

Quick Case Guide

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

100% impact through total portfolio activation

In conversation with the Inspirit Foundation, April 2017

Inspirit Foundation is a grant-making organization with a mission to promote inclusion and pluralism, specifically addressing discrimination based on race, religion, and ethnicity. This work is done by supporting media and arts, amplifying young change leaders, and impact investing. Combined these activities build toward a vision of a more inclusive and pluralist Canada where differences are valued and engaged, and where everyone has an equal opportunity to thrive socially and economically. In just six years, Inspirit has become a leader in impact investing, becoming the first Canadian foundation to commit 100% of its assets to impact. Purpose Capital spoke with Andrea Nemtin, Inspirit's President and CEO, about this journey and what they've learned.

Why did the foundation first engage in Impact Investing?

We're a relatively young organization. From our inception we were interested in impact investing. We understood that to create the change required to achieve our vision we couldn't rely on grant-making alone. Instead we felt strongly that we must use all the tools and strategies available to us to create a sustainable organization. We started learning about impact investing at the same time we were learning about grant-making. From the beginning impact investing has been ingrained in our identity as a foundation.

In terms of development, there are three reasons why we engage in impact investing:

- **Risk mitigation:** As an asset holder, we want to ensure the assets we own are not working against our vision.
- **Capital activation:** We wanted to shift away from only granting 3.5% of our assets to engaging 100% of our assets toward our goal of achieving greater inclusion.
- **Program innovation:** This also goes back to the belief that our vision and mission cannot be achieved by granting alone.

We can treat some symptoms through granting and addressing systemic injustice — it's an important part of our work. But the shift to a change-making model requires more tools than just granting. Impact investing is one of those tools.

How did the impact investing strategy develop into total portfolio activation?



"We educated people and got them really excited. Investing was about creating the conditions within which we could achieve our vision."

KEY STEPS

- *Educate all stakeholders*
- *Design frameworks and criteria for decision-making*
- *Set incremental goals to enable big ambitions*

We were guided by our vision of a more inclusive society. We educated our board and ourselves, and people got really excited. There was expansive understanding and a belief that investing would help us achieve our mission. In order to go from here to there, we had to understand where here was. Our first step was to establish benchmarks. To help us on that journey we did a very specific, custom ESG audit based on our investment themes. These four themes — which include increasing livelihoods, building community infrastructure, supporting climate change solutions and increasing access to arts culture and services — are all important drivers for an inclusive society. We also researched best practices by surveying the work others were doing, and took what we thought were the most interesting ideas. We then set goals. What worked for us and was instrumental in our success was focusing on incremental change. The Board first agreed to a 5% allocation in a mission-related investment in a private equity fund. We started with small investments that were not overly risky. These allowed us to build confidence. As we learned, we were able to redesign for the next stage and go deeper into our investment themes. This is how we moved toward 100% impact.

What types of investments are in the portfolio?

We take a portfolio approach across different sectors. We manage a number of different types of impact investments that serve different needs for a balanced portfolio, whether it's growth or liquidity. No one investment will fulfill all of the financial and impact goals of a portfolio; an ideal portfolio is diversified for risk, return and impact. For example, a loan guarantee to the Immigrant Access Fund (IAF) is very tied to our mission, doesn't cost us anything, but we don't actually receive a return for it. Whereas something like a Sustainable Food fund, a private equity investment, may be further from our mission, higher risk, lower liquidity, but also delivers a higher return. Together, these investments all balance each other out. Instead of focusing on a specific investment, we have a way of measuring the overall portfolio for sector balance, structured liquidity, a structured exit and return.

Do you benchmark your portfolio against the market?

We only look at the external market as a tool to protect against the risk of it. Philanthropic organizations are the pensioners of the investment industry. We need stable income and we need a certain amount of income. What is the required rate of return and how can you best achieve that return while increasing impact? What is the positive impact of your investments? That's what we should be looking at rather than being concerned with market benchmarks. This idea of relative performance measurement — that as long as you're not losing as much as others or as long as you're earning more — is flawed. We actually just need to earn 6% to 8%. That's it. That's our business. Our business is to try and create impact, our business is to try and achieve our mission. Our business isn't to beat the market — it's to earn as much money as we need in order to do our work.

How does the foundation use impact investing to advance program innovation?

IAF is a perfect example. We know that livelihood is a huge barrier to inclusion. With more economic mobility we're able to achieve greater inclusion. The IAF provides loans to new immigrants, which allow them to obtain the Canadian licensing or training they need to work in their field. This gives them the economic mobility to move from un- and under-employed to more fully-employed in their areas of expertise. Inspirit is able to underwrite a line of credit which allows IAF to administer these loans. These are pay-back loans. Individuals are able to get jobs and pay back the loans at very reasonable rates. This would be a hugely, incredibly expensive program if we were granting instead. It would not be able to achieve anywhere near the full scale of

its impact, because as a grant the money would not be coming back. This way the fund regenerates itself — it's about program innovation and long-term sustainability in the sector.

What are the barriers preventing organizations from engaging in impact investing?

One of the biggest challenges in this emerging field is that investing customarily relies on historical data. There is a perception of a lack of performance history within the investment industry. Our big challenge for development is to increase the body of knowledge on historical data. We need to be sure that we're tracking and sharing our past experiences. It's also critical to decide how we will measure our impact. How can we create a shared understanding of how to measure and value impact? Another barrier is the still persistent myths around fiduciary duty, returns, and effectiveness in terms of investing as a tool for social change. People think they're not allowed to do this, that they will lose all their money by taking on undue risk. Often people assume that granting is the only way to do our work. We're also challenged by lack of models and frameworks to create a responsible process of governance. That is a core challenge. **Designing frameworks and criteria for decision making is an essential piece. It's what allowed us to move from aspiration to implementation.**

How would you describe this journey to 100% impact?

Exciting, collaborative, incremental, innovative and rewarding. We set a big goal, and have been working toward it through smaller concrete steps. **Our journey has been faster and easier because we have embraced learning and knowledge sharing with peers and other funders. Impact investing is a team sport.** It requires a bit of courage to think about things, but it's not as difficult as it first appears... and it's very differently worth the effort.