AN INTRODUCTION TO PLACE-BASED IMPACT INVESTING (PBII)

"local capital to finance local organizations, enterprises and projects"

BENEFITS:

- Brings in additional forms of capital to help support community objectives.
- Allows more responsive, targeted investment in social issues that matter most to the community.
- Helps local communities build and control their own wealth as opposed to investing in external communities.
- Not strongly correlated with the broader investment market; thus, diversifying and stabilizing portfolios.

INVESTING SPECTRUM:

TRADITIONAL INVESTING
Seeking financial returns regardless of Environmental, Social or Governance (ESG) factors.

EXCLUSIONARY INVESTING
Screening investments (or divesting) to exclude investments that conflict with the investor's values or ESG considerations.

IMPACT INVESTING
Investing made with the intention to generate positive, measurable social and environmental impact alongside a financial return.

PLACE-BASED IMPACT INVESTING
Investing made with the intention to generate financial returns as well as positive local impact, with a focus on addressing the needs of **specific communities** to enhance local economic resilience, prosperity and sustainable development.

Only interested in ROI → **Avoiding harm** → **Providing positive impact** → **Providing positive impact for local stakeholders**

EXAMPLES OF PBII VEHICLES:

1) COMMUNITY TRUSTS - are democratic, non-profit organizations that own and develop assets such as land for the benefit of the community. Housing Trusts are used to provide affordable access to land and housing for community residents.

Toronto Community Housing Corporation - Toronto, Ontario, Canada
The Toronto Community Housing Corporation was the largest social housing provider in Canada and the second largest in North America with more than 60K rental units and 2.1K buildings across Toronto. The City of Toronto adopted the Toronto Community Housing Trust in 2016 as the sole shareholder with a portfolio of $10B of public assets. In 2021, the City of Toronto transferred the portfolio to two non-profits, the Circle Community LandTrust and the Neighbourhood Land Trust to ensure the continuation of social and affordable housing across the city's boroughs. TCHC found affordable housing could be better maintained and tenant-focused by non-profits, and now funding is primarily from rental income via tenants, and transitional funding from the City of Toronto.

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2) COMMUNITY / MUNICIPAL BONDS - are bonds issued by municipalities to raise a portion of their debt financing from within the local community. Funds could be used for the construction of roads, green infrastructure, renewable energy, clean transportation, wastewater management, and other projects to address community challenges. Municipalities pay a specified amount of interest and return the principal to the investor/s on a specific maturity date. These bonds help reduce the cost of municipal borrowing and enables councils to offer small investors in their municipality an attractive investment opportunity. Includes, but is not limited to: green bonds, sustainability bonds, social bonds, tax increment financing bonds or community revitalization levies.

Toronto, Ontario
On December 2021, the City of Toronto issued its fourth green bond - a 10-year, $150Mn issuance at 2.2% interest. Its purpose is to help finance key capital projects such as the Dufferin Organics Processing Facility which processes some of Toronto's organic waste into renewable natural gas, energy efficiency retrofits in Toronto Community Housing Corporation buildings, the purchase of electric buses as part of the Toronto Transit Commission's Green Fleet Plan, and waterfront revitalization.

Cochrane, Alberta
The Community Revitalization Levy (CRL) allows municipalities to borrow against future tax revenues (i.e. property tax) to help pay for infrastructure. In 2012, Cochrane used a CRL to retain $13Mn from the province to be used for capital improvements to the municipality's 23-hectare downtown quarry area. The municipality captures the education portion of the property tax bill, and redirects it to the remediation. In recognition of the CRL's success, the town received an award for Excellence in Government Finance from the Government Finance Officers Association (GFOA) of Canada and the US in 2013.

3) SOCIAL IMPACT BONDS (SIB) - SIBs are partnerships between public authorities, private investors, and social-service providers with the goal of financing innovative prevention programs. It is a pay-for-performance contract wherein the government has no upfront cost and instead, repays investors (who provide the initial capital) based on how much the social impact outcomes/metrics are met.

Social Impact Bond: The Sweet Dreams Supportive Living Project - Saskatoon, SK, Canada
EGADZ Saskatoon Downtown Youth Center, a non-profit community based organization, issued a 5-year SIB aimed at keeping 22 children of single parent mothers with their mothers. The program provided a supported living environment for 36 women and their families and 55 children, more than twice the initial target. Of these, 54 remained out of care of the ministry and safely with their families by the end of the program (Saskatchewan, 2019). Savings to the government were estimated between $0.54-$1.5 million while investors received the whole of their $1 million investment back together with a 5% return on their investment.

