

Canadian Responsible Investment Conference 2009

Dinner Speech

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Investing in the Aboriginal Future

I have been asked to talk to you tonight about Socially Responsible Investing (SRI) and the Aboriginal Future. I want to thank the Social Investment Organization and Eugene Ellmen for the opportunity to address you. As we have heard and will hear more about tomorrow, the SRI industry is progressing in this country and increasingly social investors have begun to influence corporate Canada's behaviour. By including social, environmental and governance considerations alongside financial considerations into business decisions, the SRI movement is key to providing a pathway for the revitalization of our communities.

However, there are major challenges, philosophical and institutional alike, that need to be dealt with in order for SRI to truly become an established and accepted business practice, and for that matter a force in the Aboriginal future.

There are three points I wish to make tonight:

First, we need to emphasize that the promotion of entrepreneurship, and by extension, social entrepreneurship can be a powerful tool in addressing our social challenges, AND while governments have a role to play, it is the private sector influenced by SRI that is best suited to foster entrepreneurship.

Second, we need to broaden the base of the SRI industry to allow for a greater number of private sector companies and foundations to get involved. We can do this by working with government to modernize our tax system and provide for a more social-finance friendly structure that would entice pools of capital that are otherwise unavailable.

Third, the SRI industry is not doing nearly enough to ensure that, where applicable, Aboriginal issues are integrated into business decisions. Not only should Aboriginal considerations become a staple in your social screens, but also, I believe Aboriginals ought to be THE quintessential SRI cause in this country. I am not sure there is a better bang for the SRI buck than directing financial resources from the private and charitable sectors to Aboriginal economic development needs.

If we can achieve these three things, we can begin to look at the economic and social future development of Canada's aboriginal peoples as the real opportunity it is and not as the unsolvable problem it is perceived to be by too many.

Let me start with the need for the SRI industry to focus more on fostering entrepreneurship, in particular social entrepreneurship. We recognize that business entrepreneurs are those whose original ideas spark new trends, create new jobs and create the wealth we redistribute.

They have the drive, energy and passion that is needed to make the economy come alive. Well, social entrepreneurs come from the same stock, only making money is not their only objective, but rather a means to a greater end. Their ideas and their businesses, if unleashed, can act as change agents for society, seizing opportunities others miss and improving systems, inventing new approaches, and creating solutions to change society for the better.

Promoting entrepreneurship to deal with certain social issues has a number of advantages over other approaches. In the aboriginal context, it has the potential of retaining wealth within Aboriginal communities, thus creating a much-needed business infrastructure. If successful, the promotion of entrepreneurs can also create positive role models for other Aboriginal Canadians, who would see the tangible benefits of education and private enterprise.

The promotion of entrepreneurship, whether it is business or social in nature, is best suited for the private sector and specifically the SRI industry. This isn't to say government doesn't have a role but rather that government is best suited for the provision of health care, education, and infrastructure as well as the creation of the legal, tax, and trading framework that govern our economy.

What it does not do very well is foster entrepreneurship. This is not a criticism but a reality. The SRI industry needs to tell government that it should be more involved in addressing social problems because social entrepreneurs can be far more effective in many circumstances than governments who are too often bogged down by bureaucratic inertia or worse political considerations.

To be most effective, social entrepreneurs in Canada need to be able to attract private capital the same way business entrepreneurs can, as well as capital from Canadian foundations the same way social entrepreneurs in other countries can.

This is where SRI as the social investor comes in.

To make it possible for social entrepreneurs to tap capital markets the same way their business counterparts can, we will need to broaden the SRI base by getting Canada's private sector as a whole participating and our foundations more involved. When it comes to community investing or investing in disadvantaged communities or with disadvantaged groups, SRI leaders will have to work with government to create the incentives and vehicles for these pools of capital to be able to deploy their funds in ways and amounts they currently are unable to.

For example, it is not really possible today for Corporate Canada to make lower financial return but high social return investments and receive some form of tax recognition, nor can foundations provide grant capital that may lead to profits, even if the goal is to make only a penny of profit. The truth is, given the projected deficits and the difficulty that governments will have in getting out of them, there will be less money coming from governments for needed social purposes. Something will have to fill this void. Governments ought to be looking at leveraging the experience, skills and, most importantly, capital of the private sector and charitable sectors.

