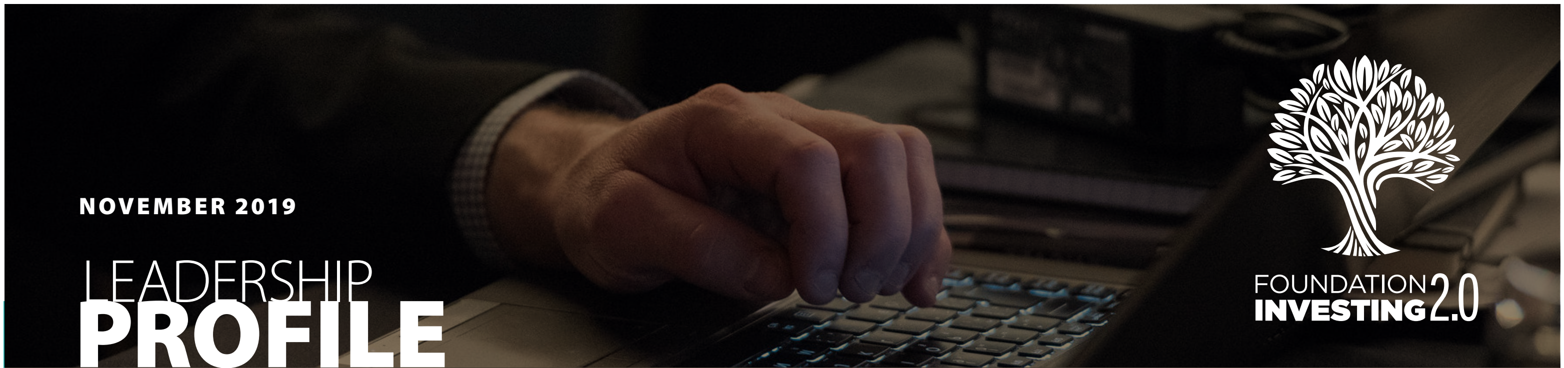

NOVEMBER 2019

LEADERSHIP PROFILE

FOUNDATION INVESTING 2.0

ABOUT THE CATHERINE DONNELLY FOUNDATION

CATHERINE DONNELLY FOUNDATION

The Catherine Donnelly Foundation (CDF) was established in 2003 with an endowment from a remarkable group of women, the Sisters of Service (SOS). It manages its endowment through a responsible investing lens involving the incorporation of environmental, social and governance (ESG) considerations in all investment decisions. It is also committed to deepening its impact investing efforts and exercising its rights as a shareholder in its publicly traded companies via shareholder engagement, advocacy and proxy voting. In 2014, the Foundation divested from fossil fuels and embarked on its program of impact investing, actively seeking out positive social and environmental objectives alongside financial return. CDF aims to dedicate at least 10% of its portfolio to impact investments.

Mritunjay (MJ) Sinha is the Director of Finance and Investment at the Catherine Donnelly Foundation. His first foray into the investment world was via microfinance projects in rural India, where he became acutely aware of the injustices that lack of access to capital can create for people and social systems. He later pursued an MBA focusing on responsible investment, has extensive experience in private investment and in recent years has developed expertise in impact investing. In addition to managing relationships with their investment manager, investment committee and board, and other service providers like SHARE, MJ also manages CDF's growing impact investment portfolio and is responsible for the overall budget of CDF.

What is CDF's mission and how is it relevant to your investment activities?

The Foundation strives to transform the lives of those most in need by proactively supporting creative initiatives in the areas of housing, adult education and the environment. We are the financial and human legacy of the SOS. The foundress of SOS, Sister Catherine Donnelly, started her mission because she didn't think society was addressing critical gaps in social justice and then she and the other Sisters devoted – and continue to devote – their lives to that purpose. So, at the core of everything we do is a responsibility to those values and a commitment to serve the community, environment and society that we care about. At meetings, we ask ourselves, "if Sister Catherine Donnelly were alive today, would she be proud of what we're doing?" It's not a burden, it's a responsibility. My job is to ensure the integrity of the Foundation. The Sisters of Service dedicated their lives to social service and we are just trying to maintain that legacy going forward.

Who is involved in developing and implementing your investment policies?

The Foundation is rooted in strong values and both the board and staff hope to live up to those values. The strategic direction is set by the board, and staff helps execute and operationalize the strategy. A few years ago, the Foundation had a very small staff team. Since then, our team has grown somewhat, we've changed investment managers, and we rely on external experts like SHARE to assist us in executing our policy. There has always been a shared belief that our investment policy should speak to our values and beliefs. In the past year, I've worked on revising several policies including our investment policy statement, as well as the responsible and impact investment policies, so we can definitely say we are committed to staying current and progressive. I prepare background materials for our investment committee and the board of directors and I offer my technical knowledge and expertise, but the strategic decision-making, obviously, still lays with the board

How did your responsible investment journey start?

From the very beginning CDF was involved in responsible investment due to our belief that all of our financial resources should be aligned with our values. It was in 2012 when we started to take this even further by ensuring we lived our mission in all our activities, including the then-contradiction we felt between our environmental granting and our investment portfolio that had fossil fuel stocks. That's when we switched investment managers and divested from fossil fuels. This was about aligning actions with values, but it was also aligned with the business case as it was becoming more obvious that being invested in fossil fuels was not a smart strategy.

