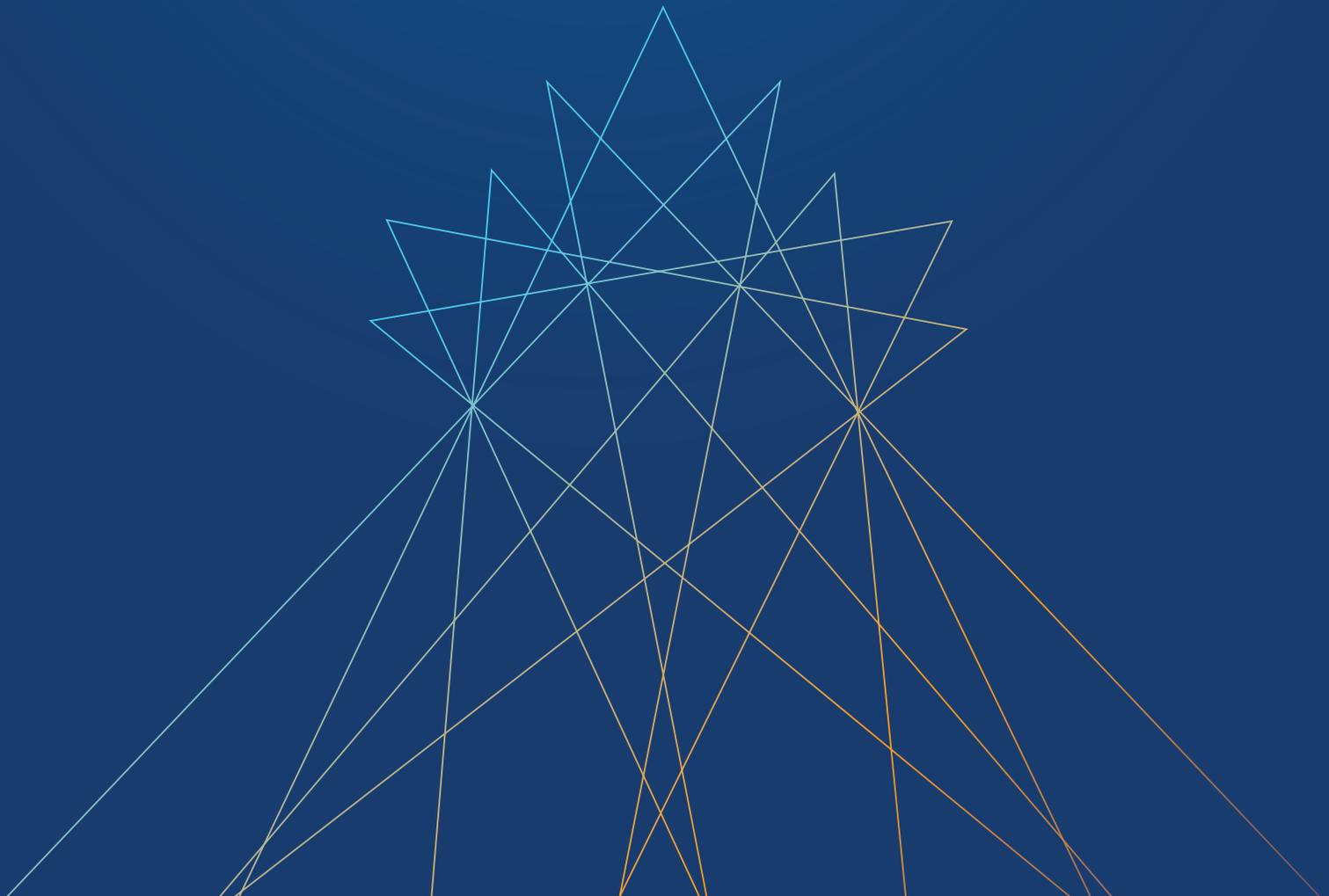

STATE OF THE NATION

IMPACT INVESTING IN CANADA

EXECUTIVE SUMMARY

MaRS | CENTRE FOR
IMPACT INVESTING



FOUR EXAMPLES OF IMPACT INVESTING IN CANADA TODAY

1

FIRA FONDS D'INVESTISSEMENT POUR LA RELÈVE AGRICOLE

In 2010, the FONDS de solidarité FTQ, the Government of Québec and Desjardins Capital joined to create The Fonds d'investissement pour la relève agricole (FIRA), a \$75-million private fund established to support sustainable agriculture and encourage the next generation of farmers in Quebec. The program provides patient capital in the form of subordinated loans or lease agreements of farmland, allowing young farmers time to establish their agricultural business in the early years. Property acquisition by FIRA allows for 15-year leases with exclusive right of redemption through entire lease.

