Responsible Investment Association

2018 CANADIAN IMPACT INVESTMENT TRENDS REPORT

FEBRUARY 2019

In collaboration with

rally assets

INVESTING THAT PROFITS EVERYONE

ACKNOWLEDGEMENTS

Partner

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Translator

Thanks to Groupe Investissement Responsable and Vanessa Brunette for providing a French-language translation of this report.

Contributors

Thanks to Andrea Nemtin, Partner, Rally Assets for writing the Foreword to this report. Thanks to Kelly Gauthier of Rally Assets and Jory Cohen of Inspirit Foundation for contributing the feature articles for this report. Thanks to Simon Beck, Ammara Shirazi, Chelsea Longaphy and Nikki Kwan of Rally Assets for their contributions to the report. And thanks to Emily Matthews for research and writing support.

About the RIA

The Canadian Impact Investment Trends Report is published biennially by the Responsible Investment Association (RIA), Canada's industry association dedicated to responsible investing. RIA members include asset management firms, asset owners, advisors, consultants and service providers who practice and support the incorporation of environmental, social and governance (ESG) factors into investment decisions.

Learn more at www.riacanada.ca

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PREFACE

Despite the many societal challenges associated with the internet, viral news, and social media, these digital forces have produced at least one great benefit for humanity – they've helped to put a human face on capitalism.

When a factory collapses on innocent workers overseas, or when a wildfire wreaks havoc on communities during a drought, or when a whale washes ashore with a belly full of plastic, we see these disturbing images in real-time. The visual nature of news in the digital age has made us more aware and more concerned about social and environmental challenges.

A recent World Economic Forum survey of 24,766 young professionals between the ages of 18 and 35 found that this demographic believes environmental and social issues account for 5 out of 10 of the "most serious issues affecting the world today."[1] And the World Economic Forum's 2019 Global Risks Report found that environmental risks account for 6 of the top 10 business risks in terms of likelihood.[2]

But it's not just the millennials and the Davos crowd who are sounding the alarm – even the "mainstream" corporate C-Suite are beginning to recognize the strategic importance of societal issues. For example, a 2018 KPMG survey of 1,300 CEOs found that corporate executives place climate change and other environmental risks among the top five threats to growth.[3]

This growing awareness of societal issues, and their potential business implications, has laid the foundation for impact investing – an investment strategy that aims to solve social and environmental problems. As shown in this report, impact investing is growing at an astounding rate. Canadian investors increasingly want to provide capital to organizations that are making a positive impact on society.

Indeed, there is still a long road ahead for addressing poverty, climate change and other great societal challenges. But the growth of impact investing brings cause for optimism, because many of the solutions will start with a single investment. So I am thrilled to see the growing scale and scope of impact investing in Canada, and I look forward to working with RIA Members to continue driving the adoption of impact and responsible investing in 2019 and beyond.

Dustyn Lanz, CEO
Responsible Investment Association

1 World Economic Forum (2017). Global Shapers Survey.

2 World Economic Forum (2019). Global Risks Report.

3 KPMG (2018). Growing Pains: Global CEO Outlook.

FOREWORD

On behalf of Rally Assets, I am pleased to introduce the Responsible Investment Association's 2018 Canadian Impact Investment Trends Report. As sponsors of this report, we feel it is crucial to document the development of impact investing in Canada. Our involvement is a natural continuation of our on-going commitment to supporting the growth of the impact investing space through research, education and knowledge mobilization.

Reading the report, you will be struck by the incredible growth in impact investing in Canada. Although still a very small percentage of the responsible investing dollars, it is clear more investors are saying "yes and…". More investors are saying "yes" to RI strategies to manage their risk and increase their long-term returns by investing in quality companies and funds, "and" yes to impact investments for a portion, or all, of their portfolios. Impact investments in ventures and funds are differentiated by their explicit intention to generate positive social or environmental impact as well as financial return.

This rapid growth in impact investing reflects our experience. Recently we have noticed a sharp increase in the number of organizations and individuals looking to align their investing practices with their values. Fortunately, investors are able to access a growing array of product choices that span asset classes, return profiles and sectors. This, when paired with robust impact measurement systems, means it is becoming easier to mobilize capital towards local community development, environmental sustainability, financial inclusion and a variety of other issue areas.

Why is it growing? Because it's working – investors report that investments are meeting or exceeding performance expectations while creating measurable impact.

It is not surprising that an overwhelming number of respondents anticipate that impact investing will continue to grow, and this is good news. A significant increase in investment capital deployed for impact is required for us to meet the 2030 Sustainable Development Goals and the investment industry has an exciting and important role to play in facilitating this shift.

We believe that impact investing can profit everyone. It is true that there is much to do, that barriers continue to exist, but if it is possible to return positive social and environmental impact while meeting financial return expectations, the only question left is, why wouldn't you?

Andrea Nemtin, Partner
Rally Assets

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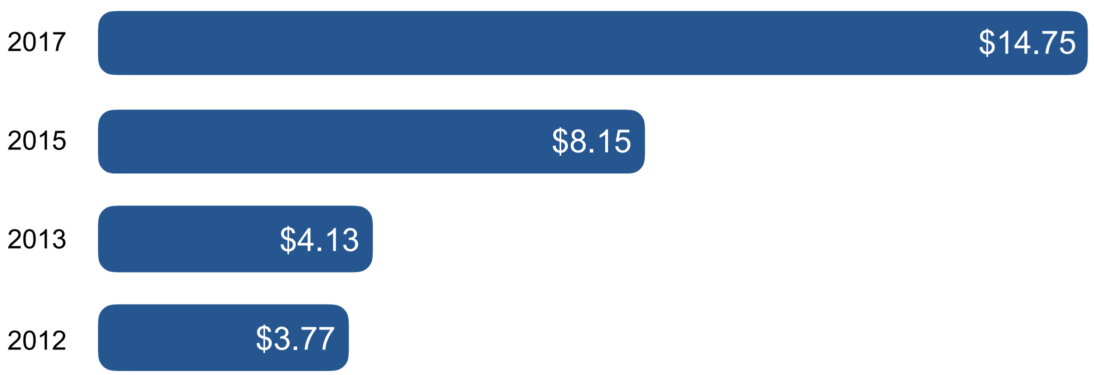
EXECUTIVE SUMMARY

The 2018 Canadian Impact Investment Trends Report reveals that impact investment continues to grow rapidly in Canada. This is the Responsible Investment Association's third biennial impact investment survey, representing data as of December 31, 2017. The Report is based on self-reported data collected from 59 organizations by the Responsible Investment Association (RIA) and Rally Assets. We supplemented the survey data with publicly-available information on an additional 14 organizations. All figures are stated in Canadian dollars as at December 31st, 2017.

Impact investing refers to "investments made into companies, organizations, and funds with the intention to generate a measurable, beneficial social and environmental impact along with a financial return."[4] In the past two years, impact investing has grown from $8.15 billion to $14.75 billion in Canada.[5] This significant growth is attributable to rising demand for impact across asset classes, including public markets. The vast majority of respondents expect continued growth in impact investing in the future, indicating strong momentum for this segment.

