The State of Community/Mission Investment of Canadian Foundations

A Report of Community Foundations of Canada and Philanthropic Foundations Canada

by Coro Strandberg
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COMMUNITY FOUNDATIONS OF CANADA
all for community.
FONDATIONS COMMUNAUTAIRES DU CANADA
ensemble pour tous.

PFC
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BACKGROUND

Community Foundations of Canada and Philanthropic Foundations Canada have collaborated in sponsoring research into the status of community/mission investing on the part of Canadian foundations. This is one component of their overall interest in responsible investing (RI), which is defined as the "integration of environmental, social and governance factors in the selection and management of investments". An RI policy may include the integration of environmental, social and governance factors, screening, shareholder engagement, and community/mission investment.

This paper addresses the "community/mission investment" (C/MI) component of responsible investing – a process whereby foundations directly invest some of their assets in community, or social/environmental enterprises consistent with their mission. These investments may be program-related investments (see Glossary for a full definition) which anticipate a below-market rate of return, or market-rate investments in mission-related enterprises.

The paper provides details on the C/MI activities of nine Canadian foundations, and an overall analysis of the current status of C/MI in Canada, based upon the nine profiles.

The profiled foundations include:

- **Bealight Foundation (Toronto)**
- **Edmonton Community Foundation (Edmonton)**
- **Endswell Foundation (Vancouver)**
- **Illahie Foundation (Vancouver)**
- **J.W. McConnell Family Foundation (Montreal)**
- **Muttart Foundation (Edmonton)**
- **Real Estate Foundation of BC (Vancouver)**
- **Somerset Foundation (Vancouver)**
- **Vancity Community Foundation (Vancouver)**

They were chosen for this study because they were known to have invested assets in direct pursuit of their mission and as such are believed to represent the majority of community/mission investing on the part of foundations in Canada. They were contacted and interviewed in the summer of 2009. The data provided in the profiles includes a mix of precise numbers for those who had detailed records of their community/mission investments and of estimates for those who did not have the details readily available. Thus, the quantitative analysis is more to provide an illustrative and not an exact picture of the state of C/MI in Canada.

This paper provides an overview of C/MI based on an analysis of the nine profiled foundations. The paper includes an overall assessment of the state of community /mission investing, followed by the nine profiles in detail. A summary description of C/MI activity is provided in the Appendix. A Glossary of Terms, such as program-related investing (PRI) and social enterprise, is included in the Appendix.

INTRODUCTION

Canadian foundations are becoming interested in the opportunity of deploying some of their assets directly in pursuit of their missions, whether for community development, social justice and equity and/or environmental sustainability. As the economic downturn considerably eroded the ability of foundations to maintain their historical granting levels, more and more foundations are rethinking their funding models. With between $17 and $20 billion in Canadian community and private foundations alone, the opportunity exists to find ways to invest some of that capital directly in support of foundation mission. Indeed, as many in the foundation community are pointing out, the model by which foundations fund grants from their return on invested capital may leave their assets significantly under-leveraged for charitable purposes.

There are other benefits to community and mission investing, including the ability to reinvest the capital upon repayment. Further, for community and other public foundations that must attract donors, the enterprise nature of community and mission investing may appeal to entrepreneurial donors. Some value C/MI because of its inherent business philosophy, helping to instill an entrepreneurial ethic in charities. Finally, and with further reference to the impact of the economic recession, assets in mission-based portfolios not tied to the stock market outperformed traditional investment asset classes in a few of the profiled foundations. Thus, C/MI can assist with portfolio diversification.

C/MI is still in its infancy in Canada. The foundations profiled in this report are pioneers, piloting and experimenting largely in isolation of each other. The profiles provide an opportunity to consider common practices and trends in order that other foundations can benefit from their ground-breaking work. As this study reveals, there is considerable emerging good practice that can be assessed to inform a foundation's community/mission investing program. With more such information available to foundation staff and boards, it is expected that C/MI will grow in Canada in the years ahead. The following provides an overview of the main observations that can be drawn from current foundation activity in this investment approach.

KEY OBSERVATIONS

The nine profiled foundations, the details of which are found in the following section, provide a rich database of information on the current state of community/mission investing in Canada. The details of their C/MI experience are summarized in the Appendix. This section reviews the main conclusions and key observations drawn from the data and points the way to future developments in C/MI in the years ahead.

An Emerging Field

Community / mission investing activity is concentrated in BC and largely undertaken by "private" foundations; there is only one community foundation – Edmonton Community Foundation – which is known to be currently engaged in C/MI, although several others are actively exploring their options. Foundation size does not appear to have a bearing on whether a foundation engages in C/MI, with 3 foundations under $10 M in assets participating, along with two over $200 M. Similarly, the "age" of the foundation does not influence C/MI participation.

There is considerable diversity in C/MI terminology, revealing the nascent state of community/mission investing in Canada. Terms include program-related investing, mission investing, values-based investing, social enterprise and affordable housing finance, community mortgages and community development lending.

A further example of the early stage of C/MI is that few foundations have adopted formal policies on community/mission investing. However, some foundations have adopted caps on the percentage of total foundation assets that can be used in community/mission investing, ranging from 5 – 40% in three instances and $1M in another.

Foundations typically begin to engage in C/MI because of the interests of a donor, staff or volunteer leader. Some foundations proactively seek C/MI investment opportunities as part of their overall mission; others look for opportunities to convert grant requests into loan applications, taking a more "opportunistic" approach. In this latter instance, this is often done with the objective of building the entrepreneurial and business capacity of the charitable organization and to ensure funding is preserved to support other donation requests.

Size and range of investments

Some foundations were unable to explicitly quantify the size of their community/mission portfolio. With estimates and ranges provided in some instances, there is roughly $32M in C/MI assets currently, representing approximately 4% of assets across the nine endowments (based on $788M in assets overall). About half of the foundations have $1M or less invested in C/MI, suggesting very small investment portfolios.

Most foundations had under five investments at the time the research was conducted, with 50 reported investments altogether, while the majority of the investments were $100,000 or less. Only a few investments were $1M or more, including one at $1M, another at $2M and a third at $10M, suggesting a general tendency towards smaller investments.

The primary type of investment product was a loan or mortgage at market rates; about half were in this form of financial vehicle. Below market loans and equity (including venture capital and real estate) investments were next most common, at 10 each. Because of the focus on market rates, most of the investments were anticipating returns of 5 – 6%, with a small subset (6) lent out at 0%. Most investments were for 5 year terms or more (some up to 25 years). Interviewees indicated that, with one exception, their investments were performing as expected. The exception was a real estate investment which was negatively affected by the recent economic slowdown. Only two of the foundations had extensive track records in C/MI; they reported that over their 20-year experience with C/MI, most investments generated positive results.

The nine foundations are invested in a range of organizations, from non-profit organizations, to registered charities, to for-profit and venture capital firms (although program-related investments can only be made to registered charities). C/MI investments are primarily focused on asset building (to help organizations purchase real estate or undertake capital renovations), affordable housing and community facility finance, and to improve environmental conditions. In a few instances foundations partner with other foundations or credit unions in co-financing projects; other partners can include governments, United Ways and donors who help capitalize a C/MI investment portfolio and provide additional resources to support management capacity.

Indeed, to fulfill their due diligence obligations, foundations can partner with other organizations which bring financial expertise and oversight to the investment, tap into staff or volunteer expertise within the foundation, and hire specialists with technical expertise. To support their due diligence functions, foundations also rely on the reputation of the recipient (including pre-existing granting relationships), presence of other investors, including risk-sharing with other investors, business documentation, record checks, site visits, land appraisals, investment committee oversight, and direct involvement in the project. Most foundations report modest real or in-kind (staff) costs associated with the due diligence process. Sometimes the recipient organization is charged back the "out of pocket" costs of review. In only two instances was it mentioned that foundations dedicate their own staff to managing their C/MI investment portfolio. The due diligence process associated with the investment process is not unlike the due diligence associated with the granting process, as commented by some foundations, wherein the time spent on investment review can be equal to or even less than time on a grant review. In a few cases foundations have established affiliated organizations under their control to help overcome technical and regulatory hurdles.

