

### Quick Case Guide

Public Foundation	Publicly Fundraising	Mostly Direct	Finance First
Private Foundation	Non-Fundraising	Mostly In-Direct	Blended
			Impact First

## Investing for local community impact

*In conversation with the Hamilton Community Foundation, April 2017*

Hamilton Community Foundation (HCF) is a community-based foundation that has been supporting Hamilton for more than 60 years. With a mission to drive positive change by connecting people, ideas and resources, HCF is instrumental in supporting all aspects of community life through grants and financing to a wide range of charitable organizations and initiatives. Over the years, the foundation has taken on a community leadership role by bringing people together to address priority issues that affect Hamiltonians. Purpose Capital spoke with Annette Aquin, HCF's Executive Vice-President, Finance & Operations, about this journey and what they've learned.



*"It was clearly a risk to rely solely on investments in the public market to support our work in the local community."*

### How did the conversation about impact investing first emerge?

It was a perfect storm. We had experienced the market downturn of 2000 and then the great financial crisis of 2008. While we were fortunate in having a significant reserve to rely on, we saw a lot of foundations struggling during a time when their communities needed them most. They had relied solely on the market for income and didn't have any reserves. That was certainly a catalyst. The second piece was that we had Bill Young as the donor-advisor of our largest Donor Advised Fund — The Young Fund. Bill's role on Canada's social finance task force was instrumental in helping us have those conversations. We knew at that point it was clearly a risk to rely solely on public market investments to support our work. The idea of using the capital of the foundation to actually serve our mission made a lot of sense. Bill really solidified that for the board by asking this question: "If we are giving away 3.5% of our capital every year, how are we different from an investment house that gives away 3.5% of their profit?" It was an interesting question for a governance body to wrestle with. That was the lead in. At that point the board agreed we should try to use some of our assets to support our mission and allocated about \$5 million to a local community investment fund. That is where it started eight years ago.

### How important was the flexibility of the initial architecture of the foundation's impact investing strategy?

We were very fortunate to have a committee and board that allowed us to have some very broad architecture around how this might work. We developed a framework as opposed to a policy because we didn't want to tie it down too tightly in the beginning. We chose a framework because we didn't know enough to 'policy' it. If we had been constrained by an asset mix on the impact side, we couldn't have advanced as quickly; there simply weren't enough products. It would have really slowed us down in terms of thinking about saying "no" to opportunities that were well aligned with our mission. The driver was on the impact side as opposed to the public market side. We wanted our impact portfolio to do as much as it could that was positive by creating

social and environmental outcomes with good return. We were prepared to change our asset mix on our public portfolio to do that.

### What has it meant for the HCF, as a community foundation, to try to enable the impact investing market?

We knew that it was going to take time to build a pipeline of investments to deploy our initial \$ 5 million commitment. That was pretty clear to us. At the same time, we wanted to continue to move out in impact investing. At that point, we approached Bill and asked him if we could use part of the Young Fund as a pilot. There was always some skepticism toward whether you could build an impact fund that had the ability to create an adequate return and do social good. So for diversification and to accelerate our progress we invested in both our community and other communities at the same time. We also wanted to act as a market-builder. We thought we had the right assets available to us, in terms of our relationship with a social finance leader like Bill, and a board and committee that was really committed. We had the opportunity to take a leadership role. We also really believed, and continue to believe, that by supporting the development of the market there would be some benefit back to Hamilton. In particular, if we're making private equity or lending investments with national impact investors, those people end up spending time and operating in our community, so it's also an opportunity to leverage those relationships.

#### KEY STEPS

- *Start with a broader framework to enable that first investment*
- *Understand the community needs for investment capital*
- *Identify and work with a champion*

### How do your national and global investments fit with the foundation's local mission?

The stand we take with regard to our national and global investments is that they don't compete with our local investing. Nor will they ever. Competing with our public market portfolio is an option. **We have the choice of having good returns and potentially having a neutral impact, or having good returns and having a positive impact. Which would you choose? As a mission-based organization, it's not hard to figure out.**

### Where is the foundation trying to improve its impact investing practice?

We're working on a number of scenarios to build in some options based on what we think might unfold over the next several years. We're looking globally at the liquidity of the Foundation and trying to figure out where the real risk is and how we can move forward. This is not improving our practice, but rather, it is our critical underpinning. We're very committed to impact investing and we need to know that we can build a sustainable model. We can see what it has looked like so far. Now we want to make some assumptions about what the model might look like in five years. What has to happen on the public market side to allow us to build the model for further impact investing and for it to be sustainable? There are a lot of moving parts, as you can imagine, but using more of our assets for our mission is what we absolutely have to do.

## What would be your advice to other foundations considering engagement in impact investing?

The Impact investing journey is different for everyone, but ultimately you have to try it. Find a way for people on your board and your committees to experience the benefits 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 means to the people who live there, the impact becomes real. Site visits provide answers to many questions: Once they see it, they get it. It's also helpful for boards to hear from more experienced counterparts and to learn from foundations that have engaged in impact investing. **It's about understanding capital needs in your community and then picking a project. Your granting staff will know the good community partners. Use those community partners.** Find the board champions who are willing to learn about impact investing and give them the exposure they need to get there. Look for a donor champion who can help get internal buy-in or who may be willing to absorb some risk. Having a champion is a pretty great thing!