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

Catalyzing community impact through partnerships

In conversation with Vancity Community Foundation, February 2017

The Vancity Community Foundation (VCF) is a grant-making community foundation connected to Vancity, Canada's largest credit union. With a shared mission to redefine wealth, the foundation looks to catalyze community change in the pursuit of a cooperative economy, social justice and environmental sustainability. Founded in 1989 with a $1 million contribution from the credit union, the foundation has grown to over $56 million through donations. Today it supports more than 175 donor advised Funds while also growing the proportion of its assets in direct impact investments to more than 26%. Purpose Capital spoke with Derek Gent, Vancity Community Foundation's Executive Director, about this history and the lessons they are applying for the future.

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KEY STEPS

- *Consider partnering with credit unions to create complementary expertise*
- *Be willing to engage new donors with a clear desire for impact*
- *Leapfrog with tools and learnings from your peers and leaders*

Why did the foundation first engage in impact investing?

The foundation was set up not so much to be innovative in its philanthropy, but for Vancity to have an entity that wasn't part of it's existing regulatory framework, which is quite constraining. We've been making loans out of the endowment since our inception. Part of the reason for creating the foundation was to be able to engage in some of those higher risk but higher impact investing activities that the regulators were not so keen on the credit union doing — for example loans to local nonprofits, microcredit and some granting capacity. When the endowment was first created at the foundation it was with an intention to find a way to use all the assets.

We've been making program related investments since the early 1990s. There's an interesting story from our early days that continues to inspire me: apparently when VCF started making these loans, the Federal Government came knocking and said, "you're not really allowed to do this under the current regulatory framework for foundations, it's technically offside." But they added that they wanted to change the regulations because this seemed like a good thing to encourage in the sector. So we were part of a group with some closed door meetings supported by the Muttart Foundation and others that led to the development of the initial CRA Guidance for Community Economic Development Activities and Charitable Registration. There's a bit of that ethos to the way we do things that contributes to advancing the framework and improving understanding, so that more groups can and will do it. Advocacy continues to be important to our approach.

What motivates the foundation to continue to invest for impact?

We see it as a way of accessing way more resources. The foundation model is structured so that you only access the income from most of the assets that are sitting there. We're keenly interested in better utilizing all those assets toward our mission. There's a continual drive from our board and stakeholders to say we want more of the assets invested directly in impact. And they want a bigger lens to have more of the assets that we don't manage invested in impact. To the extent that we can help others figure this out and move the sector, there's a real interest in that.

What does your impact investing look like today and what lessons have you learned along the way?

I think we've become much more sophisticated in looking at the different sorts of risk profiles and intentions that can be brought to the work. Not all impact investing is risky but some of it is, and not all impact investment is subsidized but some of it is. So it's not a straightforward asset class but rather a broad mix of opportunities. We're keen on being active in a bunch of those and hopefully starting to crack the resistance in the larger pools of capital. We think of this work as having different categories for risk. We have program related investments where we are purposefully taking more risk or subsidizing the rate of return. Those investments are often to charities, in which case if we lose the money it was a grant. There's also a pool of very risk oriented capital contributed largely by Vancity that we apply to impact investing with way more risk tolerance. That includes private equity where there's an expectation of higher returns and more risk. And finally, we have investments with a lower risk providing loan guarantees and loss reserves, which are held in cash but used to help Vancity take more risk.

We’re now thinking about how we can extend this work beyond our core assets. The way we’re structured, we have about $55 million in assets, but $40 million of that is in donor advised funds. We've been very successful in allocating our core assets toward impact. But we’ve been much more reluctant to allocate the donor advised funds without intentionally bringing the donors along with us; we haven't found a real keenness in pushing the envelope with those donors yet. This is where we want to start going. It will come through donors who want impact cooked into the investments and finding investments that meet the risk-return profile of our existing policy statements.

Recently, a donor set up a fund and expressively said, “I'm very passionate about community farms. I think it would be great if you could provide financing for the acquisition of farmland that will be covenanted and protected in perpetuity.” So much so that they didn’t need to grant out of this fund. We took one $100,000 out of the donor advised fund and did a 0% interest loan for land acquisition. As donors like these step up, it’s what we're very keen on building.

What opportunities do you see for deeper collaboration between the credit union and foundation sectors?