Recipient organizations, for their part, can sometimes lack the capacity to manage their investment properly. In such instances, some foundations provide both capacity grants and loans to support the overall initiative. In other circumstances foundation volunteers or staff provide the technical assistance directly to the recipient organization.

Few foundations have established measurement frameworks for assessing the social impacts of their community/mission investments. Many of the investments are early stage and thus not yet realizing social benefits, which are expected to materialize over time. However, interviewees identified a number of realized social benefits, including the ability to scale up investments in social enterprises, helping advance non-profits towards self-sufficiency and reduced reliance on grants, and service expansion. As for the future, many (though not all) of the foundations are looking to expand their C/MI investments. Their thoughts on "next steps" provide some insight into how C/MI might evolve over the future:

- Portfolio expansion
- Loan syndications with other foundations
- Expand C/MI product offerings beyond loans
- Adopt a formal policy and establish an asset cap
- Recruit donors to increase C/MI endowment base
- Play a more proactive investment role

These and other visions to help advance the growth of C/MI in Canada foreshadow a path of continued experimentation, piloting and partnering towards an increase in C/MI activity in Canada over this coming decade.

To date, C/MI in Canada is basically a niche activity, conducted on the part of a few key foundations, who have committed themselves to pilot and expand into this field. Their early experience is largely positive and achieving the social innovation goals they have set for themselves.

NINE FOUNDATION PROFILES

BEALIGHT FOUNDATION

FOUNDED:
2001

ASSETS:
$7M

LOCATION:
Toronto, Ont.

FOUNDATION PURPOSE:
Encourage social enterprise and social entrepreneurship

FOUNDATION TYPE:
Private

NAME GIVEN TO:
Mission-based investing

CURRENT C/MI ASSETS:
$2M (30%)

C/MI POLICY:
The foundation has a philosophy to consider mission-based investment as part of its overall investment policy, and specifically references C/MI in its formal investment policy. The foundation is open to investing up to 30 or 40% of its assets in C/MI, although there is no fixed policy cap. It is particularly interested in social justice initiatives and in social enterprise innovation and seeks to fund investments that advance these causes.

Current investments:

1) The foundation has $1.5M in approximately fifteen 5-year loans to owners in a for-profit car service franchise network that hires people who face employment barriers. Interest rates are tied to the number of social hires, starting at 9% and reduced incrementally to 5% as agreed upon targets of social hires are met.

   The foundation does not secure specific collateral on these loans, although it does a general security registration to rank ahead of an unsecured credit. It also takes personal guarantees on the loans.

   These loans are all performing well.

2) The foundation also has made 2 below-market loans to social enterprises, both of which have almost paid down their initial loans of $200K and $170K one of which was made in syndication with Vancity Credit Union. These are 5-year loans with interest rates between 5 and 8% with no security. One social enterprise is a registered charity; the other is a for-profit company of a registered charity.

3) The foundation has invested $250K in private equity in two sustainable venture capital firms which invest in social and environmental enterprises, and a third private equity investment of $50K in a private company franchising private schools in Kenya aimed at serving the poor. These are 10-year investments; the foundation is expecting venture capital returns of roughly 10%.

This non-traditional part of the portfolio has financially outperformed the foundation's traditional portfolio.

History and approach:

Within the first year of starting the foundation, about 2002, the President became interested in finding creative ways to provide financing to worthwhile causes as a way of leveraging his foundation assets for greater impact. The first investments were made in 2003, to support social enterprise charities, one in BC (a for-profit company of a registered charity) and the other in Quebec (a registered charity).

Since then, the foundation has been interested in leveraging its investments to influence high-impact social outcomes from business ventures, specifically jobs for people with employment barriers and has met with success in providing loans to a company with franchised operations in Ontario for this purpose. This is as a result of the President's very focused efforts to support the development of a replicable market-based approach to poverty reduction.

The foundation is strongly motivated by its interests in social finance innovation; it seeks to use a much higher percentage of its assets to generate other forms of social good.

Due diligence and costs:

The foundation partners with a related company, Social Capital Partners, which has the financial expertise to assess the merits of the social enterprise loans. For the private equity loans, the President conducts the due diligence, where he researches the investment, conducts referrals on the principals in terms of their track record, etc.

For the most part, the foundation's investments have not required capacity building or technical support to increase the viability of the investment. For some of the social enterprise loans, the additional financial and business expertise provided by the foundation through the President was perceived to be an extension of the foundation's social mandate.

The foundation did not incur any out-of-pocket financial costs for its due diligence or structuring its investments.

Community results and impacts:

The social enterprises are generating significant social benefits to the borrowing organizations. To track these benefits, the foundation requires a social return on investment report, which quantifies how many barriered employees were hired, how many retained, their earnings track record and reasons for turnover.

The other investments are still in their early stages, so the foundation is not yet able to track social performance results.

Next steps:

The foundation is looking for opportunities to package and resell its investments in order to attract new capital for its projects.

It is contemplating significantly scaling up its community/mission investments given its very positive experience to date.

EDMONTON COMMUNITY FOUNDATION

FOUNDED:
1989

ASSETS:
$242M

LOCATION:
Edmonton, Alta.

FOUNDATION PURPOSE:
Mission is to build endowments and support charities and philanthropy in the foundation's granting areas: health, education, social services, arts and culture, sport and recreation and the environment, and community leadership towards these efforts.

FOUNDATION TYPE:
Community

NAME GIVEN TO C/MI:
Social enterprise and affordable housing finance

CURRENT C/MI ASSETS:
$5M

C/MI POLICY:
The foundation does not have a C/MI policy, apart from its decision to establish and authorize the operation of the Social Enterprise Fund (SEF) for the purposes of financing social enterprises, affordable and social housing and asset building. The foundation has agreed it will finance registered charities, co-operatives and non-profit organizations operating in Edmonton. The investments are not considered part of the foundation's regular investment portfolio. The foundation holds the assets and invests them until they are needed by the SEF, but they are not part of the foundation's "consolidated investment portfolio" that is invested according to their investment policies, asset mix, etc. They are generally in short-term or cash-equivalent instruments. They do, however, show up as assets in the foundation's audited financial statements.

Current investments:

1) Loan to a registered charity for $289K at 6% for one year to purchase real estate for the charity's social enterprise. It has been repaid.

2) Loan to an affordable housing agency for $500K for affordable housing at 5% for one year.

3) Loan to a registered charity for $1M for asset building at 5.5% for 2 years to purchase a decommissioned school building and site which will, in due course, be redeveloped into the charity's head office and programming site.

4) Loan to an affordable housing agency for $500K for affordable housing at 6% for 22 months.

5) Loan to a charity for $500K for interim financing for affordable housing development at 6% for 18 months.

Total earned interest on loans outstanding to June 15, 2009 is $50K. There have been no losses on the portfolio to date. The foundation predicts about a 5 – 6% blended rate of return. 5% is the minimum interest rate provided by the Fund. If interest rates increase, this may increase correspondingly. Financially, the non-traditional part of the portfolio outperformed the foundation's traditional portfolio in 2008, at -14.7%.

For each of these loans the foundation has taken security slightly in excess of the loan value, primarily real estate that the organization owns or other assets such as an organization's reserve fund.

All of these investments have been in charitable organizations, although the Fund has the capacity through a structure it created for this purpose (details below) to loan to non-profit organizations and co-operatives.

History and approach:

The foundation worked with the City of Edmonton since 2005 to establish the Edmonton Social Enterprise Loan Fund, which was launched in 2008 (prior to which the City had been researching and promoting this effort since the early 2000's). The new CEO hired by the foundation in 2005 secured interest from 2 – 3 donors willing to capitalize the fund with the City of Edmonton. It took 2 more years of research and awareness-raising to successfully launch the Fund with $.5M from the foundation, $3M from the City and $.5M from the United Way (the latter which is considered part of the foundation's contribution, for a total of $1M to date). The City of Edmonton also provided start-up operating capital for the first 2 years. The Fund includes both financing managed by the foundation and financing available via a purpose-built company established to provide financing for non-charities (a Part 9 company, an Albertan vehicle for non-profit companies). The foundation retains most of its funding pool, while the City has most of its funding in the financing company.

