



Foundation focus

A PRIMER ON IMPACT INVESTING FROM THE TEAM AT GENUS CAPITAL

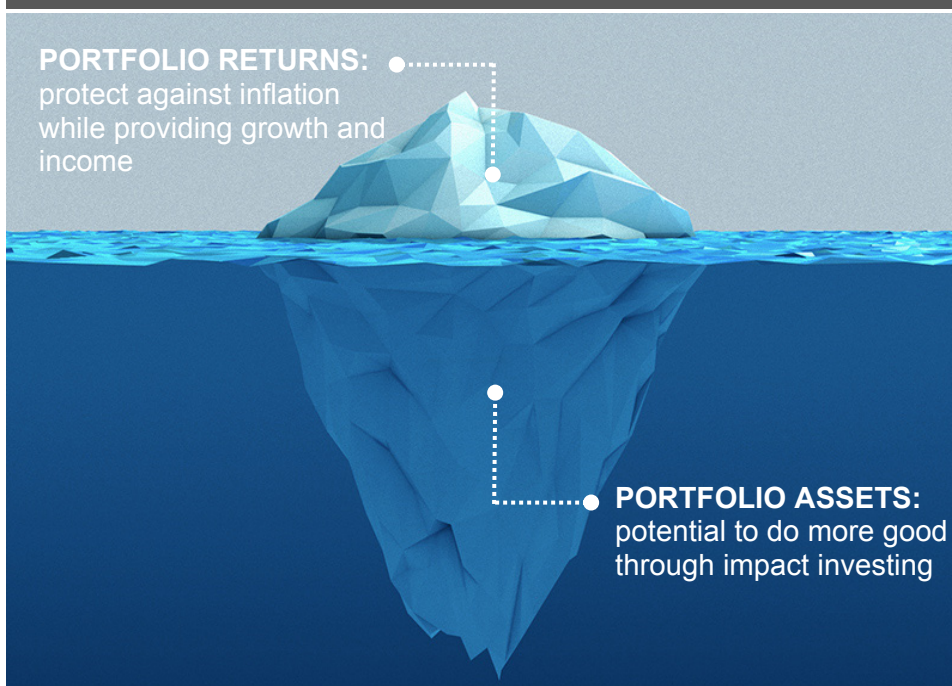
Investing to Create Greater Impact

Canadian foundations and endowments have a long history of using the returns on their investment capital for social, environmental and economic benefit. However, after directing the required 3.5 percent of their assets into grants each year (to meet the annual disbursement quota) the rest is generally invested with the sole aim of maximizing financial returns. This money could be doing more, and now it can. The advent of “impact investing” offers Canadian foundations the opportunity to leverage their investments by aligning a portion of their portfolios to achieve greater mission impact—and satisfy a key recommendation by the Canadian Task Force on Social Finance¹.

ORIGINS AND EVOLUTION

The term “impact investing” is relatively new, dating back only to 2007, but the practice of intentionally investing for financial returns and positive social impact is not. Investing for impact has a storied history, ranging from Quaker prohibitions against profiting from slavery, to anti-apartheid boycotts in the 1980s, to a focus on the environment in the wake of the Bhopal, Chernobyl, and Exxon Valdez disasters, to modern social enterprise and micro-finance movements. Most recently, the climate change crisis has awakened investors to the issue of values alignment and the opportunities inherent in directing their investment capital toward a sustainable future.

EXHIBIT 1: ICEBERG OFFERS BIG IMPACT OPPORTUNITY



FOCUS ON POSITIVE IMPACT

Impact investing is appealing to foundations because it puts an explicit focus on positive social or environmental impact in conjunction with competitive returns on investment capital. The focus on “positive impact” distinguishes impact investing from the

“negative screens” used in socially responsible investing (SRI), where investors filter out sectors in which they do not wish to invest, such as tobacco, weapons or fossil fuels.

By proactively placing capital in for-profit enterprises that generate environmental and/or social good, impact investing

enables foundations to employ their endowment assets—which are usually far greater in size than their annual disbursement—as a complementary philanthropic tool to deepen their impact and deliver both a social and financial return while maintaining, or growing, their overall endowment.