Learn more: www.lefira.ca

2

SOLAR SHARE COMMUNITY BOND

Created in 2010 by TREC Renewable Energy Co-op. Solar Share is a non-profit co-operative with a mission to develop community-based solar electricity generation in Ontario by engaging residents and investors in projects that offer tangible financial, social and environmental returns. Solar Share bonds are backed by 20-year government agreements under Ontario's Feed-in Tariff program and are secured by mortgages on title. Ontario residents who become Solar Share Co-op members can purchase the bonds on a five-year term.

Learn more: www.solarbonds.ca

3

RENEWAL3

Renewal3 is part of Renewal Funds; it was started by Carol Newell and Joel Solomon, who met through a network of individuals using wealth for good. Renewal Partners was formed in 1994 to make debt and equity investments in triple-bottom-line companies. Renewal Funds invests social venture capital in early-growth stage companies in North America and is designed to deliver above-market returns at a lower risk profile than traditional venture capital funds. Sectors include organic and natural food, green products and environmental innovation. Renewal3 established a trust structure that allows Canadian foundations to invest. The trust structure is required, as current regulations do not allow foundations to invest in limited partnerships. Renewal3 has 16 Canadian foundations providing mission-related investments.

Learn more: www.renewalfunds.com

4

RBC GENERATOR FUND

The RBC Generator Fund was established in 2012, as a \$10-million pool of capital to invest in for-profit businesses that tackle social or environmental challenges while generating market or near-market financial returns. Investment areas include energy, water, youth employment and community hiring for disadvantaged groups.

Learn more: www.rbc.com/socialfinance



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1.0

INTRODUCTION TO IMPACT INVESTING

Canadians are faced with persistent social and environmental challenges that require cost-effective solutions. Our future ability to meet growing needs in education, healthcare, energy, climate change, and the inclusion of vulnerable populations such as seniors, people with disabilities and new Canadians, requires an integrated approach to link and unlock economic and social value.

In a traditional bifurcated system, governments and community organizations focus on meeting social needs through grants, donations and non-repayable contributions, while capital markets are focused on financial returns and economic growth. Our limited progress in addressing the most challenging social and environmental issues of our time suggest that this binary approach is no longer sufficient.

A new set of solutions that bridge the public, private and social sectors is emerging. Impact investing is an approach to financing these new models to accelerate positive social change. Impact investments are “investments intended to create positive impact beyond financial returns.”¹

While impact investing is a relatively new term, the practice of intentionally investing for financial returns and positive social impact is not new in Canada. Traditionally, this activity has been grounded in local trends and needs, in response to pressing national social or environmental challenges.

Impact investment is differentiated from traditional investment by:

1. Investor intention: Investors seek to allocate capital (debt, equity or hybrid forms) to investments where they expect both to receive a financial return (ranging from return of principal to market-beating returns) and a defined societal impact.

2. Investee intention: Business models for investees (whether they are for-profit or non-profit enterprises, funds or other financial vehicles) are intentionally constructed to seek financial and social value.

3. Impact measurement: Investors and investees are able to demonstrate how these stated intentions translate into measureable social impact.

2.0

ABOUT THE STATE OF THE NATION REPORT

The State of the Nation report responds to a need to better understand the nature of impact investing activity in Canada, the ways in which it is evolving and maturing and the areas in which it could grow or falter.

If you are an investor or financial advisor, this report will help you understand what impact investing is and where it is most active across 10 impact sectors. If you are a business or social entrepreneur, this report will provide you with examples of investments that have enabled entrepreneurs to open, operate or expand their businesses or initiatives. For those advancing public and institutional policy, this report will provide a snapshot of recent activities to enhance a supportive regulatory environment.