Canadian Impact Investment Assets (billions)



Key Highlights

- Impact assets under management (AUM) in Canada now total $14.75 billion, up from $8.15 billion reported two years prior. This represents 81% growth over a two-year period, which is nearly double the growth rate of all responsible investment (RI) AUM, which grew by 41.6% over the same period.
- Impact investments in Canada have expanded significantly into public markets, particularly into public equities that now represent 41% of impact AUM reported. Correspondingly, impact investment funds and managers now represent over half of impact AUM.
- While impact investors target various rates of return for their investments, investors overwhelmingly reported that performance has met or exceeded their expectations.
- According to survey respondents, the considerable growth of impact investing in Canada is likely to continue. 89% of respondents expect moderate to high levels of growth in impact investing over the next two years.

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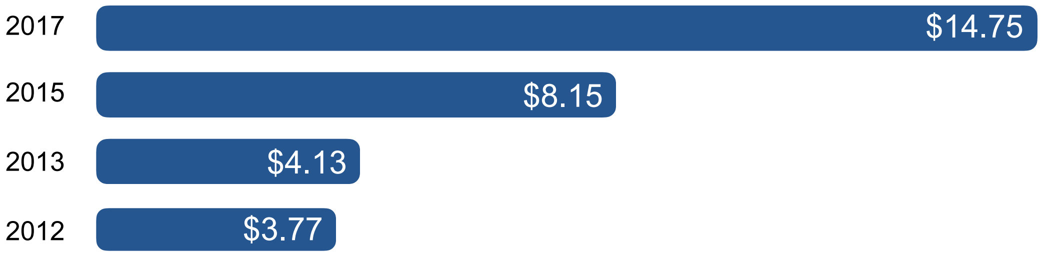
[4] Global Impact Investing Network (2018). What You Need to Know About Impact Investing.

[5] We have restated 2015 Canadian impact investment assets to $8.15 billion (previously reported as $9.22 billion). When compiling data for this year's report, we corrected a reporting error by a survey respondent in our 2016 Impact Investment Trends Report. One respondent had incorrectly classified its responsible investment assets as impact investments.

INTRODUCTION

According to the Global Impact Investing Network (GIIN), impact investment refers to "investments made with the intention to generate a positive, measurable social and environmental impact alongside a financial return"[6]. In the past two years, impact investing has grown significantly in Canada. Total impact assets grew 81%, from $8.15 billion at the end of 2015[7] to $14.75 billion at the end of 2017.

Canadian Impact Investment Assets (billions)



To put impact investing in context, all responsible investments that incorporate environmental, social and governance (ESG) factors into the investment selection process totalled $2.13 trillion at the end of 2017.[8] Impact investing is therefore a relatively small subset of responsible investing in Canada, but it is by far the fastest growing segment.

The significant growth of impact investing is attributable to the increased demand for impact across asset classes among asset owners and individual investors. Organizations such as the Inspirit Foundation have made public commitments to invest for impact across their entire portfolio. Other organizations, including the J.W. McConnell Family Foundation and the Catherine Donnelly Foundation, are publicly seeking to make an impact with their endowment. These public statements and commitments are often driven by a growing interest in aligning portfolios with organizational values. For example, the Ivey Foundation has written about its intentions to "activate" its investment portfolio by using all of its assets as a tool for making progress toward its mission and goals.

In addition, a recent report from the MaRS Centre for Impact Investing found that approximately 90% of high net worth Canadians are interested in impact investing.[9] The report found that demographics in the more experienced, younger, wealthier and female categories of investors tended to show particularly significant interest in impact investing. Impact investing is likely to continue on its rapid growth trajectory as more millennials and women build wealth and influence household financial decisions.

Methodology

Survey responses were collected from 59 organizations by the Responsible Investment Association (RIA) and Rally Assets. In addition, we included impact assets from investment managers who identified as impact investors for the 2018 RIA Canadian Responsible Investment Trends Report. We also supplemented the survey data with publicly-available information on an additional 14 organizations.

For further information, please refer to Appendix A, Methodology.

[6] Global Impact Investing Network (2018). What You Need to Know About Impact Investing.

[7] We have restated 2015 Canadian impact investment assets to $8.15 billion (previously reported as $9.22 billion). When compiling data for this year's report, we corrected a reporting error by a survey respondent in our 2016 Impact Investment Trends Report. One respondent had incorrectly classified its responsible investment assets as impact investments.

[8] Responsible Investment Association (2018). 2018 Canadian Responsible Investment Trends Report.

[9] MaRS (2018) Market Momentum: Impact Investing & High Net Worth Canadians.

IMPACT INVESTING IN CANADA, COMING OF AGE

by Kelly Gauthier, Rally Assets

Kelly Gauthier is RIA Board Member and Managing Director, Impact Advisory, Rally Assets

Over the past ten years we have seen the impact investing industry define and redefine itself a few times. In many regions, impact investing is known to encompass all forms of responsible investment strategies across asset classes. But in Canada, the idea tends to fracture along asset class lines with "impact investing" referring to private market investments and "ESG" and "SRI" strategies referring to public market investments.

Like any pre-teen, impact investing currently sits on the edge of youthful maturity. Canada might be described as a "late bloomer" compared to some global comparators - less mature, with fewer investment options and less capital committed. Impact investing enters adolescence charged with emotion, fueled by nascent growth and ready to change the world. Skepticism remains high among those "older and wiser", who dismiss impact investing as youthful exuberance. But they continue to underestimate the potential of the massive intergenerational transfer of wealth and the difference in priorities of the recipient generation.

So how will this young industry prove itself and mature into the change-making adult that we desperately want it to be?

Focus on the Impact, Not the Name

Regardless of what you call it, the fundamental premise is the same. Both retail and institutional investors increasingly want to drive positive social and environmental change with their investments, in all asset classes. Investors don't care if we call it "impact", "responsible", "sustainable" or otherwise. They do care about and will continue to demand options across asset classes. Investors want compelling investment opportunities that deliver returns and impact. They don't want to listen to complicated jargon or be limited by asset class.

Yes, creating proper naming conventions is important, if it doesn't get in the way of investing.

Build Impact Products and Strategies

To date, impact investors have focused primarily on private equity and private debt as they explore this emerging space. Many impact investors also include alternatives such as social purpose real estate, green infrastructure and agriculture in their portfolios. The next frontier of impact investing is undoubtedly public equities. Innovative investment managers are building customized portfolios of high impact public equities focused on areas such as fossil fuel free, green energy, gender lens, board diversity, and social justice, to name a few. These are not simply ESG or SRI strategies, they go far beyond negative screening, best in class and ESG risk analysis.

They are looking for the *intentionality* of social or environmental impact baked into the DNA of the investee company and then measured. However, customized portfolios for accredited private investors and foundations alone will not achieve the scale of change we seek. For impact investing to "go mainstream" we need financial institutions and asset managers to integrate this thinking into products for both retail and institutional investors.

Measure the Impact

Impact measurement is the subject of much debate. Impact investors are divided on the theory, frameworks and whether it is necessary. On the more sophisticated end of the spectrum, investors have built detailed impact measurement frameworks supported by IT systems and linked to financial and strategic reporting. On the other end (and more commonly), investors have a hard time tracking a handful of impact metrics consistently. We are seeing traction with global frameworks such as IRIS and the Sustainable Development Goals (SDGs), which are key to building commonality of measurement between investors and investees. We will continue to see a variety of approaches to impact measurement based on capacity and perspective. What is important is that we measure impact in some way and continue to make the case for incrementally more impactful investments.

