An update and addition to our original *Impact Investing Guidebook for Foundations (2017)*

The IMPACT INVESTING GUIDEBOOK

for Foundations

2019 PRIMER

foundations.impactinvesting.ca | Nov 2019

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Foreword from Rally Assets

Two years ago, we set out to clear the roadblocks for foundations looking to align their portfolios for impact with the Guidebook for Foundations. We have heard foundations discussing the same obstacles again and again – Where do we start? How do I align my Board and staff? What is the legal opinion on impact investing? How are others doing this? What can we invest in? The answers were out there, but hard to find. Together with Community Foundations of Canada (CFC) and Philanthropic Foundations of Canada (PFC), we wanted to help! The Guidebook for Foundations was conceived and realized in October 2017. In the time since, we have continued to support the philanthropic community in their impact investing journey and have been told that the Guidebook is a tremendous resource. We are happy to see the changes in the sector, more foundations turning their attention to impact investing, and more investment dollars creating positive change.

Foundations Investing 2.0, a collaboration supported by CFC, PFC, Environment Funders Canada (EFC) and The Circle on Philanthropy and Aboriginal Peoples in Canada (The Circle) and delivered by Rally Assets and SHARE, is another initiative designed to support the foundation community in this shift through education and resources. As part of this project, this Primer is an update to the Guidebook. While the majority of the Guidebook remains relevant today and continues to be a valuable resource, we want to provide an update on market trends, legal opinions, new products and the inspiring work of your peers.

So, the question begs – are we still being asked the same questions that sparked the Guidebook creation? The simple answer is yes, but not to be discouraged! We are seeing far more foundations, both big and small, grappling with these questions and taking concrete steps to integrate impact into their investment decisions. Impact investing approaches have significantly matured. Foundations are leveraging their core expertise in philanthropy to think deeply about how to affect change across various populations, using investments as the tool, to compliment traditional grants. And impact investing is increasingly moving beyond the private markets. Investors are using their whole portfolio, across all asset classes, to seek mission-aligned impact paired with market rate returns.

As you will see, the market data now clearly shows that responsible and impact investing is no longer a fad. Yet as we approach the Task Force on Social Finance's 2020 deadline of 10% of foundation assets invested in mission-related investing, have we hit the mark? Without detailed tracking (there is none), there is no way to know for sure. The progress made by foundations over the last 10 years has been significant, but we do not believe that the foundation sector is anywhere close to hitting a universal 10% for impact.

The philanthropic sector has played a uniquely catalytic role in change-making throughout Canadian history. With a growing "to do list" facing people and our planet, humanity requires new approaches to be driven by those bold enough to do so. Impact investing is only one such new approach, but we believe foundations must be bold and take the lead in mobilizing the capital to fund the transformation we need to see. Our hope is that as market barriers erode, and with continued support, foundations can not only achieve that 10%, but far exceed it.

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What's new? Authors + Editors

This primer was created as a follow-up to The Impact Investing Guidebook for Foundations (the Guidebook) that was released in October 2017 by Purpose Capital (now Rally Assets), Community Foundations of Canada, and Philanthropic Foundations Canada. This primer was prepared with support from CFC and PFC as well as our new partners in the Foundation Investing 2.0 Initiative: Environment Funders Canada and The Circle on Philanthropy and Aboriginal Peoples in Canada.

This builds on the original guidebook and network of support for foundation of all sizes, capacities, and impact commitments to help them along their impact investing journey. New topics covered in this primer include:

- **Market size of responsible and impact investing**
- **How to invest using a population lens**
- **Sustainable Development Goals (SDGs)**
- **Activating your total portfolio for impact**
- **Trend to public equity**
- **Shareholder engagement and proxy voting**
- **Updated legal primer**

The content in the primer is accompanied with case studies from foundations and product issuers to help you advance your impact investing journey. It is intended to be used with the original Guidebook by Executive Directors and Board Members to help foundations to make impact investments. The resources provide a roadmap for your organization, examples across asset classes, dispelling myths, how to overcome barriers, and case studies from peer foundations.

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A special thank you to Environment Funders Canada, Community Foundations of Canada, Philanthropic Foundations of Canada, and The Circle on Philanthropy and Aboriginal Peoples in Canada for their continued support and leadership of the project.

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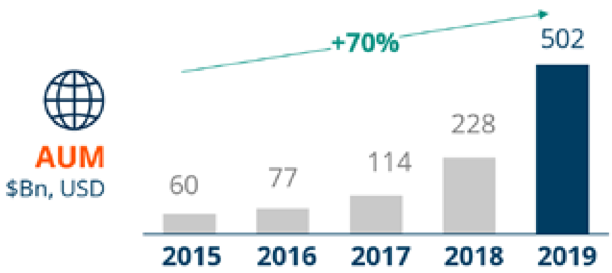
1 - The Market Size of Responsible and Impact Investing

Since the publication of the Guidebook, the market has seen significant growth both globally and in Canada. In Canada, even though the growth has been slower than globally, signifies increased interest and opportunities to invest.

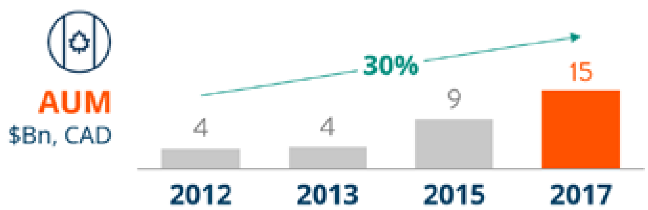
According to the Global Impact Investing Network (GIIN), **Impact Investments** are defined as are investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return.[1] **Responsible Investment (RI)** is defined by the UN Principles for Responsible Investment (UNPRI) as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.[2]

Pages 16-17 of the of Impact Investing Guidebook for Foundations examines characteristics of impact investing and where both II and RI fit on the Impact Investing Spectrum.

