NOVEMBER 2019

LEADERSHIP PROFILE

FOUNDATION INVESTING 2.0

ABOUT THE OTTAWA COMMUNITY FOUNDATION

OTTAWA COMMUNITY FOUNDATION
invested for good

FONDATION COMMUNAUTAIRE D'OTTAWA
investir pour le bien

The Ottawa Community Foundation (OCF) is a public foundation established in 1987 to serve a broad range of charitable purposes primarily within the Ottawa region. They distribute grants to over 500 charities per year. Like any community foundation, revenue for granting comes from building an endowment fund and generating interest from investments. In 2010, the Foundation's Board of Directors approved a plan to incorporate responsible investment principles in all security selections in their investment portfolio. OCF also allocates up to 10% of its Assets Under Management (AUM) to an Impact Investing strategy that allows leveraging of assets through both Direct Investments (2%) and Market Investments (8%).

Brian Toller is an experienced private investor and entrepreneur. He has started and operated businesses in renewable energy, commercial real estate and conference management. Brian has been a dedicated volunteer with the Ottawa Community Foundation over the last fifteen years. In 2005, he joined the investment committee and has also served for ten years on the Foundation's board of directors including as chair from 2011-2014. He is still involved as an advisor for the impact investing committee, special projects and sits on the investment committee.

How did your responsible investment (RI) journey start?

During the financial crisis of 2008 OCF's portfolio was hit hard, down 18% on the year, wiping out a $10 million reserve fund in six months. We had been basing our granting on the prior year's return, so we had to reduce grants, lay off staff, and cancel programs. There were also a lot of stories about corporate transparency, governance and supply chain issues at this time – burning factories and lead in kids' toys and the like – that added to the financial risk we were exposed to if we kept doing business as usual. We came out of it with a 10-year model designed around resilience and to ensure we could grant 4.25% and keep 1.75% for operations. We established a return target of 6.5 to 7% return every year over 10 years, calculated over a 3 year period to smooth bumps.

This is also when we decided to get into responsible investment. The CEO and I thought it was a good idea, as a mission based foundation, to align our investments with our mission. Why give a grant to an environmental group when you're investing in some of the worst polluters in Canada? Also, when your portfolio falls 18% it is easier to say we should be looking at different ways to ensure investments are resilient and mission aligned. So, we began investigations into how we would do this.

Our investment committee was quite reluctant, but they deferred to the board and said if the board wanted to do it, they'd figure it out. We went through an education period at the board for 18 months – we brought in experts, set up a task force, talked to SHARE, looked at the landscape and came back with a plan as to how we would do it. In those days our endowment was about $70 million and we'd had one asset manager who had been working with us since day one. We involved them from the beginning of our conversations. At that time, they knew nothing about RI and were reluctant but we went to some PRI events together and that helped them understand how they could expand their practices. We didn't feel we had the resources to do negative screening, so we did a best in class approach instead. Once we agreed on the policy and practice, we began implementation in 2010-2011.

What were some of the challenges you encountered when trying to make progress on responsible and impact investing?

One challenge in RI has been the need to bring in a larger team of experts and professionals to manage both our RI and impact investing. We are a small team of about 15 staff with just a couple of people in finance. We don't have the capacity to do all the screening and proxy voting, so we've contracted that out, monitor it well, and get detailed reports. After implementation of our RI policies, our endowment approached $100 million and we realized we needed to diversify our investment managers and asset classes. We hired Mercer as an investment advisor - at the time they were also getting involved in RI so they helped us develop complementary tools as well. Since then we've added 8 more asset classes and additional investment managers who all have RI capabilities.

We also have had challenges on keeping up with the impact investing at times. When we heard the Social Finance Task Force say, in 2011, that foundations should have 10% impact investment, we researched how to accomplish that, again via a task force. We started with 5% market impact investments within our endowment, and 5% outside of the endowment – optional for donors, impact focused with an Ottawa lens and not necessarily market returns. We stuck with these targets for a few years but found it was much easier to find opportunities on the market side and at the same time our overall endowment was growing (gaining over $60 million in the last five years) so keeping a full 10% in impact investments, regardless of the type, has been a constant challenge. We're currently at 8% in the endowment and 2% on the direct side, but we're trying to find ways to grow the direct side.