Impact Investing Infrastructure

As impact investing grows it needs to be supported by strong mentors and role models to reach its full potential. Impact investing can benefit immensely by leveraging the platforms, systems and distribution channels that mainstream finance depends on. Finance and investment professionals, investors, entrepreneurs, we are counting on your wisdom, your support, your ingenuity and your open minds. Impact investing is the future generation of investing. Invest in its success.

Growing up is hard. It is awkward and flawed, paradoxically characterized by insecurity, and over-confidence. Yet with youth comes clarity, fresh perspective and innovation. Impact investing in Canada is poised to make lasting social and environmental change, but it first needs to break out of childhood and charge into maturity.

The path there will not be linear, but for the sake of ourselves and generations to come, it's important that we press on. Determination, iteration and bias to action will see impact investing mature. We will see impact considered deeply across all asset classes, in a multitude of products and strategies. We will have depth of service offerings and asset management. And most importantly, as a result, we will have the positive impact we aspire to have. This tween will be an adult sooner than we think!

1. MARKET CHARACTERISTICS

At the end of 2017, the top three organization types ranked by impact assets under management are impact funds/ managers, credit unions, and Quebec solidarity-based finance investment organizations. All three of these organization types experienced growth in impact AUM over the previous two years. However, in a significant change since our 2016 report, impact funds/ managers have overtaken credit unions as the largest organizational category, with nearly $7.9 billion under management representing 54% of reported impact assets. Credit unions reported over $4.6 billion, accounting for 31% of impact assets[10]. The other types of organizations and corresponding AUM are shown in the table below.[11]

Impact Assets by Organization Type

Organization		Assets (millions)
Impact Funds/Managers		$7,894.4
Credit Unions		4,645.5
Quebec Solidarity Finance		1,179.2
Community Finance Organizations		337.5
Aboriginal Financial Institutions	329.0	
Other	8.5	
Community Futures/CBDCs		301.7
Non Profit (non-foundation)		135.6
Foundation		118.6
Cooperatives		90.5
Other		50.0
TOTAL		**$14,752.9**

A major contributor to the emerging leadership of impact funds and fund managers is the increased availability of impact investment products, driven by growing investor awareness and demand. In turn, these factors are driving the growth of public equity impact assets, as we describe in a following section.

The vast majority of impact investing takes place in Ontario, British Columbia and Quebec. Ontario represented 43% of Canada's impact assets, followed by British Columbia with 32% and Quebec with 20%. Impact investing grew in each of these three provinces in the last two years.

Impact Assets by Province/Territory

Province	Assets (millions)
Ontario	$6,457.8
British Columbia	4,721.2
Quebec	2,936.5
Saskatchewan	106.6

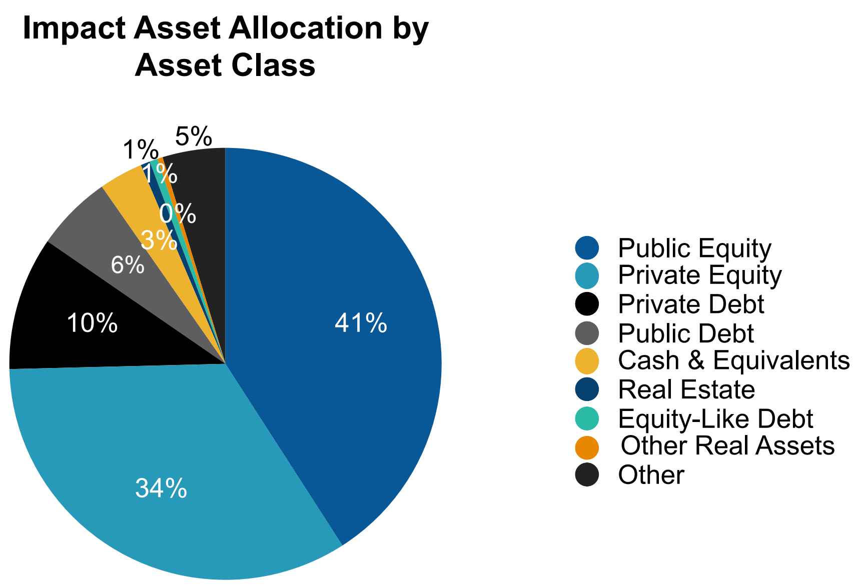
[10] The 2015 comparison figures are: Credit unions $3.5 billion or 38%, Impact funds/ managers $2.3 billion or 25%.

[11] When compiling data for this year's report, we corrected a reporting error by a survey respondent in our 2016 Impact Investment Trends Report. One foundation had incorrectly classified its 2015 responsible investment assets as impact investments. We have therefore restated total reported impact AUM for 2015. Correspondingly the adjusted 2015 impact AUM for foundations is $87.7 million.

Province	Assets (millions)
Alberta	91.6
Nova Scotia	28.4
New Brunswick	24.4
Newfoundland and Labrador	24.3
Manitoba	23.4
PEI	4.6
Nunavut	3.0
Northwest Territories	2.2
N/A	329.0
TOTAL	**$14,752.9**

Asset Allocation

Over the past two years, public equity has emerged as the leading asset class for impact investments. At the end of 2017, 41% of reported impact assets under management (AUM) were invested in public equity while private equity represented 34%. Private debt represented 10% of impact AUM reported by survey respondents.[12][13] By comparison, at the end of 2015 most impact assets were private debt (32%) and private equity (24%).[14]



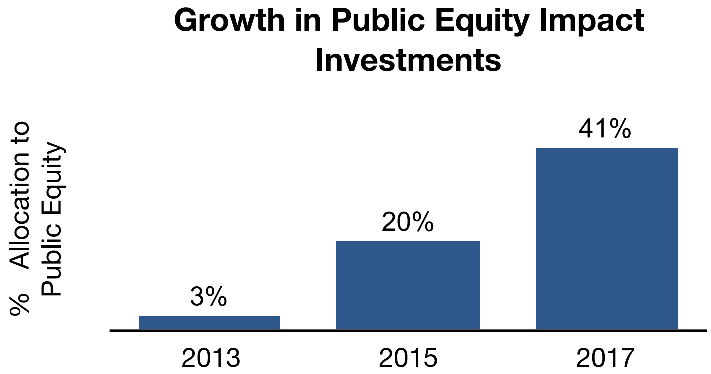
n=57 respondents

[12] Asset allocation data was not reported by some respondents. Due to data limitations, the reported estimates are based on 72% of total impact assets.

[13] 'Other Real Assets' includes commodities and infrastructure, and 'Other' includes commercial/retail loans and mortgages.

[14] 2015 asset allocation data included 20% allocation to the "Other" category including significant assets by one credit union. When these outlier assets were excluded, private equity represented 36%, private debt 30% and public equity 30%.

We previously observed this upward trend in public equity allocations in the RIA's 2016 Impact Investment Trends Report. Only 3% of impact AUM at the end of 2013 were invested in public equities, which increased to 20% at the end of 2015, as shown in the following chart.



