a holistic and fully integrated fashion. In the investment world, this is often referred to as a portfolio approach. It's popular because it helps ensure strategic alignment, coordination and diversification.

As with most endeavours, it's important to align your overall strategy and individual tactics with all your goals and objectives. When it comes to investing, this involves making sure your individual holdings and mix of investments are a good match with risk, return and impact expectations.

A portfolio approach facilitates better coordination, where the left hand knows what the right hand is doing. This is useful as it helps eliminate gaps and overlaps across everything you're doing. Overlapping investments can create more concentration risk than necessary, while gaps can lead to unmet goals. A more integrated method of investing can also help you create smarter diversification throughout your portfolio. In practice, this means it's worth considering each investment not only on its own merits but also on how it relates to your other investments. Intelligent diversification can help improve your total risk-adjusted returns by finding the right balance of various securities and asset classes.

Since the range of sustainable investment options has expanded considerably, we need to design and manage sustainable portfolios with more things in mind. In the past, money managers only had to find the best investments and determine the best overall mix of financial asset classes such as cash, stocks and bonds. Today, we also need to design portfolios with a perfect mix of what might be called 'sustainable investment styles'.

For instance, some lighter green 'responsible' strategies consider ESG to try to add return, but do not offer values alignment. Moving to medium green, some 'socially responsible' approaches screen out unacceptable products to maximize returns with values alignment. Darker green 'liquid impact' options try to help improve the world with competitive returns and no added risk, while 'illiquid impact' investments might offer higher returns for higher risk. Perhaps the darkest of all may be high risk, low return, 'impact first' strategies that do good but have financial trade-offs. In many cases the limitations of some types of impact investments, whether regarding liquidity or returns, can be offset by the advantages of other responsible investments to meet your overall objectives.

"If you are a smaller organization with more nimbleness or flexibility, then I think there are great opportunities to jump in. I don't mean jump at the first opportunity to invest. One option is to begin by co-investing with another foundation and really look at it. See how that fits into what you want to achieve overall. This allows you to ask more meaningful questions. It also lets you understand this ecosystem better, and understand that these are the types of companies, and these are the types of organizations."



Danielle Gibbie,
Executive Director, D. Keith
MacDonald Foundation



Jacques Bordeleau
Executive Director, Beati
Foundation

Nearly 15 years into our impact investment adventure, with more than twenty investments under our belt, we have never lost a penny. I'm not sure that the financial markets have done as well in the last 15 years!"

"The Foundation's mission is to prevent poverty by focusing on educational success of young Quebecers. During the most recent review of our investment policy, we discussed investment trends... and board members agreed on an envelope of 5% of total assets for Mission-Related Investments."

Sylvianne Chaput
VP & CFO, Fondation Lucie et André Chagnon



"As foundations, we need to be aware that we have investing as a tool for impact from the outset. We've renamed our work Solutions Finance, because it's not exclusively about investing or grant making, it's about designing the best solution for the specific need."



Sophie Méchin
Solution Finance Development Manager,
J.W. McConnell Family Foundation

"I think the role for foundations may be to help build out the impact investing market in a way that there's some additionality to it, meaning that it adds something net new overall. There is an interesting role for us to push for what's impactful and doesn't quite fit the market test today, but perhaps can and should in the future."

Derek Gent
Executive Director, Vancity
Community Foundation

ADDRESSING PRACTICAL CHALLENGES

Foundations need a practical understanding of the challenges they may encounter while Impact Investing. Below, we address some common challenges and propose solutions.

challenge #1

Managing Impact investment portfolios may require additional time or expertise.

Reflection

The primary shift for foundations moving into Impact Investing involves establishing processes to identify and assess impact investment opportunities in private markets, as selecting from traditional strategies offered by public securities managers will not satisfy the bare minimums for mission-alignment.

Foundations can choose to either outsource or build internal capacity to manage their impact investments over the long term. Ultimately, foundations need to establish a vision for Impact Investing that fits within their capacity to manage investments. Those with less capacity should opt for more passive investments. A growing body of fund managers are creating simple points of entry for investment for this very reason.