Global Impact Investing AUM ($T)[3]



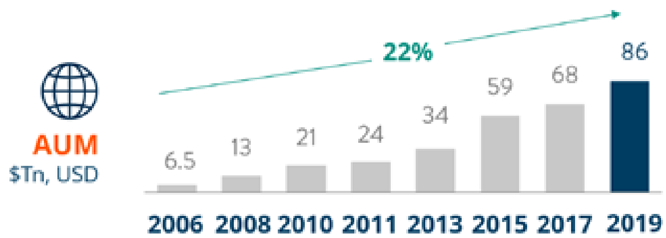
Canadian Impact Investing AUM ($B)[4]



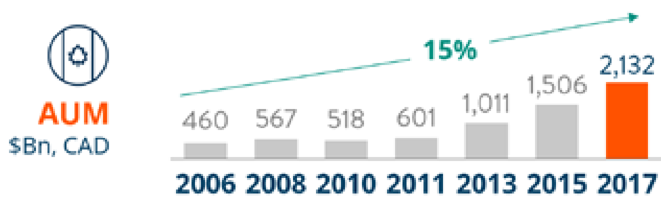
The GIIN's most recent Annual Impact Investor Survey indicates that, over 4 years, global impact investment assets under management (AUM) increased from by more than 70% to $502B USD.[5] In Canada, the Responsible Investment Association (RIA) 2018 Trends Report reported that impact investing grew by 30% over 3 years, to $15B CAD AUM in 2017.[6] The Canadian data timeline fails to capture the significant increase (4.4x) seen in the global data from 2017 to 2019.

Globally and nationally, investment managers indicate a growing universe of impact products in the market and greater movement of capital. As explored in the Trend to Public Equities section, impact investments have expanded significantly into public markets. Food/ agriculture (10%), housing/real estate (10%) and energy (9%) make up the most popular impact sectors that Canadians are investing in.

Global Responsible Investing AUM ($T)[7]



Canadian Responsible Investing AUM ($B)[8]



1 https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing
2 https://www.unpri.org/pri/what-is-responsible-investment
3 Data aggregated from GIIN Annual Impact Investor Surveys. Data accessed July 2019.
4 Data aggregated RIA Investor Surveys. Data accessed July 2019.
5 GIIN. 2019 Annual Impact Investor Survey. 2019.
6 RIA 2018 Impact Trends Report. 2018.
7 Data aggregated from UNPRI annual reports. Data accessed July 2019.
8 Data aggregated from RIA Investor Surveys. Data accessed July 2019.

Although growth of global and Canadian Responsible Investing AUM over 10+ years has been much slower than that of Impact Investing AUM, the scale of assets shifted (trillions) by RI represents a much greater share of markets. In Canada, RI now represents 50.6% of Canada's investment industry. Reflecting the Trend to Public Equity, Retail RI mutual fund assets increased by 34% to $11.07 billion over the last two years.[9]

According to the RIA 2018 Canadian RI Trends Report:

Prominent RI Strategies (by AUM)	Reasons to Consider ESG Factors
• ESG integration • Shareholder engagement • Norms-based screening • Negative screening	• Managing risk • Improving returns over time • Meeting client/beneficiary demand • Fulfilling fiduciary duty

In summary, Canada remains nascent in both impact and responsible investing markets relative to global players despite strong growth.

9 Data aggregated from RIA Investor Surveys. Data accessed July 2019.

2 - Moving Beyond Sectors to Population Lenses

Investors, including foundations, are starting to move beyond investing in sectors, such as health, education, financial inclusion, to focusing on population groups they want to impact. This form of investing takes a more holistic view of addressing systems change for a population by addressing the needs of a specific group. Rather than focusing on sectors, this approach cuts across sectors to consider the needs of and different mediums through which finance impacts individuals from different socio-economic backgrounds. Individuals face structural barriers due to gender, race, religion, class, origin, ability, patriarchal systems and colonial systems. The intersectionality between these dimensions often compounds the social and environmental discrimination faced by certain populations.

Impact investing approaches focused on a population lens could include trying to create positive social and/or environmental benefit for youth, gender equity, Indigenous peoples, refugees, target specific income groups such as the bottom of pyramid (i.e. individuals that make less than $2.50/day), or racialized communities.

Page 18-19 of the of Impact Investing Guidebook for Foundations discusses Impact Investing Across Asset Classes, Themes, and Geographies.

Here are a few ways **you can potentially invest** to impact specific population groups to create social & economic inclusion:

1. Increase access to capital to individuals that are underserved by both mainstream financing and private funds such as venture capital and private equity. This would also include structuring deals using financing terms that more suitable or flexible such as revenue or cash flow-based financing and/or patient capital rather than debt or equity with traditional venture capital terms.
2. Support organizations with strong diversity policies that include, but are not limited to, equal employment opportunities at various levels, supply chain, diversity at c-suite and/or board level and pay eqty.
3. Invest in organizations that have products and services that benefit specific population groups.

Examples of population groups that foundations can impact:

Gender-lens investing	Place-based investing
Incorporating a gender analysis into financial analysis to understand how value is assigned, relationships are structured, and processes work [10]. Although it is often thought of as something that only applies to women's economic empowerment, it goes beyond this to include gender identity and gender expression that may be different from sex at time of birth.	Investing in a city, province, and/or region to address the needs of marginalized communities by empowering local entrepreneurs and influencing larger systemic change[11]. This form of investing is commonly being deployed by foundations, Community Development Finance Institutions (CDFIs), private investors, and others in various cities in the United States to help revitalize communities and neighborhoods.