Once the Social Enterprise Fund was launched there was considerable initial interest. Nevertheless, to generate actual deal flow it became necessary to market the Fund to prospective applicants. The foundation continues to develop its product line for borrowers. A line of credit is now available for working capital and other needs. The borrower will be charged a fee for the line of credit and interest will be charged once the organization draws on the financing.

The foundation has a small fund that can make technical assistance grants of about $5 – 10K, to prospective borrowers, for feasibility studies and business plans. This fund was established by a grant from the Province of approximately $100K. However, for the most part, recipient organizations have required little in the way of capacity-building support, though this may change in the future as the foundation proactively engages in social enterprise development.

The two financing vehicles provide flexibility to lend to both charitable and non-charitable organizations. If the borrower is not a registered charity, the investment is made through the company; if the borrower is a registered charity, the investment can be made through either the company or the foundation. Further, the size of the loan request can also influence where the financing comes from. For example, 2 out of the 5 loans to date have been financed jointly because neither fund had sufficient capacity to fund the loan in its entirety.

The overall Fund has 1 staff person paid by the operating budget and ultimately revenue from the Fund. The goal is to be self-sustaining in 5 years. There is a steering committee responsible for overall stewardship of the Fund, with representatives from the City, foundation and community experts. The Social Enterprise Fund was generated as a result of the foundation's CEO and the City of Edmonton's very focused efforts to support the development of a vehicle that financed sustained social enterprise initiatives, leveraging the business model to foster social outcomes.

The foundation is always looking for new ways to "lead" in the community, with management believing that social financing provides a way for foundations to use their assets in the community beyond their traditional granting role (at the 3.5 – 4.5% level).

Due diligence and costs:

Prospective borrowers are required to submit details on their financial circumstances, business plans, revenue projections and asset base. With this information the Fund researches the organization's capacity and provides the information and recommendations to the steering committee for decision.

The foundation has incurred modest legal costs associated with "taking security" on borrowers' assets, but the primary cost of the due diligence is staff time of the Social Enterprise Fund's director, as well as volunteer time of the Board and Steering Committee to provide oversight. In the case of formal appraisals and other such cost items, the borrower pays these expenses.

Community results and impacts:

The Fund is still in its infancy; social results and impacts are not measurable to date.

Next steps:

The foundation plans to incorporate C/MI and PRI policies in its overall investment policy in the future, with community/mission investments one of several alternative asset classes in which the foundation might invest. A 1 – 2% asset cap is contemplated as the target amount. It will continue to prospect for donors to invest in the Fund.

The foundation expects that over time it will be increasingly putting deals together itself, taking a more proactive role as a co-developer of initiatives. To date the foundation sees its role as an "involved lender", and in the future it expects to be a much more active partner in its investments, targeting and engaging prospective collaborators who can receive the financing for social enterprise and affordable housing development.

ENDSWELL FOUNDATION

FOUNDED:
1992

ASSETS:
$20M (note that the foundation is currently liquidating its assets; this figure reflects the asset base prior to spend-down)

LOCATION:
Vancouver, BC

FOUNDATION PURPOSE:
To advance long term sustainability in BC.

FOUNDATION TYPE:
Private

NAME GIVEN TO C/MI:
Mission-based investing and program-related investing (PRIs) (PRIs come out of the foundation's grant-making pool and mission-based investing comes out of the foundation's assets)

CURRENT C/MI ASSETS:
The foundation has held up to 50% in program-related investments plus an additional 10% in mission-based investments over its history, of which about 10% were in US projects.

C/MI POLICY:
The foundation's informal policy has been to be experimental in its community/mission investments. The board of directors approves each investment.

Current investments:

In its over 15 year history, the foundation has made a number of community/mission investments. Data do not exist on the details, but some investments include:

1) a real estate equity investment in a building which is home to a non-profit society. The foundation is one of three foundations which own the building, roughly $75K each at about 5%, along with a first mortgage from Vancity Credit Union. The investment is secured by the value of the property which is appraised at a higher value.

2) a $2M real estate equity investment in an inner-city community building which is being rented out to social innovation organizations

3) a $75K below-market loan to a social enterprise for 5 years. The investment was made in collaboration with another foundation. The loan is current, with no defaults.

4) a $75K below-market 5-year line of credit to a for-profit subsidiary of a charity for working capital to launch the subsidiary, the profits of which help advance the charity's goal of self-sufficiency. The investment was made in collaboration with Vancity Credit Union.

5) a $250K loan to a conservation economy charitable organization, initially for 5 years, at 5% interest. The loan is used to fund the creation of a micro-finance and small business loan fund for conservation economy businesses in coastal BC and First Nations communities. The financing has been paid out and reinvested by the foundation back in the loan fund.

6) a $50K investment in an international micro-credit fixed income product which is fully guaranteed by the financial institution, Vancity Credit Union. The funding goes to support international micro-credit projects in developing countries. Interest rates are at market rate for comparable term deposits.

7) two $25K loans to two non-profits for their fund-raising campaigns, both of which were paid in full and wound up successfully.

For the most part, the foundation's financial investments in mission-aligned projects have performed as expected, with the exception of the real estate investment in the inner-city community building, due to timing issues, given it was launched during the fall in real estate values and rental markets as a result of the market downturn.

History and approach:

The foundation has been engaged in community/mission investing almost since inception in the mid-1990s. It was interested in advancing the PRI and mission-based investing field in Canada as its founders had a background in this method from the United States. They adopted a very pro-active stance, looking to invest their assets to help advance social and environmental innovation in BC. The executive director of the foundation took a personal interest in mission-based investing and actively sourced investment opportunities to expand the foundation's reach and impact in this area.

As part of its pro-active approach, Endswell often acts on both sides of an investment, helping to pull the project together, building capacity of the non-profit enterprise, and then convening investment partners to complete the financial transaction. Its grant-making program ceased as of January 2009, and as it winds down, it is transferring a portion of its PRI and mission-based investment assets to the Tides Canada Foundation, a sister organization.

The foundation believes there is tremendous leverage to be gained by using its financial tools to provide capital for charities to launch a service or finance a real estate purchase or underwrite costs associated with developing the non-profit's revenues in ways that also amplify their mission. C/MI enables a foundation to leverage its resources multiple times.

Due diligence and costs:

The first step in the foundation's due diligence is relationship and values-based: a good fit and alignment are critical to financial and social success. Other aspects of the due diligence process include existence of other financial partners, for example, Vancity Credit Union. With other financial partners investigating the merits of an investment, Endswell was able to capitalize on their expertise and resources.

Further, the foundation has real estate investment experience from prior business ventures, and relied on this core competency to help analyze real estate investments.

The foundation recognizes there is a risk and impact spectrum: the higher the risk typically the greater the social return. The foundation chooses its risk tolerance on a deal by deal basis, and once it moves past low risk investments, it looks for outside expertise and collaborations with partners to better understand and then mitigate or offset the risk.

The foundation did not transfer its due diligence costs to the borrower. It found that in comparison to its granting process, the due diligence it conducted for its investments were relatively insignificant. Even if a foundation's investments generate less than positive returns, by following an investment model, the foundation still has much of its capital remaining for further grants or investments. Because Endswell had staff with financial expertise, this further reduced its due diligence costs. The foundation often used its overhead (e.g. the expertise of its accounting staff) to help build capacity in the sector.

Community results and impacts:

The foundation does not conduct formal impact assessments to determine the social results and impacts of its investments. However, based on its experience to date, its PRIs and mission-based investments have helped further the field of social innovation, its partnerships with other foundations and financial institutions have leveraged increased investments in social and environmental enterprise, and it has helped move a number of non-profit organizations towards self-sufficiency and increased business capacity skill and judgment.

