



# **Canada Impact Investment Fund**

The Canada Impact Investment Fund:

A National Fund Proposition to Support Investment in the  
Social Sector - An Overview for Stakeholders

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## Background

- Social enterprises and social purpose businesses are playing an increasingly important role in our society. These organizations are among Canada's fastest growing sectors and offer solutions to many diverse social issues by creating new and innovative approaches to address social issues.
- One factor that limits the growth of the sector is the lack of access to capital; specifically the lack of an **"investment vehicle"** to act as a **financial intermediation mechanism** that enables capital to flow into this sector.

## Engagement & Objective

- Under the auspices of the Social Investment Organization; an external consultant with support from an external advisory committee were engaged to conduct an assessment of the financing marketplace. The objective of the project was to propose an investment vehicle that acts as a financial intermediation mechanism to catalyze the flow of capital from the investment community to the social sector.

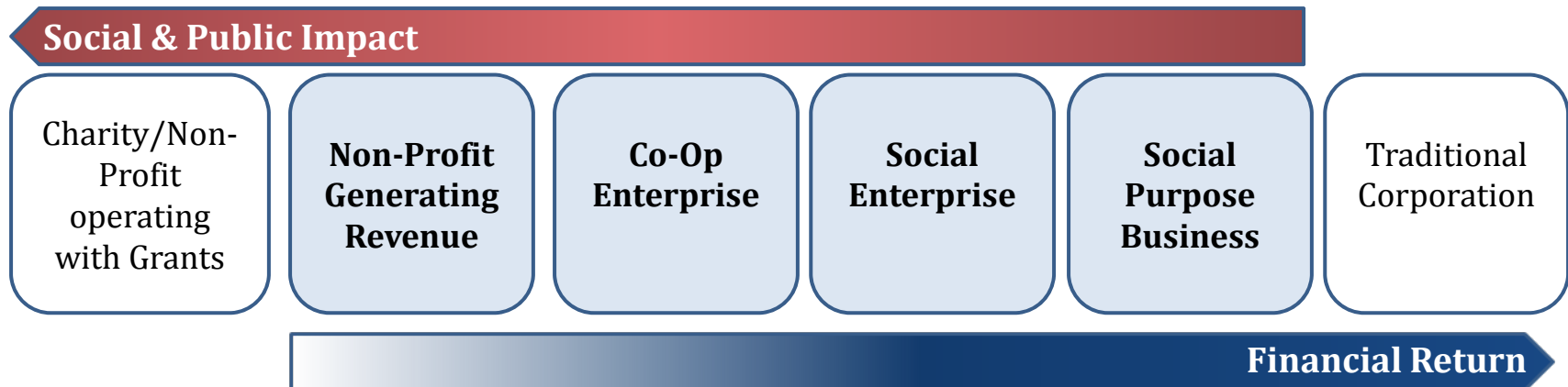
## This Presentation

- This presentation introduces the Canada Impact Investment Fund, a fund proposition the project team concluded has the potential to support and transform the social finance sector.

## Study Funding

- This project was kindly supported by a grant from the Trillium Foundation of Ontario.

# Social Sector Sector in Need of a Financial Intermediation Mechanism



## Challenges:

- Highly diverse sector with many sub-segments and different business models
- Lack of capital to fully realize the underlying social and public impact in a cost effective manner
- Regional fragmentation – existing funds lack scale to attract capital effectively

## Opportunity:

- Create an intermediation vehicle that provides:
  - a pool of capital to enable the growth of funds committed to social sector investing
  - investors an opportunity to direct capital to the funds with a social mission

# New Investment Asset Class to Address Financing Need: Impact Investing

## Investment Impact Definition: J.P. Morgan, December 2010

### Investments intended to create positive impact beyond financial return

#### Provide capital

- Transactions currently tend to be private debt or equity investments
- We expect more publicly traded investment opportunities will emerge as the market matures

#### Business designed with intent...

- The business (fund manager or company) into which the investment is made should be designed with intent to make a positive impact
- This differentiates impact investments from investments that have unintentional positive social or environmental consequences

#### ... to generate positive social and/or environmental impact

- Positive social and/or environmental impact should be part of the stated business strategy and should be measured as part of the success of the investment

#### Expect financial returns

- The investment should be expected to return at least nominal principal
  - Donations are excluded
  - Market-rate or market-beating returns are within scope