We claim to be a more progressive country than the US, so why are we so behind the States when it comes to community investing, social entrepreneurship, and even donating to charities? The main reason is that the US, and for that matter, the UK, have sophisticated tax structures that

essentially reward companies and SRI investors who commit their monies to disadvantaged communities.

What kinds of tax incentives might we look to? Time will not permit me to get into the specifics of what these incentives or structures may look like, but suffice to say, in the case of foundations, similar to the US model of Program Related Investments, they should be able to invest in social enterprises. We also can look to home-grown examples such as those that support existing Canadian business entrepreneurs: Flow-through shares that encourage investment in resource-based exploration, or Canadian Film tax credits to name a few.

If we in Canada are prepared to use these kinds of incentives to enable business entrepreneurs to tap capital markets for the betterment of the economy, why would we not provide similar incentives to social entrepreneurs, and by extension, to those who finance them, for the betterment of society?

I have spoken about the need to focus more on fostering entrepreneurship to address social challenges. Also, I have dealt with the need to broaden the SRI base and in general terms how this might be done. Now I want to focus on why I believe Aboriginals ought to be the SRI cause in this country. Simply put, I believe they represent the biggest bang for our SRI buck.

Canada is one of the wealthiest countries in the world; its per capita income levels, social development, and natural resources are the envy of most nations. However, within this thriving First World country resides a segment of the population – the Aboriginal population, over one million-strong– much of whose level of economic development resembles that of a Third World nation. Aboriginal Canadians significantly trail non-Aboriginal Canadians in virtually all aspects of economic and social development: income, life expectancy, employment, housing, education, health, and public safety.

In short, I believe this to be the biggest moral issue we face as Canadians.

However, it is not just a moral issue but also a huge economic issue. Aboriginals will play a stunningly important role in our economic future and securing the standard of living we have

become accustomed to. And let's not kid ourselves, energy policy, renewable and non-renewable energy projects, natural resource development, infrastructure needs, all will require a strict duty to consult and accommodate Aboriginals.

Recent statistics suggest 5 years from now, there will be more Canadians over the age of 65 than under the age of 15. In contrast, Aboriginals are the youngest and fastest growing segment of our population. Half are under 25 and the Aboriginal population of working age is growing at 5-6 times the national average. Studies also show that by 2020 we will be short one million skilled workers, which represents a direct threat to the continued health and vitality of our economy.

These same studies though predict that by 2020, one in every four new entrants to the labour market will be of Aboriginal ancestry. Not only does this represent new consumers but a potentially trained new pool of skilled and productive participants in the Canadian economy.

According to a recent study by the Centre for the Study of Living Standards, if we bring Aboriginal Canadians up to Canadian averages, in terms of income, education, and health standards, we would increase Canada's GDP by over \$400 billion by 2026.

Its difficult to argue that \$1 spent or invested anywhere else would have as much of a positive impact. On the flip side, the failure to bring these standards up will represent a cumulative government expenditure of \$77 billion in social costs by 2026.

It is against this backdrop that I want to highlight the Fund my father and I launched – the Capital for Aboriginal Prosperity and Entrepreneurship Fund, known as CAPE. I am not here to plug CAPE but use it as an example of what can be done and talk about the institutional obstacles we faced.

We wanted a vehicle that could attract interest and capital from some of Canada's leading and far-sighted companies, individuals, and foundations and then take their expertise and channel it all into Aboriginal communities to further a culture of entrepreneurship and ownership. Such a vehicle would need to create sound businesses that attain reasonable returns but also can be platforms in order to create aboriginal management teams and owners.

Why? Well, access to patient capital, mentoring and training, and business experience are sorely lacking in Aboriginal communities and for Aboriginal entrepreneurs.

Many of the businesses we will be targeting will have experienced difficulty in obtaining conventional financing either because of location, structural challenges, lack of business expertise or undercapitalization.

Most of these businesses will not have adequate financial resources to enable them to provide training to prospective Aboriginal managers and employees.

Furthermore, ownership potential is sorely lacking. Some may debate the following statement, but Aboriginal communities have been forced to give away too much of the economic pie to non-Aboriginal companies and are therefore unable to control their own destinies.

Even in those cases where Aboriginals have been adequately compensated with royalties, this may not be enough. There needs to be real ownership. It seems at times that we are turning Aboriginals into landlords since its easier than turning them into entrepreneurs or managers.

