

Impact Investing:

5 Year Review

2018-2023

& The Path Forward 2024 & Beyond

October 2023.



Executive Summary

Conclusions & Learnings

1. Impact Investment has enabled greater impact in our local community and enabled us to meet commitments related to gender equity and climate action.
2. While generally not yielding as high returns as traditional market investments they have provided steady income and been counter cyclical during years when markets were down, or below target.
3. Being part of an investment syndicate with other foundations and investors has mitigated risk and shared costs for due diligence, monitoring and reporting.
4. Keeping each investment under \$500,000 allows for diversification in the portfolio and enables us to continue our impact journey.

The pilot projects have demonstrated success in yielding greater impact and meeting investment return requirements. With a full portfolio of diverse impact investments ranging from market rate to discounted rate (more impact than return) the Impact Investments are expected to generate sufficient returns for fees and granting.

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Introducing the New Impact Investing Pool

In 2024, the Foundation will invest 3% of the assets from all Endowed Funds in a separate pool for impact investments (including PRI and market return) for a new pool of approximately \$2 million.

- i. The minimum 3.5% granting will be applied to this new impact investment pool so that Fundholders do not have to reduce or waive their opportunity to grant. **So there will be no change to the fees or ability to grant by Endowed Fundholders.**
- ii. The allocation to the Impact Investment pool will be assessed and adjusted annually to maintain the 3% target.
- iii. The policy to allocate 3% to the Impact Investment Pool will reviewed again in three years (Fall 2026)
- iv. Flow-through and other Fundholders can
 - a. Choose to grant to the Impact Investment Pool.
 - b. The Foundation plans to review the option for other types of funds to invest in impact investing. In the interim, other funds like Agency Funds & Flow-through Funds may wish to discuss impact investing opportunities directly with the Finance Team.
- v. If a Fundholder wants to add more than 3% to the Impact Investment Pool they may connect directly with the Finance Team.

Are there new priorities for Impact Investing?

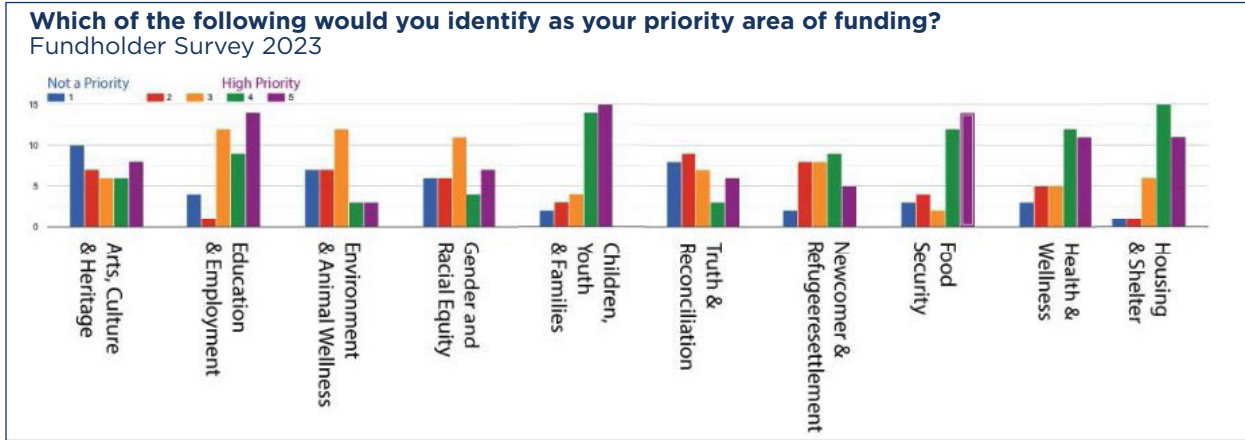
The Impact Investment Guidelines prioritize strategic research and programming directions of the Foundation or other priorities set by the Board. As identified below impact investments have focused on our SDG strategic plan priorities and our Climate and Gender Equity commitments.