10 Criterion Institute.

10 https://www.urban.org/policy-centers/research-action-lab/projects/place-based-impact-investing

CASE STUDIES

Impact Investing in Action

Learning from Practitioners:
Voices of Foundation Executives

Canadian foundations have been Impact Investing for decades — long before the term 'Impact Investing' was coined in 2007. These investments were often loans to charitable partners to support local communities.

A growing number of foundations are now using Impact Investing to support a wider set of organizations that share their mission. They are investing more capital to address issues such as sustainable food production, climate change, as well as access to housing, healthcare and education — while also making a financial return.

Below you will find first-hand stories from foundations that are using Impact Investing to deepen their commitments to social change.

For more than a dozen other foundation case studies like these, visit the resource hub.

In the words of Jonathan Hera,
Managing Partner,
Marigold Capital

Marigold Capital

What is the mission behind Marigold Capital?

Marigold Capital's mission is to create a more prosperous society, enabled by diversity and inclusivity. Our investment philosophy is investing with, and for, social outcomes, drives upside and protects downside. Knowing this, we have unearthed a virtually untapped marketplace of ventures hiding in plain sight.

We must invest in people with the sightlines and drive to tackle the massive markets of the future. We back underrepresented, undercapitalized and overlooked: founders, products and services, and markets and communities for financial and social outcomes alpha. We use processes that revalue risk, and revenue-based and blended finance since most early/small businesses do not neatly fit into either equity or debt options (secret: these "alternative" structures can yield a better return than an average venture fund).

We invest with the objective to improve systems toward inclusivity.

Jonathan Hera
Marigold Capital

How do you achieve it?

We apply our thesis in the themes and sectors where

Marginalized populations are affected most **deeply and enduringly**

Most bias – conscious and unconscious – exists

"Preventative" (as opposed to reactionary) **levers are largest**

Massive social norms shifts are near or at inflection points

Invest in the following themes

Health
- Mental
- Sexual & reproductive health and rights (inclusive of "femtech" & "sextech")

Social justice & equity
- Advocacy & education
- Financial inclusion
- Journalism & media

Ethical supply chain
- Food security
- Stakeholder engagement
- Sustainable fashion

Investment lenses used to discover hidden issues & opportunities

Inclusive and cohesive management team and governance bodies

Supportive and transparent employment practices, policies and protocols

Products and services that best enable its users, clients and beneficiaries, alongside their communities

Ethically driven procurement and distribution across supply or value chain

Aligned co-investors across strategic, mission, financing, timelines and culture objectives

What is your impact?

To improve individual, family, community and social norms systems toward inclusivity through capital provision into companies and industries alongside rigorous impact targeting, monitoring and measuring of key theme determinants and outcomes. Three investments that highlight our ethos are:

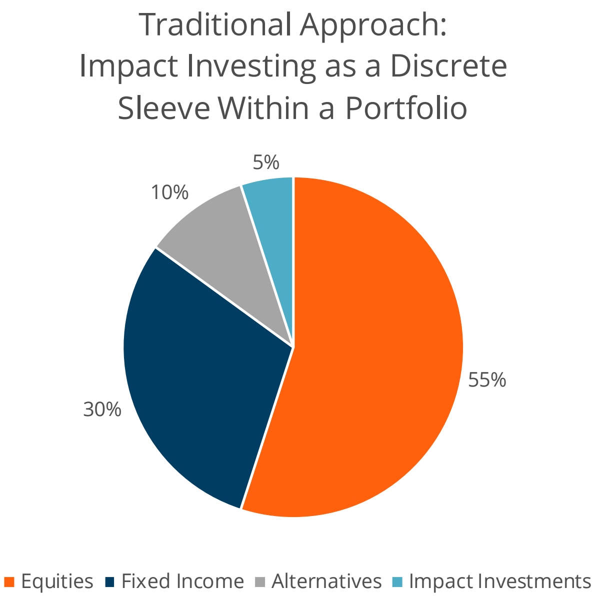
	The Discourse – community-driven long form digital journalism	NeedsList – "wedding registry" that enables those in need in humanitarian aid and disaster relief responses	Ulula – stakeholder engagement and reporting tool for complex supply chains
Portfolio fit	Bottom-up location-oriented content development (versus previously top-down drivers) leads to greater inclusion for the voiceless as digital media converts to content over clicks and advert revenue models.	Removing information asymmetry within large aid and relief systems through timely transparency and supportive technology enables those in need to receive specific assistance more efficiently and effectively.	Supply and value chains are increasingly complex and global. Empowering frontline workers increases transparency, accountability, employee productivity and return on investment.
Expected impact	SDGs 4, 5, 8, 10, 16 Access to capital Reducing workplace inequities Product responding to community inequities	SDGs 3, 5, 8, 10, 16 Access to capital Product responding to community inequities	SDGs 3, 4, 5, 8, 10, 16 Reducing workplace inequities Product responding to community inequities

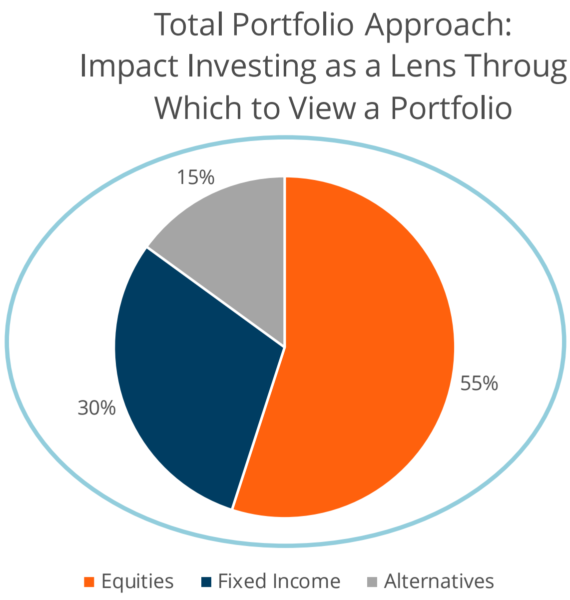
3 - Activating Your Total Portfolio for Impact

