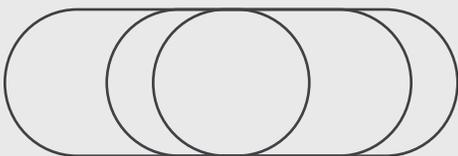

The Canadian Impact
Investing Working Group

Scaling Impact Investing In Canada Through Mobilizing Asset Owners

18 solutions to triple impact
investing in Canada by 2030



Executive Summary

Overview

The financial sector needs to play a larger role in supporting a just transition to a sustainable economy, especially as global challenges such as climate change and inequality persist. Interest in impact investing – investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return – continues to grow as a potential solution used in tandem with other responsible investing approaches. In 2022, the Global Impact Investing Network (GIIN) estimated that impact investment assets under management (AUM) exceeded USD 1.2 T, driven by leading pension funds, insurance companies, asset managers, foundations, and development finance institutions. The Canadian impact investing industry is active with an estimated AUM of CAD 14 B in 2023,¹ growing 56% from CAD 9 B in 2015 and with the potential to grow three to four times to CAD 46 B by 2030².

Despite this momentum, many challenges to scaling the impact investing market persist. In Canada, while impact investing is happening, there is broad recognition that there is room to grow, particularly with Canadian endowments, family offices, foundations, government-sponsored funds and pension funds. Many of these asset owners have not actively set out to make impact investments, although some are intentionally allocating capital to improving outcomes for people and the planet in line with their sustainability priorities. Establishing that impact investing is consistent with fiduciary duty and developing knowledge and capacity to align with the

principles of impact investing are key to mobilizing asset owners. Solutions for asset owners to overcome these barriers is critical to growth.

In 2023, a group of investors convened to work together to address challenges facing asset owners in deploying capital through impact investing. The Canadian Impact Investing Working Group (CIIWG), led by Fondation, commissioned this research to better understand the drivers and opportunities for Canadian asset owners to allocate capital to scale the impact investing market with integrity. The insights are based on research and interviews with the CIIWG and several Canadian investors at various stages of their impact journey, representing over CAD 1.5 T in assets under management. Through this report, the CIIWG hopes to ignite more conversations among mainstream Canadian institutional investors that will lead to implementing the solutions identified and mobilizing impact capital at scale. While return expectations among impact investors vary, this study focuses on the practice of impact investing that targets competitive market-rate risk-adjusted returns. This report is targeted at the segment of investors that hold significant potential to grow the size of the impact investing market and where impact is consistent with fiduciary duty. We also aim to empower the various stakeholders both within and on the periphery of the impact investing market that can contribute to solutions in helping asset owners overcome the barriers while increasing demand for impact investments in general.

1. Source: Responsible Investment Association
2. Please see the [Canadian Impact Investing Market section](#) for more details.

Key Findings — Drivers & Barriers

1. Leading asset owners are engaging in impact investing, and the mandate to do so is driven by boards, senior leadership and organizational culture

Like with any nascent market, growth will be driven by the first movers and leaders demonstrating the case for others to follow. For the interviewed asset owners that have already adopted or explored impact investing, it has been driven from the top by senior executives and boards. At these organizations, leadership either inherently believes in the premise of impact investing and/or the growing evidence that capital can be used to generate positive outcomes and financial returns that align with their fiduciary responsibilities. In some cases, the appetite for innovation is embedded throughout the organizational culture, further driving people at all levels of the organization to explore how impact investing could work for them. Leaders at Canada's first impact asset managers have responded accordingly by creating products across asset classes to meet this demand.

2. Asset owners are being pushed by their beneficiaries to reevaluate investment strategies and redeploy their capital for positive change

Some asset owners are adopting or exploring impact investing strategies based on both pressure from their beneficiaries and key stakeholder preferences. For example, some university endowments in Canada have adopted impact investing strategies after being driven by their stakeholders to divest from industries "causing harm" and ensure their money is benefitting the people and the planet. Foundations and family offices, as they go through a multi-trillion dollar intergenerational wealth transfer, are looking to ensure their investments contribute to a better world. Some Canadian pension funds exploring impact investing strategies are seeing this demand come from their pension plan members, the corporate sponsors of the plans they manage, and the people they are looking to attract and retain as employees.

3. Impact investing fits within asset owner fiduciary duty and is seen as a solution for those increasingly looking to address systemic issues

Several asset owners state that impact investing aligns with their fiduciary duty. For foundations, this means ensuring their investments are not contributing to the problems their philanthropic activities are aiming to solve. Some government funds are given a mandate that includes both capital preservation and the contribution to alleviating challenges that governments are often seen as responsible for solving. Given their long-term investment horizons, pension funds and insurance companies are uniquely positioned to adopt impact investing as an investment strategy if it also addresses systemic issues that can put beneficiary investments at risk, such as climate change, inequality and political instability. Investments that positively contribute to reducing social and environmental challenges and thereby stabilize the financial system will, at a minimum, reduce long-term risk. In the ideal case, impact investments will help pension funds also provide pension beneficiaries with the comfort and assurance that they will retire into a more sustainable and livable world.

4. Greater industry alignment on impact investing principles would encourage more asset owners to participate

Nearly all investors, even those with established impact investing strategies, recognize that there is confusion about the definition and principles of impact investing (intentionality, measurement, financial return, additionality). A scan of the definitions used by 13 impact investing organizations identified that there is consensus that intentionality and measurement are core principles of impact investing. Hence, impact investing can increase if the market understands and applies those principles, which is the experience of leading asset owners as evidenced by our research and interviews. One can also work to dispel the misperception about the need to concede financial returns, which is not generally seen as a requirement of impact investing. This currently hinders larger adoption as many asset owners mistakenly assume it conflicts with their fiduciary duty to generate benchmark financial returns for beneficiaries. As impact investing becomes deployed at scale, the additionality argument may become redundant.