4) LOAN LOSS RESERVE / GUARANTEE - A Loan Loss Reserve is a credit enhancement approach commonly used by local governments to provide partial risk coverage to lenders—meaning that the reserve will cover a pre-specified amount of loan losses. This benefits underserved borrowers by reducing the risk for community-based financial institutions. Under a Loan Guarantee, the local government guarantees repayment of a loan to a lender in the event the borrower is unable to pay the loan itself. A loan guarantee is expected to improve access to financing, as well as, make financing more affordable due to the lower repayment risk.

Loan Loss Reserve Program - New York City, USA
The New York State Energy Research and Development Authority (NYSERDA) implemented a Loan Loss Reserve Program to expand equitable access to clean energy among its communities by supporting lenders that fund solar, heat pumps, and electric vehicles. The State covers a portion of the losses on defaulted loans, at no cost to the lender. With lowered risk, the lenders are more able to attract new customers, reach underserved borrowers with new products, extended terms, lower interest rates, or bigger loans.

Loan Guarantee - Toronto, Ontario
In 2022, the Toronto City council approved a loan guarantee of up to $2.2 million to Hugh's Room Live, a non-profit arts organization. At a time when multiple live music venues are closing permanently, the guarantee will aid the non-profit in its lending arrangements for the purchase and renovation of a property to be turned into a music and cultural-oriented community centre.

PBII: PLACE-BASED IMPACT INVESTING

CASE STUDIES:

5) IMPACT GIC - a guaranteed investment certificate is a Canadian investment that offers a guaranteed rate of return over a fixed period of time, issued by credit unions to support local businesses that pursue at least one of the United Nations' Sustainable Development Goals (SDGs). Impact GICs are made available to institutional investors, municipalities, and post-secondary institutions. Impact GICs typically have a tenor of 30 days to 5 years.

Various locations, Canada
Through Impact GICs, credit unions have been able to lend money to the likes of Encompass Support Services Society (ESSS), a grassroots, non-profit agency serving its community for over 25 years. In 2020, ESSS supported 2500+ individuals in the City of Langley, Township of Langley and Aldergrove and is expanding its services to include primary care, mental health care, substance use, sexual health care, family and youth peer support, etc. Likewise, the Neighbourhood Land Trust was able to acquire a 15-unit rooming house in Parkdale, Toronto, now permanently preserved as affordable rental housing for low-income community members.

6) INVESTMENT POOL - established by a state or local governmental entity or instrumentality that serves as a vehicle for investing public funds of participating governmental units. Participants purchase shares or units in the pool (often formed as a trust) and assets are invested in a manner consistent with the portfolio's stated investment objectives.

Municipal Investment Pool: The London Fund - London, UK
The London Fund was launched in January 2020 as a collaboration between two local government pension schemes (LGPS) investment pools – the London Collective Investment Vehicle (LCIV) and Local Pension Partnership Investments (LPPI). The London Fund focuses on positive social and environmental benefits for Londoners and sustainable long-term, risk-adjusted returns for pension investors. The Fund aims to deliver competitive investment returns with a target return of CPI +3% and 80% of the capital invested within London's 32 boroughs. The London Fund is aiming to raise £300 to £500M over several years from individual London-based LGPS funds. In December 2020, the London Pensions Fund Authority (LPFA) provided a £100M commitment, followed by an individual £50M in March 2021. The London Fund made its first investment to support the development of new quality housing stock for London.

USEFUL DEFINITIONS:

Capital Preservation - a conservative investment strategy aimed at protecting money and avoiding loss inside a portfolio.

Divestment - the process of selling assets or investments of a company. It is effectively the opposite of an investment and is usually done when the asset or investment is not performing up to expectations, but can also be for political or social reasons.

Liquidity - the efficiency or ease with which an asset or security can be converted into ready cash without affecting its market price.

Market Rate - the typical, standard interest rate or going price accepted on a particular investment.

Place Based Investing - investments tailored to economic and social outcomes in a specific region or community.

Tenor - length of time before a loan or bond matures.

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