When first embarking on their impact investing journey, many investors take a simplified approach and treat impact investing as a discrete “carve-off” strategy – one that is mostly allocated to “Impact First” investments in private markets. However, if you perceive impact investing as only a sleeve within your larger portfolio, you may miss additional opportunities to achieve positive impact with the rest of your assets. Or worse, you may unknowingly be invested in companies or projects that are directly at odds with your impact strategy.

In the Impact Investing Spectrum diagram on page 17 of the Impact Investing Guidebook for Foundations, we illustrated the various responsible and sustainable investing approaches that complement impact investing, but lack the deliberate focus on measurable, high-impact solutions across all asset classes.

Taking a total portfolio approach means recognizing that all investments can have positive or negative impacts on society and the environment and using impact considerations as a lens through which to view your entire portfolio.





Source: Rally Assets adapted from ImpactAssets[12]

With a total portfolio approach to impact investing, you can still seek an appropriate investment return for any given strategy or asset class, while also seeking to generate positive impact (or minimize negative impact) with those investments. In doing so, you can get much closer to aligning all your assets with your values.

Tools for implementing a Total Portfolio Approach

There are many different tools you can use to invest with impact beyond the assets you have allocated to mission- and program-related investments. These include:

- Using positive screens for thematic SDG alignment
- Negative screens set at certain revenue exposure thresholds
- Divestment from industries with unethical products or services
- Shareholder engagement to encourage better corporate practices

These tools are particularly useful for public market investments. Setting revenue thresholds for negative screens can uncover exposure to controversial products, such as equity investments in convenience store operators with tobacco sale revenues. On the fixed income side, many provincial and municipal governments issue green, social, or sustainable bonds, which rank pari passu to their vanilla issuance, but are mandated to only fund projects with positive environmental or social impact. Even cash equivalents can be redirected for impact by moving deposits to a community development bank or credit union that invests in social enterprises, charities or non-profits.

12 ImpactAssets. Construction of An Impact Portfolio. November/December 2017. Data accessed July 2019.

In the words of MJ Sinha
Director of Finance & Investment, Catherine Donnelly Foundation

3a - CASE STUDIES

Catherine Donnelly Foundation

Why does Catherine Donnelly Foundation take a total portfolio approach?

Taking a total portfolio approach meant that the Catherine Donnelly Foundation was able to direct all of its financial resources in the direction of its mission and vision, and not be defined only by the 3.5% of Assets-under-management that we granted. It ensured that the positive impact of granting wasn't negated, rather supplemented by our investments. It also made better business sense, as ESG investing helped improve risk management and provided stronger financial returns, and our private impact investments helped us invest directly in areas of our interest such as renewables, affordable housing etc., while reducing our exposure to market volatility.

How do you do it?

The Foundation factored its core beliefs into its Investment Policy Statement. This provided us a robust framework to work with. We then decided to leverage the right partnerships and hired a new investment manager, partnered with SHARE for our shareholder activism, and continued to collaborate with partners such as PFC, EFC, and RIA, among others, and share lessons and learning, successes and failures, deal flow and due diligence etc.

What is your impact?

Our core thesis was: dis-engagement to engagement and action. This could be best demonstrated by our divestment work that was followed by a portfolio overhaul. We were the first Canadian foundation to divest out of fossil fuels, while also actively putting the divested financial resources in renewables and clean energy opportunities, both in public as well as private markets. We also continue to actively work with SHARE that conducts shareholder activism on our behalf. Thereby, moving from disengagement in fossil fuel to a much more engaged and active management of our portfolio.

MJ Sinha
Catherine Donnelly Foundation

Taking a total portfolio approach allowed us to direct all our assets to our mission and vision.

Concordia University Foundation

In the words of Marc Gauthier
Corporate Treasurer and
Investment Officer, Concordia
University Foundartion

Concordia University Foundation

Why does Concordia University Foundation take a total portfolio approach?

The staff and Board of Concordia University Foundation (CUF) began this journey a number of years ago, understanding the natural alignment of responsible and impact investing approaches, with our mandate. Concordia University created a Sustainability Policy in 2015 and my aim was to integrate and align investment and capital expenditures and financing divisions within that. Investing in accordance with our mission to create a more "diverse, creative, and adaptive society" is very important for us. We also wanted to dedicate some assets to investing in initiatives that are creating a positive impact for young people, and in the local community in Montreal. We knew that we needed to begin with educating the Board, IC and staff about responsible and impact investing.

TWe are proud to be one of the first universities in Canada to commit to implementing responsible and impact investing approaches across all asset classes in our portfolio. Our hope is to create and foster an environment in which teaching, learning and research positively affect the quality of life in Montreal, Quebec, Canada and the rest of the world.

How do you do it?

We updated our Investment Policy Statement to integrate responsible and impact investing. We became a signatory to the United Nations Principles for Responsible Investing (UNPRI) in January 2018 and are incorporating responsible investing and environmental, social & governance (ESG) into our investment process. We are working with our existing managers to integrate responsible investment practices and ESG into investment decision making, monitoring, and manager selection process. When sourcing new external managers, it is essential that they have an ESG track record and experience investing using responsible investing principles. All managers are required to report on ESG issues. It is also a consideration with proxy voting and shareholder engagement.