The increased allocation to public equities observed over the last two years is concentrated among a few survey respondents. Twelve out of 57 respondents (or 21%) invested some or all of their assets in public equity. Of these 12 respondents, two large managers represented the vast majority of public equities reported (based on assets under management).

The evolution of impact investments into public equity in Canada is more rapid than that seen in the global impact investing space. In contrast to Canadian investors' allocations, the GIIN's 2018 Annual Impact Investing Survey found that, of the 229 respondents, 41% of impact assets were classified as private debt, 9% as real assets, 18% as private equity, and only 14% as public equity.[15]

Deep Dive: The Rise of Impact in Public Equity

In Canada, until recently, "impact investing" was traditionally focused on private markets, with RI, ESG or thematic strategies being the domain of public markets.

As the Canadian marketplace matures, the growth of impact investing in public equities suggests that Canadian investors are expanding the traditional definition of impact investing. What matters to an increasing number of investors is the intentionality and depth of impact, not which asset class this impact falls into.

Impact investing: A strategy for deeper impact in public equities

There is a spectrum of approaches that can be used to take impact into account, ranging from minimizing negative impacts and risks to intentionally seeking specific positive impacts. All of these approaches can be applied across all asset classes. Impact investing represents a pole of this spectrum.

The significant growth of impact investing in public equities reflects the growing desire of investors to go beyond ESG integration to intentionally create deeper impact across their entire portfolio. As evidence of this desire, the MaRS Centre for Impact Investing reported in its 2018 report 'Market Momentum: Impact Investing & High Net Worth Canadians' that 89.8% of respondents expressed some degree of interest in impact investing and furthermore, investors surveyed were most interested in public equity.[16] The growth

[15] Global Impact Investing Network (2018). 2018 Annual Impact Investor Survey

[16] MaRS (2018). Market Momentum: Impact Investing & High Net Worth Canadians.

of impact investing in public equities also demonstrates recognition by asset managers that deeper impact strategies are feasible and profitable in creating value in public markets.

Impact investing targets specific positive impacts that are intentionally core to the underlying investee's business model, and aims to measure and optimize this impact alongside financial performance. Impact investing goes beyond investing in broad thematic areas where outcomes are not intentionally core to the invested assets' business model.

It is important to acknowledge that part of the growth in impact AUM may have been driven by the growth in the valuation of the underlying assets, particularly given the bull market that was experienced in 2016 and 2017. If we were to assume that appreciation of underlying assets increased in line with the TSX100 over 2016 and 2017, this would explain 20% of the increased AUM between 2015 and 2017. Therefore, it is relatively safe to assume that there were significant inflows of net new capital to impact investing strategies.

An opportunity to "democratize" impact investing

As more impact investment products become available in public equities, this creates a significant opportunity to "democratize" impact investing, making it available to the spectrum of institutional and retail investors. When impact investments were the preserve of private assets, being an impact investor was simply out of the reach for most Canadians.

Until recently, deploying impact investing in public markets has largely been done through highly customized portfolios for accredited private investors and foundations. However, as the learning from these approaches is crystallized, it is being translated into products designed for a broader set of investors' needs. For example, there have been a growing number of mutual funds and exchange-traded funds with a focus on high-impact themes, making impact investing more accessible to a wide range of Canadian investors.

The challenges: "Impact washing" and impact measurement

Impact investing is still evolving and the strategy is often not fully implemented according to a textbook definition – regardless of which asset class it is being deployed across. In addition, impact measurement remains challenging for many investors – this is particularly true for public markets.

"Impact washing" is a growing concern among impact investors, as the intentionality of impact as core to the business models of public companies is often debatable. This underscores the importance of impact measurement to issuers and fund managers that serve impact investors in the public markets.

As momentum continues to build behind impact investing as an approach to generate impact and a financial return, measuring and demonstrating impact will be crucial for the continued success and growth of impact investing in public markets. If positive impacts are not measured and reported to the satisfaction of impact-driven investors, then impact investing could become more exposed to concerns of "impact washing" given heightened investor expectations. This presents a challenge and an opportunity for impact investment managers.

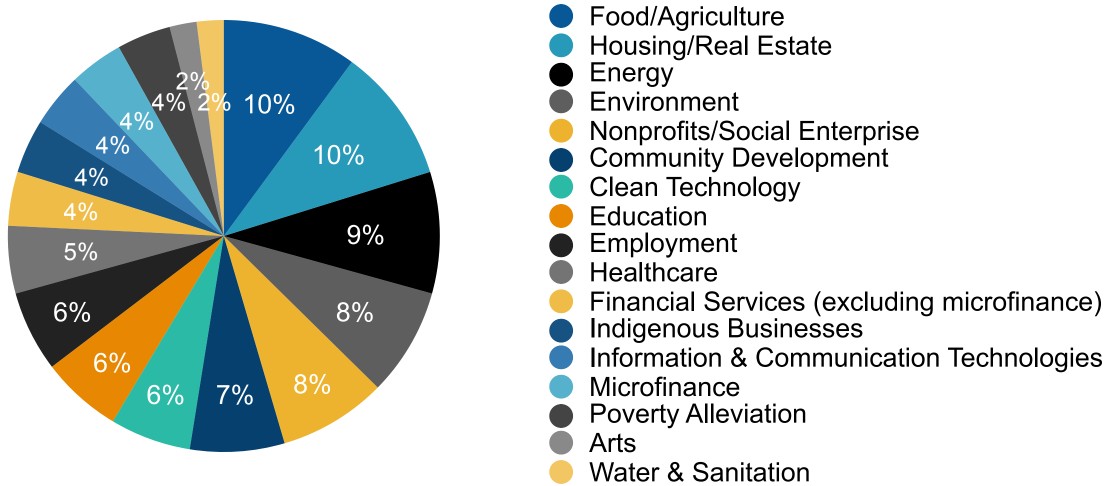
Sector Allocation

In this year's survey, we asked respondents to identify the sectors in which they invest, selecting from the following 17 sectors:

Arts	Environment	Information & communication technologies
Clean Technology	Financial Services (excluding microfinance)	Microfinance
Community Development	Food/ agriculture	Nonprofits/ social enterprise
Education	Healthcare	Poverty Alleviation
Employment	Housing/ real estate	Water & sanitation
Energy	Indigenous businesses	

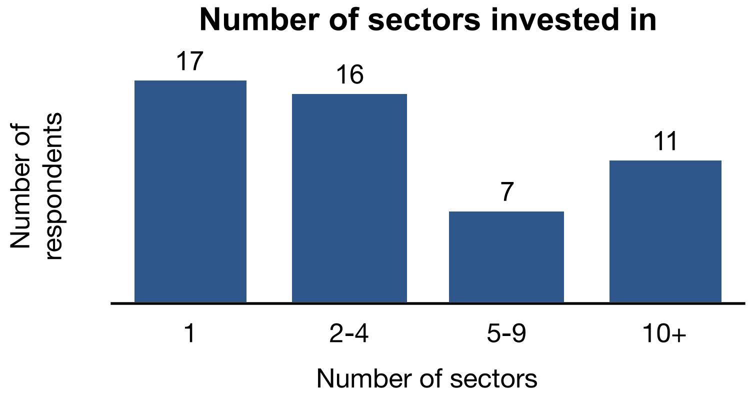
As can be seen in the chart below, there is no dominant sector for impact investments in Canada. Investments within the food/agriculture, housing/real estate, and energy sectors all received a relatively equal number of responses, with about 10% of respondents noting allocations to these sectors.