Readers can follow the target audience icons to identify sections that may be of particular relevance to their interests.

In this report, we do not estimate a total market size, but instead describe the components that make up the “supply side”² of impact investment (capital), as well as an analysis of existing products (funds and related financial vehicles).

TARGET AUDIENCES ICONS



Supply
(Asset Owners
and Managers)



Intermediaries
(Enablers and
Service Providers)



Demand
(Ventures,
Entrepreneurs)



Policy Makers

SUPPLY-SIDE MARKET ESTIMATE

SEGMENT		ESTIMATED TOTAL VALUE OF IMPACT ASSETS UNDER MANAGEMENT (2012)
High Net Worth Individuals		Data unavailable*
Foundations		\$287,800,000
Community Finance Organizations	Aboriginal Financial Institutions	\$491,000,000
	Community Loan Funds	\$45,370,900
Financial Institutions	Credit Unions	\$1,348,321,810
	Chartered Banks	Data unavailable*
Pension Funds		Data unavailable*
Government		Data unavailable*
Total		\$2,172,492,710

PRODUCT-BASED MARKET ESTIMATE

SEGMENT	ESTIMATED TOTAL VALUE OF IMPACT ASSETS UNDER MANAGEMENT (2012)
Cash and Cash Equivalents	Data unavailable*
Private Debt	\$50,014,525
Public Debt	\$450,000,000
Private Equity	\$240,200,000
Public Equity	No Available Products
Venture Capital	\$858,000,000
Total	\$1,598,214,525

*For those segments for which data is unavailable, a more thorough explanation of data limitations is included within that particular segment's narrative. "Data unavailable" does not necessarily mean that no data is available but rather that data limitations prevent us from offering a true estimate of the segment's size.

Please note: This report includes publicly available data as well as proprietary/confidential data.

3.0

THE SUPPLY SIDE: IMPACT INVESTORS

HIGH NET WORTH INDIVIDUALS

Canada is home to many high net worth individuals (HNWIs). While impact investing has not yet gained strong traction in Canada among HNWIs, several of these individuals serve as pioneers in the market, often providing high-risk capital to early or growth-stage social businesses. For example, the National Angel Capital Organization's 2012 survey of angel investment groups captured \$3.2 million of investment in cleantech ventures.³ In other cases, HNWIs have established family foundations that have invested in Canadian impact funds as a vehicle to explore impact investing. At present, there is no significant data on Canadian family office engagement, but it is possible that their involvement remains under the radar.

FOUNDATIONS

With a strong commitment to social and environmental goals, Canadian foundations represent leading impact investors across several sectors. In spite of this, impact investment activity appears to be concentrated among a few foundations, with many only

beginning to test the waters. Across Canadian foundations, approximately \$207.5 million are currently invested in mission-related investments (MRI) and \$80.3 million in program-related investments (PRI).⁴ Foundations most commonly provide debt financing to non-profit and social-purpose for-profit organizations, with 77% of foundations investing through a third-party impact fund or capital program.⁵

COMMUNITY FINANCE ORGANIZATIONS

Community finance organizations, including community loan funds and Aboriginal financial institutions (AFIs), bring deep expertise and experience in addressing local issues through the provision of capital to underserved organizations, populations or regions.

Community Loan Funds

Our research has identified at least 14 community loan funds in Canada that provide debt financing to non-profit and for-profit organizations across sectors ranging from sustainable agriculture to affordable housing. Community loan funds are financed by large

institutional investors, private investors or retail investors, and currently have collective assets under management of more than \$45 million.⁶

Aboriginal Financial Institutions (AFIs)

In 2012, AFIs generated \$280 million in primary economic impact, leveraged \$80 million, generated 1,266 new jobs and maintained 2,869 full-time equivalent jobs. With an estimated capital gap of \$43.3 billion⁷ for the Aboriginal economy, there is a strong and growing demand for AFI capital.