In addition to this, we allocated 5% of the portfolio to impact investing and are pursuing high impact opportunities in private market products. We worked with Purpose Capital (now Rally Assets) to develop an impact investment strategy and investment policy statement. Rally Assets helped us source private impact investment opportunities, conduct research on them, and help build internal capacity at CUF to carry out these investment activities. We hired an Investment Director to work with existing staff to lead this work. Lastly, we also wanted to have a portion of funds highly aligned with the University, so we have created a focus on investing locally in student-led social enterprises.

What is your impact?

Our impact has taken a few forms. In terms of investments, we have made 5 investments through three portfolio managers for a total of $4.2M. We are planning to make a few more in the fall but the amount is yet to be determined. We are hoping to build a private impact investments portfolio that addresses all 17 SDGs. The 5 investments primarily target climate change and good health & well-being with secondary benefits that address decent work & economic growth, responsible production & consumption, life on land, and life below water.

Secondly, we have been intentionally open about our process with other Universities and investors considering responsible and impact investing. We have been very encouraged by the interest of other investors in our approach and we hope to inspire others to follow in our path. Finally, we have impacted our local impact investing ecosystem. We have made placements into Montreal based ventures and funds, that align with our goals and will help to build a stronger market here at home.

We are the first university to commit to implementing responsible and impact investing across all asset classes

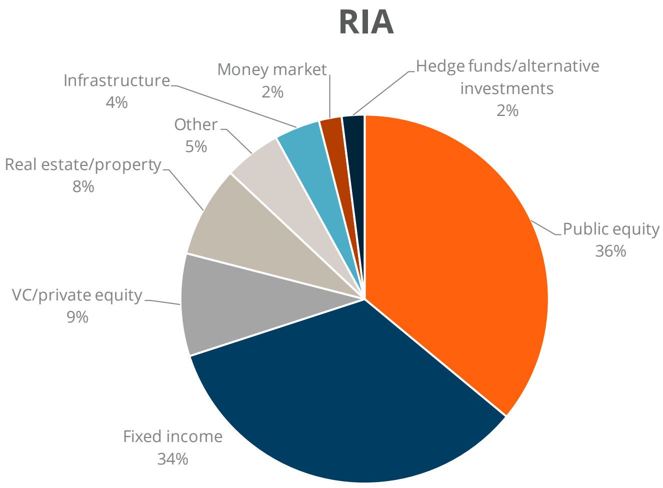
Marc Gauthier
Concordia University Foundation

4 - Trend to Public Equity

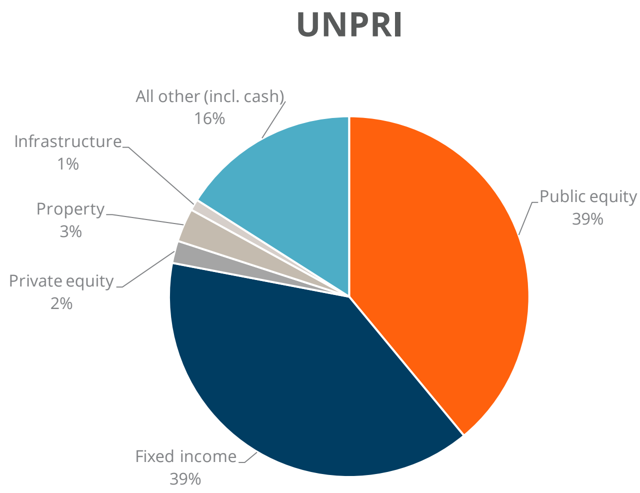
While impact investing has primarily focused on private markets, recent investor surveys by groups such as UNPRI, GIIN, and RIA are reporting a shift towards public equities.[13, 14] In Canada, this shift has occurred at roughly the same rate as global markets. The UNPRI and RIA respectively reported 39% and 36% public equity allocation across respondents' portfolios.

Page 18-19 of the of Impact Investing Guidebook for Foundations discusses Impact Investing Across Asset Classes, Themes, and Geographies.

Public equities investment breakdown in Canada and globally:



Source: RIA 2018 Canadian RI Trends Report



Source: UNPRI 2019 Annual Report

Impact investing focuses on investing in business models that target specific positive impacts at their core. Applying this lens across all asset classes indicates that investors are pushing beyond ESG integration to intentionally creating deeper impact across their entire portfolio.

An increasing number of impact investment products in public equities markets, such as a growing number of mutual funds and ETFs, have made this shift possible and present an opportunity to democratize the sector to all investors types, including retail investors. Insights from these products can feed back into further product development to create a range of products catering to a greater portion of the investor spectrum.

Although this segment of the market is growing, "impact washing" is an increasing concern for impact investors, particularly in public markets where impact measurement is even more challenging. Investors should look deeply into the impact thesis, research process, decision making criteria and fund management to understand how impact is considered. Impact investment managers have the opportunity and responsibility to develop impact measurement and reporting tailored to public markets.

13 RIA. 2018 Canadian RI Trends Report. 2018.

14 https://impactinvesting.marsdd.com/wp-content/uploads/2018/07/HNWI-Report-Final-Copy-For-Release.pdf

NEI

In the words of NEI Investments

4a - CASE STUDIES

NEI Environmental Leaders Fund

What is the mission behind NEI Environmental Leaders Fund?

Through its focus on resource optimization, NEI Environmental Leaders Fund can help investors build a more sustainable future on the path to achieving their financial goals. Investors can be confident they're making a measurable impact in four key areas of significant environmental concern: water, energy, agriculture, and waste management.

2030 Needs

50% More Food

30% More Fresh Water

50% More Energy

= More Waste

How do you achieve it?