To build in-house capacity, many foundation leadership teams rely on external consultants — including the support service offered with this guide. Some foundations with multiple staff functions have integrated team members from their grant making and finance teams to build the right breadth of experience. This enables otherwise isolated units to exchange knowledge and enhances a foundation’s capacity to identify, assess and monitor impactful enterprises.



Examples

Many foundations have built partnerships to minimize the effort of Impact Investing. The **Victoria Foundation** and the **London Community Foundation** have partnerships with their local credit unions to carry out due diligence and administer loans for local community partners seeking credit. Similarly, the **Hamilton Community Foundation** works with the **Community Forward Fund** to administer its local loan program. These partnerships strike a balance between active participation and operational efficiency by having the foundation serve as the entry point for new inquiries. This enables the foundation to assess community needs and strategic fit before passing the inquiry to external support.

“Impact Investing is a very individual journey, but ultimately you have to try it. Find a way for people on your board and your committees to experience it so that it becomes real for them. For example, when someone sees affordable housing being built in a community that needs it desperately, and what that outcome means to the people in the community, it becomes real. Site visits provide answers to most questions. Once they see it, they get it.”

Annette Aquin, Executive Vice-President, Finance & Operations,
Hamilton Community Foundation



challenge #2

It may be difficult to find impact investments that fit inside a narrowly defined geographic area or thematic focus.

Reflection

Depending on the scope of your mission, the current state of the market in Canada may or may not allow your investments to be as precisely targeted as your grant making. Recognizing these limitations, foundations continue to look for impactful ways to activate their capital when that opportunity is not available.

Can you take a broader perspective on advancing your foundation's mission? By taking a step back to consider how your impact investments can ultimately support and enable your mission, you can significantly expand the number of relevant opportunities. Considering how irrelevant many traditional investments are for your mission, finding the perfect mission alignment can be the enemy of good alignment. For example, a foundation that focuses on early childhood development may choose to invest in affordable housing for mothers and families as a means of alleviating child poverty. It may also choose to invest in a business supporting affordable housing or employment training in a different geography in order to capture the lessons for its own region, and perhaps support the expansion to their locals in future years.

Example

Hamilton Community Foundation is focused on building a vibrant, inclusive Hamilton. The Foundation has created a loan program to invest locally in initiatives that are aligned with its priorities. And it invests nationally in areas that support a world where communities can thrive. These commitments include social ventures, clean technology and affordable housing. More distant investments have helped build the market, enabling the foundation to attract new partners to its home community.



Stepping into the challenges to advance your mission

Despite the challenges, foundations are successfully using Impact Investing as a powerful tool to advance their missions across sectors and regions.

There is no one way to do Impact Investing; each foundation has different capacities, desired impact and financial objectives. As a first step to resolving the challenges you may encounter, recognize that Impact Investing is a complementary tool to grant making that requires a complementary mindset.



CREATING A ROADMAP TO MOVE CAPITAL TO MISSION



Andrea Nemtin,
President and CEO, the
Inspirit Foundation

"We are a young organization. We learned about impact investing at the same time as we began to learn about grant making, and it's been part of our identity as a foundation. As a smaller foundation, people were all for using all our assets. But how could we do that? Having a roadmap for designing a strategy, with frameworks and criteria for decision making allowed us to move from aspiration to implementation. Importantly, we chose to guide this work by vision rather than just mission. Investing was about creating the conditions through which both could be achieved."

Seven Steps for Implementing an Impact Investment Strategy



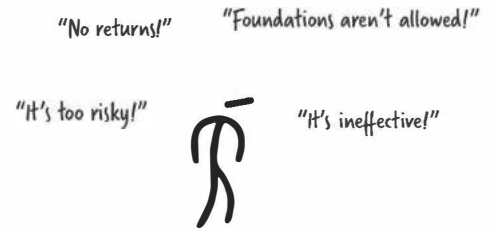
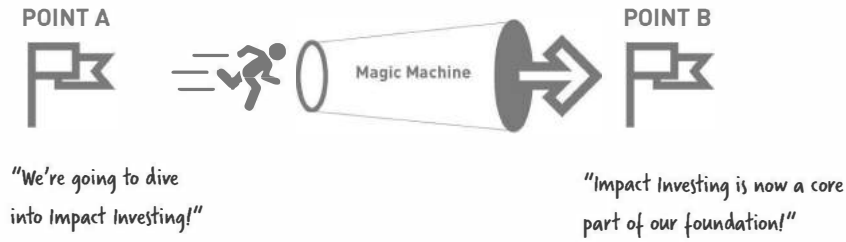
These steps are based on the experience and practice of many other foundations. Your foundation's roadmap may not follow these steps in the exact order presented here, and that's okay. As someone directly involved in the daily realities of your organization, you are in the best position to adapt this roadmap to your context. If you are seeking additional support to do so, a comprehensive suite of coaching services is available and further information is linked throughout this section.