Next steps:

As Endswell winds down and transfers its community assets to the Tides Canada Foundation, Tides is expected to become the agency of social transformation, leveraging the portfolio and expertise of Endswell Foundation to continue to advance C/MI in Canada. There are interlocking directorships, so this will enhance the viability of the transition.

Over time, the foundation hopes to help establish loan products for other Canadian foundations, one of which can invest in non-profit real estate and another that can be used to finance fund-raising campaigns. It hopes to leverage its successful track record and experience in these endeavours to create larger scale investment opportunities for C/MI investors in Canada.

ILLAHIE FOUNDATION

FOUNDED:
1992

ASSETS:
$1M+

LOCATION:
Vancouver, BC

FOUNDATION PURPOSE:
To address systemic issues relating to social justice, the environment, education and the arts.

FOUNDATION TYPE:
Private

NAME GIVEN TO C/MI:
Mission-related investing and program-related investing

CURRENT C/MI ASSETS:
Approximately $150K in three investments, one of which is a PRI (1.5%)

C/MI POLICY:
There is no formal C/MI policy. The foundation has a general interest in doubling their community/mission investments, to 20 – 25% of their assets. Eligible investments include social justice and social enterprise organizations.

Current investments:

1) $75K loan to a conservation economy charitable organization for 10 years at 2%; 50% has been repaid consistent with terms. The loan is used to fund the creation of a micro-finance and small business loan fund for conservation economy businesses in coastal BC and First Nations communities. The foundation did not require security on this loan.

2) Real estate equity investment in land and a building which is home to several non-profit societies. One of those is an anchor tenant, which is earning equity in the property. The original investment was $150K which was refinanced; the foundation has recovered $75K of its original investment. The investment is secured by the value of the property. Revenue from the rent paid by the non-profit societies covers mortgage costs. The foundation anticipates an additional investment is necessary for building upgrades and expects the value of the property to appreciate at least at the rate of comparable Vancouver properties, possibly a bit better. Prior to selling it, the foundation expects the building to pay for itself. The return is predicted at

the low end of comparable revenue property, possibly slightly below.

3) Private equity investment of $100K in a Vancouver-based social venture capital fund that invests in social and environmental business ventures. 10 – 15 year investment, expecting venture capital rates of return of about 10 – 15%.

They have not had any losses on their community/mission investment portfolio.

History and approach:

The foundation made its first PRI in 2004 to a grantee organization seeking to build its business loan fund, followed by a real estate investment for a non-profit organization in 2006 and the private equity investment in 2009. The effort was led by the foundation's Vice President and Treasurer who was interested in piloting community/mission investing.

The key impetus for program-related investing was the growing awareness by the foundation of the opportunity to put their endowment to work in constructive ways. The foundation initially turned down the real estate investment opportunity, but then reconsidered, because it was already granting to the non-profit society and it thought it could leverage additional benefits to the grantee. It would be an opportunity to further pilot a PRI approach.

Due diligence and costs:

The foundation's Vice-President/Treasurer conducts the due diligence on the investments. (The foundation has part time administrative staff). The organization's track record, presence of other investors, and a pre-existing relationship with the organization, including a pre-existing granting relationship are part of the due diligence approach. In one case the foundation VP was already a member of the board and the other investors had strong financial skills. Vancity Credit Union participated in the project as well, which brought financial due diligence to the investment. They have not found that the investment recipients required technical assistance or capacity-building support.

The foundation invested modest initial costs in setting up its PRI investment portfolio; primarily the "costs" were in the form of time to attend to administrative matters.

Community results and impacts:

The foundation investments have generated a number of benefits, including leveraged financing to First Nation and conservation businesses, helping to create self-reliance for a social justice non-profit organization and the future potential to help finance social and environmental businesses.

Next steps:

The foundation hopes to be able to significantly increase its community/mission investment portfolio in 2010.

J. W. MCCONNELL FAMILY FOUNDATION

FOUNDED:
1937

ASSETS:
Over $400M

LOCATION:
Montreal, Que.

FOUNDATION PURPOSE:
The Foundation is a private family foundation that funds programs to create a society that is inclusive, sustainable and resilient.

FOUNDATION TYPE:
Private

NAME GIVEN TO C/MI:
Program-related investing (PRI) (for investments at below-market rates)

CURRENT C/MI ASSETS:
$10M in a 5-year mortgage to an educational charity at a below-market interest rate.

C/MI POLICY:
The foundation has a policy to invest in PRIs for up to 5% of its assets. The investment could be a loan guarantee, a loan or a mortgage and is treated as a "tool" in the tool box to help organizations achieve their objectives. The foundation will invest in registered charities which are engaged in initiatives consistent with the foundation's mission, for example, social enterprise.

Current investments:

The foundation provided financing for a $10M mortgage to a registered education charity at below-market interest rates in which the interest is deferred to the end of the 5-year mortgage. The financing is used to complete construction of the university. The foundation used undeveloped land and loan guarantees by a third party for collateral.

The loan was prepaid in full with interest unexpectedly in late summer, 2009.

History and approach:

During 2005 and 2006 the foundation received a number of requests from organizations seeking to borrow funding for their initiatives from the foundation. The foundation was pre-disposed to a lending role, believing it to be an additional means for foundations to help finance social infrastructure beyond the typical granting approach. In 2007 the foundation made its first PRI investment, when a private university with an alternative education mandate and a history of receiving grants from the foundation, sought a grant to complete facility construction in order to commence operations. The foundation recommended a PRI approach to the university rather than a grant. This launched the foundation's PRI program, which was expected to expand in 2009 with an additional two investments.

The foundation believes that effective philanthropy means using all of the assets of a grant-making organization, not only grants but also knowledge, contacts, and – where possible – leveraging its endowment through loans or other forms of investment. This is particularly true in the current economic circumstances, when many community organizations are struggling with increased demands and funders are coping with declining asset values.

Due diligence and costs:

The foundation engaged a law firm specializing in mortgage financing and a second law firm to conduct the due diligence and lead the review. The second firm provided a project manager to pay a site visit and ask questions on the foundation's behalf. There was a need to determine the value of the collateral and to develop mortgage agreement language for the contract. The due diligence period took about 3 – 4 months. The investment committee provided guidance on how the loan should be structured with certain covenants. As below-market investments were perceived as outside the investment committee's mandate, they did not approve the loan, but recommended it to the Trustees for approval.

Due diligence costs included legal fees, land appraisal fees, registration of mortgage, etc. which were ultimately assumed by the borrower as part of the loan agreement.

Community results and impacts:

The investment was considered successful in terms of its social benefits insofar as the financing allowed the university to complete construction of its facility and commence operations.

Next steps:

The foundation expects its PRI program to expand in 2010. It is open to at-market investments, as well, which it refers to as mission-related investing.

MUTTART FOUNDATION

FOUNDED:
1953

ASSETS:
$53.3M May 2009

LOCATION:
Edmonton, Alberta

FOUNDATION PURPOSE:
The foundation makes grants to qualified donees, carries out or commissions research related to the sector and provides scholarships and bursaries. Current program interests include support of charitable sector infrastructure, furthering the cause of early childhood education and care and promoting leadership within the voluntary sector.

FOUNDATION TYPE:
Private

NAME GIVEN TO C/MI:
Program-related investing (PRI)

CURRENT C/MI ASSETS:
$800K in mortgages or loans to six charities at no interest

C/MI POLICY:
By resolution, the board authorized $1M as the maximum amount that can be outstanding on PRIs at any given time. This limit might be raised as a result of a current loan application that is under review. Because the foundation structures its community/mission investments as PRIs, they only make loans to qualified donees to be consistent with CRA regulations on program related investing. There is no formal C/MI policy.