Which sector(s) does your product or portfolio invest in? (select all that apply)



n=51 respondents who provided 249 responses

Looking at the distribution of responses in the following chart, we can see that impact investors tend to concentrate their assets in a small number of sectors. 65% of the respondents indicated they are investing in fewer than five sectors and fully one-third of respondents reported that they were targeting their investments in just one sector.



Respondents to GIIN's 2018 Annual Impact Investing Survey also indicated impact investments are taking place across many sectors. The greatest proportion of respondents (57%) noted at least some allocation to food and agriculture, followed by allocations to healthcare (49%), energy (48%), financial services excluding microfinance (45%), and housing (45%). Interestingly, when reporting sector allocation based on assets under management, impact investors in the GIIN survey allocated the greatest share of assets under management to financial services excluding microfinance (19%), followed by energy (14%).[17]

[17] Global Impact Investing Network (2018). 2018 Annual Impact Investor Survey.

2. IMPACT INVESTMENT PRODUCTS

As the market and demand for impact investing grows, so does the suite of products available to investors. Some of the key topics of discussion in the impact investment product landscape are: growing number of products, emergence of databases to help investors find deals, and challenges related to decentralized product sourcing.

RI Marketplace

Investors interested in impact investment funds can refer to the Responsible Investment (RI) Marketplace, an online platform launched by the RIA in early 2019. The RI Marketplace is a directory of RI products and services provided by members of the RIA, including impact products. To be included in the RI Marketplace, the product's RI policy or strategy must be disclosed in regulatory documents such as the prospectus, fund facts, or offering memorandum, and the product must be clearly identifiable as a responsible investment vehicle through its name and marketing materials. Investment products included in the RI Marketplace are searchable by investor type, product type, asset class, geography and RI strategy. As of February 2019, the RI Marketplace includes 19 products in the impact investing category, which can be found by selecting the Impact Investing filter in the RI Strategy category. Additional details can be found online at riacanada.ca/ri-marketplace.

OpenImpact

In 2017, OpenImpact was launched as a joint initiative of Rally Assets and Lee Chin Institute at Rotman School of Management, University of Toronto. OpenImpact is an uncurated, free online platform listing of funds that are self-reported as impact investments. As of January 2019, there are 98 funds listed on OpenImpact, which can be found online at www.openimpact.ca. The majority of the products listed on OpenImpact are based in Ontario and British Columbia, with investments being made in local communities and across Canada. Roughly 60% of the investment funds on OpenImpact are either private equity (either early or mature stage) or private debt structures. The rest of the funds are split between public equity, public debt, and real assets. Approximately 55% of the impact investment funds target at and/or above market returns including 28% that target above market returns.

Sources of deal flow

Through previous RIA surveys, conferences, and industry gatherings, one of the biggest challenges identified to making impact investments is lack of deal flow. Since the majority of impact deals have traditionally been private, investors are often unsure about where or how to find deals. In order to address this challenge, there are emerging resources in the market to bridge this gap for investors.

While OpenImpact is by no means an exhaustive list of impact investment products in Canada, and the RIA does not endorse or certify any particular products, OpenImpact is a starting point for identifying funds that self-report as impact investments. The 98 funds listed on the database represent various sectors, asset classes, and return expectations. Currently only impact investment funds (no direct deals) are listed on OpenImpact and they self-identify as meeting the GIIN's definition of an impact investment.

Some other well-known resources for investors to use in searching for deals in private markets are:

1. SVX (MaRS Centre for Impact Investing): Registered platform listing impact investment funds and social enterprises based in Canada (www.svx.ca)
2. ImpactBase (GIIN): Online database of global impact investment funds and products (www.impactbase.org)
3. ImpactAssets 50: Centralized source for private debt and equity fund managers worldwide (www.impactassets.org)

Challenges in the products landscape

The challenge in any nascent and growing area is matching supply and demand. This matching problem makes it difficult for the impact investment market to scale. OpenImpact and some of the other databases mentioned make it easier for investors to find funds than direct deals. Direct deals are harder for most investors to find; there is not a single database that captures this group and they are operating in different sectors/stages across the country.

There are pockets or regions within Canada that have a higher density of impact investment activity taking place. In rural areas or remote communities there are community development funds that are supporting local enterprises to create positive economic and/or social benefits. However, due to their size and reach, these funds are often unknown to larger impact investors who could potentially contribute valuable capital.

In terms of thematic areas, we are seeing more depth of products related to specific issues such as climate change. This could be a reflection of investable opportunities and sectors that have reached a certain level of activity, maturity and scale relative to other sectors.

While there is a growing base of private impact investment fund options for accredited and institutional investors, there are fewer options for retail investors. Further growth of impact products will help to truly democratize impact investing.

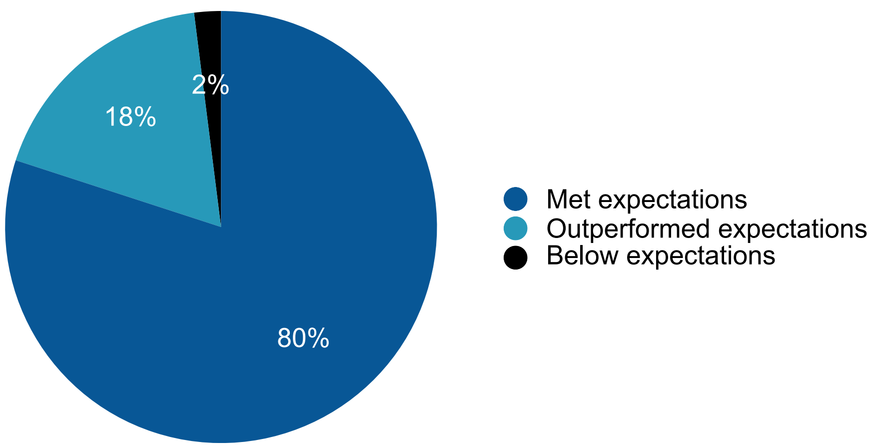
3. PERFORMANCE AND RISK

Level of Return

Impact investors seek a financial return on their investments, in addition to their goals for social and environmental impact. Some investors expect to achieve competitive, market-like returns or better on their impact investments, while others are satisfied to achieve below-market rates of return while delivering impact.

We asked respondents to evaluate the performance of their impact investments relative to expectations. Notably, almost all respondents (98%) stated that their investments met or exceeded performance expectations. This is up from 90% reported in 2016 and 92% in 2014.

How was performance relative to your expectations?



n=44 respondents

Risk

Despite growth in impact investing, and evidence of positive impact and financial performance, respondents have reported risks and barriers that still remain in the space. When asked to identify the top contributors of risk to their impact investment portfolios, the investors surveyed ranked business model execution and management as the top risk. This result is consistent with the composition of the respondents to this survey question, as most are smaller, community-based organizations.