FINANCIAL INSTITUTIONS

Credit Unions

Impact investing is a natural fit for credit unions, whose principles of social responsibility, financial inclusion and community commitment are reflected in their missions, strategies and product offerings. The Responsible Investment Association (RIA) estimates that credit unions manage \$1.35 billion in impact-investing assets.⁸

Chartered Banks

While leading international financial institutions are engaged in impact investing, those in Canada have generally engaged in a limited manner. However, as awareness among their clients increases, Canadian banks are beginning to educate themselves on trends and opportunities in impact investing, and have begun to implement initiatives that align with their distinct corporate strategies. For example, RBC's announcement of a \$10-million investment in the RBC Generator,⁹ a pool of capital for investing in for-profit businesses tackling social or environmental challenges, was well publicized as the first commitment of its kind. More recently, TD Bank has been actively considering impact investing for both its Canadian and US operations.¹⁰

PENSION FUNDS

Despite greater activity internationally, Canadian pension funds have displayed relatively little activity and interest in the field of impact investing. The Quebec worker funds are an important exception. These funds have invested extensively in the province's social economy, with investments adding up to more than \$6 billion in 2012,¹¹ and provide patient capital to the Fiducie du Chantier de l'économie sociale as well as to a variety of non-profits and social enterprises.

GOVERNMENT

Impact investment can allow government to achieve public policy goals through a wider range of financial strategies. Federal, provincial and municipal governments are engaging in co-investment; that is, they are investing in partnership with other individuals or organizations in order to achieve both a financial return and social objectives.¹²

RELATED SUPPLY-SIDE ACTORS

In addition to the supply segments described above, there are a number of other institutions whose activities align closely with impact investing, but do not fit neatly within our definition due to the broad range of activities they undertake. As these institutions develop and as data becomes more robust, there may be an opportunity to segment their impact-investing activities for inclusion. These institutions include Community Futures Development Corporations (CFDCs) and Community Economic Development Investment Funds (CEDIFs).

4.0

FINANCIAL PRODUCTS

Impact investment products in Canada are offered across a spectrum of asset classes. Within in Canada, there are approximately 45 impact investment products, with private debt products being the most common. Although products are available across many asset classes, there is a significant lack of diversity and depth within each asset class.

Specifically, there is a dearth of products available for retail investors. The lack of retail products can be attributed to a variety of factors, including incomplete information on consumer demand and preferences, fragmented product pipelines, regulatory restrictions

around retail products, limited distribution platforms, and a lack of knowledge and education for financial planners and advisors. Moving forward, education for financial advisors and planners may help to unlock the capital of retail investors for impact investing products.

Furthermore, certain asset classes are limited to specific sectors: for example, energy related products comprises the majority of venture capital products under review, while private debt products are primarily focused on affordable housing and community facilities, as well as non-profits and social enterprises.¹³

5.0

CONNECTING THE MARKET: INTERMEDIARIES & ENABLERS

Intermediaries facilitate the channelling of capital between the supply and demand sides of a capital market. The marketplace of dedicated impact-investing intermediaries is growing, but at present remains quite small. In response, some impact investors are playing the role of an intermediary themselves: providing technical advice to help prepare social ventures to become investment-ready, while also conducting due diligence and placing capital. As the marketplace matures, a wider array of service providers may develop in order to take on these functions.

Market enablers are organizations working to increase the knowledge and capacity of entrepreneurs and investors, with the aim of growing the impact-investing marketplace in Canada. Market enablers promote the growth of the impact-investing marketplace through education, research and development of market data, and market development; and by supporting culture shifts, building talent and convening working groups.

Currently, there is a fragmentation in the investment pipeline between the innovative social ventures that are demanding capital and the impact investors who are supplying capital. This fragmentation is symptomatic of the nascent stage of development of the impact-investing market. At present, there is a critical

gap in the knowledge, expertise and capacity of both the supply- and demand-sides of the market to actually place or receive capital. A lack of access to and awareness of investment opportunities makes finding high-quality, impact-oriented ventures a challenge for investors. These early barriers initially translate into higher transaction costs associated with assessing and understanding social ventures, especially due to the relatively small size of deals in the impact-investing marketplace.