> Our leadership on responsible and impact investing has certainly been a differentiator for the Foundation and definitely hasn't harmed our relationships with donors.

One example is we've placed $1 million with New Market Funds who invests in affordable housing. Their work is very BC focused but we said to them, let us help you find a deal in Ottawa and if you can do one, we'll co-invest with you and that's in progress. Our local, direct impact investments have been great because we can usually make connections with our grantees as well. One example is Windmill Microlending that provides microloans to immigrants and refugees to transfer or requalify their professional designations in Canada. The outcomes of this microlending are significant: unemployment rates drop from 60 to 10% and incomes triple for those involved, so we are connecting them with the immigrant settlement agencies we are already funding to make sure more people have access to these types of microloans.

Who got involved in developing your initial responsible and impact investment policies?

During the initial drafting and realignment of our investment policies, we set up a task force to do research, develop strategy and make recommendations to the board. The board still sets direction and holds the decision-making power, but typically board members themselves don't have the expertise to go into the detail needed. Our task forces have had members from the community, experts in responsible investment, board members, investment committee members and staff. This approach gives comfort to the board that all the right players are in the room. Our policy lists two core investment beliefs and six investment principles from the PRI. Our committees review and make amendments to the policy every year, but that first page with the core beliefs and principles has never been significantly altered.

Where or when have things flowed well or easily and what do you credit that to?

There have been three key tools or roles that have been important in getting us over humps or through challenges. One is the UN Principles for Responsible Investment (PRI). The UN PRI was a super helpful tool for us during the development stages because it had great credibility with the UN designation, had trillions of assets behind it and hundreds of signatories. Our board could see they weren't a total outlier, and it provided a good focal point for us all to get behind.

Another is for us as an asset owner to understand our role and our power, and to hold that power in a confident and productive way. It was important for us as an asset owner to let our investment managers know that they needed to come along with us on our journey and do a better job of working with our direction on responsible investing. And, if they didn't, they'd get swapped out.

The other really critical role is that of the champion. You need someone on the inside that is driving this change. It could be a board or investment committee member or even a donor. You need someone who is close to the players and is passionate about it and who will keep the momentum going. In some foundations it's often the CEO or CFO or board members, or different champions at different times. But someone has to lead during times of change - it's too easy to say, 'we don't need to do that because we are doing other cool stuff'. Once it's all in place, however, it's easy to maintain.

How do you reconcile your values and the needs of the donors with the need to generate financial returns when you make decisions?

We position our responsible and impact investing activities as attributes of making a donation and reasons that donors should choose OCF over other potential vehicles for their charitable giving. And we take a very active role in educating donors with respect to donor advised funds. Those who know about responsible and impact investing already are delighted to learn that's how their capital will be invested. Those who are new to the subject are typically very interested in learning more, or at worst think it's nice and aren't focused on needing to know more about it. It has certainly been a differentiator and certainly hasn't harmed our relationships with donors. In particular with younger generations of donors or others who are engaged in the Foundation in some way, they think it's a no brainer and are often asking why we haven't been doing more for longer. With younger generations there also seems to be less of an attachment to the endowment model and more of an interest in flow-through or shorter-term deployment of funds to the community. The endowment still plays a powerful, critical role, however, because without it we'd be in constant fundraising mode, which isn't efficient for anyone.

> An important perspective that has helped us through challenging times is for us as an asset owner to understand our role and our power, and to hold that power in a confident and productive way.

What is one piece of advice you would give to an individual who is driven to improve the RI policies and practices at their foundation?

I encourage foundations to use their role as the asset owner. Now there are so many asset managers out there who do RI and do it well, you can have that power as the asset owner to compel your manager to come with you - or to find another one who can and will do it well. If you think your foundation doesn't have the time or resources to do RI, remember the power of asset ownership.

Also, get on with it! Why wouldn't you do it? It's fun and it's really quite powerful.

Foundation Investing 2.0 is being implemented by Rally Philanthropy and the Shareholder Association for Research and Education (SHARE). The project is designed for foundation trustees, CEOs, executive directors and senior finance staff, to support them wherever they might be in their journey. From the curious to committed, the project is designed for those who want to learn, begin, or deepen and scale their impact and responsible investing activities.

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