



**KITCHENER
WATERLOO
COMMUNITY
FOUNDATION**

KWCF Impact Investing Pilot Portfolio

December 31, 2020



“

Impact Investing provides an opportunity for people to really be invested — not just financially, but also emotionally — in the health and wellbeing of the community. — Elizabeth Heald, President & CEO, Kitchener Waterloo Community Foundation

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Introduction

This document is intended to provide a snapshot of Kitchener Waterloo Community Foundation (KWCF)'s Impact Investing Pilot Portfolio and capture some of the learnings throughout the process.

Impact Investing occurs when investments are made into companies, organizations, or funds with the intention to generate social or environmental impact alongside a financial return. Investments can be made across asset classes, including but not limited to loans, fixed income, venture capital, and public or private equity. Organizations receiving investment must measure and report the social and/or environmental performance of the impact investment.

Goals of the Pilot Portfolio

Primary objective:

To help more people do more good through Impact Investing

Secondary objectives:

- 1)** Grow KWCF's impact investment portfolio to \$4 Million by June 2020, and have variety in the portfolio, to test and learn about different types of impact investments
- 2)** Manage a portfolio of impact investments that benefit the residents of Waterloo Region in terms of a social and/or environmental return, while generating a positive financial return
- 3)** Learn about the value of Impact Investing, and provide leadership in the community in sharing that knowledge and convening opportunities for collaboration around impact investments
- 4)** Align the impact investments with the priority areas that were identified regionally through Wellbeing Waterloo Region: Affordable Housing, Healthy Children & Youth and Social Inclusion, to help further advance the areas of focus in our community

Pilot Portfolio Criteria



Target impact geography	Prioritize impact directly to Waterloo Region but open to exceptional opportunities that create impact elsewhere
For-profit / Non-profit	Both for-profit and non-profit
Direct / Indirect	Prioritize direct impact investments but open to fund investments
Early / Later-stage	Prioritize early-stage impact investments but open to later-stage investments
Debt / Equity	Both debt and equity
Time horizon	<5 years for majority of debt-based impact investments but open to longer time horizons for equity and in exceptional debt-based investments
Minimum size	\$100K for majority of impact investments but open to lower size in exceptional cases
Use of positive returns	Repurpose to different KWCF initiative(s)



PILOT PORTFOLIO TIMELINE

» The Board approves impact investments as part of KWCF’s investment mix, and commits \$2 Million to Community Forward Fund

The Journey Begins



The idea initially was not to make any direct investments, but rather to see what the fund does so the Board could learn from the experience. — Tim Jackson



Ten years ago, the **Canadian Task Force on Social Finance** released a report calling on private and public foundations to invest at least 10% of their capital in Impact Investing. It helped start KWCF on a journey to begin learning about Impact Investing and how it could be a leader in this space.

In 2012, KWCF's Board of Directors approved impact investments as part of KWCF's investment mix. Initially, they agreed to invest \$2 Million of the organization's overall portfolio in the Community Forward Fund.

"The idea initially was not to make any direct investments, but rather to see what the fund does so the Board could learn from the experience," said Tim Jackson, the Chair of KWCF's Investment Committee, and a member of KWCF's Board.

It proved to be a good start to gaining knowledge about Impact Investing, and by 2016 the Board agreed to invest another \$2 Million of KWCF's assets into investing for impact. The first two investments — to Housing Cambridge and Women's Crisis Services of Waterloo Region for Haven House — were finalized in 2017.

This was just the beginning of a new phase for KWCF.



» The Board agrees that an additional \$2 Million of KWCF's assets should be invested for impact



The additional \$2 Million of KWCF's assets in 2016 meant a total of \$4 Million had been allocated to Impact Investing for this pilot portfolio.

Hands on Learning

Elizabeth Heald joined KWCF as the President & CEO in August 2017, shortly after those first two investments had been issued. One of her first orders of business was to bring in an outside consultant to help advise the organization on governance best practices. Based on those recommendations, the Due Diligence Committee was formed to review all potential deals with an in-house operational committee, including a team of knowledgeable community volunteers. In addition, a Social Finance Committee of the Board was created to review deals over \$500,000, and Tim Jackson was asked to Chair the Social Finance Committee based on his expertise in social finance.