The next most commonly cited contributors to risk were loan default/investment loss risk, and liquidity & exit risk. This differs from the 2016 Impact Investment Trends results, which indicated that financing risk, and market demand & competition risk, were the next biggest contributors of risk to impact investment portfolios.

Contributors of Risk to Impact Investment Portfolios

Rank	Score	Factor
1	64	Business model execution & management risk
2	38	Loan default/ investment loss risk

Rank	Score	Factor
3	28	Liquidity & exit risk
4	23	Macroeconomic risk
5	22	Financing risk
6	21	Market demand & competition risk
7	17	Country & currency risks
8	9	Real estate pricing risk
9	8	Startup risk
10	2	Reputational risk
11	1	Meet legislative / regulatory requirements

n=39 respondents

4. IMPACT MEASUREMENT

Standardized social and environmental impact metrics are available to investors to measure and compare the impact of investments. In our 2016 Impact Investment Trends survey, 59% of respondents stated standardized social and environmental metrics are important or very important for industry development. In this year's survey, 65% of respondents used a metric of some kind. Of the respondents who are using metrics, half had developed their own internal metrics, with the other half of this group using various standardized, external metrics. IRIS (Impact Reporting and Investment Standards) was the most commonly cited external standard.

There has been an increase in impact measurement in the last two years. In our 2016 Impact Investment Trends survey, 53% of respondents stated that they did not use metrics to measure social and environmental impact. In this year's survey, while 35% of respondents reported that they do not use a metric to measure social/environmental impact, nearly half of this group stated that they are considering using metrics in the future.

Do you use metrics to measure social/environmental impact?

Metric	# of responses
Yes, but our metrics are not aligned with external standards	18
No metric	10
No, but we are considering doing so in the future	9
Yes, IRIS	8
Yes, other	3
Yes, but we use other standardized metrics	3
Yes, GRI	1
Yes, ESG scorecard and SDGs	1
Yes, SROI	1
Yes, IRIS and SDGs	1

n=54 respondents

We also asked respondents whether they use third party ratings or certifications to guide their investments. While 83% of investors surveyed do not use third party ratings or certifications, 19% are considering doing so in the future.

The level of impact measurement taking place in Canada is relatively low compared to the results reported in the GIIN 2018 Survey. In that survey, 69% of respondents used proprietary metrics or frameworks that are not aligned to external methodologies, 66% use qualitative information, and 59% use metrics aligned with IRIS. Just 1% of respondents reported that they did not currently measure their impact, but planned to do so in the future.[18] As the impact investing market matures in Canada, more investors are likely to adopt impact measurement metrics in recognition of the importance of measuring, managing and reporting their impact performance to their stakeholders.

[18] Global Impact Investing Network (2018). 2018 Annual Impact Investor Survey.

Do you use any third party ratings or certifications to guide your investments?

Third party ratings	# of responses
No	34
No, but we are considering doing so in the future	10
Yes, B-corp certification	3
Yes, other standardized metric	4
Yes, GIIRS ratings	2

n=53 respondents

Deep Dive: Impact Measurement and the Sustainable Development Goals

Like the early days of financial reporting, impact measurement and reporting frameworks are relatively fragmented, complex and non-standardized. Determining what to measure, how to measure it, how to report on it, and how to link it to any other reporting done by the impact investor remains a significant challenge. Over the past decade, a wide range of frameworks and reporting tools have sprouted up to tackle the various measurement needs of impact investors. These range from highly specialized online reporting systems that attempt to integrate financial and impact metrics, to more targeted systems that focus on impact measurement and metrics for specific asset classes or thematic areas. As a result, investors can be overwhelmed by the choices and public reporting of impact measurement is often difficult to compare across investors.

Despite the overall challenges and fragmentation, we are beginning to see convergence around the UN Sustainable Development Goals (SDGs). The SDGs, which were launched in 2015 by the United Nations as a follow up to the Millennium Development Goals, comprise 17 goals that each address a broad global challenge. Accompanying each goal are a set of measurable targets and corresponding indicators. The SDGs are popular because of both their simplicity and relatability: it is easy for an investee to say which goals their work tackles, and it is similarly easy for an impact investor to publicly signal that they measure impact based on certain SDGs.

The sophistication of the use of SDGs among impact investors varies widely. In Canada, we saw a significant increase in interest in the SDG's in 2018 (since the survey data was collected). The survey results reflect the fragmented nature of impact measurement, and also show a market in transition, but may not reflect the current uptake in using SDGs as a central framework for impact measurement. As noted in the survey results, half of those who do measure impact do not align their metrics with an external framework. This supports the view that measurement systems to date have been complicated to use, driving investors to create proprietary impact measurement frameworks in house.

In their simplest form, the SDGs can serve as a useful common language for communicating the goals and impact of these customized internal frameworks. We are also beginning to see the SDGs mapped to other common frameworks, such as the IRIS indicators, which the survey indicates as the most popular set of standardized, external metrics used by Canadian impact investors. This further builds a common language where impact investors can continue to use their existing frameworks, while still communicating their overarching impact measurement in accordance with the SDGs.

On a deeper level, the SDGs can be used as a guiding framework for impact. Impact investors can actively choose goals to support and measure the impact of their investments based on the specific targets of each goal. Given the rising popularity of the SDGs it is possible that those in the earliest stages of impact measurement may choose to only use the SDGs. For impact investors who are investing across a range of asset classes or are investing in pooled products such as ETFs or venture funds, the SDGs may also prove useful. Given the broad nature of the SDGs it is relatively simple to use them for investments ranging from small private equity investments to public equities. It is also a simplified way for funds to standardize reporting on the impact of their portfolios without having to report a wide range of metrics that are unique to each investment.

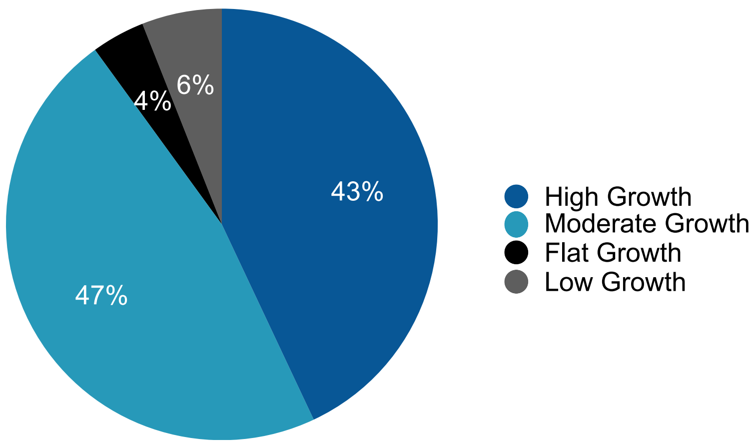
While the SDGs bring much needed simplicity and common language to the impact measurement space, they remain limited in some key areas. Because the SDGs were designed by the United Nations, there is a strong bent towards the challenges faced by the developing world. While there are certainly many overlapping issues, the targets and indicators of the goals may not be specific enough for impact investors focused on domestic or developed world challenges. The SDGs may also prove to be too vague for those who want more customized impact measurement. Lastly, the SDGs run the risk of being used as “impact washing”, where investors and investees alike say they are aligning themselves to the goals but are not actively measuring or reporting on them. Despite these limitations, the SDGs should help demystify some aspects of impact measurement and hopefully increase the participation of Canadian impact investors in the space.