CDF was an early adopter of Socially Responsible Investing (SRI) screens and we have been engaged in shareholder activism for many years now. Over the last few years, we continued this journey by further exploring impact investing, and most recently we made our first impact investment outside Canada. Our impact investment exploration also saw us investing in two social impact bonds (SIBs). These SIBs provided access to health and education programs intended to improve the circumstances of social service beneficiaries. Although CDF participated in these investments, it was not without some concerns and questions about the nature of a "pay for success" social service model. As a result, during this past year we supported The Invisible Heart documentary because we saw the benefit of examining the pros and cons of SIBs for CDF or any foundation considering this type of investment. For more information on The Invisible Heart check out www.theinvisibleheart.ca

> We are each responsible for the consequences of our actions – both positive and negative"

Our journey is ever evolving, and we continue to try new tactics. SHARE has been amazing in coming up with some leading edge proposals where we can use our position as a private endowment to be a more active shareholder. For example, we had holdings in a pharmaceutical company and while we were a small investor we could, especially via SHARE's model where we can band together with other shareholders, push for some much needed changes in the company's policies and practices.

We have learned a lot through successes and failures and acknowledge the important role we play as a leader in sharing our lessons. We'll continue to learn, of course, but also inform and encourage other people and foundations to start thinking and doing more within and across their investment portfolios.

What were some of the challenges you encountered when trying to make progress on responsible and impact investing?

There is a theme that comes up in our impact investing work and in our work to further reconciliation and invest in Indigenous led opportunities, and that is our society's perception of risk of certain individuals and communities, and the systemic inequity and the challenges that lack of access to capital create for them, thereby excluding them from the mainstream economy. When we are assessing projects to invest in, we sometimes have challenges getting out of the 'risk and return' mindset, and I still get questions about just the financial return. But that's not what we're doing; what we're doing needs to be analyzed from a 'risk-return-impact' perspective and that's a different equation. Sometimes it's challenging to remember that we cannot just do things that are "safe". If you believe in something, then you go out and do it.

On the responsible investing side, recently we became aware of a stock we held that had a strong financial return, but the company's human capital practices do not align with our values. We have a guiding policy but applying that will mean financial loss. And we recognize there are different ways to exercise our rights as a shareholder, so going forward we are hoping to not outright sell our position right away. Instead we will bring it to our investment committee and the committee can decide based on the circumstances to hold, to sell it off, or to use the opportunity to be an active shareholder.

How do you reconcile your values and the needs of the beneficiaries or grantees with the need to generate financial returns when you make decisions?

As someone who manages our investments, our impact investments, and is responsible for budget and the cash flow that facilitates our granting, I have a 360-degree view of the Foundation's financial activities. At the end of the day we are grant makers and we need to generate a certain return for operations and granting. We're very aware of that. However, within that if the 3.5-5% that we are granting out is an antithesis to our investment portfolio then I would feel I am a hypocrite. So, we feel as a foundation that our granting and our investment always need to have the same heart and soul.

I keep fiduciary duty in mind. Unlike a pension fund, we don't have specific individual beneficiaries, but we do have a holistic social duty and that's entrenched in our policy and in legislation. So, we remember in our deliberations that our desire to see high returns shouldn't impact our decision making too much, because social impact is just as important. I personally think that foundations need to distinguish themselves from thinking like an investment fund. Foundations are meant to exist to have an impact on the problem(s) at the core of their missions, they don't exist just to make investment return. So, what sort of intentional impact you're having on the problem you exist to solve has to be a more important consideration than investment return.

What do you see as the most important or pressing ESG investment issue?

The most important issue is that there are asset owners who are doing radical granting on one side and they don't even know what's in their investment portfolio. There is a lack of awareness among large asset owners and they are not seeing the business case of ESG investing. Someone at those organizations needs to be bold enough to say, "this is what we stand for as a whole organization and this is what we are going to do as a whole organization." There are ongoing discussions in the investment community that considering ESG parameters should be a part of the fiduciary duty for all investors, as ESG compliant firms perform better, especially in the long-term, than those that aren't. One of my jobs is to show people that there is an alternate model of capitalism, where you can do good and still do well, and to continue to make people uncomfortable enough in the status quo that they will help us all move to that alternate model. At CDF, we have been doing responsible investment for over 7 years and we haven't gone out of business, we have healthy granting programs and a multi-million-dollar organizational budget that we run successfully. So now I feel I can ask others to, at least, think about moving forward because ultimately, we are each responsible for the consequences of our actions, both positive and negative.

> It's okay to ask for help and it's okay to be able to not pay it back as long as you can pay it forward."

Where do you look for resources and professional guidance?

There are two main recommendations I have. The first is to keep an eye on resources and events from SHARE, RIA, MaRS Centre for Impact Investing, other responsible and impact investment groups. The other recommendation is to speak to your friends and colleagues who are ahead of you in the journey. I've spoken to a lot of people, and I find I often don't need to reinvent the wheel. It's okay to ask for help and it's okay to be able to not pay it back as long as you can pay it forward. How you leverage your network can really make things so much quicker and effective. A number of private and community foundations in my network work together. We all are seeking ways to move deeper into community-based investing. I don't personally have the network to facilitate that but I do have contacts at community foundations who can connect us. I try to pay it forward, and share my work, my thesis, and try to assist others in making this journey to ESG and impact investing.

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THE CIRCLE LE CERCLE
ON PHILANTHROPY AND ABORIGINAL PEOPLES IN CANADA
SUR LA PHILANTHROPIE ET LES PEUPLES AUTOCHTONES AU CANADA

rally assets INVESTING THAT PROFITS EVERYONE

ENVIRONMENT FUNDERS CANADA
Advancing a sustainable future

SHARE
SHAREHOLDER ASSOCIATION for RESEARCH & EDUCATION

Foundation Investing 2.0 is being implemented by Rally Philanthropy and the Shareholder Association for Research and Education (SHARE). The project is designed for foundation trustees, CEOs, executive directors and senior finance staff, to support them wherever they might be in their journey. From the curious to committed, the project is designed for those who want to learn, begin, or deepen and scale their impact and responsible investing activities.

FOUNDATION INVESTING 2.0