## Recent Developments In Canada

- **SiG/MaRS - Canadian Task Force on Social Finance**
  - Report “Mobilizing Private Capital for Public Good”
  - Profiles 7 recommendations that Canada needs to pursue in order to advance the social finance sector
  
- **Federal Budget, March 25, 2011**
  - *“Supporting Social Partnerships: Some groups, such as the homeless, persistently unemployed, and at-risk youth, face complex and continual social challenges and often the best solutions to tackling these difficult problems are found locally. All across Canada, citizens, businesses, charities and other groups, such as the Canadian Task Force on Social Finance, are working together to develop innovative ways to address local challenges. The Government will take steps to complement community efforts by encouraging the development of government/community partnerships, enabling communities to tackle local challenges and testing new approaches to improve performance. Details will be announced by the Minister of Human Resources and Skills Development over the coming months.” (page 122)*
  
- **Ontario Provincial Budget, March 29, 2011**
  - Chapter 1 page 81
    - *“Pursuing partnerships with social enterprise: Public-sector reform means finding new, innovative ways of delivering services. Social enterprise, which uses private markets to pursue public goals, aiming to blend social and economic value, presents an important opportunity for service delivery partnerships in an era of limited resources. In some cases, social enterprises may be able to deliver services more efficiently and effectively than government. Some view social finance investing as an area of significant potential growth, both in Canada and abroad. Social enterprises may also be able to offer new products and services that help reduce fiscal pressures on government. The government will consider opportunities to leverage social venture financing through innovative partnerships that can demonstrate cost savings while maintaining or enhancing service levels” (Chapter 1, page 81)*

# Canada's Thought Leaders: Impact Investing will Evolve

## □ **Tim Brodhead, President & CEO, McConnell Foundation**

- *"the McConnell Foundation is still exploring mission-related investment, defined as investing in private firms, projects or funds that are contributing to the foundation's mission to foster a more innovative, inclusive and resilient Canada." (Source: Axiom News, March 29, 2011)*

## □ **Ilse Treurnicht, CEO, MaRs Discovery District**

- *"Private Sector Exploring Roles in Social Finance .....Task Force members have been approached by representatives from banks, mutual fund companies, and credit unions interested in implementing the recommendations within their organization. This interest is also fueled by a growing recognition that investors are looking for a new suite of products that will make it possible for their investment dollars to generate both financial and social returns."(Source: SocialFinance.ca, March 15, 2011)*

## □ **Stanley Hartt; Chairman, Macquarie Capital Markets**

- *"The financial reality is that governments ... must respond to growing societal problems and the best way forward is to do that in partnership with the community and private sector,"... "The old mentality of business making profit, while government funds social services is no longer tenable." .... "It's a new paradigm that will see us working with the community sector to develop and fund sustainable social ventures" (source Globe & Mail, March 30, 2011)*

# Introducing: Canada Impact Investment Fund

## Mission:

- To create an intermediation mechanism that enables the growth of impact investing