Current investments:

1) Loan to a Saskatoon human-services agency to buy a building with initial value of $325,000, secured by mortgage on property, repayable without interest over 25 years

2) Loan to an Edmonton human-services agency to purchase a transitional house with initial value of $200,000, repayable without interest over 25 years, secured by caveat on title

3) Line of credit available to a Calgary charity, whereby it can draw up to $100,000 to deal with cash-flow issues, repayable at will at no interest

4) Loan to a central-Alberta agency for major capital renovations to its facility, with an initial value of $600,000, secured by mortgage on property, repayable without interest over 25 years

5) Loan to a Regina-area charity to purchase a building, with initial value of $75,000, repayable over 25 years at no interest, secured by caveat on title

6) Loan to an Edmonton human-services agency for repairs to property it already owned, with an initial value of $25,000, repayable without interest over 25 years, secured by caveat on title

They have also provided interim financing on real-estate deals and construction initiatives undertaken by charities.

A number of bridge financing loans on construction have been paid out. There have not been any losses on the portfolio to date. Some PRIs have a nominal interest rate in the agreement, which is forgiven annually; the balance of the loans and mortgages are interest free.

History and approach:

The foundation made its first PRI in 2001, after a successful effort, led by Muttart, to have CRA accept the PRI approach. With this success, the foundation thought it should capitalize on the financing model it had helped create. At that time there were a few grant requests wherein the applicants were perceived to have the capacity to repay the loan on preferential terms. The foundation requested the applicants consider a loan rather than a grant and this launched their PRI program.

The program has evolved to the point that sometimes organizations apply for loans; at other times the foundation recommends a loan. Sometimes both a grant and a loan are provided to the charity. The foundation promotes the loan option through its communications material.

With this additional tool in its toolbox, Muttart has been able to help some charities make things happen that otherwise might not have happened or that, if they had happened, would have been more expensive or taken more time. Recipient organizations sometimes develop new skills and Muttart is able to “recycle” its funding, so it can make more grants or PRIs as existing loans are paid back.

Due diligence and costs:

The foundation's 7 staff conduct the due diligence on the loan applications. In one instance the foundation contracted an outside professional in the field in which the work would have been done to review the material. Typically the foundation liaises with the agency's core funders to ensure continuity of funding. The foundation perceives that the due diligence they conduct on a loan application is consistent with the due diligence on a grant application, so modest additional costs are incurred in the loan review. There might be legal costs if a mortgage is taken out on the building or a caveat is put on the title that the property can't be used for any other purpose for the period of the outstanding loan. Now the foundation has a lawyer on staff which minimizes most legal costs.

Community results and impacts:

Agencies save money because the interest rates on their loans are below market. As well, they are able to borrow without individual guarantees of directors. The impact is that projects that otherwise might not have proceeded have gone ahead.

Next steps:

The foundation will continue to use PRIs where appropriate.

REAL ESTATE FOUNDATION OF BC

FOUNDED:
1985

ASSETS:
$20M

LOCATION:
Vancouver, BC

FOUNDATION PURPOSE:
To support non-profit endeavour related to use and conservation of land and real estate in BC.

FOUNDATION TYPE:
Public

NAME GIVEN TO C/MI:
"Community mortgages"

CURRENT C/MI ASSETS:
$1M in two mortgages to one BC charity

C/MI POLICY:
The foundation does not have a formal community investment/mortgage policy. They see providing mortgages as a tool in their "tool box" they can use to help advance the foundation mission on a case by case basis. Eligible participants include non-profits performing work that fits within the foundation's mandate that need a mortgage and can demonstrate they can support the debt.

Current investments:

The foundation has provided two second mortgages to a charitable organization to provide housing for people with severe physical disabilities on two different properties. One property (25 residential units) includes market rental and commercial space. Covenants were put on the property titles to ensure the housing was used for the intended purpose. One investment was for $750K and the other for $250K.

The foundation's second mortgage interests are registered on title, providing the security for the loan. The mortgages pay 7% interest, which was a below market rate at the time they were set up. The mortgages have an 8-year term and a 5-year amortization at the current rate. There are no penalties for early pay out or lump payments.

They have not had any losses on their community mortgage portfolio.

History and approach:

The foundation made its first mortgage in 2000. It was a second mortgage and was paid out (no penalty) by the society in 2003, when it restructured its debt. The current mortgages were recommended by the then Executive Director to the foundation's Investment Committee.

The mortgages are a program-related investment because the society was able to stretch its own available capital for property acquisitions. One acquisition was made in 2005 ($750K) and the other in 2007. The later property received a grant of $200K to assist the purchase. The foundation considered the society's entire real estate portfolio position, particularly the equity value at market. Both mortgages are current with no defaults.

The foundation considers C/MI from an investment perspective. The loan must be in the interest of both parties. The foundation is prepared to provide grant funds to make the property acquisition more feasible depending on circumstances. The foundation believes that it is important for certain societies with housing portfolios to build their equity. When large enough portfolios have been built up, a society will be in a stronger position to finance acquisition projects using its own equity and borrowing capacity. To put it another way, a society will be able to move away from extensive reliance on grants.

Due diligence and costs:

The recipient of the mortgage had a solid reputation and provided financial records showing they could support the debt.

The foundation paid the costs of having the mortgages drawn up. The foundation also paid for third party review (soundness of the building being purchased) as part of its due diligence.

Community results and impacts:

The society receiving the two mortgages was able to expand its service capacity.

Next steps:

The foundation is open to providing community mortgages consistent with its mandate on a case by case basis.

SOMERSET FOUNDATION

FOUNDED:
2001

ASSETS:
$5M

LOCATION:
Vancouver, B.C.

FOUNDATION PURPOSE:
Funding of qualified donees with a focus on social justice, education and environmental sustainability.

FOUNDATION TYPE:
Private

NAME GIVEN TO C/MI:
Values-based or mission-based investing

CURRENT C/MI ASSETS:
Approximately $400K (8%)

C/MI POLICY:
The foundation has an informal community/mission investment policy. The President is centrally involved in every aspect of the foundation's investments and from this position decides on the foundation's community/mission investments, which are a result of the Member's initiatives and interests.

Current investments:

1) $200K allocated to a private equity investment in a Vancouver-based social venture capital fund that invests in social and environmental enterprises. 5 to 10 year investment horizon, expecting venture capital rates of return of roughly 15%.

2) $200K in a private equity investment: Living Forest Communities, a reproducible community development model that establishes and maintains sustainable natural forest ecosystems in perpetuity through land conservation and ecosystem-based forestry, in addition to the creation of "light-on-the-land" residential hamlets modeled after traditional European towns. 4 to 6 year investment horizon, expecting traditional real estate investment rates of return.

History and approach:

Since its inception in 2001, the foundation has been focused on providing charitable disbursements to self-selected projects and initiatives, which have been focused on social justice, education and environmental sustainability.

More recently, the foundation has been instrumental in the creation and funding of the charitable Trust for Sustainable Forestry. This Trust, which exists to promote ecosystem-based forestry, is in partnership with the principals of the Living Forest Communities project to protect and conserve forested land that is suitable for ecosystem-based forestry practices. Such land, which would otherwise be subject to traditional forestry practices including clear cutting, is re-zoned and appropriate restrictive eco-covenants are utilized. In addition, a small portion of the land is developed through the creation of "light-on-the-land" residential hamlets modeled after traditional European towns. The intention is for the returns from the real estate development to recapitalize the Trust to enable further eco-system based forestry initiatives.

In 2009 the foundation made a private equity investment of $200K in a Vancouver-based social venture capital fund that invests in social and environmental business ventures. 10 – 15 year investment, expecting venture capital rates of return of about 15%.

The foundation is currently an equity community investor; however, it is open to doing community investment loans as well. It sees community lending and similar cash flow generating investments as an immature market in Canada with limited opportunities.

The foundation's community/mission investments are a direct result of the Members' personal interest in using the foundation's endowed assets to leverage social innovation in values-based projects and initiatives, and to finance the emergent sustainability economy. The motivation is derived from an urge to have the endowed assets of the foundation directly invested in activities that are aligned with the core values and mission of the foundation. Such investment effectively extends the mission of the foundation beyond its annual required charitable disbursements while generating a financial return.

