COMMUNITY FOUNDATION OF OTTAWA

POLICY

POLICY: IMPACT INVESTING

The Community Foundation of Ottawa has two core competencies: wise stewardship of an endowment to generate investment income for the purpose of granting; and targeted, innovative granting to Ottawa-area charities to have a significant social impact on our community.

CFO intends to combine these competencies into a single force for transformative change. This is called Impact Investing, which is the active investment of capital in assets and organizations to generate positive social or environmental impacts, as well as a financial return. To guide its activities in this area, the CFO Board of Governors has adopted the following Impact Investing Policy.

Impact Investing Core Beliefs

The Foundation believes it can do more with its endowment by leveraging its assets in new ways to have maximum community impact. By setting aside a portion of its endowment for Impact Investing, we believe we can generate a blended value return that can significantly multiply the impact we have on our community, while at the same time generating financial returns with an acceptable risk profile. Rather than choosing either a financial return, or a social benefit, we are seeking investments that do both.

Asset Allocation & Financial Objectives

The CFO has an objective to invest up to a maximum of 10% of its assets in Impact Investing – 5% in Direct Investments and 5% in Market Investments.

Direct Investments are those made available to local agencies in the form of loans, patient capital, guarantees or mortgages, that are generally fixed term and illiquid. They will be held in a separate Impact Investing Fund, outside of the regular endowment, managed and monitored by an Impact Investing Committee. CFO donors have the opportunity to allocate some of their existing funds to this, or provide new funds, but are not required to. New donors are also welcome to invest in this fund.

Direct Investments seek market rates of return wherever possible, but would also accept some below-market returns in investments with clearly attractive social or environmental benefits. They would have an Ottawa focus. The Foundation's investment objective for its direct investments is to achieve an average nominal rate of return, after fees and expenses, that is at least equal to the return on a five year Canada bond.

Market Investments are those that are readily available in public financial markets, open to large numbers of investors. They will be managed and monitored by CFO's Investment Committee which would include them in the endowment and treat them as a separate asset class. Market Investments are made at market rates of return, but also have a desirable social or environmental impact on a global scale (not just Ottawa) that is aligned with CFO's overall mission.

Social and Environmental Impact Themes

CFO's Impact Investments will be ones that demonstrate a very clear social or environmental benefit. We are trying to make capital available to create change, and we are looking for measurable and quantifiable impact. One big change is better than a large number of small ones. We will require that Impact Investment opportunities demonstrate at least one of the following characteristics:

1) Improve the sustainability and financial capacity of local community organizations.
2) Address root causes, using community strengths, while fostering collaboration.
3) Encourage the formation and growth of social enterprise.
4) Address the highest priorities identified in evidence-based reports from the community, such as the gap between rich and poor, affordable and supportive housing, and health and wellness of our citizens.
5) Promote environmental sustainability in our community and the world.

We also expect that financial intermediaries or pooled funds in which we invest our capital will also be able to demonstrate their adherence to these social and environmental themes. The CFO shall track and monitor the performance of impact investing activities in regards to social and environmental themes, and shall report outcomes to the Board and donors.

Impact Investment Committee

CFO's Impact Investing will be managed by the Impact Investing Committee, which will meet on a regular basis, at least quarterly. It will be chaired by a member of the Board and be comprised of knowledgeable volunteers, including at least one member from each of the Grants Committee, the Investment Committee, and the Finance & Audit Committee. It will select, manage and monitor all direct investments, and establish all guidelines pertaining to investment selection, acceptable risk, determination of social impact objectives, establishment of financial targets, and the reporting of social and financial outcomes. It has delegated authority from the Board to make direct investments up to $250,000, but will seek specific Board approval on investments larger than that. It will assist and advise the CFO Investment Committee with regard to social impact objectives and new investment products for Market Investments, but leave that committee to select and monitor market investments. It will report to the Board at least semi-annually, providing both financial and social impact results.

Types of Investments

Direct Investments can be made directly by CFO on a case by case basis, or by investing in pooled funds with a focused impact investing strategy. They will be made in stable community organizations with a proven record of success and credible plans for execution in a low risk profile. They can include but are not limited to:

- Patient capital
- Interim financing
- Letters of credit
- Loans
- Loan guarantees
- Equity investments
- Mortgages

Direct Investments may not include permanent operating lines of credit, loans to individuals, or investments and loans to non-qualified donees at below-market rates.

Market Investments are subject to the investment guidelines determined by the CFO Investment Committee.

Direct Investment Guidelines

1. Investments will be spread across a range of investment types and terms to provide a measure of diversification, reduce risk, provide adequate liquidity, and meet or exceed financial targets.

2. Social and environmental impacts will be paramount when considering the eligibility of investments. As such, these impacts will be quantified as much as possible and reported on a regular basis.

3. Investments made through pooled funds will be fair valued according to the value determined by the fund manager and per the audited financial statements of the pooled fund.

4. Equity instruments not having a quoted market value will be valued at cost, unless a subsequent event indicates a change in value. The process for valuing these instruments will use objective measures as much as possible, but will inevitably be based on assumptions and include inherent uncertainties.