For the purposes of this guide, steps in the roadmap are presented as linear. However, your foundation's roadmap may not follow a linear path. We recommend thinking of these steps as "stepping stones" to directionally move your organization forward.

Making change inside an organization can be tricky. Without a roadmap, the reality may turn out to be different from your expectations. When it comes to Impact Investing, remember that you can benefit from the learnings of dozens of Canadian foundations before you, and hundreds of foundations all over the world that have already begun.

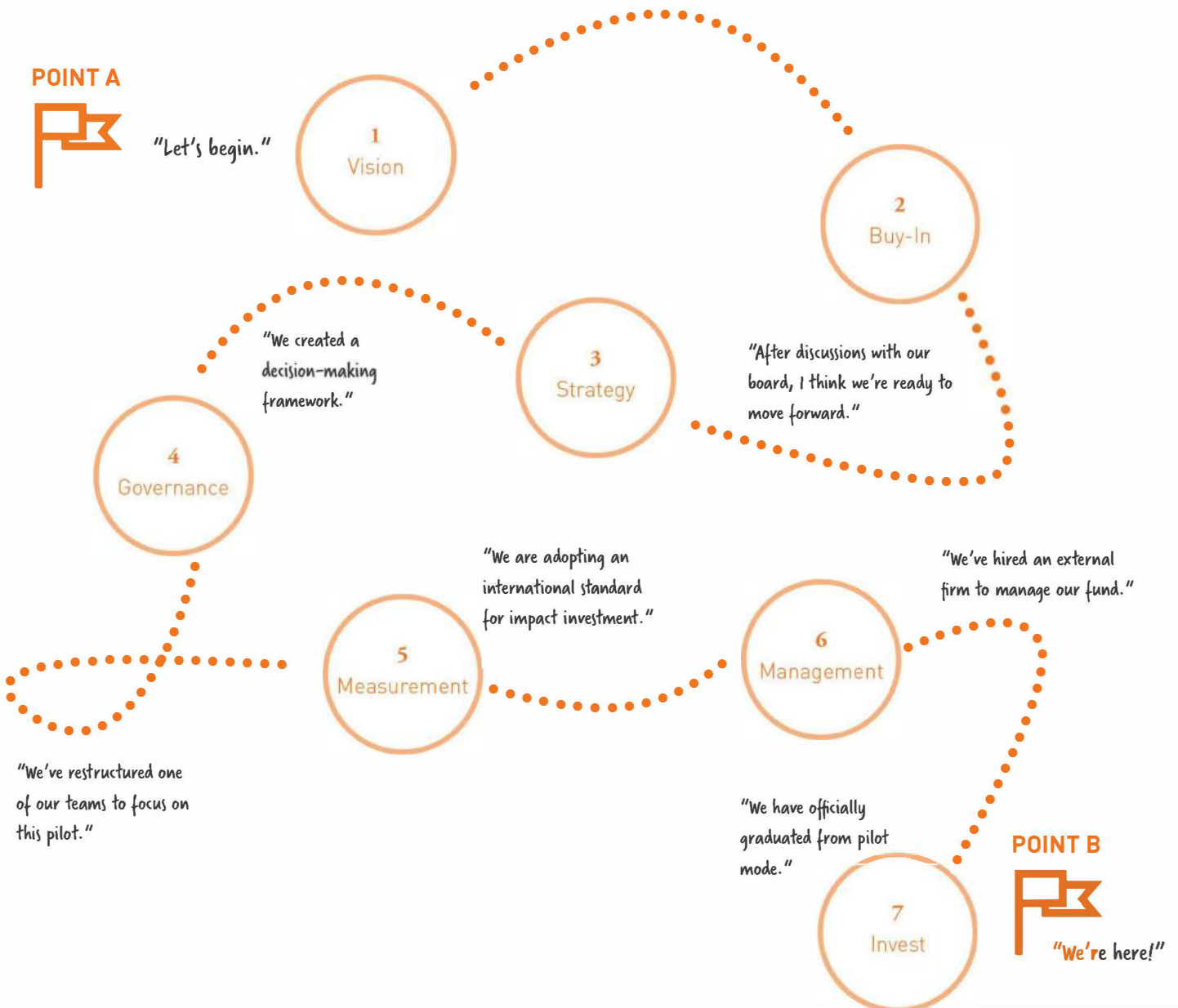
IDEALISTIC EXPECTATIONS

PESSIMISTIC EXPECTATIONS



REALITY

"After looking at our long term goals, we've defined a vision."



1. Vision

2. Buy-In

3. Strategy

4. Governance

5. Measurement

6. Management

7. Invest

STEP 1: DEVELOP A PRELIMINARY VISION

Developing a preliminary vision for Impact Investing is a natural starting point for a mission-driven organization.

This is an opportunity to reflect and be creative. Similar to exploring how granting programs can help realize a better world through charity, take time to think through how Impact Investing can unlock additional resources for your foundation's mission.

Your goal is to envision how Impact Investing can add value to the foundation's mission and to your community. As needed, involve colleagues, advisors or consultants to help you develop your vision.

As featured in these case studies:



Accessible via Resource Hub:



Finding your vision



Guiding Questions

What is the world we wish to see?
What might success look like?



Goals

Establish a north star to help guide subsequent decisions.

Sample Mission

"We envision a world where health and wellness is the norm. Beyond quality healthcare, we are focused on prevention. Our desired future is one in which healthy food, physical activity and wellness are enjoyable aspects of everyday life."