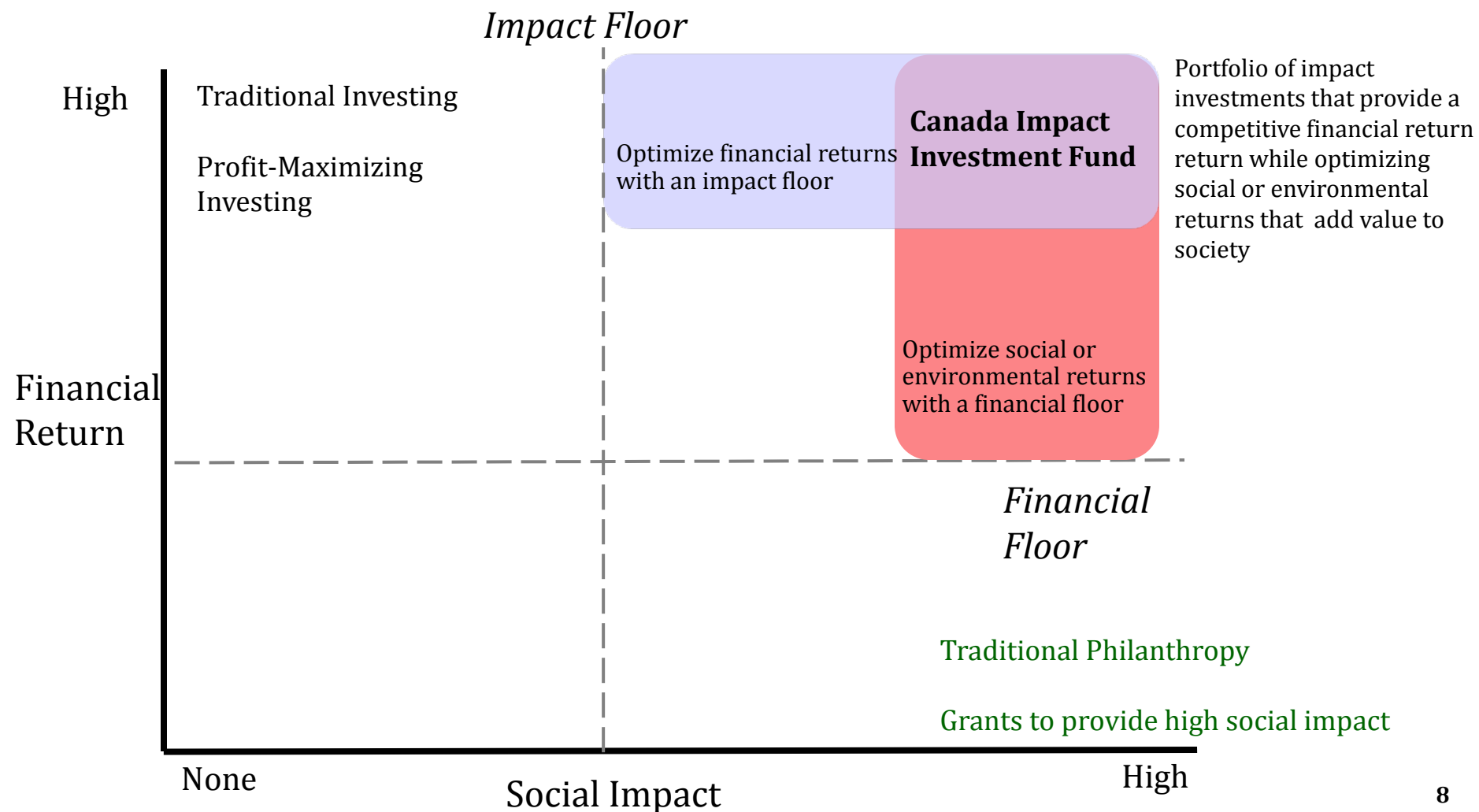
## Goals:

- To provide investors with **market rate financial** returns while **optimizing the social return**
- To maximize the flow of capital to Canadian-based funds with a mandate to invest in the diverse sectors of the social sector continuum
- Legitimize impact investment as a new asset class in the Canadian financial services landscape

## How:

- To meet these goals, the Canada Impact Investment Fund, a **private-public partnership** initiative that provides an innovative **National** intermediation mechanism that:
  - leverages capital from foundations, institutional and HNW investors with partnership support from public sector (e.g., Federal Government)
  - directs capital to regional and community based **investment funds** focused on financing the social economy

# Provides a Unique Return Proposition: Financial Return and Social Impact



# Canadian Landscape Funds with a Social Impact Mission

- Canada has over 50 funds
  - ▣ Fewer than 5 funds have assets under administration greater than \$ 20 mil.
  - ▣ Fund structures: Debt and Private Equity
  - ▣ Funds are domiciled all across Canada, many with community or regional focus
  - ▣ Finance all sub-sectors across the social sector spectrum
  - ▣ Specialized and regional funds are currently in the development pipeline
  
- Challenge:
  - ▣ For Funds – Cost effective capital introduction; finding investors when they need it
  - ▣ For Investors – Seeking Out Funds, Due Diligence, Monitoring, Fund Administration, Portfolio Management and Asset Allocation
  
- Canada Impact Investment Fund solves the problem:
  - ▣ provides investors and professional finance vehicle to provide an opportunity to invest in these funds
  - ▣ enables funds with a market proposition which meets investment criteria to access another pool of capital



# Proposed Fund

An evaluation of different fund models and options determined that a “Fund of Fund Model” has the potential to provide the greatest value to the social finance marketplace as well as providing the greatest blended financial and social impact return to institutional and high net worth individuals without assuming undue risk