Due diligence and costs:

The foundation evaluated the track record of the social venture capital firm's management, and considered the nature of the current investments and investment performance as its due diligence in the private equity initiative.

In the instance of the Living Forest Communities investment, the foundation had been involved from the outset and was thoroughly aware of the investment risks and capabilities of management.

Community results and impacts:

Both investments are early-stage; social results and impacts are not measurable to date. The social impact of the Living Forest Communities project is something the foundation plans to assess over a 5-year horizon.

Next steps:

The foundation is not currently evaluating any specific additional community / mission investments, though it remains open to this possibility.

VANCITY COMMUNITY FOUNDATION

FOUNDED:
1989

ASSETS:
$40M

LOCATION:
Vancouver, BC

FOUNDATION PURPOSE:
Provide support to community economic development in the region and serve as a catalyst for change, encourage charitable gifts among VanCity Credit Union members and invest its resources to achieve sustainable, inclusive impacts.

FOUNDATION TYPE:
Public

NAME GIVEN TO C/MI:
Community development lending

CURRENT C/MI ASSETS:
$600K (1.5%)

C/MI POLICY:
The foundation has a formal C/MI provision incorporated into its Investment Policy to invest up to 10% of its assets specifically in community development loans with a focus on affordable housing, non-profit enterprise and community asset building. The policy provides considerable flexibility, with the board of directors making the final determination of these investments.

Eligible investments include primarily non-profit organizations (though from time to time businesses and individuals have also been recipients). The foundation follows CRA program-related investment guidelines when the investment is below-market, in which case the loan is restricted to a registered charity or for charitable purposes.

Current C/MI investments:

1) $.5M private equity investment in a Vancouver-based social venture capital fund that invests in social and environmental business ventures. 10 – 15 year investment, expecting venture capital rates of return of roughly 15%.

2) $95K remaining on unsecured loan for daycare operation in Coquitlam priced at 4.5%, with 25 year amortization and 5 year terms.

3) $12K remaining on unsecured loan for inner-city dental clinic in Vancouver priced at 4.5% with 10 year term and amortization.

4) $20K open loan guarantee for community health centre in Vancouver.

5) Interest rate offset for a social housing project loan in Victoria in which the foundation provides an annual "grant" to a charitable organization to lower the loan's annual interest costs, effectively lowering the cost of capital for an affordable housing project.

The foundation has been transitioning out of its direct lending role over the past few years, as its associated organization (Vancity Credit Union) has started to take on many of the finance gaps previously filled by the foundation. The foundation's current lending portfolio largely represents loans still on the books, although it moved back into this area with a 2009 investment in a social venture private equity fund, representing a new asset class for the portfolio. It is also currently exploring opportunities to develop syndicated transactions which would leverage assets from other philanthropic organizations as well as its own in lending to community organizations.

Past investments:

The foundation has been engaged in community/mission investment since its inception 20 years ago. During this time the investment portfolio has generally fluctuated from $0.5 – 1.0M, with rates ranging from 0% to 10% during higher interest rate periods. Amortizations have stretched to 30 years for real estate assets and been as short as a few months for an arts production. It has provided a range of investments, including loan guarantees (most often for lines of credit), direct term loans and mortgage financing in first, second and third positions. Investments have been provided most often for social enterprise activities and real estate acquisition for charitable organizations. It has provided loans to non-profits that were not charities, as well as to for-profit businesses with a social mission and to low income individuals for micro-credit purposes.

Most of its investments have fully paid out, although at times it experienced losses as high as 5% of its portfolio. The foundation generally takes security when it is available, but generally is willing to subordinate its position to other sources of financing.

Most of its lending reflects pricing within the range of conventional secured loans, but it often accepts a higher level of risk than a regular financial institution so the pricing rarely reflects the risk on a market basis. In a few cases it has offered 0% financing or granted back portions of interest charged.

Detailed statistics are not available from the first 10 years of lending activity, but over the past decade the foundation has directed approximately 20 loans to a range of community organizations.

History and approach:
Vancity Credit Union established Vancity Community Foundation in 1989, as an independent, arms length public foundation. The initial mandate specifically included a role for community development lending. In establishing the foundation, the credit union modeled its approach after American foundations which were active in program-related investing in the late '80s. As such, the foundation has been involved in C/MI for over 20 years.

From the outset the foundation was proactive in finding C/MI opportunities for its assets, including early investments in anti-poverty social enterprises, alternative health care and affordable housing initiatives. At the time and since, the foundation capitalized on the credit union's financial expertise in its investments. In the early '90s, the foundation successfully championed efforts to have Revenue Canada (the federal government) declare its C/MI portfolio as legitimate foundation activity.

The foundation often seeks co-investing partners in its investments, frequently with Vancity Credit Union. At times the foundation also partners with other funding organizations which provide the technical support and grant funding while the foundation provides the loan. The foundation itself will often provide technical assistance as well as a range of financial support to the recipient, from a grant, to a repayable grant to an outright loan. The foundation often provides the riskiest financing, such as when it provided the third mortgage on a housing project, the riskiest spot.

Over time the foundation has found that recipient organizations fall along a continuum in terms of their capacity for meeting loan obligations. Larger organizations receiving a mortgage to purchase a building more often have considerable internal expertise and resources; social enterprises in many cases require more capacity-building support from the foundation. When required, the foundation will provide capacity grants and loans simultaneously to help build internal capacity. The foundation has staff who provide direct support to social enterprise initiatives, which is classified as part of its charitable work. At times, other funders may pay the foundation to provide capacity support to social enterprises (e.g., Enterprising Non Profits program). In the foundation's experience the nature of a loan – from financing a building, to working capital to grow a social enterprise – directly affects the degree of technical support and assistance required by the recipient non-profit.

One of the foundation's original intentions with community/mission investing was to help build the Canadian C/MI model, and show that C/MI could be done successfully without unduly compromising the portfolio of assets. It was also a vehicle for achieving impact through the endowment resources rather than just the granting dollars available from income. The approach allowed for a greater allocation of capital than would have been available for community initiatives otherwise and has helped leverage additional dollars and impact for the charitable sector.

Due diligence and costs:
The foundation has internal financial expertise on staff and through its close relationship with Vancity Credit Union. Its due diligence approach has been modeled after the credit union's credit review process, with additional flexibility based on the objectives of the foundation. The credit union expertise is used on a deal by deal basis, as required. In addition to the financial expertise, the foundation relies upon the pre-existing relationships it has with the non-profits it finances; when necessary, it conducts community research with other organizations to verify credibility and impact. Where other financial institutions are involved in the transaction, the foundation may also rely on this additional expertise in conducting due diligence. For example, the foundation might be the lead investment partner, managing the relationship, etc., but not do all the investigation into credit worthiness. If there are co-

investors, such as with the Real Estate Foundation (see Real Estate Foundation profile), the workload and risk can be shared.

From time to time the foundation incurs direct costs for its due diligence and the ongoing maintenance of the lending relationship. These costs are primarily internal in the form of staff administration and program management, and are the type of costs typically born by an engaged funder in understanding and building relationships with community organizations. However, the foundation notes that costs for administration of community / mission investments can be higher than conventional investments, and working with problem loans in particular can increase the amount of time required significantly.

Community results and impacts

Through its C/MI program, the foundation has helped organizations to build their asset base and to leverage more funding than would have been possible in a pure grant situation. The foundation has been successful in its mission to move organizations along the path to self-sufficiency, by helping them to generate the ability to access different types of capital.

While the foundation has not systematically tracked its social impacts over time, it can point to many examples of scaled up benefits, such as a $200K loan to a society which leveraged millions of dollars in conventional financing and 45 units of social housing together with new community space.

Next steps:

As alluded to earlier, Vancity Credit Union has expanded its operations into community development finance, reducing the need for the foundation to fill this credit gap, and the foundation is exploring ways to re-invigorate its community lending mandate through new asset classes (such as its recent private equity transaction with a social venture fund), and trying to arrange debt syndications for multiple foundations to provide capital or credit enhancements that complement conventional financing sources.