Finding your mission



Guiding Questions

What is our foundation's core objective?
How might Impact Investing directly advance the foundation's core objectives?
Do we know what we currently own in our investment portfolio? Are some existing investments counter to our mission?



Goals

Determine the broad strokes of how your vision will be realized.



"I think what I would do in the first place is truly understand the foundation's mission and what its real objective is. Through our work with Vital Signs, we saw that affordable housing was a mission-critical issue for our community, so we started our Impact Investing focus there."



- 1. Vision
- 2. Buy-In
- 3. Strategy
- 4. Governance
- 5. Measurement
- 6. Management
- 7. Invest

STEP 2: SECURE BUY-IN FROM YOUR BOARD

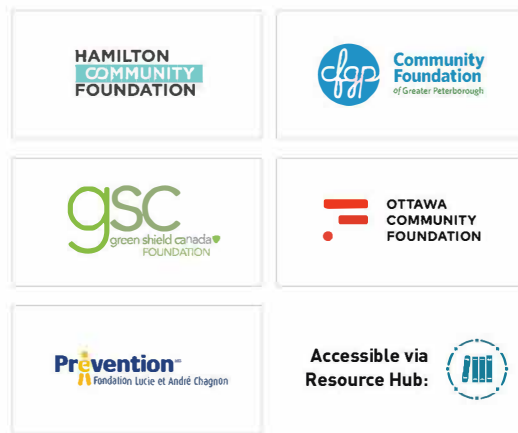
To get your board's support for Impact Investing, it is important to understand the needs of your board members. Take time to get to know your colleagues' decision-making processes, their motivations, and how they deal with change and innovation.

With this in mind, make sure you understand the context and purpose of every communication. Doing so enables you to craft an approach that speaks to the needs, interests and potential concerns of the board.

Prior to developing a proposal or request, ask yourself:

1. Are you seeking approval to research the ways Impact Investing can benefit your foundation?
2. Are you trying to secure a mandate from the board to develop a full strategy?
3. What is the type and depth of support you are seeking?
4. Do you need the coaching of outside experts or consultants to develop it?

As featured in these case studies:



Identify a champion



Guiding Question

Who is a strong voice with the ability to influence my organization?