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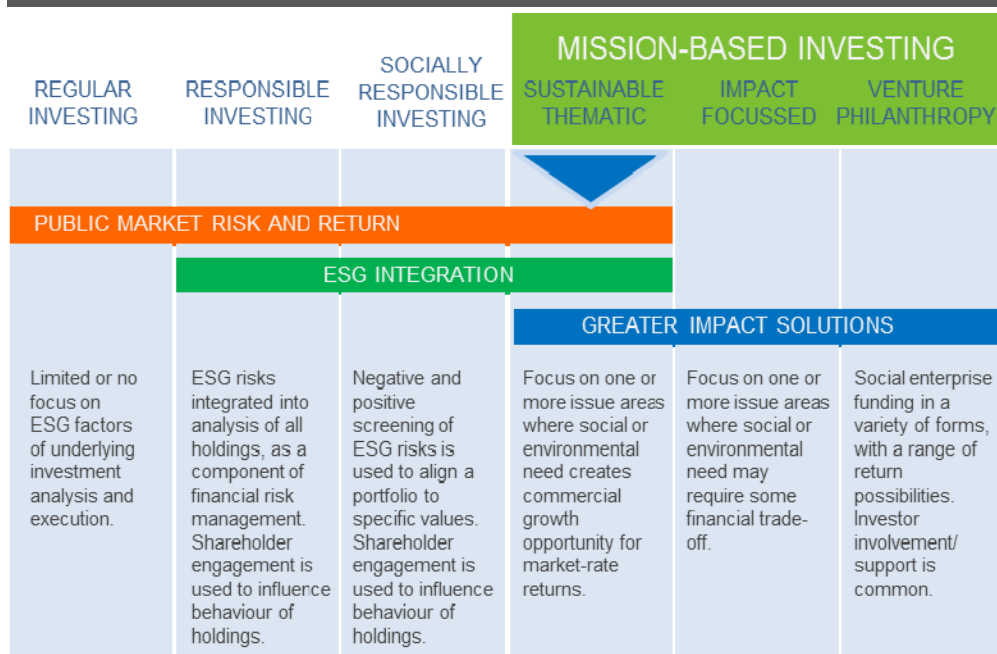
IMPACT INVESTING SPECTRUM

Impact investing is part of a range of investment approaches that incorporate varying degrees of social and environmental considerations. Exhibit 2 illustrates where impact investing is situated across a continuum of investment approaches.

At one end of the spectrum is regular or traditional investing, where investors place financial capital into for-profit companies to generate risk-adjusted, competitive financial returns.

At the other end of the spectrum is venture philanthropy, which combines grant-making and investment in social-purpose organizations to foster social impact. Sandwiched between these approaches are socially responsible investing and sustainable thematic impact investing and impact focussed approaches.

EXHIBIT 2: MISSION-BASED INVESTING



Source: Purpose Capital adaptation of Bridges Venture Research (2012). The Power of Advice in the UK Sustainable Impact Investment Market. Available at: <http://www.bridgesventures.com/links-research>



MOBILIZING MORE CAPITAL

Foundations have traditionally kept the management of endowment funds separate from their grant-making activities. But things are changing. The walls between the “two sides of the house” are starting to break down, with some using their endowments to make “mission (impact) investments” that help fulfil their charitable goals².

While grants are intended to deliver a high social return on investment, with a 100 percent financial loss, tapping into endowments to make mission or impact investments can deliver both social returns and a financial return.

As public purpose entities, often with sizeable endowments, foundations are

uniquely positioned to help drive the growth of impact investing in Canada—and put themselves on the cutting edge, not the trailing edge, of addressing some of the most troubling environmental and social challenges in the world today.

The Canadian Task Force on Social Finance recommends that Canada’s public and private foundations invest at least 10 percent of their capital in mission-related “impact” investments by 2020 and report annually to the public on their activity³.