5. Canadian impact investing AUM can be unlocked by addressing perceptions of 'labelling risk' and demonstrating how impact is a long-term value creator

Some of Canada's largest asset owners have intentionally made investments in companies, funds and products that aim to have a measurable positive social and environmental impact. However, these investments typically fit within their responsible or sustainable investing strategies or in thematic investment categories. Many have not classified their investments as impact investments, due to the risk of being criticized for 'impact washing' or misperceived as foregoing financial returns and the fear of being criticized for "not meeting the measurement bar" for a credible impact investor. This is especially the case for asset owners concerned about demonstrating intentionality and additionality. While many asset owners believe the benefit of labelling impact investments could be outweighed by the cost of effort, impact investors are seeing impact measurement and management as a strategy differentiator to ensure long-term value creation. Many asset owners may continue to make investments that would classify as impact but call it something else. In the meantime, several asset owners cited using impact as a lens – a mechanism to assess their existing portfolios for their positive and negative contributions to social and environmental outcomes – which is gaining support and could be an onramp into impact investing.

Solutions

– Mobilizing Asset Owner Capital

Based on insights from the interviews, global best practices, and the collective experience and expertise of the CIIWG, we have identified 18 recommendations to mobilize mainstream institutional asset owner capital into impact investing in Canada. Many solutions are available today. Implementing these recommendations will require the participation and action of various stakeholders who have a vested interest in seeing impact investing grow. The recommendations are organized into the five solution categories in the table below:

	Academics	Experienced Impact Investors	Financial Institutions	Government	Industry Associations	Intermediaries and Advisors	OCIOs and Investment Consultants	Professional Associations
 1. Mainstream								
1.1 Near term: Create a campaign to highlight Canadian impact investing successes and mobilize conversation on dispelling myths and misperceptions		■				■	■	
1.2 Near term: Align on a minimum standard for applying impact investing principles		■				■	■	
1.3 Long term: Create an impact investing taxonomy and disclosure standard		■		■	■	■		
 2. Develop Product								
2.1 Near term: Encourage the pooling of capital to create institutional-size impact investment opportunities		■	■	■	■	■	■	
2.2 Near term: Evaluate current impact investing product supply available to meet demand in the Canadian market		■	■		■	■	■	
2.3 Near term: Quantify asset owner demand for sustainable outcomes-focused and impact investing		■	■		■	■	■	
2.4 Long term: Develop capacity for financial institutions and others to create more retail products		■		■	■	■	■	
 3. Accelerate Capacity Building								
3.1 Near term: Launch a public awareness campaign to empower beneficiaries to drive change through their investment managers		■	■			■	■	■
3.2 Near term: Expand access to impact investing education offerings and promote existing thought leadership		■	■			■	■	■
3.3 Near term: Provide direct training opportunities tailored to specific stakeholder groups and investment decision-makers			■			■	■	■
3.4 Near term: Develop mechanisms for experimenting with impact investing		■	■			■	■	■
3.5 Long term: Embed impact investing into the education and certifications of future generations of investment professionals			■					

Academics	Experienced Impact Investors	Financial Institutions	Government	Industry Associations	Intermediaries and Advisors	OCIOs and Investment Consultants	Professional Associations
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4. Collaborate

4.1 Near term: Create mechanisms for shared due diligence and impact measurement capacity building		■			■	■	■
4.2 Near term: Support emerging fund managers to establish and develop track records		■			■	■	■
4.3 Near term: Empower existing impact investing industry associations to increase collaboration and coordination		■			■	■	



5. Advocate

5.1 Near term: Promote impact investing's alignment with fiduciary duty to encourage regulators to pay attention		■		■	■	■	■
5.2 Near term: Develop government capacity to provide catalytic capital and blended finance opportunities		■		■	■	■	■
5.3 Long term: Advocate for government and regulatory bodies to encourage impact investing by offering subsidies and tax incentives		■		■	■	■	■

A Call to Action

Canadian investors are already deploying billions of dollars through impact investing strategies. Momentum is building, and impact investing is expected to continue to grow. Mobilizing asset owner capital will be critical to accelerating the growth of the market and ensuring that more capital is being deployed to intentionally and measurably improve social and environmental outcomes.

Given the systemic issues threatening the financial viability of economic systems, we have to leverage every tool at our disposal. It is in our collective best interests to double down on impact investing and work collaboratively to overcome the barriers that are preventing its growth. We encourage asset owners, asset managers, policymakers, governmental decision-makers as well as educational institutions, industry associations and the financial sector as a whole to take ownership of these recommendations and collaborate to implement them, as we believe it will help unlock the potential, scale the impact investing market and generate positive outcomes for people and the planet.

“Impact investing should
be part of how we define
investment as a whole.”

 – Foundation Representative

About the Canadian Impact Investing Working Group

Impact investing holds immense potential to drive positive change by aligning financial goals with an intention for social and environmental impact. By bringing together like-minded investors, the [Canadian Impact Investing Working Group](#) wants to catalyze collaboration, innovation, and the adoption of best practices within the impact investing space in Canada. By working together, we want to mobilize the financial sector to adopt changes, prove that existing solutions can be successful and scale them with integrity.

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