Goals

To identify a champion who will support your proposal, target the appropriate audience, whether board members, donors, grantees, advisors or consultants. For example, the Hamilton Community Foundation, Community Foundation of Greater Peterborough and the Ottawa Community Foundation have all benefited from donors as external champions. These donors were able to inspire their organizations, and in some cases, provide seed capital to enable initial explorations in a low-risk manner.

Introduce and inform



Guiding Question

How can we connect a new Impact Investing program to our mission and portfolio?



Goals

Impact Investing should be framed as another tool in your foundation's overall approach. Emphasize why you believe this approach will be successful by tying it back to your foundation's mission. To illustrate the risks of the status quo or inaction, it can be helpful to identify elements of the foundation's current investment portfolio that may be at odds with its mission. Communicate the idea that Impact Investing will reinforce your mission without impairing the foundation's portfolio or granting objectives.

Articulate the Opportunities



Guiding Question

How can the foundation benefit? (Refer to Chapter 2 for examples.)



Goals

Impact investing offers a host of opportunities. As shown in Chapter 2, it can:

- Provide additional resources for your mission
- Align your money with your values
- Direct and scale business solutions to the issues that matter to your mission
- Manage for risk and return by diversifying your existing portfolio
- Engage a wider set of donors and trustees

Because many board members habitually delegate investment decisions to an external manager, it is important to demonstrate the nature of Impact Investing through examples of this work in practice. If your foundation is geared toward the traditional charitable sector, it may be helpful to provide examples of program-related investments.

Anticipate Questions



Guiding Question

What additional information might the board of directors require?



Goals

Expect follow-up questions. Make sure you address any immediate concerns that could prevent further discussion. Be prepared to answer questions about financial return implications, possible investment examples and strategies, and the resources needed to carry out Impact Investing.



Do your homework, do your research and start with the board. That's the key lesson I've been able to provide people. Your investment manager is not going to go there unless it's [their] specialty. Your investment committee is going to be nervous because they may see it as risky and weird. The board will understand the alignment with the mission. You'll just need to give them enough education to take the leap and let them trust the investment committee to do the tactics and put it in place."

Brian Toller,
Ottawa Community Foundation



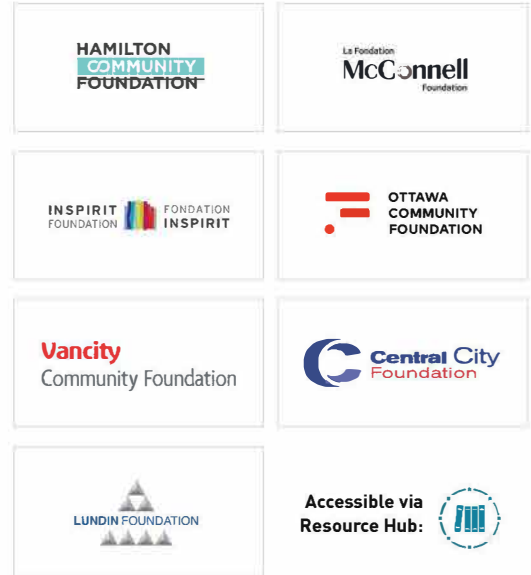
1. Vision
2. Buy-In
- 3. Strategy**
4. Governance
5. Measurement
6. Management
7. Invest

STEP 3: DEVELOP STRATEGY

Every foundation will have a unique Impact Investing strategy. Guided by your vision and mission, your strategy will evolve over time as you gain experience. Many foundations take incremental steps that allow them to pause, assess and design for their next stage.

As you develop your plan, be mindful of the foundation's day-to-day realities. Access to internal and external expertise will play a key role in the development of your strategy. Your goal is to build an actionable plan that allows you to move forward and learn from experience, while implementing processes that lay the foundation for long-term success.

As featured in these case studies:



The mandate



Guiding Question

What are the core beliefs underlying the decision to invest for impact?



Goals

Match strategy to your organizational culture.



Peer Example

The Ottawa Community Foundation “believes it can do more with its endowment by leveraging its assets in new ways to have maximum community impact.”

Impact themes



Guiding Questions

What are the issues/sectors/themes you are hoping to address? Do you have a preference for a particular geographic focus?



Goals

Decide how you will prioritize themes across local, regional and global opportunities.