For a number of years it has felt like we have entered an era of polycrises. Excessively hot temperatures, intense storms, smoke advisories, invasive species and flooding have become commonplace. War, economic instability, drought and famine have brought more global refugees to our doorstep. Higher inflation has contributed to the lack of affordability for basic necessities like food and shelter as outlined in our recent reports [“Are we hungry?”](#) and [“Can you Afford to live Here?”](#)

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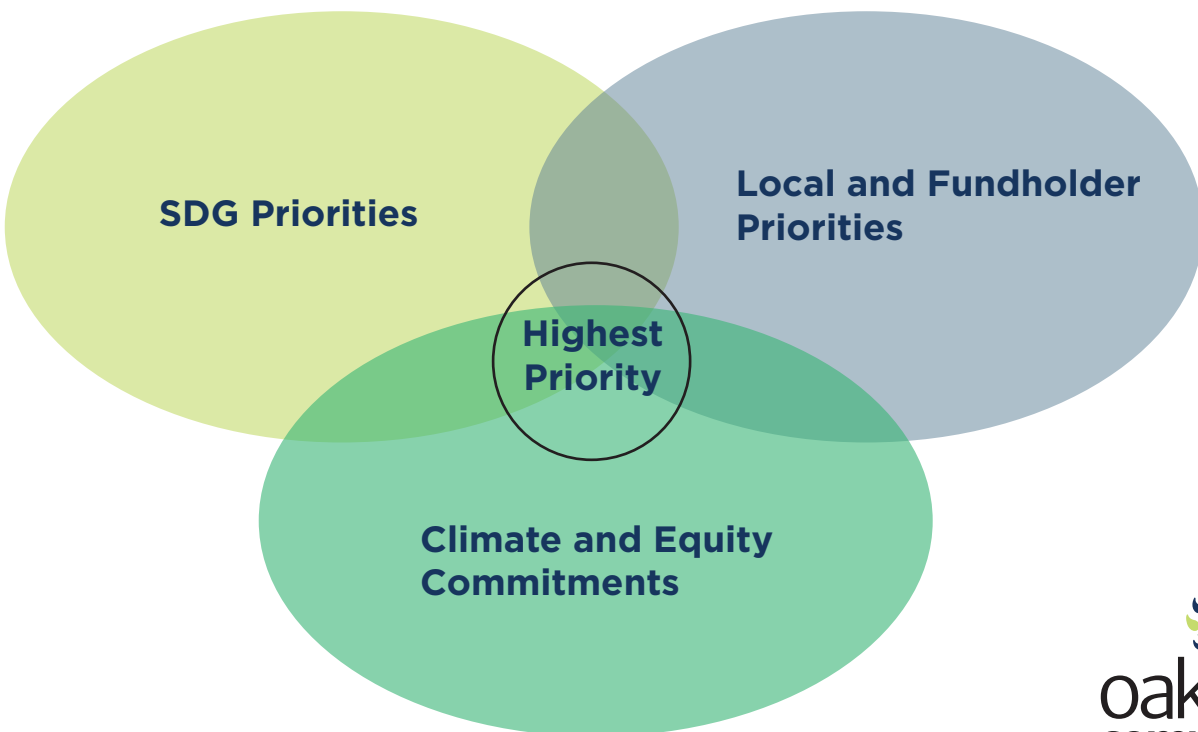
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Fundholders have also reflected these needs for housing, food security and families in their lists of priorities.

The Foundation recognizes the interrelated nature of many of these priorities and as such investments that impact multiple priority needs will be a higher priority. The Impact Investment Committee will be updating the Impact Investment Guidelines as part of its work plan.

2024 Impact Investing Priorities



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Background

In 2018, the Responsible Investment Sub-Committee Chaired by Terry Jackson recommended piloting impact investments including market-based and local direct impact investments. Direct impact investments in charities are classified as “Program-Related Investments”(PRI) by the CRA and are excluded from the assets used to calculate the disbursement quota required for making grants to charities as they are already invested in a charity.

The Board accepted this approach in order to trial the rate of returns, related risk and impact before making a commitment to a percent of the pool or a defined multi-million dollar impact investment pool. The Board approved investing the capital protection reserves of the community granting funds, leaving the returns from the “principal” of the funds for community grants to charities. As such only Board controlled funds have been invested in Impact Investing to date, no allocations have been made from Agency Funds or Donor Advised Funds unless they chose to participate in an Impact Investment. [See full timeline](#)

What is Impact Investing?