In the future the foundation hopes to more formally articulate the impact elements within each of its asset classes of investment, and to tailor its community development program to various social market needs, including direct lending, fixed income term deposits, private equity, and other market grade investments which are either screened or used to undertake shareholder engagement. The foundation is also interested in supporting the development of an intermediary function, helping to generate and package opportunities for a range of interested organizations.

APPENDIX

SUMMARY

The following is a summary of the current state of play in C/MI amongst the nine profiled foundations.

Location of C/MI Activity

Foundations active in C/MI are concentrated in BC (5 foundations), with one in Ontario, two in Alberta (Edmonton) and one in Quebec.

CFC / PFC Membership

One foundation is a member of CFC (Edmonton Community Foundation) and two are members of PFC (Bealight and J. W. McConnell Family Foundations).

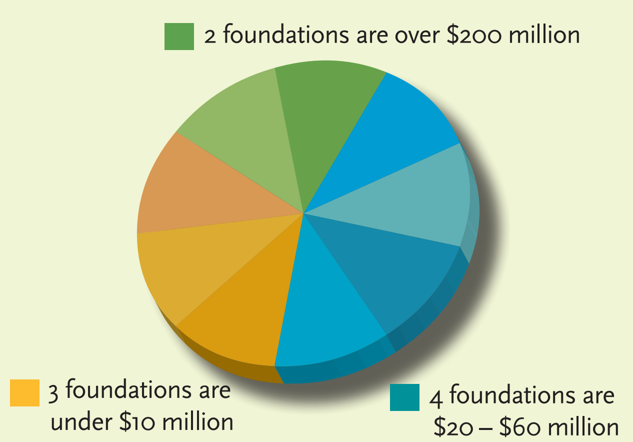
Founded:

Two foundations were founded over 50 years ago; 5 were founded 15 – 20 years ago and two were founded in 2001.

Type of Foundation:

One foundation is a "community foundation", two are "public foundations", and the remaining six are "private" foundations.

Assets:



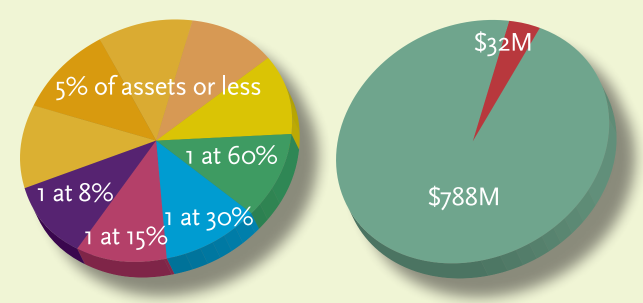
Names Given to C/MI:

Four foundations use the term Program-Related Investing and four foundations use a version of Mission Investing (Mission-Based, Mission-Related). There was one use of Values-Based Investing. Three foundations use terms more specific to the nature of their investments: social enterprise and affordable housing finance; community mortgages and community development lending.

Current C/MI Assets:

There are about $32 million in C/MI assets currently, ranging from 5 investments at $1M and under, and four investments over $1M: $2M, $5M, $10M and $12M. (Note that the latter ($12M) was the amount reported at the "peak" investment period.)

In terms of asset allocation, there are 5 foundations whose C/MI investment portfolios represent 5% of assets or less; 1 at 8%; 1 at 15%; 1 at 30%; and 1 at 60% (at its peak). With $32M in C/MI assets across $788M total assets, this represents roughly 4% of assets allocated to C/MI across these 9 foundations.



C/MI Policy:

Most indicate they do not have a formal C/MI investment policy, although their boards approve all the investments. Three foundations have adopted a formal C/MI investment policy. A few reported either formal or informal investment caps for their C/MI investments: limits of 5%, 20 – 25%, 30 – 40% and $1M of assets were mentioned.

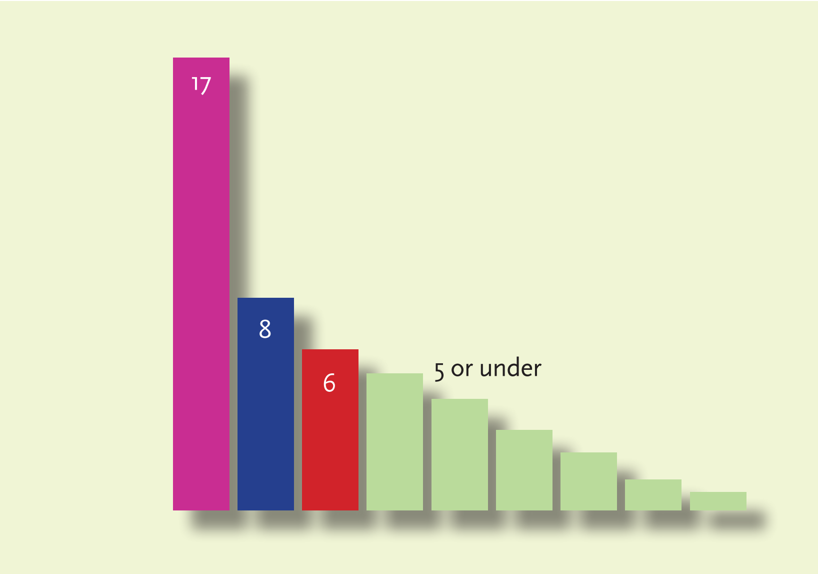
Motivation:

Foundations report the following motivations for their C/MI programs:

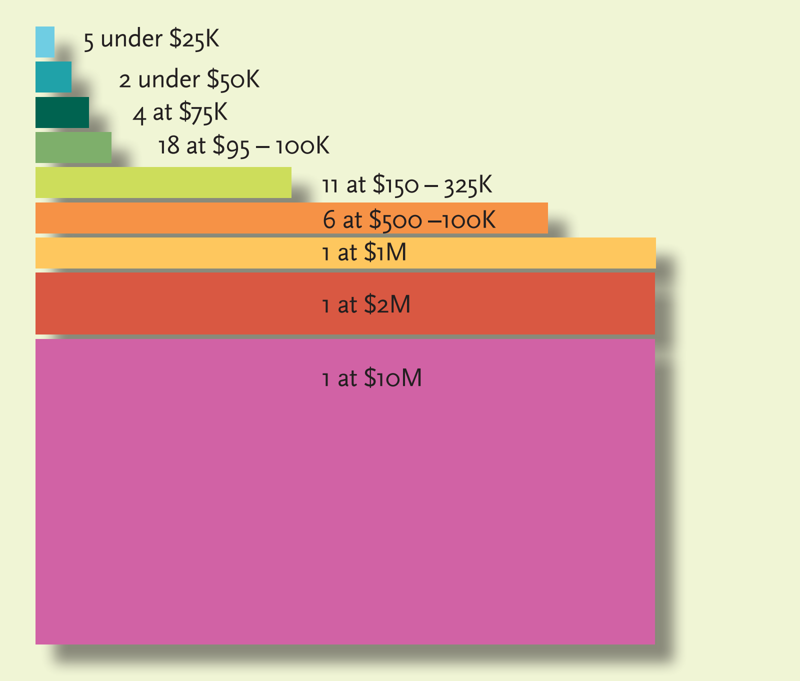
- Ability to leverage assets/endowments and to "recycle" funding to increase funding amount available to organizations (7)
- Social finance innovation/ social innovation/help build C/MI in Canada/experimentation (4)
- Increase benefits to recipients, e.g. help an organization move away from reliance on grants; increase organizational self-sufficiency and business capacity (5)
- Ability to pilot PRI
- Opportunity to play a leadership role

Number of Investments[1]:

One foundation reported 17 current investments; another reported eight. One had six investments and the rest had 5 or under, with the range from 1 – 17. 50 investments were reported overall.