Peer Example

The Central City Foundation supports inner city communities in Vancouver and the Lower Mainland by providing charitable organizations tenancy through real estate.

Risk and return objectives



Guiding Questions

What are your impact and financial return expectations? Are you willing to make below market-rate investments if they are into impactful charities (i.e., program-related investments)?



Goals

Define whether you prioritize impact or financial returns.

Decide on full portfolio alignment versus initially allocating part of the portfolio for Impact Investing.

Peer Example

The McConnell Foundation distinguishes between its program-related investments, which directly relate to its program areas and strategies and can be below market rate, and its mission-related investments, which are governed by the foundation's overall investment policies.



Scope of the program



Guiding Questions

How hands-on do you want to be across the investment lifecycle of sourcing, analyzing and monitoring investments? What partnerships are available with enabling partners or other investors?



Goals

Evaluate your requirements to implement this work and whether it will be led internally or outsourced; consider staff, board members, and external managers /consultants.

Peer Example

The Greenshield Foundation uses an external portfolio manager for its Impact Investing program, which it developed with the support of external consultants.



Portfolio construction



Guiding Questions

What is the depth of investable market opportunities in your chosen theme? How comfortable is the foundation with direct investments compared to fund investments or long-term investments?



Goals

Determine what vehicles will be eligible.

Gain an in-depth understanding of the market and opportunities available.

Peer Example

The Vancity Community Foundation works creatively to provide direct investments that support their local community sector.



1. Vision
2. Buy-In
3. Strategy
- 4. Governance**
5. Measurement
6. Management
7. Invest

STEP 4: FORMALIZE GOVERNANCE

In a charitable foundation, governance is the system of stewardship of the assets and purposes of the foundation for public benefit. Creating this framework ensures that your foundation is guided by consistent, organization-wide decision-making and accountability systems. Considering governance early will allow you to implement your Impact Investing program with the foundation's existing investment governance framework in mind.

As featured in these case studies:



Asset governance



Guiding Questions

Can Impact Investing fit within your current investment strategy? Should the allocated assets be governed within the endowment and its policies, or separate from it?



Goals

Match governance of Impact Investing assets with existing investment strategy.

Monitoring impact



Guiding Questions

Will you create a special impact investment committee or will the existing investment committee monitor Impact Investing? When should the board be engaged and what authority will it delegate?



Goals

Determine the structure you will use to monitor and measure your investments.

Engaging the field



Guiding Question

How will you engage existing program, grant making and community expertise to invest in similar themes or geographies?



Goals

Lead and collaborate with existing infrastructure, support, and experience to maximize your impact.

Roles and responsibilities



Guiding Questions

What are the roles of the board, investment committee and staff with respect to the Impact Investing program? Who will: set policy, act to intake and review investment opportunities, recommend and select investments?



Goals

Delegate and assign roles and responsibilities that match your organizational culture and board strengths.



1. Vision
2. Buy-In
3. Strategy
4. Governance
- 5. Measurement**
6. Management
7. Invest

STEP 5: DETERMINE YOUR IMPACT MEASUREMENT APPROACH

"What gets measured gets managed" – Peter Drucker

Impact investments are expected to produce a desired social or environmental outcome. Developing an impact measurement approach will help you determine if you are producing the outcomes you intended, and whether an investment has performed in line with your expectations. Be prepared to monitor the investments in your Impact Investing program for financial and impact performance.

As featured in these case studies:



Accessible via Resource Hub:



Theory of change



Guiding Questions

What is the theory of change underlying your investment themes? Is this theory explicit or not clearly defined?



Goals

Define the end goal upon which your investment impact will be judged against, as well as the base assumptions for how this might be achieved.

Desired outcomes



Guiding Questions

What are the desired outcomes of the investment program? How will you know the desired impact has occurred? Which activities, outputs or outcomes will your investments report on?



Goals

Understand the real-life impact you intend to create and measure.

Defining standards



Guiding Question

Do you want your impact metrics to be standardized based on global standards such as the Sustainable Development Goals (SDGs) or the Impact Reporting and Investment Standards (IRIS)?



Goals

Choose the metric framework to adhere to.