Impact Investments are made for more than financial return with a focus on supporting a solution to a social, cultural or environmental issue.

Grantmaking is not the only way community foundations can better our communities. There’s another way to make a difference—Impact Investments. These are a flexible financing tool that The Foundation is now providing that allow investment in solutions to social problems, while also recycling those dollars and earning some return for granting, charitable activities, or new investments.

The Foundation’s Impact Investment Guidelines state that the purpose of these investments is to amplify the strategic research and programming directions of The Foundation. At present, these investments are made with Foundation funds with oversight from its Impact Investment Committee, with final decision making by The Foundation’s Board of Directors.

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Why do Community Foundations engage in impact investing?

Objective

① All assets working to benefit the community, not just grants to charities.

② A bigger impact

③ Benefit local charities and provide them with cheaper loans/better, more flexible terms

④ Differentiation/competitive offering to donors

Result

Investments in the public equity market do not advance The Foundation mandate to benefit Oakville. Impact Investments enable greater community benefits.

As the Foundation only grants between \$4-5 million annually supporting the purchase of a house, leasehold improvements and other capital assets would be difficult through a grants-only approach.

Four local/regional charities have benefited with low cost loans or low interest bonds: Children's Aid Society, Food for Life, Carolinian Canada, & Windmill Microlending

Two fundholders have participated with \$130,000 commitment and another 4 fundholders have committed \$250,000 tentative on an approved deal.



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Impact Investing Pilot Projects - 5 Year Review

Since 2018, 8 pilot projects have been approved. After 5 years of pilot projects & financing deals through community granting reserves and select DAFs, **the pilot phase is over**. Our first 5 year mortgage is now up for renewal. This section will provide a 5 year review of the results.

How are other Foundations Impact Investing?

In preparation for the 5 Year Review, the Foundation commissioned a comparison on the impact investment activities of other peer community foundations and some private foundations. The key takeaway from this report found that most foundations in the report have somewhere between 5-10% of their total portfolio committed to impact investing.

The report also identified that other peer CFs have allocated a percent of their pooled funds to move their impact investment agenda forward.

In addition, at the Board's Strategic Planning Session in August 2023, the Board had an opportunity to hear directly from three peer Community Foundations who each have significant impact investment portfolios (one has a \$20M Social Impact Fund, and the two others had portfolios of 10-20% of their total assets).

Current Impact Investment Guidelines

1. Not in competition with commercial lenders. The deal must provide better terms than a commercial lender to the borrower eg. borrower can pay back at anytime or a lower loan rate.
2. Investments will amplify strategic research and programming directions of the Foundation specifically Vital Signs (Equity Gap, Housing, Inclusion and Mental Health), Belonging, BeCause initiatives, Youth Initiatives, Community Funds (Environment, Heritage, Truth & Reconciliation, etc.) or other priorities set by the Board.
3. A loan rate is currently set at 3.5 % to adequately meet costs and returns. Lower or higher rates will also be considered based on risk profile of borrower and deal.
4. Projects must undergo third party due diligence and assess risk of borrower and deal as well as identify adequate security.
5. Due diligence costs will be borne by the borrower. However where available, grants & donations will be used to offset borrowing costs where specifically contributed for that purpose.
6. Investment opportunities with Indigenous or BIPOC content, focus or impact will be reviewed by members of the Indigenous community for Indigenous guidance, cultural relevance and acceptability.

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7. Generally terms will be 5 years with provisions for renewing, where applicable. Contributed Funds will be illiquid for the loan term.
8. Contributions from existing Fundholders will be voluntary either as endowed funds in a segregated pool or grants to the Social Impact Investment Pool. Grants to the Impact Investment Pool will not be returned, only endowed & flow-through funds will be returned.
9. In accordance with CRA's Community Economic Development Guidance the Disbursement Quota for grants will not be applied to funds invested in Program Related Investments. As such no granting will be assessed on endowed funds in Segregated Program Related Investments of the Social Impact Investment Fund.
10. Similar to a grant the borrower must annually submit a report on the impact of the investment.