Portfolio managers follow a rigorous process for deciding what companies to invest in. For example, all companies in the fund must derive at least 20% of their revenue from resource optimization-related activities. And, they must meet strict criteria on their environmental, social and governance practices. The investment management team runs a comprehensive engagement program to help companies identify risks and improve their ESG performance.

What is your impact?

NEI Environmental Leaders Fund offers investors a rare opportunity in terms of quantifiable impact. The fund's impact data (see below) is audited by ERM Certification and Verification Services, a leader in providing sustainability assurance.

This table shows the impact of every $10M invested in the fund in 2018*:

400 megalitres of water saved/treated	=	800 household's annual water consumption
1,360 MWh of renewable energy generated	=	130 household's annual electricity consumption
1,990 tonnes of materials recovered and treated	=	1,060 household's annual waste arising
500 net CO2 emissions avoided	=	110 cars off the road

From a performance perspective, NEI Environmental Leaders Fund (Series F) has served investors well. As of September 30, 2019, the fund has returned 13.6% year-to-date; 3.7% over the 1-year period; 7.5% over the 3-year period; and 8.3% since it was created on January 11, 2016 [15].

*The environmental impact data for the NEI Environmental Leaders Fund is representative of the portfolio holdings and AUM as of December 31, 2018. This data is based on the most recently reported annual environmental data for all holdings and is based on a C$10 million investment. Impax Asset Management Limited (Impax AM) engaged ERM Certification and Verification Services (ERM CVS) to provide limited assurance in relation to the impact data. For further explanation on the Impax impact methodology (which is based on equity value) please refer to the Impax Asset Management environmental impact report 2019.

15 Source: Morningstar as of September 30, 2019

5 - Delivering Total Portfolio Impact through Shareholder Engagement and Proxy Voting

Many Canadian foundations are looking at how to deliver impact within their public equity. Two strategies to achieve this goal are shareholder engagement and proxy voting, in which investors use their rights as shareholders to raise issues with portfolio companies and to hold companies accountable at annual and special shareholder meetings.

SHARE
SHAREHOLDER ASSOCIATION *for* RESEARCH & EDUCATION

In the words of Shannon Rohan Chief Strategy Officer, SHARE

Several Canadian foundations are collaborating on shareholder engagement activities, using their collective voice to drive improvements in corporate environmental, social and governance (ESG) performance on diversity & inclusion, decent work, climate change and reconciliation. Shareholder engagement is not adversarial campaigning. Rather it seeks to identify and capture benefits, and mitigate risks for investee companies and their shareholders related to improving social and environmental outcomes.

"Shareholder engagement and proxy voting are core elements of Atkinson's responsible investment strategy. They allow us to be active owners, not silent partners. They allow us to create opportunities to combine our resources with other institutional investors who are committed to improving corporate social, environmental and governance performance and to honouring our mission."

Colette Murphy
Atkinson Foundation

For example, the **Atkinson Foundation** has been actively supporting better transparency and stronger management from companies on their approach to decent work, consistent both with the foundation's mission and better long-term corporate performance. In 2019, the foundation moved a resolution at the annual meeting of Tim Horton's parent company Restaurant Brands International asking the company to establish and enforce better workplace standards including paid breaks, advanced scheduling and benefits. Over 65% of independent shareholders agreed with Atkinson and supported the proposal.

Other Canadian foundations have been participating in shareholder engagements that have resulted in commitments from companies to establish greenhouse gas reduction targets, increase Indigenous employment, and establish targets to increase the representation of women on corporate boards and in executive management. Foundations interested in shareholder engagement can ask their current investment managers whether they have any impact-oriented engagement strategies, or work with an engagement service provider such as SHARE to develop specialized or collaborative engagement services that support the foundation's mission and impact strategy.

Shareholder expectations on ESG and financial performance can be reinforced through proxy voting. Attached to the voting shares of every public company is a proxy that legally permits shareholders to vote on company business. Increasingly, shareholders are being asked to vote on resolutions and assess the board's performance related to corporate sustainability policies and practices. A foundation's voting rights are a valuable asset and deserve the same careful oversight that foundations apply to other aspects of their portfolio. Exercising oversight of proxy voting for a large portfolio doesn't need to be difficult: it starts with evaluating current practice, setting guidelines, and monitoring results.

If the foundation holds equities in segregated funds, it can choose how its votes are cast. Some foundations have started by commissioning an outside review of proxy votes to understand and improve their voting record, and then asked their managers or a dedicated proxy voting service to vote their proxies according to a set of guidelines that include comprehensive coverage of ESG issues (**model guidelines** are available here: **https://share.ca/wp-content/uploads/2019/02/2019-SHARE-Model-Proxy-Voting-Guidelines.pdf**).

If the foundation holds equities in pooled funds, the pooled fund manager holds the voting rights. However, the foundation can still evaluate its manager's voting performance and increase its impact by commissioning a proxy vote audit to hold the manager accountable for results.

6 - Measuring Impact Using the Sustainable Development Goals

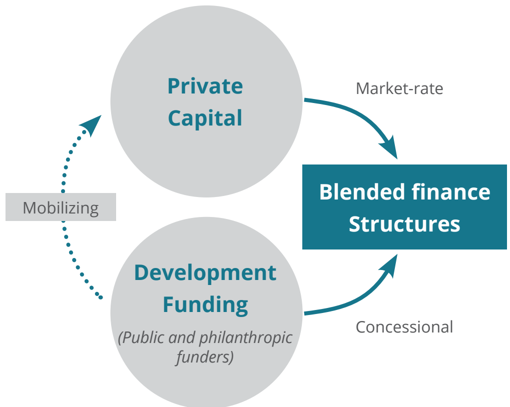
The Sustainable Development Goals (SDGs) were adopted as part of The 2030 Agenda for Sustainable Development in Addis Ababa, Ethiopia in 2015 by all United Nations Member States. The SDG's are 17 goals with 169 targets and 230 indicators. They serve as a call to action for investors and businesses to work towards ending poverty and addressing other pressing social and environmental challenges such as health, education, climate change, and preserving natural capital.