In response to these challenges, CAPE's investments will all have the following characteristics:

- The opportunity to increase capacity and participation of Aboriginals in the Management teams of portfolio companies over time.
- The ability to generate a positive risk adjusted financial return
- The opportunity to sell CAPE's ownership position to our Aboriginal partners over time.

When we began forming our Fund, we dealt with questions that many in this room no doubt have had to grapple with. For example, "What are acceptable financial returns"? Suffice to say that our overall target portfolio goals reflect a rate of return that recognizes that there will be some cost to achieving our social objectives and these return goals are significantly less than those targeted by traditional private equity firms.

“Is this charity or is this investment”? Well this is not charity. Aboriginal entrepreneurs don’t want it to be charity. And we won’t succeed if it is seen as charity. But at the heart of this question is the assumption that social and economic goals can not be met at the same time. We in this room know that social and economic goals are not and should not be mutually exclusive, but our tax code does not seem to.

If you take a look at the composition of our investor base you will understand some of the thinking, and indeed frustration, behind my remarks.

In addition to ourselves, there are 16 companies, 3 foreign foundations and 2 individuals. All have committed between \$2 to \$2.5 million. To date we have raised \$50 million, which I understand is the largest amount of its kind ever raised without government funds or backing.

First let me make some observations about the companies involved. We have all the major banks, most of the top insurance companies and many leading commodity, engineering and transportation companies investing in the Fund.

They bought in to our goals immediately. They accepted the role they should play and could play. Yet they had trouble placing their commitment in what they thought was the most appropriate bucket: does it come from their charitable donations budgets or their investment pot?

The answer should be: it could come from either, depending on the circumstances. A company’s fiduciary responsibility includes shareholders but also the wider community. This is what Corporate Social Responsibility is all about, the problem is that our tax structure is inherently biased against it.

Their participation shows me though that the private sector has the funds and the will to participate but they lack the vehicles and the incentives to do so.

If we look at the participation of foundations in our Fund, it surprised us and bothered us early on that if we wanted to tap into this sector’s expertise and capital, we would have to go outside of our

own borders. How backwards is it that American foundations are allowed to invest in hybrid models in Canada but Canadian ones cannot?

Finally, it has to be noted that no traditional SRI funds are involved. This isn't for lack of interest but is again structurally motivated. First, we were told that a \$2.5 million investment was too high. This leads me to believe that regardless of what you suggest is the size of the SRI capital in this country, it is probably smaller and more restricted.

Second, our lower expected returns were a concern even for traditional SRI funds. Ladies and gentlemen, if you have difficulty in participating in hybrid funds how can you expect Corporate Canada to become more active?

So, there we were with a good idea, and non traditional SRI investors willing to back the idea, although it took a former Prime Minister willing to put his own capital, time and energy to convince them. Yet we have had to jump through too many hoops to get it done, and in doing so, are without Canadian foundations or traditional SRI players. It should not have to be this difficult.

As I wrap up tonight, I want to reiterate the need to broaden the SRI base which will require more proactive involvement of the SRI community in policy making so that tax structures can provide opportunities and incentives for the private sector as well as our charitable sector to play a larger role in driving social change via entrepreneurship, be it business or social.

Furthermore, there is no better bang for our SRI buck than directing capital and energy to the plight of our fellow Aboriginal Canadians. The opportunity to deal with this is at hand. We are talking about the youngest and fastest growing segment of our population. More and more Aboriginal groups are recognizing the benefits of decreasing reliance on government funding and increasing their financial independence to spend money where they believe it would be best spent for the well being of their communities.

Most encouraging, more aboriginal entrepreneurs and leaders are insisting on financial discipline, on the virtues of patiently learning from non-Aboriginal entrepreneurs and businesses, AND most

importantly, the clear separation between political leadership and businesses, i.e. businesses run without the influence of chiefs and bands.

Hybrid models like CAPE that deliver both social and financial returns can change the landscape of how we as a society try to resolve some of our pressing social challenges. Not only is it a creative and sustainable way to help address the socio-economic disparity between aboriginal and non-aboriginal Canadians, but it will also help establish Canada as a leader in proving that market based solutions may be harnessed for social good.

The challenge I want to leave with you tonight is to begin moving these yardsticks.

Hybrid models and entrepreneurship, business and social alike, can be powerful tools in meeting our social needs.

There is far more capital out there that is willing and able to be deployed if we can put the proper incentives in place.

Aboriginals should become a focal point of our socially responsible investing.

To everybody in this room, you, WE, should be, and need to be the catalyst for this change.