5. OUTLOOK

Looking Forward

Survey respondents reported a high degree of optimism for continued growth in impact investing. Looking into the future, respondents were asked the level of impact investment growth they are anticipating in the next two years. The vast majority of respondents stated they expect moderate or high growth. 43% of respondents anticipate high growth for impact investment growth in Canada, and 47% anticipate moderate growth. Only 10% of respondents anticipate flat or low growth.

What level of impact investment growth are you anticipating in the next two years?



n=47 respondents

The large percentage of respondents indicating high growth is particularly noteworthy, as this option was only selected by 19% of investors surveyed two years ago, and by 15% three years ago. Considering the growth in impact AUM since we started this survey, this year's results further indicate that impact investing has momentum in Canada and continued significant growth in the industry is to be expected.

Motivating Factors

What will drive growth in impact investing in Canada? The factors that motivate impact investors to choose to invest for social or environmental impact are varied, and include both financial and non-financial motivations.

Investors surveyed were asked to rank their (or their clients') motivations for investing for impact. The top ranked motivating factors for impact investing are: contribute to local community development, contribute to sustainable development, and organizational mission/values. This is largely consistent with the results in our 2016 Impact Investment Trends survey.

What motivates you or your investors to invest for social/environmental impact?

Rank	Score	Factor
1	79	Contribute to local community development
2	65	Contribute to sustainable development
3	62	Organizational mission/values
4	43	Contribute to financial inclusion
5	32	Alternative to philanthropy
6	22	Looking for stable long-term return
7	16	Financial Opportunity
8	6	Responsibility to client/fiduciary duty
9	4	Risk Management
10	3	Other
11	1	Generational wealth transfer

n=56 respondents

Concerns

While the majority of respondents expect impact investing to continue to grow, respondents also expressed a number of concerns that they believe are preventing demand for more impact investments. The top cited concerns of investors are: performance concerns, lack of viable products/options, and lack of qualified advice/expertise. Risk concerns ranked fourth, falling from being respondents' top concern in 2016.

While performance concerns is now respondents' top concern, it is worth highlighting again that 98% of respondents stated that their performance met or exceeded expectations. While respondents did not provide any additional detail to support this concern, it could be that their recently experienced positive outcomes have caused them to lower their expectations going forward. Alternatively, this concern may be reflecting the view that the broader investing community believes that impact investors have to forgo returns in order to achieve impact.

What prevents you or your investors from demanding more impact investments?

Rank	Score	Factor
1	102	Performance concerns
2	62	Lack of viable products/options
3	43	Lack of qualified advice/expertise
4	41	Risk concerns
5	25	Other
6	3	Mistrust/concern about greenwashing

n=47 respondents

Similarly, in GIIN's 2018 Impact Investor Survey the need to convince key decision-makers of the potential financial performance of impact investments was the highest-ranked challenge to gaining buy-in for impact investing.[19]

Barriers

As in our 2016 Impact Investment Trends survey, this year respondents stated that the top barrier to the growth of impact investing in Canada is the shortage of high quality investment opportunities with track record. Given the overall growth in the impact investment market, the prevalence of impact funds and managers in leading that growth, and the increased availability of impact products, we should expect to see this barrier becoming lower in the future. Following behind this barrier is that of: a lack of investment professionals with relevant skills, 'other' barriers, a lack of innovative deal/fund structures to accommodate investors' or portfolio companies' needs, and a lack of a common way to talk about impact investing.

What are the top barriers to the growth of impact investing in Canada?

Rank	Score	Factor
1	90	Shortage of high quality investment opportunities with track record
2	45	Lack of investment professionals with relevant skills
3	37	Other
4	32	Lack of innovative deal/fund structures to accommodate investors' or portfolio companies' needs
5	24	Lack of common way to talk about impact investing
6	21	Lack of research and data on products and performance
7	19	Inadequate impact measurement practice
8	5	Difficulty exiting investments

n=46 respondents

These results contrast with the 2018 GIIN Annual Impact Investor Survey, which reported that the top four challenges to the impact investing industry include the lack of: "appropriate capital across the risk/ return spectrum", "[a] common understanding of definition and segmentation of [the] impact investing market", "research and data on products and performance" and "sophistication of impact measurement practice".[20]. The lack of definition in the space has also been reported in a 2015 article in the Journal of Business Ethics; the authors stated that impact investments' "conceptual clarity remains an issue," and cited the absence of a uniform definition[21].

[19] Global Impact Investing Network (2018). 2018 Annual Impact Investor Survey.

[20] Global Impact Investing Network (2018). 2018 Annual Impact Investor Survey. Ranked by percent selecting "significant challenge" and "moderate challenge".

[21] Journal of Business Ethics (2015). A.K. Höchstädter & B. Scheck, "What's in a Name: An Analysis of Impact Investing Understandings by Academics and Practitioners".

6. CASE STUDY: GETTING TO A 100% IMPACT PORTFOLIO

by Jory Cohen, Inspirit Foundation

Jory Cohen is Director of Social Finance and Investment, Inspirit Foundation

In 2016 Inspirit Foundation - a public foundation working to promote inclusion and pluralism through media and arts, support for young change leaders and impact investing - committed to a 100% impact portfolio to leverage our full asset base for financial returns and positive social and environmental impact. We formalized this commitment in our Investment Policy Statement (IPS), which states that Inspirit's investment decisions must be guided by three principles:

1.Risk-adjusted financial performance
2.Movement toward a low carbon portfolio
3.Positive impact through alignment with Inspirit's organizational vision

By 2020, Inspirit is expected to meet our goals for a 100% impact portfolio. Here is a major chapter of the narrative of how we are getting there:

1. Conducting the initial audit

When we committed to a 100% impact portfolio, most of Inspirit's portfolio was in the public market being managed by three investment managers with balanced mandates who were tasked with investing across the asset classes of fixed income, Canadian equities, and global equities. In order to analyze the performance of our investments, we conducted an audit of our portfolio based on our updated IPS.

2. Measuring performance indicators

Then, we enlisted the support of our investment consultant, Proteus, to assess financial performance using four main indicators: net returns vs. benchmark, information ratio, up-market capture ratio, and down-market capture ratio. We also subscribed to research offered by MSCI to understand the carbon and impact performance of our portfolio. This research allows us to measure our portfolio's exposure to carbon emissions. Our portfolio's positive impact is assessed through Environment/Social/Governance (ESG) scores and revenue from products and services that contribute to the United Nation's Sustainable Development Goals (SDGs).

3. Benchmarking performance indicators

Next, we benchmarked the financial, carbon, and impact performance of our portfolio against a traditional benchmark, which primarily consisted of the FTSE TMX Universe Bond, S&P/TSX Composite, and MSCI ACWI (CAD). For aspirational purposes, we also benchmarked our portfolio's performance against the MSCI Sustainable Impact Index, a benchmark with strong financial results, a low carbon footprint, holdings that are top performers along ESG metrics, and a selection methodology that identifies holdings deriving 50%+ of their revenues from products and services contributing to the SDGs.