Source: Global Citizen[16]

In the Impact Investing Guidebook for Foundations, step 5 of the Impact Investing Roadmap is about impact measurement (page 35).

The United Nations estimates that it will take \$5 – \$7T USD to achieve the SDGs with an investment gap in developing countries of \$2.5T USD.[17] Private, public, and philanthropic capital is required to close this funding gap and address the SDGs. As can be seen in the image blended finance structures can be used to bring together and leverage capital with different risk and return profiles.

Foundations can integrate the SDGs into every step of the investment process to ensure that your portfolio and investments align with and work towards achieving them. Recently, product issuers have moved towards structuring products that go beyond simply aligning with the SDGs to targeting progress towards achieving specific goals.



Source: Convergence[18]

Ways you can integrate the SDG's into your investment process:

Sourcing and due diligence	Investment selection and structuring	Investment management	Exit
• Sourcing investment for their potential to advance an SDG	• Setting investment impact targets anchored on SDG targets • Modelling future impact against SDG targets • Educating portfolio company management teams about the SDGs	• Co-creating impact measurement and management plans with portfolio companies • Measuring, reporting on, and managing impact toward the SDGs	• Co-creating impact measurement and management plans with portfolio companies • Measuring, reporting on, and managing impact toward the SDGs

Source: Rally Assets adapted from GIIN[19]

16 https://www.globalcitizen.org/en/content/global-goals-sustainable-development-progress/
17 https://www.undp.org/content/undp/en/home/blog/2017/7/13/What-kind-of-blender-do-we-need-to-finance-the-SDGs-.html
18 Convergence. The State of Blended Finance 2018.
19 GIIN. Financing the Sustainable Development Goals: Impact Investing in Action. 2018.

7 - Updated Legal Opinion

Since the Guidebook for Foundations and our primer on the Legal Implications of Impact Investing was released two years ago, there have been a few developments in the legal arena which impact how foundations can think about making impact investments. For the purposes of our comments, an impact investment is in the middle of the spectrum of investments – it is not a traditional investment and is not a grant.

There are two broad sources of legal rules that are relevant to foundations making impact investments: provincial trust law and federal tax law.

MILLER THOMSON
AVOCATS | LAWYERS

In the words of Susan Manwaring and Sarah Fitzpatrick, Miller Thomson

Update to the legal opinion provided by Miller Thomson on page 21 of the of Impact Investing Guidebook for Foundations.

(a) Developments in Provincial Law

The general rule is that foundations are required under provincial law to meet a "prudent investor standard" when investing charitable property. Each province has its own legislation but generally the rules are similar. The prudent investor standard requires a charity to invest, with a view to generating a reasonable financial return on investment, while balancing appropriately against risk of loss. The standard is applied to the investment portfolio as a whole, not to individual investments. As such, there are no significant legal implications for foundations when they shift their impact investing approach from a "carve-off" strategy to a "total portfolio" approach. The same considerations continue to apply. Is the portfolio balanced? Is the portfolio diversified? Does the portfolio appropriately balance risk and expected return?

Since 2017, Ontario has become the first province to introduce specific rules aimed at facilitating impact investments. Under the Charities Accounting Act, a charity can make a social investment without having to consider whether the investment meets the prudent investor standard. A "social investment" is the use of charitable property in order to (a) directly further the purposes of the charity, and (b) achieve a financial return. The concept of "financial return" is defined broadly, referring to an outcome in respect of the property that is better in financial terms than expending all the property. In other words, an investment that generates any financial return to the charity, no matter how small, will be a "financial return".

Provided certain requirements are met (e.g., being satisfied that the investment is in its best interests and considering whether it needs to seek advice), a foundation is permitted to make a social investment, unless the charitable property used to make the investment is subject to a restriction on capital. If restricted, a foundation can still use the charitable property if the foundation expects that that the social investment will not contravene those restrictions.

The Charities Accounting Act amendments provide comfort to charities who are subject to Ontario jurisdiction that they can make social investments without needing to consider whether such investments fit within the traditional prudent investor standard.

(b) Tax Compliance Issues for a Total Portfolio Approach

The Income Tax Act (Canada) (the "ITA") regulates the status of foundations as registered charities. This regulation includes rules with respect to how foundations can use their property. Foundations that are registered charities can only make investments on 'below market' terms where: (i) the investee is a qualified donee (which includes other registered charities), or (ii) the investment is structured as a 'program-related investment' (PRI). A charity cannot make a below market investment in a non-qualified donee that is not structured as a PRI.

As discussed in the 2017 primer, while the Canada Revenue Agency ("CRA") does not explicitly define market rate investment, its published guidance suggests it uses the rate of expected return from T-bills or GICs as a benchmark.

If a foundation is applying impact investing across all of its asset classes, the T-bill or GIC rates of return may not be an appropriate indicator of a market rate investment for all of its asset classes. CRA uses T-bills and GICs as comparators for investments that are loans or share purchases. CRA's guidance suggests that if the investment is a lease, the benchmark would be the fair market value of the lease (the dollar value the foundation would get in an open and unrestricted market from a tenant). As such, the market rate of return that the impact investment is assessed against depends on the type of investment being made.

Conclusion

The most significant legal update for impact investing has been the creation of the Ontario social investment rules. While foundations that are regulated in other jurisdictions do not yet have similar rules aimed at facilitating social investment, they continue to have considerable scope for making impact investments under provincial and tax law.