Size of Deal:



Type of Investment Product:

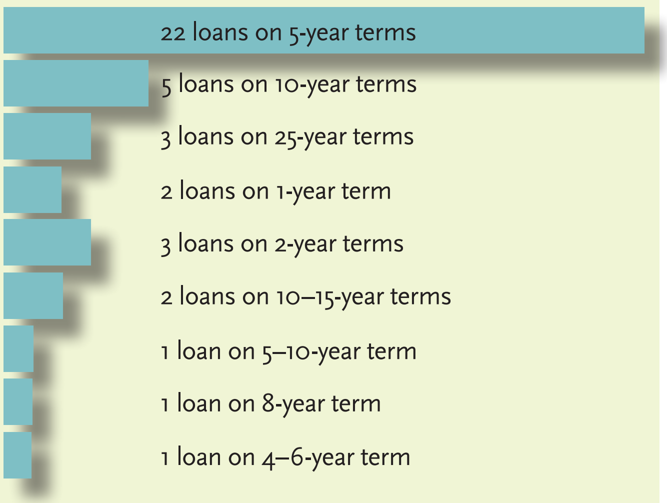
Loans/mortgages at market:	24
Loans/mortgages below market:	10
Private equity investments:	6
Real estate equity:	4
Line of credit at market:	1
Line of credit below market:	2
Fixed income deposit:	1
Loan guarantee:	1
Interest rate offset:	1

Rates of Return:

Interest rates ranged from 4.5 – 9%, with 5% and 6% the most common; 6 loans were at 0% interest rate. Rates of return on private equity were expected to range from 10 – 15%.

[1] This summary provides details on current investments. Vancity Community Foundation provides an overview of its 20-year history in C/MI, which conveys some additional insights into C/MI history in Canada. See their profile for further details.

Terms:



Partnerships / Syndications:

Six investments were reported as part of a syndication or partnership with other foundations or credit unions (Vancity Credit Union was mentioned frequently.)

Status of Investments:

Comments on investment status include:

- No losses/no defaults (5)
- Prepaid/repaid / paid out (3)
- Performing well (1)
- Almost paid out (1)
- Outperformed traditional investment portfolio (1)

One real estate investment was reported as under-performing, which was attributed to the market slow-down.

Track Record

Two foundations had extensive 20-year track records in C/MI. These two foundations (and only these two) reported mixed but primarily positive results with their C/MI investment portfolio.

Nature of Investment

The following is a list of the different types of investments, grouped by the nature of the investment.

- Affordable housing (6 references, including property repairs, transition house, social housing, affordable housing, special needs housing)
- Asset building (8 references, including purchasing real estate, capital renovations)
- Community facilities (1 inner-city dental clinic, 1 day care, 1 community health centre , 1 university)
- Environment (1 conservation oriented property development, 2 conservation oriented loan funds, 5 sustainable venture capital firms)
- International (1 private company franchising private schools in Kenya aimed at serving the poor and 1 credit union for international micro-credit)
- Capacity building (Non-profit organizations for working capital (2) and fund-raising capital (2))
- General (Charitable social enterprise (2 references), Charitable organization, Human service agency)
- Social purpose business (Car service franchise network that hires people who face employment barriers)

Lead:

Five foundations indicated their C/MI initiatives were championed by the head of the foundation or its principals; two foundations reported that C/MI was part of their mandate from inception.

Partners:

Some partners were explicitly mentioned, as follows:

- City
- United Way
- Donors
- Province
- Vancity Credit Union

Dedicated Staff:

Two foundations indicated they had dedicated staff working on their C/MI portfolio.

Capacity Grants and Technical Assistance

Two foundations indicated they provided both grants and loans to recipients on a single initiative, in order to build capacity and provide financing. A number of foundations mentioned that capacity and technical support to the recipient organization are often provided through the foundation staff or volunteers.

Proactive Investments:

Four foundations mentioned an intentional, proactive effort to ask a grant applicant to turn their application into a loan instead. Two foundations indicated a very proactive role on the part of the principals to structure an investment opportunity to generate social/environmental returns and outcomes identified by the foundation itself.

Related Companies:

Three foundations indicated they worked with "related parties" to advance their C/MI program and help work-around barriers and advance opportunities, often enhancing the foundation's financial and technical expertise.

Due Diligence:

Foundations identified the following aspects of due diligence:

- Partnerships with organizations, including financial institutions (credit union) which bring financial expertise and oversight to the investment
- Staff or volunteer expertise within the foundation
- Business documentation from the recipients (e.g. showing ability to support the debt obligation)
- Reputation of the recipient
- Pre-existing relationship with the recipient (often granting relationship)
- Presence of other investors
- Hiring specialists, e.g. legal
- Financial track record and projections of recipient, including record checks with existing funders regarding future revenue flow
- Site visits
- Investment committee oversight
- Land appraisals
- Direct involvement in the project on the part of foundation
- Risk-sharing and workload-sharing with co-investors

Modest real or in-kind (staff) costs were reported as part of the due diligence or loan documentation process, which was absorbed into overhead or paid for by the borrower. Some foundations reported that time spent on due diligence was equal to or even less than time spent on reviewing grant applications; many of the due diligence tasks are comparable to grant reviews.

Community Results/Impacts:

Only one foundation reported developing a robust social impact measuring and reporting framework to track and monitor social outcomes. Three foundations commented their investments were too early to measure and one mentioned it did not conduct formal impact assessments. Most foundations offered general comments on the community benefits generated, as follows:

- Leverage investments in social and environmental enterprise (3)
- Advance non-profits to self-sufficiency (e.g. by helping them to access different types of capital (3)
- Agency service expansion (3)
- Build non-profit business capacity
- Advance social innovation
- Support social and environmental businesses
- Agency achieved its goal
- Projects that might not have proceeded have gone ahead
- Helped organization build its asset base

Next Steps:

Six foundations report an interest to proactively expand and leverage their C/MI programs in the coming years, as follows:

- Expand program
  - Seeking to scale up (expand) its C/MI portfolio (3)
- Products:
  - Establish C/MI loan product/syndications for foundations (2)
  - Investigate opportunities to package and sell its C/MI assets to another investor
  - Refine program to include a full C/MI product array (i.e., direct lending, fixed income term deposits, private equity, etc.)
- Policy:
  - Adopt a formal C/MI policy
  - Establish an asset cap
- Prospect for donors to invest in the fund
- More proactive investment role

Two foundations spoke to an interest in playing a role to support the growth of C/MI in Canada, as follows:

- Sector expansion:
  - Build C/MI approach in Canada
  - Explore the opportunity of playing an intermediary role in social finance

Three foundations commented that they will continue at current pace and be open to further opportunities as they arise.

GLOSSARY

Non-profit organization: an association, club, or society that is operated exclusively for social welfare, civic improvement, pleasure, recreation, or any other purpose except profit. It is not a charity. No part of the organization's income can be payable to or available for the personal benefit of any proprietor, member, or shareholder, unless the recipient is a club, society, or association whose primary purpose and function is to promote amateur athletics in Canada.

Registered charity: an organization that has received approval from the Canada Revenue Agency as meeting the requirements for registration as a charity, and has been issued a charitable registration number. A registered charity is exempt from paying income tax and can issue official donation receipts for gifts it receives. A registered charity is designated by the CRA as a charitable organization, a public foundation, or private foundation.

Social enterprise: business ventures operated by non-profits, whether they are societies, charities, or co-operatives. These businesses sell goods or provide services in the market for the purpose of creating a blended return on investment, both financial and social. Their profits are returned to the business or to a social purpose, rather than maximizing profits to shareholders.

Program-related investment (PRI): an investment, rather than a grant, most often in the form of an interest-bearing loan, but also by purchase of shares in an enterprise made to a qualified donee, funded with money from a foundation's endowment funds, and for the primary purpose, not of income generation, but of furthering the foundation's charitable purposes. As property "used directly in charitable activities," a foundation can thus deduct the amount of the (PRI) loan from its investment assets, and accordingly reduce the part of its quota based on investment assets. At the same time, CRA treats the opportunity cost to the charity in making the loan as an expenditure that it can apply towards meeting its quota.