6.0 THE DEMAND FOR CAPITAL: SECTOR REVIEW

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AFFORDABLE HOUSING

MEDIUM ACTIVITY → HIGH INTEREST

The affordable housing sector represents an area of great need, with approximately 1.5 million Canadians in core housing need.¹⁵ While the sector has had some innovative impact investment activity, primarily through the creation of housing development corporations and bond offerings, activity has been limited to date.

ENERGY

HIGH ACTIVITY → HIGH INTEREST

The renewable energy sector is accelerating quickly, driven by global concern and domestic targets for climate-friendly energy production. Energy conservation and energy efficiency remain important supporting priorities. Impact investment opportunities exist across the value chain, notably small-scale projects in the hydro, biomass and energy conservation segments.

AGRICULTURE

MEDIUM ACTIVITY → HIGH INTEREST

Driven by strong consumer demand, the sustainable agriculture sector has taken off. Impact investors are placing their capital in ventures that are working to improve environmental outcomes, either through the direct production of agricultural goods or through supportive technologies designed to reduce environmental impact.

ENVIRONMENT AND WATER

HIGH ACTIVITY → HIGH INTEREST

Growing environmental consciousness among consumers and an increasing focus on the efficient use of resources and green infrastructure have created multiple investment opportunities in the environmental sector.

FINANCIAL SERVICES

LOW ACTIVITY → MEDIUM INTEREST

Canada has a strong tradition of providing accessible financial services to its most vulnerable populations. Innovations in microfinance and inclusive banking are growing the market for financial services that generate both financial and social returns.

EDUCATION

LOW ACTIVITY → LOW INTEREST

Education has not been a priority sector for Canadian impact investors to date, due to the nation's strong government-funded education systems. However, opportunities do exist to address pressing needs, such as improving connections between the high school and post-secondary systems, workplace skills training, adult literacy, and technology and design for special needs students.

HEALTH

LOW ACTIVITY → MEDIUM INTEREST

Health is a primary sector of focus for impact investors outside of Canada, in emerging and developing markets. Our government-funded healthcare system has reduced the need for private capital to address issues of access. Instead, impact investments in the Canadian health sector largely focus on innovations that yield better patient outcomes.

NON-PROFITS AND SOCIAL ENTERPRISES

MEDIUM ACTIVITY

MEDIUM INTEREST

Canada's social sector faces structural challenges in accessing conventional, sustainable and long-term financing. Impact investors play an important role in unlocking capital for non-profits and social enterprises that are harnessing business models that align with their missions and that have the ability to generate both financial returns and amplify social impact.

ABORIGINAL BUSINESS

MEDIUM ACTIVITY

HIGH INTEREST

As the Aboriginal business sector grows, more impact investors are looking for opportunities to partner with these enterprises in order to address the systemic disadvantages faced by Aboriginal communities, while also generating financial returns. This sector is led by Aboriginal-focused funds, which are proving the sector's immense potential.

7.0

IMPACT MEASUREMENT

Both supply- and demand-side actors use impact measurement for a variety of purposes. Investors use impact measurement throughout the investment life cycle to define their impact goals, select investments that fit with these goals, monitor the impact of their investments and report to stakeholders on impact-value creation. Ventures use impact measurement to enhance their social impact, improve their performance and communicate their value to potential or current investors. At the field level, social metrics are essential to supporting the development of social finance tools and investment vehicles¹⁶ and to attracting capital.^{17 18}

Selected measurement frameworks include:

- **Impact Reporting and Investment Standards (IRIS)** and the **Global Impact Investing Rating System (GIIRS)**, both used by the B Analytics platform; these allow investors to compare data across sectors, regions and organizational sizes.
- **Social Return on Investment (SROI)** is a measurement framework used to monetize the social value created by social or environmental initiatives.
- **Environmental, Social and Governance (ESG)** metrics are commonly used; they are largely associated with the practice of responsible investing among large institutional investors.
- **Demonstrating Value** is a measurement tool, targeted toward social ventures, that combines business performance monitoring with social impact evaluation.

8.0 GOVERNMENT ENGAGEMENT

Federal, provincial and municipal governments play an important role in building the infrastructure necessary to advance impact investing. Governments are able to do this by using different mechanisms, both direct and indirect, that can effectively shape the policies and programs necessary to develop and grow the impact investing market.