8 - Reflections from the Frontlines

Come in, the water is fine......once you get used to it.

Over the years, I have had many conversations with staff and board members of community foundations in Canada and the United States about place-based mission investing. Sometimes, they think what we do at the Social Enterprise Fund in Alberta is pretty scary. Or really difficult. Or that we must have lost a bunch of money by now.

Remember what we used to tell the would-be swimmers hanging back on the beach at the beginning of a Canadian summer? Come on, get in, the water is fine – once you get used to it. That's what I would tell any community foundation contemplating an entry in to the world of mission-based investing.

In the ten years since the Edmonton Community Foundation entered a partnership with the City of Edmonton to create SEF's first loan fund and started placing money in social purpose enterprises that make real change in our community, we have made over seventy loans for a total value of about $50M. We have helped develop affordable housing, create living-wage jobs for challenged people, tackle food security and environmental issues, renovate historic buildings to give them new life, and more. Our money has been on a mission to make things better across Alberta. And although we have lost a few loans – a very few—the impact that we have had beyond what would be possible with grants alone makes the risk worthwhile. And to the members of investment committees out there, we have created that social impact while paying for our operations plus earning a positive return on the principal.

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I don't want to suggest that it has all been easy. That I never lay awake at night and wondering whether certain clients really can handle the borrowing, and how to support them to grow and prosper. Many times, being out in front of a movement has felt a bit lonely. But is has also meant that old assumptions of how things "should" be done can be set aside, allowing room for a more creative approach. And it is surprising (although probably shouldn't be) how often plain old common sense, combined with deep understanding one's community (at the core of a community foundation's skill set, after all) provides the best answer about how to invest to get good stuff done.

Many people suggest the work SEF does is innovative, but to me it seems a bit old fashioned. At the core of our work are three basic questions. Is this something that would support our goal of a better community? Are these the right people to carry it out? And is the plan strong enough to be successful with the right help from us? These questions are the same as those foundations regularly ask when deciding how to invest their grant dollars. Those questions work very well as guides to making impact investments.

Come on, join us. Just think what we might accomplish, especially if we can work together. I'm looking at a couple of deals right now that maybe we could both be part of...

Jane Bisbee
Executive Director,
Social Enterprise Fund, Edmonton, Alberta

9 - Call to Action

We hope you found the Guidebook, this Primer, and associated resources help you kick-start or advance your impact investment practice. Through your granting work, foundations have a long history of enabling social change. Why should it just be confined to a small portion of your portfolio? The case studies showcase investment products and the journey taken by peer foundations to unlock up to 100% of their assets for impact.

This is a call to action for all foundations:

1. **Know what you own** - Review your endowment portfolio holdings and push your investment managers on how you can address pressing social and environmental challenges across all asset classes. Measure your impact to understand how or if impact is being achieved.
2. **Articulate your desired impact** - Examine the kinds of impact you want to have on the world. Think through your foundation's Theory of Change. Then learn about how you can use tools like impact investing to achieve that impact.
3. **Continually improve** - This is an iterative and evolving process and market. Your impact investment strategy, investment policy statement, and portfolio should be reviewed periodically to ensure that they are aligned with your financial and impact goals. As you learn, you can do more and better.

Foundations can and must be the change they want to see in the world!

Acknowledgements

This Guidebook primer and its accompanying Resource Centre were collaboratively developed by Community Foundations of Canada, Environmental Funders Canada, The Circle on Philanthropy and Aboriginal Peoples in Canada, Philanthropic Foundations Canada, Rally Assets, and SHARE.

We gratefully acknowledge the support and contributions of the Catherine Donnelly Foundation, the Concordia University Foundation, the Edmonton Community Foundation, Marigold Capital, Miller Thomson, NEI Investments, and the Shareholder Association for Research and Education.

Environmental Funders Canada is a membership group of 70 funders from across Canada and the United States. EFC members represent a diverse group of philanthropic organizations from private, public and community foundations, as well as corporate foundations and both federal and provincial funding programs. With its network members, EFC works to strengthen the impact of philanthropy in support of an environmentally sound and sustainable future for Canadians. EFC does this by growing investments for a sustainable Canada, catalyzing collaboration as well as building and sharing skills and knowledge.

Community Foundations of Canada is the national network for Canada's 191 community foundations. Together we help Canadians invest in making our communities better places to live, work and play.

Philanthropic Foundations Canada is a member association of grantmakers, including private and public foundations, charities and corporations. PFC promotes the growth and development of effective and responsible foundations and organized philanthropy in Canada through provision of membership services, resources and advocacy.

The Circle on Philanthropy and Aboriginal Peoples in Canada (The Circle) transforms philanthropy and contributes to positive change with Indigenous communities by creating spaces of learning, innovation, relationship-building, co-creation, and activation. With The Philanthropic Community's Declaration of Action as a foundation, The Circle works alongside Indigenous-led organizations, Indigenous informed organizations, organizations with Indigenous beneficiaries, and philanthropic signatories of The Declaration of Action to encourage individuals and organizations to learn, acknowledge, and understand more about reconciliation and the decolonization of wealth.

Rally Assets is an independent, full-service, impact investment firm committed to using capital as a tool for social and environmental progress. We leverage our impact expertise to develop strategies and solutions that help our clients invest more responsibly, sustainably and with greater impact. Rally Philanthropy is the charitable arm of Rally Assets that creates and delivers educational resources on social finance and impact investing.

Shareholder Association for Research and Education is a leading not-for-profit organization in responsible investment services, research and education. We work with a growing network of institutional investors helping them to become active owners and develop and implement responsible investment policies and practices.

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