framework

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**

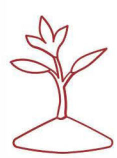
How to support mission-aligned businesses at various stages of maturity

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:

SEED

Supporting young impactful businesses

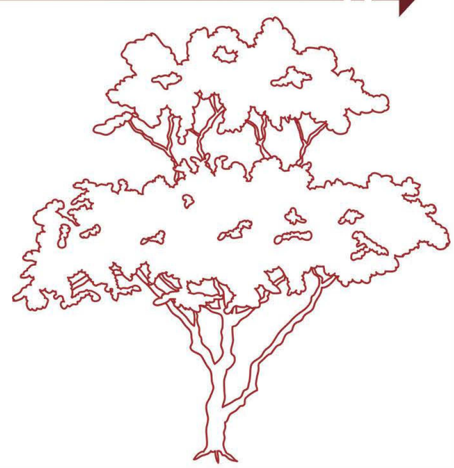
Giving early-stage entrepreneurs the capital to experiment enables them to nurture innovations and establish their operations to have a larger impact.



GROWTH

Scaling proven solutions

Foundations can provide much-needed growth capital to social enterprises that are ready to expand their products or services into new markets.



MATURITY

Influencing mature companies

Foundations can encourage investee companies to have a greater social impact by influencing behavior and ensuring their operations, products and services are more beneficial to the world.

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.'"

Stephen Nairne
Managing Director
Lundin Foundation

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

- 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.

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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.

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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
LI KA SHING FOUNDATION 李嘉誠基金會	**The CAPE Fund** is a $50 million private equity fund that provides capital to indigenous-owned or indigenous-engaged enterprises.
Vancity Community Foundation	**New Market Funds Rental Housing Fund** is a $24.7 million fund that supports construction of affordable housing in Canadian cities.
HERON	**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.
BILL & MELINDA GATES foundation	**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
David Suzuki Foundation – SOLUTIONS ARE IN OUR NATURE	**Green bonds** are issued by governments, corporations and development finance institutions to finance projects that address environmental challenges.
VICTORIA FOUNDATION	In partnership with **Credit Unions**, many foundations have started **local loan programs** to address capital needs such as affordable housing in their communities.
INSPIRIT FOUNDATION / FONDATION INSPIRIT	**Artscape** creates affordable spaces for artists to live and work in Toronto by issuing community bonds (an interest-bearing loan) to build new facilities.
TAF	**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	**The Winnipeg Foundation** deposits cash (through certificates of deposit, savings accounts and money market accounts) into socially conscious community banks and financial institutions.

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.

Public Equity

SELECT FOUNDATION INVESTOR	PRODUCT
HAMILTON COMMUNITY FOUNDATION	**Greenchip Global Equity Fund** invests globally in publically listed **companies** that place a strong emphasis on sustainability, clean energy and resource efficiency.

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:

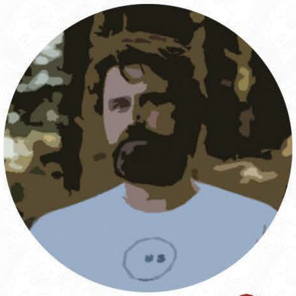
1. Mitigating the risk of investments
2. Reducing the overall cost of capital for projects
3. Paving the way for other investors to participate with larger investments that address social and environmental challenges

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."