## The Fund

- Fund of Fund Structured as a Limited Partnership

## Target Investments

- Range of private debt and equity funds focused on impact investing

## Sectors Invested

- Full Spectrum Social Enterprises: Not-For-Profit to Social Purpose Businesses

## Term

- Evergreen – open to investors every year

## Size of Fund

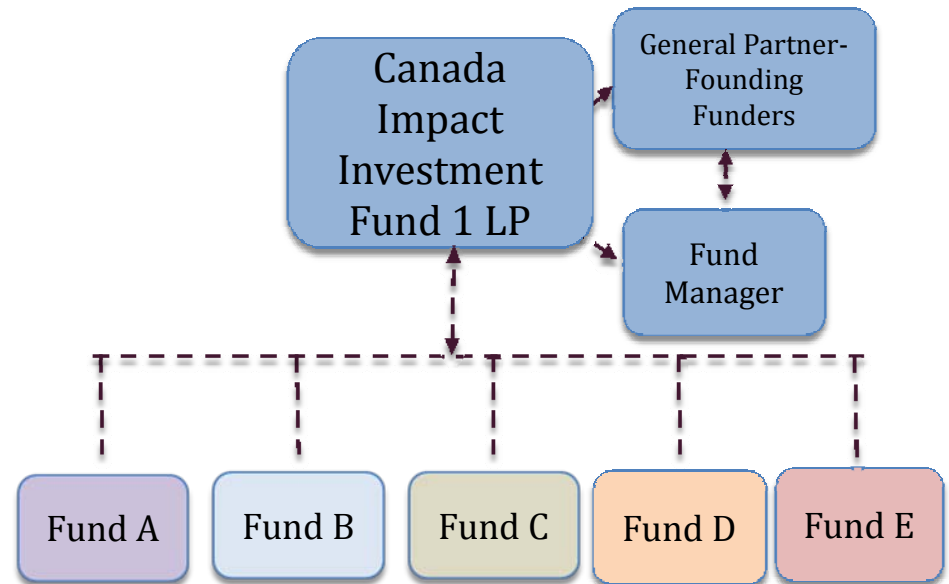
- \$100 million

## Target Net Return

- 6%

## Risk

- Low/Medium



# Proposed Investment Approach

## Professional Portfolio Management:

- Industry leading portfolio manager to be selected by Founding General Partnership
- Leading due diligence and investment monitoring

## Diversified Portfolio:

- A portfolio of investments in Canadian-based funds that finance the spectrum of social economy
- Balanced portfolio with:
  - Geographic Diversification
  - Sector Diversification – Funds which finance
    - Housing & Social Purpose Real Estate
    - Social Purpose Businesses
    - Micro-Loans
    - Environmental Initiatives
    - Not-for-Profit Enterprises/Charities - Bridge Financing
    - Social Enterprises
    - Community Funds

## Security Enhancements:

- Government of Canada is proposed to be a partner in the fund providing sub-debt and loss reserves

# Moving Forward: Roadmap to develop a partnership driven fund

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## Phase 1 - Partnership Engagement Process – Secure Expression of Interest

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### Private Capital

- 5-10 founding investors (goal raise \$ 10 mil.)
- Representation from HNW Individuals, Financial, Foundation & Institutional Sectors
- Determine Conditions of Investment:
  - Financial Return
  - Operating & Support Requirements
  - Risk Mitigation and Operational Requirements

### Public/Government Support

- Federal & Provincial capital commitments and form of commitment (e.g., grant)
- Determine Operating Support
- Articulate Partnership Requirements:
  - Financial Obligation & form of commitment
  - Asset Commitments to Sectors & Regions
  - Social Impact Reporting requirements

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## Phase 2 – Negotiate Private-Public Partnership to form General Partnership

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### Phase 3 – Fund Formation

- Prospectus development & fund incorporation
  - Establish governance & policy framework
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### Phase 4 – Investment Manager Search

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### Phase 5 – Launch Fund

- Source first tranche of investments
- Ongoing asset accumulation

## Advisory Committee:

- Adam Jagelewski, Manager, Social Finance, Social Innovation Generation
- Ann Jackson, Vice-President, Philips Hager & North
- Betsy Martin, Senior Advisor, Community Foundations of Canada
- Glen Newby, President, New Path Foundation
- Ken Thorpe, Financial Advisor, PEAK/Promutuel
- Lois Fine, Director of Finance & Information Technology, YWCA Toronto

## For more information please contact:

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