I have always thought there was way more opportunity for deeper collaboration with financial institutions. There are some great examples beyond our own work — for example the Victoria Foundation, which has been working with Island Savings to set up a new loan fund geared around impact investing. I'm fascinated by the analogous structure and evolution of the credit union movement and the community foundation movement in Canada. I always thought that Vancity setting up a community foundation was a natural extension of people at the local level pooling their resources and investing in each other, either through deposits at a credit union or donations at the community foundation. There’s scope to build on our collective strengths. The community foundations have deep relationships with organizations that are making a difference. Financial institutions have the investment sophistication, but they don't have the higher-level wealth management sophistication that's created a connection in the existing endowments. All this is beginning to change.

How do you think about the opportunities for scaling your work in partnership with Vancity?

Part of the decision in putting me in my current role and giving me this mandate was to build up the impact investing side of the foundation outside the credit union umbrella. But we are now moving to a stage where more impact investing is held in the credit union. We can be a conduit for going out and finding donor funds and pushing into other risky spaces that are beyond what the credit union can do. We can intentionally move beyond the conventional risk return profile. For example, local microcredit started at the foundation. As we got better at it and understood the framework, it moved back into the credit union because the credit union can scale it. Once you've got policies and procedures and structures you can let it loose and expand it across a branch network. By comparison we are doing more one-offs with more specialized capacity.

The lower risk loss reserves mentioned before are a good example of how we work much more closely in concert and are complementary in making more happen for community development. For example, we have an impact business lending allocation of more than $1 million provided as loss reserves for the credit union. That represents probably a factor of four or five times that much lending in the credit union, so it allows us to make much more impact than we could by ourselves! As that portfolio has matured we've discovered that it wasn't nearly as risky as they thought, so these loss reserves aren't really needed. In their future lending, we probably won't need to allocate or provision as high as we have been. We were providing a loss reserve of 20 or 30% on each loan. Based on experience and increasingly sophisticated decision making, we can gear that back and say: "Maybe that $1 million can be leveraged ten times". That's part of the risk management framework we're helping to support by acting as training wheels and comfortable insulation around trying some new things.

What role does capacity building play at the foundation?

At the foundation, we've made it our mandate to help strengthen nonprofit organizations so they can become more sustainable. We prefer not to pick one issue area over another, as we're pretty diverse across the Lower Mainland. We can strengthen nonprofits' sustainability on the revenue side through programs such as social enterprise, which we have a long history of supporting. We move them along a development path from early stage, which is mostly grant support and technical assistance such as programs such as Enterprising Nonprofits. Then we move them into a zone where Vancity can do the financing.

We've found a much larger investment opportunity in the real estate space. For organizations that may already own assets — churches are my favourite example — we've been able help them leverage that into a larger asset that benefits the community. Moving more organizations to own land and then gain more value out of it strengthens their stability and balance sheet. At the same time it increases the proportion of charitable nonprofit ownership in the community, which has other benefits. We've been working with non-profits on a real estate projects right from the early stage of "What's the vision for how we might use a piece of property?" We move them through feasibility and business planning into the predevelopment phase. And we take them through construction occupancy, which is where the credit union would likely come to bear or where we would take an equity position and invest on a more risk oriented basis. This illustrates the kind of model that we want to build: helping groups move along the development path with a range of tools from grants and loans and technical assistance and equity through to conventional financing.

What’s your vision of the role of foundations in impact investing?

It depends on how ambitious we all want to be. I'm hopeful that those who are leading the charge now can stay out in front as the market moves. We're going to see more investment opportunities emerge along with more conventionally investable products. I hope we don't just stop and say: “Okay we won. Now impact is cooked into everything.” I want to see us seek to do more. The mandates of foundations lend themselves to that: starting with a mission for positive social change, then being able to look at granting and investing assets in a similar way. It’s fascinating to me that that the Heron Foundation does not have a separate investment policy and granting criteria. It’s an aspiration for where some foundations may go.

If all we do is aggregate the investment opportunities that are conventionally investable and impactful I'm not sure that we’ve really done anything. We might just shift these investments from the merchant bankers to the foundations because there happens to be impact associated. Instead we can bring better understanding of what the risk is and then use that more flexible money to create solutions that incrementally add some new dollars. 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. I think there's an interesting role for us to push for stuff that's impactful and doesn't quite fit the market test today, but perhaps can and should in the future.