The potential for foundations to act as early leaders in Canada’s impact investment market is significant when one considers that Canada’s approximately 10,000 foundations collectively manage some \$55 billion in

capital assets⁴. Achievement of the Task Force’s key recommendation could unlock over \$5.5 billion in capital that is collectively mobilized for greater impact. Since the Task Force published its report, there has been some growth in both the number of foundations (19% across Canada) engaging in impact investing and the amount of capital (\$207 million) being deployed by foundations in impact strategies⁵. Still, foundations that dedicate a portion of their endowments to impact investing to advance their missions remain a minority. Instead, the vast majority have invested most of their capital in traditional financial market products, relying on interest or other income generated from those products to make grants, cover operational costs, account for inflation, and secure their future

FINANCIAL CONSIDERATIONS

Foundations that have aligned a portion of their investment portfolios with their mission-related or charitable objectives have found that it does not necessarily imply a trade-off between social and economic value.

Impact investing has proven to offer attractive, and at times market-beating returns. In fact, the 2015 RIA Impact Investment Survey found that 87% of impact investors who target competitive returns either met or outperformed expectations in 2013⁶.

ENHANCED REPUTATION

There are also reputational benefits for foundations in utilizing a portion of their assets for impact and in helping to foster innovative approaches to address social and environmental challenges, from climate change to water conservation to access to financial services and health care.

By considering the impact of their investments, foundations can mitigate reputational risks stemming from investments that are at odds with their values, or those of their active donors.

REGULATORY ENVIRONMENT

The current regulatory environment has also at times posed a challenge to foundations in making impact investments. A lack of clarity surrounding the relationships between mission and fiduciary duty has served to reinforce traditional investing practices. As a result, most foundations use their granting stream as their only avenue for advancing their mission, thus missing an opportunity to leverage mission-related or impact investments. However, according to the results of a



Foundations are joining Divest-Invest, which promotes solar and other clean energy.

MaRS Centre for Impact Investing survey (Mission Impossible) there is consensus among foundations that are engaged in the space—one that is validated by a paper outlining the legal considerations for foundations in mission/impact investing—that mission related investments “can and should be considered within the overall risks and returns of the portfolio of the foundation.”⁷ The paper also notes that a statement of investment policies and procedures can supplement a foundation’s existing due diligence process.

Results of the MaRS survey of members of Philanthropic Foundations Canada (PFC), Community Foundations of Canada (CFC), and Canadian Environmental Grantmakers’ Network (CEGN) revealed significant appetite for impact investing, suggesting strong forward momentum and growth for the approach as a whole. The over-riding concept, at least in theory, seems to have strong resonance among foundations. Of all survey respondents, 59% indicated that they would consider investing in opportunities that provide

significant social or environmental impact but provide modest or below market-rate financial returns, while 88% would consider with high social or environmental impact and market-rate returns. As more and more foundations take on a leadership role and demonstrate the viability of mission/impact investing as both a philanthropic tool and an investment strategy, the trajectory of impact investing among Canadian foundations appears poised for considerable growth.

FOSTERING SUSTAINABLE SOLUTIONS

Foundations have often been recognized as forerunners seeking to address the problems confronting humankind. Seeing their endowments as a tool that can help them pursue their philanthropic goals, some foundations have opted to eschew investments that might be regarded as unethical or counter-productive, including investments in weapons manufacturers, tobacco companies, and, more recently, companies involved in the fossil fuel industries.

At the same time, they are redirecting capital into opportunities that can generate positive social or environmental impact as well as financial returns. With exogenous trends such as population growth, rising inequality, climate change and resources scarcity gradually affecting investment markets, ESG integration and impact investing offers a progressive approach to aligning investments with values and mitigating the investment risks caused by climate change and environmental degradation.

SUSTAINABLE THEMATIC IMPACT

Genus Capital has a long-standing commitment to, and expertise with, Socially Responsible Investing having launched its first sustainable portfolios in 1994. Today, Genus offers Canada's only Fossil Free Fund Family*, which includes a one-of-a-kind Impact Equity Fund. The funds were developed in collaboration with leading environmental organizations to address the needs of investors concerned about climate change. Our Fund Family contains zero fossil fuel reserves, and our Fossil Free Equity Funds are committed to continually achieving a carbon emissions intensity that is 70 percent lower than the market as a whole.