1. Vision
2. Buy-In
3. Strategy
4. Governance
5. Measurement
- 6. Management**
7. Invest

STEP 6: ASSESS YOUR MANAGEMENT CAPACITY

As discussed in Step 3, it's important to find the right people and roles to manage your Impact Investing portfolio. Over the long term, an impact investing program will usually be managed in house or outsourced to a portfolio manager. Many foundations delegate the management of a portfolio of more passive investments to an Impact Investment committee, while others work with trusted external experts to conduct initial due diligence on investments.

As you adopt a strategy, you will build the capacity to act. This involves deepening and formalizing relationships as you learn how Impact Investing will operate in your organization and among your service providers.

As featured in these case studies:



Accessible via Resource Hub:



Choose a manager



Guiding Questions

Will you manage your investments in house or with an external manager? Do current investment managers have the expertise in private market transactions or will you retain a separate external manager?



Goals

Find the right manager for your investment goals.

Adapt to Impact Investing



Guiding Question

How will existing investment managers be expected to adapt their services to account for new Impact Investing activities?



Goals

Ensure impact-investing-specific management techniques are adopted by the manager.

Due diligence



Guiding Question

Who will be responsible for sourcing and conducting due diligence on impact investments?



Goals

Determine the person and process to oversee due diligence.

Immediate guidance



Guiding Question

Will you work with external consultants in the short term?



Goals

Prevent hiring from becoming a bottleneck to progress.



1. Vision
2. Buy-In
3. Strategy
4. Governance
5. Measurement
6. Management
7. Invest

STEP 7: INVEST & LEARN

Once you have made the decision to include impact investments in your foundation's investment portfolio, your organization will join the ranks of dozens of Canadian foundations that are successfully Impact Investing.

At this stage, you will be looking to make investments. You'll also be developing the systems needed to monitor your investments. This will help you learn to refine your strategy as you measure financial results and social and environmental impact.

As featured in these case studies:



Accessible via Resource Hub:



Feedback



Guiding Question

How will you create feedback loops that allow you to refine your strategy and impact measurement approach?



Goals

Build a system to constantly improve and iterate.

Storytelling



Guiding Question

How will you tell your impact investment story to peers, grantees and other stakeholders to mobilize others to have more impact?



Goals

Communicate your efforts, process, and impact.

Continued sourcing



Guiding Question

How will you continue sourcing investment opportunities that meet your strategy and vision?



Goals

Develop a healthy pipeline toward long-term sustainability.

Sustainability



Guiding Questions

What are the necessary steps for meeting your organization's Impact Investing objectives? When is this project no longer a pilot?



Goals

Define the point where your Impact Investing activities have evolved to be a core program in your organization.



QUICK WINS

Looking for quick wins to familiarize your organization with Impact Investing?



Test the waters with a pilot allocation to allow for a first investment or small portfolio in an established impact fund.

- 1 Determine if there is a theme that resonates with your board in areas such as affordable housing, clean energy or sustainable development.
- 2 Identify an established fund with credible co-investors and a track record similar to existing managers.
- 3 Make an initial investment to help you learn how to report on and manage funds in the sector.



Move your cash accounts and deposits to a local financial institution for local community development.

- 1 Speak with local financial institutions to see what level of new deposits would be material to them and to learn what kind of community banking they engage in.
- 2 Compare their offerings' duration, liquidity and credit risk to those offered by your financial institution.
- 3 If adequate, migrate your assets to begin supporting local community development.



Talk with current grantees who are likely candidates for financial investment (i.e. nonprofit housing providers, child care providers, health care facilities) about their investment needs.

- 1 Determine whether there is a small allocation that your investment committee and board are comfortable using to pilot the approach.
- 2 Talk with grantees about whether they are ready to take on investment.
- 3 See if there are local service agencies in areas such as child care or affordable housing that can absorb investment in simpler investment structures, for example a term loan.



Talk with other active, aligned foundations to identify co-investment opportunities in funds.

- 1 Determine if there is a clear theme that resonates with your board in areas where you actively collaborate with others.
- 2 Determine your minimum and maximum investment parameters.
- 3 Initiate conversations with peer foundations or Impact Investing affinity groups to take part in future gatherings and signal your willingness to participate.



Partner with a local financial institution to develop and administer a local loan program.