Borrowing from the impact investing policy framework proposed by the Impact Investing Policy Collaborative (IIPC), we outline the role of government as an outside influence through three categories of policy intervention: directing capital, supply development and demand development.

Across Canada, there has been very limited change in investment rules and requirements that support supply development for impact investing, though this is slowly beginning to evolve in areas such as program-related investing, mission-related investing and crowdfunding.

Policy Framework

POLICY FRAMEWORK		
SUPPLY DEVELOPMENT	DIRECTING CAPITAL	DEMAND DEVELOPMENT
Investment rules and requirements	Taxes, subsidies, reporting requirements and intermediation	Enabling "corporate" structures
Co-investment	Procurement	Capacity building

■ Government influence ■ Government direct participation

Source: Pacific Community Ventures, Impact Investing: A Framework for Policy Design and Analysis.

In Canada, government intervention through tax credit and incentive programs has been the most notable, directing capital to community enterprises or businesses with environmental and social mandates. While there have been some very successful examples of directing capital, for example, Nova Scotia's CEDIFs and Ontario's Green Energy Act, they are the exception rather than the rule.

Some provincial governments have also played a key role in developing demand for capital for social enterprises, for example, through enabling corporate structures. In Canada, two new hybrid corporate models were formed in 2012: the Community Contribution Company (CCC) in British Columbia and the Community Interest Company (CIC) in Nova Scotia.

Government attention to these issues is growing and may be approaching a point at which more concerted government strategies will successfully catalyze the impact investing marketplace.

SUMMARY & RECOMMENDATIONS

Our research demonstrates that interest in impact investing is increasing and gaining traction across Canada. However, there are still unrealized opportunities that are not being exploited. Leadership and resources are required to advance the impact-investing marketplace, as is more intentional collaboration across public, private and social sectors.

In order for the sum of activity in the market to be greater than its parts, intentional efforts will be needed to bridge traditional divides between the market elements identified in the State of the Nation report.

Across the country, leaders from the public, private and community sectors have emerged to advance efforts toward changing the way capital is invested. They have done this by:

- testing, learning and adapting new forms of finance and business practices, in order to create positive social or environmental impact with financial returns;
- advancing change in public and institutional policy in order to facilitate the flow and placement of capital; and
- strengthening the pipeline of investment-ready non-profit and for-profit social enterprises and impact initiatives.

The State of the Nation report provides a set of recommendations for individuals and organizations to use in order to enhance the activity and leadership around impact investing in Canada in the coming years. It also provides examples of organizations that are actively moving forward on some of the recommendations.

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PURPOSE CAPITAL

Purpose Capital is an impact investment advisory firm that mobilizes all forms of capital – financial, intellectual and social – to accelerate social change.

We work with investors and their advisors to design and deploy customized impact investment strategies spanning sectors, asset classes, and regulatory regimes. We also work with governments, businesses, entrepreneurs and sector-leading organizations to develop new products, platforms and markets for compelling financial returns and measurable social impact.

THE MaRS CENTRE FOR IMPACT INVESTING

The MaRS Centre for Impact Investing (the Centre), part of MaRS Discovery District, works to increase the effective application of impact investing by catalyzing new partnerships, mobilizing new capital, and stimulating innovation focused on tackling social and environmental problems in Canada.

The Centre supports the growing, vibrant network of players active in impact investing across Canada, and helps connect Canadian partners to the active global community working in the field of impact investing in both developed and emerging markets.

The Centre is active in market and product development, and also develops and delivers programs and services focused on research and policy, impact measurement, education and multi- sector engagement initiatives to mobilize private capital toward public good. The Centre is a member of the Global Impact Investment Network (GIIN) and a partner of GIIRS, IRIS and B Lab.

The information being provided (by any issuer) is for informational purposes only. Purpose Capital and the MaRS Centre for Impact Investing have not reviewed the information for accuracy or completeness, and do not comment or endorse the investments being offered. It is recommended that you discuss any potential investment with an advisor to ensure the investment is suitable for you.



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