The Genus Fossil Free Impact Equity Fund is unique since it seeks to make positive social and environmental impacts, in addition to generating competitive financial results. We employ a sustainable thematic approach to invest in global companies who are leaders in sustainability in areas that include: renewable energy and energy efficiency; water and waste management; sustainable

EXHIBIT 3: GENUS FOSSIL FREE IMPACT EQUITY APPROACH

Our approach to sustainable investing is comprehensive in scope and encompasses five key tactics:

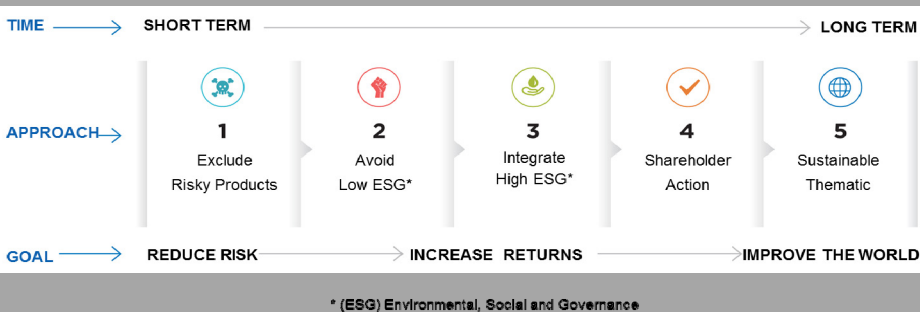


EXHIBIT 4: HEDGING CLIMATE RISK WITH SUSTAINABLE THEMES



agriculture; as well as innovative companies in the healthcare, education and technology sectors. By choosing companies that offer sustainable solutions, Genus Impact Equity aims to add financial performance while helping to expand positive social and environmental impacts globally. For foundations wishing to go beyond divestment from fossil fuels, Genus Impact Equity provides an opportunity to allocate a portion of a balanced,

diversified portfolio to being a part of the solution by investing in sustainability leaders and helping to advance renewable energy alternatives.

FIND OUT MORE: We welcome questions and would be pleased to provide more information or meet with you to discuss your interest in Impact Investing. Contact John-Paul Harrison at telephone 604 605 4631 or email jharrison@genuscap.com.

FOOTNOTES

1. As defined by the Task Force in the landmark 2010 report, Mobilizing Private Capital for Public Good
2. FT Wealth—Foundations tap into endowments to make 'mission investments'; May 6, 2016 <http://www.ft.com/intl/cms/s/2/51a2e3de-0232-11e6-99cb-83242733f755.html?siteedition=intl#axzz47sZpjhPy>
3. Nixon T. 2013 MaRS Centre for Impact Investing: Mission Impossible? Assessing the appetite, activity and barriers for impact investing among Canadian foundations. May 2013.
4. Philanthropic Foundations of Canada: <http://pfc.ca/wp-content/uploads/trends-canada-grantmaking-foundations-sept2014-en.pdf>
5. Responsible Investment Association 2015 CANADIAN RESPONSIBLE INVESTMENT TRENDS REPORT accessed at https://riacanada.ca/wp-content/uploads/2015/01/RI_Trends_Report2015_EN.pdf
6. IBID
7. Hunter, W., Manwaring, S., & Mason, M. (2010, November). Mission Investing for Foundations: The legal considerations—A report of Community Foundations of Canada and Philanthropic Foundations Canada. Retrieved from http://www.cfc-fcc.ca/doc/mission_investing_for_foundations-legal_considerations-2010nov.pdf
8. MaRS Centre for Impact Investing: Mission Possible? Assessing the appetite, activity and barriers for impact investing among Canadian foundations. May 2013.
- * Defined as a family of 4 or more stock and bond mutual funds dedicated to complete divestment of all companies directly involved in extracting, processing and transporting oil, gas and coal.