Investment Performance

Currently \$770,000 invested in 5 deals and an additional \$570,000 approved on 3 deals that are approved but not fully funded. \$130,000 has been committed by DAF Fundholders for Impact Market Funds. Since 2018 we have invested or approved 8 PRI and impact investment funds which reflects our increasing experience and sophistication as a CFs investing in Impact opportunities.

The first loans to CAS and Food for Life were set at a rate of 3.5% as they were PRI investments and did not attract the DQ. So there was no requirement to generate more than 3.5% to meet the then DQ, plus any additional loan related costs. The Loans and Bridge Financing are syndicated loans with other CFs, thus reducing due diligence costs.

Overall the investment returns have been achieved and we have no loans in default. In 2022 when a negative return was posted for the pool at the end of the year (-3.4%), the overall portfolio for impact investments yielded a positive return 3.4%.



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Pilot Project Investment Performance

Organization/Fund	Type	Expected Return	Committed	Current Investment
Halton Children's Aid Society	Loan	3.50%	\$275,000	\$239,000*
Ilu Impact Bond	Bond	5.00%	\$250,000	\$263,032
BleuImpact	Limited Partner (LP)	15.00%	\$250,000	\$0**
Canoe Museum	Bridge Financing	7.45%	\$200,000	\$0**
One Planet Living Real Estate	Limited Partner (LP)	18.00%	\$200,000	\$89,876**
Carolinian	Promissory Note	2.00%	\$50,000	\$50,000
Food for Life	Loan	3.50%	\$75,000	\$23,869*
Windmill Microlending	Promissory Note	2.00%	\$50,000	\$50,000
Total:		8.51%	\$1,400,000	\$765,777

*Outstanding balance on loan

**Amount called to date.



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Pilot Project Impact Results

The Investments align with our Impact Investing Guidelines and three Sustainable Development Goal (SDG) inspired Strategic Plan priorities.

SDG Aligned Priorities to Build Community through Philanthropy:

1. Community Resiliency & Charitable Sector Recovery
2. Local Opportunities in Education, Employment & Social Economy
3. Reducing Inequities in our Operations & Our Community

More recently, as signatories to the [Canadian Philanthropic Commitment on Climate Change](#), we have committed to support investments where there is a climate change or climate adaptation impact. We have also committed to gender lens investing through the Gender Equality Fund.

As a granting body that puts \$4-\$5 million into the community annually, and about 95% are at the discretion of our donor-advised fundholders or administered according to a government granting program, it is difficult to alleviate many of these major challenges like housing, food security, education and training, environmental & climate action etc. unless we are able to access our opportunity to make strategic investments.

The impact investments have enabled us to make strategic and meaningful impacts into our local priorities and meet broader commitments to climate action and gender equity.



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Impact of Pilot Project Investments

Organization/Fund	Type	Strategic Plan SDG aligned Priority	Impact
Halton Children's Aid Society	Charity/ PRI	2	30 youth have lived in the house in 5 years. CAS has another \$1 million+ asset.
Illu Impact Bond	Market fund	2 & 3	27 companies supported, serving 587,715 women as clients, and providing 3,113 full-time jobs for women in the Caribbean
BleuImpact	Market fund	1 & 2	NA (capital not yet called)
Canoe Museum	Charity/PRI	2 & 3	NA (capital not yet called)
One Planet Living Real Estate	Market Fund	1	9 approved projects with 10 measurable impacts. 54% progress towards 75% target affordable housing units, 100% waste diverted during demolition and construction, progress towards targets in health and happiness, culture and community, land use and nature, sustainable water, materials, and transportation and targets towards zero carbon and verified operational carbon.
Carolinian	Charity/PRI	1	invested March 2023 - no impact reports yet
Food for Life	Charity/PRI	1	Composter turned 61,851 pounds of food waste into healthy compost - 27 metric Tonnes of voided CO2 emissions. The renovated space allowed for continued service during Covid-19 and a 100% rescued food market that supports 350 households each week, a total of 1000 people each week.
Windmill Microlending	Charity/PRI	2 & 3	63 active loans with outstanding principal >\$500K in Halton as of July 2023. 146 Loans approved to date in Halton