Meanwhile, with those first two investments under its belt, KWCF sought to expand its experience with impact investments, and started to look for opportunities in focus areas including Affordable Housing, Healthy Children & Youth, Social Inclusion and beyond.

Kinbridge Community Association stepped forward with a request to help with a renovation and program expansion. Impact investments to The Working Centre, House of Friendship and Windmill Microlending were added to the portfolio – with each new transaction, KWCF’s knowledge and experience grew.

While KWCF was learning about the value of Impact Investing, the Board, Committees and team felt it was important to share that knowledge with others. In 2018, KWCF partnered with House of Friendship and the MaRS Centre for Impact Investing and provided a grant to create a case study template that is available to organizations in Waterloo Region considering impact investments. This case study can be found at www.kwcf.ca/impact-investing.



- » The first two investments are made:
 - Loan to Women’s Crisis Services of Waterloo Region for Haven House
 - Loan to Housing Cambridge
- » Pilot Portfolio is launched



- » Social Finance Committee of the Board is formed
- » KWCF partners with House of Friendship and MaRS Centre for Impact Investing by providing a grant to develop a case study template that will be available to other Waterloo Region charitable organizations considering impact investments



“It was a true partnership,” said Jackson. “At the end of the day, we have a case study that others can learn from. Now other organizations can replicate and learn from it.”

Within a few years, KWCF had funded 10 deals as part of its initial pilot portfolio, and learned a lot along the way. So had many of the partner organizations, who were starting to pay back the loans (for example, Kinbridge paid back its loan by the end of 2019). A community bond for 10 Carden Shared Space (10C) became part of the portfolio in 2019, followed by loans to oneROOF Youth Services, Indwell Community Homes and MennoHomes Inc. in 2020.

An overview of the timeline and summary of all impact investments can be found at www.kwcf.ca/impact-investing.

» KWCF makes four additional impact investments:

- Loan to Kinbridge Community Association
- Mortgage to The Working Centre
- Promissory note to Windmill Microlending
- Community bond to House of Friendship



The impact investment to Kinbridge Community Association has already been paid back to KWCF in full.

What Have We Learned?

- 1) You don't have to sacrifice investment returns to include impact investments as part of your overall strategy. KWCF's experience during the pilot provided us with data that by redirecting 5% of our Fixed Income portfolio to impact investments, we performed as well as the fixed income markets. Impact investments provide alternative investments that can further diversify your portfolio.
- 2) Since impact investments are a core part of our overall portfolio, it made sense to combine KWCF's Investment Committee and Social Finance Committee for 2021. This allows us to look at our portfolio holistically to maximize impact - both financially and through a social or environmental lens.
- 3) Initially, the deal flow of new prospects was slow. As KWCF continued to learn, and shared those learnings across the region, partnerships emerged - and really interesting and impactful initiatives have been, and continue to be, supported through KWCF's impact investments.
- 4) Conducting the due diligence on the applications ourselves, by way of a volunteer Due Diligence Committee, turned out to be very beneficial and we were able to increase the deal flow through the knowledge and ambassadorship of the committee members.



2019

2020

» KWCF invests in community bonds for 10 Carden Shared Space (10C)

» KWCF makes three additional impact investments:

- Loan to oneROOF Youth Services
- Loan to Indwell Community Homes
- Loan to MennoHomes Inc.

» Pilot Portfolio closes

What Have We Accomplished?

KWCF took a staged approach to Impact Investing, while recognizing that the time to be innovative in philanthropy is now.

- 1) One of the goals of the pilot was to grow KWCF's impact investment portfolio to \$4 Million by June 2020, and it was exceeded by 12%.
- 2) The majority of the impact investments in KWCF's pilot portfolio aligned with the focus area of Affordable Housing, a priority area identified by Wellbeing Waterloo Region. Applications for grants through KWCF's Community Fund had not been as high in this area, compared to the areas of Healthy Children & Youth or Social Inclusion, so the ability to provide impact investments to Affordable Housing augmented KWCF's ability to impact this critical issue in our community.
- 3) KWCF's assets are being leveraged to maximize community impact. All donations to KWCF's endowed funds are now driving positive change through both granting and impact investments, generating financial returns as well as positive social and environmental outcomes. That means during the pilot period, KWCF was able to effectively double their impact and ability to make a difference.
- 4) With a mission of creating caring communities where everyone thrives, adding impact investments to KWCF's portfolio assisted with delivery on the primary objective of the pilot "to help more people do more good through Impact Investing".

