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

Partnerships for local community impact

In conversation with London Community Foundation, February 2017

The London Community Foundation (LCF) has been supporting the London Ontario community for more than 60 years. The foundation seeks to create a vibrant and caring community by investing strategically in innovative community-based solutions. Since its founding in 1954, the foundation has grown to approximately $70 million in assets. Alongside its grant making, LCF has created a local loan fund to support impact investing in their community. Purpose Capital spoke with Vijay Venkatesan, LCF's Vice-President, Finance & Operations, about this journey and what they've learned.

"We've been able to make investments in affordable housing that I'd be proud to recommend a family member to. With those early successes we're building the next phase of our strategy."

How did the conversation about impact investing first emerge?

As you know, a lot of the community foundations that are part of Community Foundations of Canada conduct Vital Signs reporting every couple of years. It's a temperature gauge and assessment of how our city measures up against national averages and regional averages in different areas of importance around measuring the success of a community.

Back in 2012 our Vital Signs identified a real issue with inequality, which was resulting in longer waiting times for finding affordable housing. If I recall, in 2012 the average wait time in London was about eight years, versus the national average, which was two. We knew that there was a big issue in the rest of the country, but it was even bigger here in London. Around that same time, our board was exploring new ways that our foundation could be innovative in finding solutions to community issues. We were aware that the concept of social finance was emerging and we decided to see what would make sense here in London.

What did your first foray into impact investing look like?

Our initial exploration showed that there was an opportunity for us to provide loans in support of affordable housing. We were now able to play in a space where the traditional financial institutions didn't want to be: up front early financing. From there we looked at what we had available in restricted funds that we could set aside for this venture. Our premise was to start with a little over 1% of our assets ($650,000) and provide loans to a maximum of $500,000. We wanted to work with anyone who was looking to create affordable housing. It didn't have to be only not-for-profits; we could work with local developers, private individuals — anyone who was going to create affordable housing. This is how it started.

Where was their resistance and how was this overcome?

Our Investment Committee's biggest concern, obviously, was that it was going to be much tougher for them if impact investing was going to be part of the investment policy statement and the returns they're held accountable for. They felt that they didn't have the skill set or experience to look at these types of loans. They had some concerns that we would be looking to provide an intentionally lower rate that didn't necessarily align with the endowment's financial return target. So there was some initial discomfort. It's part of the reason we created a new Social Finance Committee to oversee the loan fund, and why we created a separate pool held outside of our endowed assets, but available for donor funds to be invested. Currently our loan fund is not integrated.

> *KEY STEPS*
>
> - *Start with areas that are close to your mission to stay motivated*
> - *Build local partnerships to fill in your capacity*
> - *Take initial steps, evaluate, and design for the next phase*

The Finance and Audit committee is always going to be concerned with risk to capital. Their biggest concern has always been to ensure we don't lose the capital. It's one thing if rates go from 4% to 3% to 2% — that's okay. The Board has accepted a lower return on capital for the type of local impact we're trying to create. Donors who would be interested in this space are not as concerned about market returns as they are about the impact. But the risk to capital is always perceived to be higher than it would be if you were in your traditional markets. Some would argue with that today, but that was their big concern.

How is the loan fund operated?

We put a partnership agreement together with Libro Credit Union here in town to do all the administration back office support, collect payments and provide some due diligence support. We're responsible for chasing down a loan that goes bad, but they do everything else. The VP of Commercial Banking at Libro is also on our Social Finance Committee. This is helpful, as right away he'll know what's going to be coming down the pipeline. From there, as we identify opportunities, we reach out to Libro. They have an account manager who works with us and helps us vet the loan applicant, all the security against it, the cash flows and everything else that may need to be reviewed. From there, if we're okay to go, they'll give their recommendation. But ultimately it's up to LCF whether or not to proceed. If we're going to make the move, we need to make a recommendation to the board. The board then decides to approve or decline. Libro also gets involved at this point: setting up the applicant with an account at Libro; ensuring they have all the information they need; and implementing the process that goes into administering a loan.

We're always mindful of looking at a new investment opportunity — not just in isolation based on whether it's a great opportunity, but in its totality with the portfolio and our ability to manage and support it. This information always comes out in our review process. Our Social Finance Committee will vet the idea, as will I. But the Finance and Audit Committee will also say whether they think that an opportunity is feasible from a resource standpoint. The loan fund program is starting to work well We have two loans out right now at $1 million that are going to create about 85 units of affordable housing within the next year. And we have a third loan being reviewed that could lead to an additional 50 units.

What do these projects look like?

If I take the most recent loan that we approved: we loaned $500,000 to a not-for-profit Italian seniors group. They created an affordable housing apartment building back in 2011, Residentia Italia. It's for seniors who want a comfortable, affordable space to live where they can feel like they're part of a community. Residentia Italia has won numerous awards for design and the overall feeling of the space. We toured the building; it doesn't feel like affordable housing. It’s a place I'd be proud to send a family member to. They've done a great job of creating community spaces, with a large kitchen and dining room that facilitate social gatherings to help break isolation.

We gave them a new loan to create a second building across the street from Residentia Italia. It's going to be very similar, but it will focus on having at least 10% of the units available for veterans who need affordable housing. The new building will provide access to the services they would need 24/7. We really like the fact that it's affordable housing, it’s community focused, it's helping seniors who want to stay engaged with their community, and it's now also helping veterans.

How are you considering deepening this practice?

The board tasked the Social Finance Committee with looking at what a more comprehensive strategy around impact investing could look like. They came back with was a strategy to keep growing this work and to increase funding to 5% — that represents about $4 million. The committee also recommended that we look at direct and potentially indirect as well, because some funds have MRI/PRI mandates. Since that exploration, which happened last year, we’ve recommended going to 5%, 15% of our unrestricted assets. We’re not going to pool them with our endowed assets; they will be separate. Moving forward we will work with our donor relations group and put together a strategy to see how we can attract new donors as well as our existing donors.

Verge is a local organization in our community that makes loans for social enterprises. It’s a collaboration between ourselves and larger not-for-profits here in the city. Verge has been working well as a real-life example of an organization that's running lean. It has been able to identify good social enterprises and provide financing that creates great local opportunities, while making financial returns to keep them sustainable. Our work with Verge has started to come full circle from what was initially granted to create awareness and build knowledge. Now we’re at a point where there’s an opportunity for Verge to become a service provider for us by managing direct investments and social enterprises.

If you were starting from scratch, how would you begin?

I would start with truly understanding the foundation's mission and real mandate objective. From there, I would want to see examples of everything that impact investing does and how it ties to the mission mandate. We can then have a tangible discussion about what makes sense for this foundation and what we could be doing. I think that linkage is the critical piece that gets missed. You must make this about what your organization cares about. If you've got a group that is helping far off places with education and you have people in your own community struggling, your foundation will want to support local first as its part of its mandate, then look at other ways you may be able to provide support.

It’s very important to tie everything back to your mission. Then if you start to get a little bit away from your mission, it's still okay. If we can invest in this product as opposed to that product, and this product does well, why wouldn't we? I think always tying it back is the biggest learning for me; the biggest disconnect with nay-sayers is that they don’t see the ***why***. You have to help them with the why.