- 1 Speak with local financial institutions to see what level of new deposits would be material to them and to learn what kind of community banking they engage in.
- 2 Determine whether they have loan officers or existing staff who could administer and monitor loans on the foundation's behalf and whether a mutual interest exists in expanding access to credit.
- 3 Determine what costs would be required to pay for the local financial institution's time.
- 4 Determine which partner will be responsible for loans at different stages, including how new loan opportunities will be identified, reviewed, approved and administered.

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Philanthropic Foundations Canada is a member association of grantmakers, including private and public foundations, charities and corporations. PFC promotes the growth and development of effective and responsible foundations and organized philanthropy in Canada through provision of membership services, resources and advocacy.



Community Foundations of Canada is the national network for Canada's 191 community foundations. Together we help Canadians invest in making our communities better places to live, work and play.



Purpose Capital is an impact investment advisory firm that mobilizes all forms of capital — financial, physical, human and social — to accelerate social progress. The company was formed in 2010 to bridge the divide between businesses and organizations that matter to the world, and investors seeking a blend of compelling financial returns and tangible social impact. We work with investors and their advisors to design and deploy customized impact investment strategies spanning sectors, asset classes, and regulatory systems. We design and partner with leading organizations to launch investment opportunities and market-building initiatives for the impact economy.



Genus Capital Management Inc. is an independent investment management firm offering sustainable investing for 23 years. Registered as a Portfolio Manager and an Exempt Market Dealer across Canada, Genus is currently Managing \$1.2 billion in assets for institutional and private clients with a focus on delivering innovative solutions to meet changing client needs. In 2018, Genus will partner with SVX to launch the Genus SVX Investment Counsel, offering fully custom managed portfolios through public impact equity, public green bonds, as well as private venture debts and equity.



Miller Thomson's Social Impact Group is the largest national team of legal experts in Canada dedicated to helping charities, non-profit organizations and social enterprises meet their legal needs and accelerate their social impact.



Edmonton Community Foundation exists to help the people of Edmonton and area by encouraging philanthropy and funding charitable activities. Through contributions from donors, the foundation assembles and administers permanent pools of capital so the returns can be perpetually reinvested in our community. The foundation complements and supports other charitable agencies.



The mission of the Lucie and André Chagnon Foundation is to prevent poverty by contributing to the educational success of young people living in Quebec from conception to age 17 by helping them to develop their full potential.



Employment and Social Development Canada (ESDC) works to improve the standard of living and quality of life for all Canadians. ESDC is the lead department for Canada's Social Innovation and Social Finance Strategy.

RESOURCES TO THE GUIDE

Case Studies

[Beati Foundation](#)
[C.P. Loewen Family Foundation](#)
[Canadian Alternative Investment Foundation](#)
[Central City Foundation](#)
[D. Keith MacDonald Foundation](#)
[Hamilton Community Foundation](#)
[Lucie et André Chagnon Foundation](#)
[London Community Foundation](#)
[McConnell Foundation](#)
[Ottawa Community Foundation](#)
[The Catherine Donnelly Foundation](#)
[The Inspirit Foundation](#)
[The Lawson Foundation](#)
[The Lundin Foundation](#)
[Vancity Community Foundation](#)

Samples

[Catherine Donnelly Foundation Decision Making Framework](#)
[Lawson Foundation Policy and Terms of Reference](#)
[London Community Foundation Loan Fund Description](#)
[McConnell Foundation Due Diligence Guide](#)
[McConnell Foundation Solutions Finance Strategy](#)
[Ottawa Community Foundation Impact Investing Policy Statement](#)
[Ottawa Community Foundation Investment Policy Statement](#)
[Sample Board Presentation](#)

Fact Sheets

[History of Impact Investing](#)
[Legal Primer – Miller Thomson](#)
[Glossary of Investment Terms](#)

Video Interviews

[Brian Toller, Past Chair, Ottawa Community Foundation](#)
[Rasool Rayani, Past Chair and Investment Committee Member, Victoria Foundation](#)
[Terry Cooke, President and CEO, Hamilton Community Foundation](#)
[Colette Murphy, Executive Director, Atkinson Foundation](#)
[Sharon Avery, President and CEO, Toronto Foundation](#)