4. Finding the right expertise

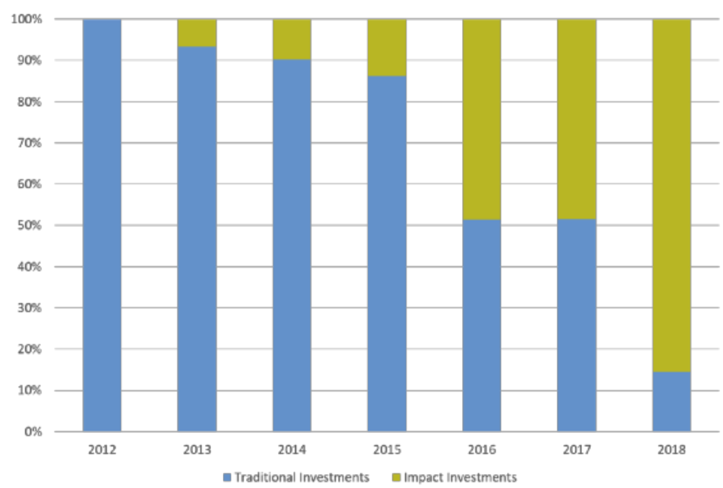
The analysis indicated our portfolio had room for improvement on financial, carbon, and impact performance. In order to improve portfolio performance, we committed to transitioning from a balanced portfolio approach to a specialized asset class style. Data demonstrated to us clearly that it is rare for investment managers to consistently sustain outperformance across multiple asset classes. We determined we needed to transition Inspirit's portfolio management from three investment managers with balanced mandates investing across asset classes to investment managers each with specialized mandates to invest in specific asset classes.

In May 2018, Inspirit released a Request for Statement of Interest and Qualifications inviting submissions from investment managers to help us satisfy the goals in our IPS within the fixed income asset class. We started our transition to a specialized asset class investment approach with fixed income due to underperformance of that asset class within our portfolio compared to our benchmark. We received a high number of quality submissions, which we scored based on five main categories:

1. Investment firm and their commitment to diversity, equity, and inclusion - 20% scoring weight
2. Proposed product overview, thesis, and fees - 20% scoring weight
3. Proposed product's financial performance - 30% scoring weight
4. Proposed product's carbon performance - 5% scoring weight
5. Proposed product's impact performance - 25% scoring weight

After reviewing and scoring all the submissions, we conducted two rounds of interviews before coming to a final decision. In the end, we were pleased to select Addenda Capital as our new manager and allocate our entire public fixed income portion of our portfolio to their Impact Fixed Income Fund.

Inspirit's Investment Portfolio – Traditional vs Impact



With our investment in Addenda's Impact Fixed Income Fund, we now have over 85% of our portfolio invested in impact investments. These investments are top performers along environmental, social, and governance metrics and ideally also earn at least 50% of their revenue by contributing to the United Nations Sustainable Development Goals.

We plan to continue to transition our portfolio from one with traditional investments to one entirely composed of impact investments, and also one with a balanced investment approach to one with a specialized asset class investment expertise. The next step is a Request for Statement of Interest and Qualifications for a global equities manager, followed by a search for a Canadian equities manager that can satisfy the financial, carbon, and impact goals outlined in our IPS. We expect to fully transition to a 100% impact portfolio in 2020.

Please follow our progress here.

APPENDIX A: METHODOLOGY

The Responsible Investment Association and Rally Assets collected data for this study from 59 investment managers, asset owners and impact organizations via electronic survey and email follow ups between July 2018 and August 2018. Through secondary research, using publicly available sources, we gathered data on an additional 14 impact investment organizations.

Our interpretations of the survey results are intended to provide insights into impact investing activity, trends and outlook in Canada. The survey sample represents a segment of the overall impact investment industry. The questionnaires contained very few mandatory questions. We did this to help maximize engagement and to collect whatever data respondents were able/willing to provide. As a result, respondents skipped some questions. The survey results therefore reflect the composition of the survey respondents and the questions they answered.

Throughout this report we refer to the results of the 2018 Annual Impact Investor Survey produced by the Global Impact Investing Network (GIIN)[22]. The GIIN report findings are based on survey responses from 229 of the world's leading impact investing organizations, including: fund managers, banks, foundations, development finance institutions, pension funds, insurance companies, and family offices. In total, respondents collectively manage over USD 228 billion in impact investing assets. The GIIN survey provides insights into global impact investing activities and allocations, future plans, and perceptions on key industry issues and trends. We reference the GIIN survey results where useful to contrast and compare the Canadian market with the larger and more mature global impact market. More information can be found on https://thegiin.org.

For questions where respondents were asked to rank their top three choices, scores were calculated as follows: (number of respondents that ranked it first × 3) + (number of respondents that ranked it second × 2) + (number of respondents that ranked it third × 1).

All data included in this report is either self-reported or pulled from secondary sources (websites, annual reports, PRI Transparency reports). We investigated anomalies and verified data where possible; still, it was not feasible to verify all respondents' data.

All data shown in this report is current as of December 31st, 2017. All dollar amounts are CAD, unless otherwise noted.

[22] Global Impact Investing Network (2018). 2018 Annual Impact Investor Survey.

APPENDIX B: LIST OF SURVEY RESPONDENTS

The following survey respondents consented to be listed as participants in the RIA's Canadian Impact Investment Trends Report. This list includes investment managers who identified as impact investors for the 2018 RIA Canadian Responsible Investment Trends Report. We also supplemented the survey data with publicly-available information on an additional 14 organizations.

Access Community Capital Fund
Active Impact Investments
Addenda Capital Inc.
Affinity Credit Union
AGF Investments
AlphaFixe Capital
Amundi Canada Inc.
ArcTern Ventures
Bealight Foundation
Black Business Community Development Fund Ltd.
Borealis Geopower Inc.
Brighter Investment
Brique par brique
Calgary Foundation
Canadian Co-operative Investment Fund
Canadian Worker Co-operative Federation
CCEC Credit Union
Community Forward Fund
CoPower
Cordiant Capital
Creston & District Community Investment Coop
Cygnus Investment Partners
Deetken Asset Management Inc.
Developpement International Desjardins
E-Fund
FarmWorks Investment Co-op Limited
Fiducie du Chantier de l'économie sociale
Fondaction
Genus Capital Management
Greenchip Financial Corp.
GreenSoil Investments
Hermes Investment Management
Home Ownership Alternatives
Impact Hub Ottawa
Inspirit Foundation
Kindred Credit Union
Knives & Forks Community Investment Coop
NEI Investments
New Commons Development
New Market Funds
Nunavut Business Credit Corporation
OceanRock Investments Inc.
Oikocredit
Ottawa Community Foundation
Ottawa Renewable Energy Co-operative
RBC Global Asset Management
Renewal Funds
Réseau d'investissement social du Québec
Rhiza Capital Inc.
Sarona Asset Management
Scotian Wind Inc.
Social Enterprise Fund
The J.W. McConnell Family Foundation
The Jubilee Fund Inc.
Trillium Housing
UBC Management Inc
Vancity Investment Management
Vancouver Island Community Investment Coop
VERGE Capital
World Vision Canada
XPV Water Partners
Youth Social Innovation Fund
ZooShare Biogas Co-operative Inc.