Pilot Portfolio by the Numbers



Year portfolio was approved: 2017

Dollars committed to pilot portfolio: \$4 Million

Percentage of KWCF investment portfolio 5%

Actual number of impact investments: 10

Actual Dollars invested: \$4,495,000

Impact investment returns (as of June 30, 2020): 5.26 %

2021

the journey continues...

FAST FACT

KWCF has since increased its impact investment commitment to 10% of assets in its investment portfolio (\$8 Million) and an additional two impact investments have been made beyond the initial pilot at the time of publication.

The Future of Impact Investing

“There is this assumption amongst investors that if you are going to do social good you are going to have to give up return, and that’s just not true,” says Jackson. “This is not about giving up return; this is about generating market-rate return and doing social good.”

During the summer of 2020, KWCF’s team completed a review of the pilot portfolio based on the \$4 Million that had initially been allocated by the Board to Impact Investing. The results were extremely positive — financially and in terms of impact on our community.

As a result:

- KWCF’s Board has committed up to 10% of the organization’s investment portfolio to impact investments
- KWCF will continue to convene conversations to bring people together, including current Fundholders and other potential investors, to learn about the impact they can make in Waterloo Region, and beyond

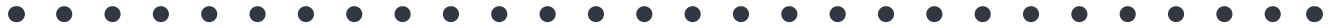
- In addition, KWCF continues to have a strong focus on helping those in non-profit, charitable and social enterprise organizations understand Impact Investing so they can expand their capacity and spur innovation
- It’s also the regional partner for Community Foundation’s of Canada’s Investment Readiness Program (IRP), a national initiative funded by the Government of Canada that provides non-repayable capital to support social purpose organizations to build their capacity and be investment-ready to participate in Canada’s growing social finance market



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We have innovative people in our non-profit and charitable sector, and they are just as innovative as those in tech. But they have chosen to move their skills to the charitable sector. And the same way angels are investing in the next company, we need to invest in charitable organizations to support their innovative solutions. And social finance is a great way to do that. — Tim Jackson

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Looking ahead, Heald says she hopes that one day KWCF can make an even greater impact across the entire portfolio. “Right now we’ve been primarily doing direct deals. And these really helped us understand and sink our teeth into what is possible, what kind of impact we can make,” says Heald. “But now as we grow that portfolio, there is an opportunity for us to have a greater impact.”

Heald summarized the learnings from KWCF’s pilot portfolio by saying “we’ve determined that adopting Impact Investing can effect transformative change in Waterloo Region:

- transformative for social purpose organizations by investing in them in a different way beyond granting;
- transformative for local citizens/investors by providing the education and impetus for them to make investments into Waterloo Region’s social sector and delivering an increased sense of belonging;
- and transformative for KWCF by amplifying our impact in the community well beyond our granting dollars.”

KWCF’s Impact Investing journey has just begun.



Thank You

Thank you to those who provided assistance to KWCF's Impact Investing journey to date.

Due Diligence Committee

- Carl Coelho - Chair
- Gareth Nichols - Vice-Chair
- Chris Blanchet
- Ruth Casselman
- Camellia Loojune
- Dave Rutherford
- Glenn Smith
- Jessica Stockie
- Kristine Schumacher
- Robin Stanton

Social Finance Committee*

- Tim Jackson - Chair
- Murray Gamble
- Brock Hart
- Lori Payne

**Also members of our Board of Directors*

A special thank you to Ligia and Ovi Grada, and Cecilia Cotton and Chris Mendes for setting up our first two Donor Advised Funds - Invested for Impact during the pilot period.

We also want to thank all of our Fundholders and Donors. Your donations have allowed KWCF to invest for impact, and we are proud to say that 10% of our investment portfolio is now going to be directed to Impact Investing.



We want to live a life that is fulfilled by giving and knowing that we invest in the lives of other people. We give today and someone's life will be enriched tomorrow. – Ovi Grada





Doing More Good. Forever. Together. makes quite an impact!

If you want to start a fund with KWCF where your fund is invested 100% for social and/or environmental impact and used to make impact investments in community - we can help.

Annually, you would also work with our granting team to identify ways to direct granting dollars for your fund to address the issues and needs you care about most.

Join us in addressing some of the most pressing social issues across Waterloo Region.

Please contact:

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