Centre for
Social Innovation &
Impact Investing

REPORT

Social Venture Impact Investing: the Canadian Landscape

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LEAD AUTHORS
Bruno Lam
Dr. James Tansey

CONTRIBUTING RESEARCHERS
Angelina Madero
Arshaan Mehra
Colton Kasteel
Curtis Kothe
Leah Zhang
Mariana Martinez Rubio
Tanya Sharma

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ABOUT THE UBC SAUDER CENTRE FOR SOCIAL INNOVATION & IMPACT INVESTING (SAUDERS3i)

The UBC Sauder Centre for Social Innovation & Impact Investing (SauderS3i) is focused on leveraging business tools to advance social innovation and sustainability, through research, incubation, and application. SauderS3i works closely with impact investors to advance the market in Western Canada, by providing high quality research, advisory work on capital allocation strategies, and building a pipeline of innovative social ventures.

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1.0 INTRODUCTION & BACKGROUND

1.1 BACKGROUND

In the face of myriad issues, ranging from rising sea levels, declining affordability and widening inequalities, social innovation has emerged as a key pillar in designing solutions for complex social, environmental, cultural and economic problems. Social innovation manifests itself in many forms, from energy and infrastructure projects to policies and advocacy initiatives.

Many new approaches to tackling these entrenched problems have been developed through social ventures. In British Columbia, the number of social ventures grew by 35% between 2010-2015, with the number of for-profit ventures increasing by 42%.[1]

Growing in parallel with social innovation is the practice of social finance. Also known as impact investing, the deployment of capital towards assets that generate both a social or environmental impact, as well as a financial return, has increased substantially. The Global Impact Investing Network (GIIN) survey of impact investors indicates a near *five-fold* growth in assets under management earmarked for impact investing between 2014-2018.[2]

These two trends – the growing adoption of social innovation in change-making, as well as the merging of investments with social impact – have coalesced into a surge of investments into social ventures. Private equity and debt investments into social ventures consistently represent 20-40% of impact investments[3] - making them the most popular asset class (see Figure 1).

Despite the progress made over the past decade, impact investing into social ventures remains a nascent practice. Impact investors consistently rank the lack of viable investment products with strong track records as a major barrier to growth. Simultaneously, as social and environmental issues become increasingly severe, these new, socially innovative products and services need to get to market and scale their impact.

[1] Centre for Social Innovation & Impact Investing. (2015) "BC Social Venture Sector Labour Market Study, 2015" https://www.sauder.ubc.ca/Faculty/Research_Centres/Centre_for_Social_Innovation_and_Impact_Investing/Knowledge_Hub/~/media/Files/ISIS/Reports/Social%20Venture%20Labour%20Market%20Study%202015.ashx

[2] Calculations based on GIIN's Annual Impact Investor Survey 2014-2018. This figure does not take into account a growth in the number of investors surveyed. The growth of total AUM adjusted by number of investors surveyed is 2.74x since 2014. https://thegiin.org/research

[3] Calculations based on GIIN's Annual Impact Investor Survey 2014-2018. https://thegiin.org/research

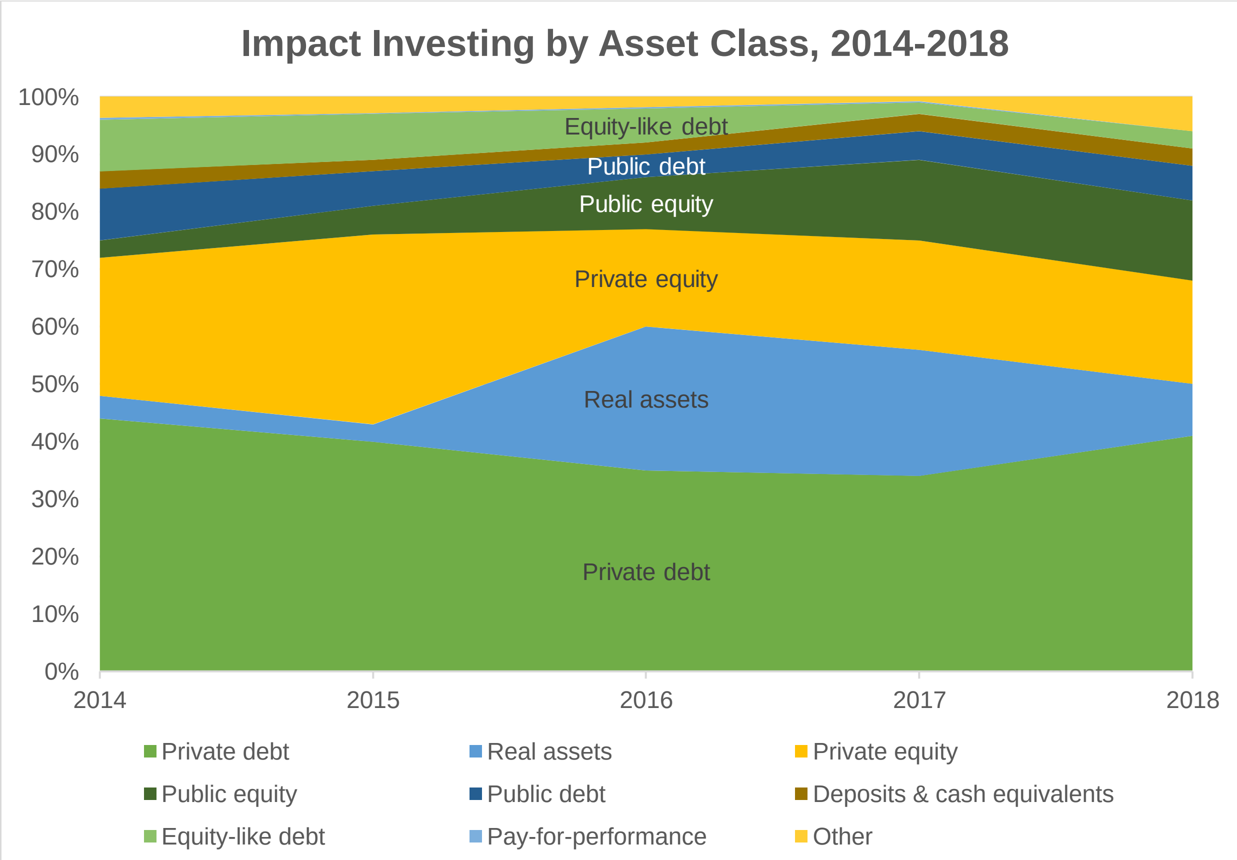

Figure 1. Impact Investing by Asset Class[4]

This report – entitled "Social Venture Impact Investing: the Canadian Landscape" – has the primary objective of describing the landscape for social venture impact investing in Canada. We undertake an extensive analysis of the demand and supply for social venture investments in order to provide recommendations for capital providers wishing to advance this ecosystem. The next section outlines the report's key research questions.

1.2 RESEARCH SCOPE & REPORT ORGANIZATION

The report can be segmented into three main research questions:

RESEARCH QUESTION	DESCRIPTION	SECTION
Demand-side: What is the market for social impact investments in social ventures?	We estimate the market size of the demand for social venture investment, as well as the major pain-points, friction points and barriers that social ventures face.	Section 2

[4] Calculations based on GIIN's Annual Impact Investor Survey 2014-2018. https://thegiin.org/research

Supply-side: What is the appetite for social venture impact investing from investors?	We analyze the investment profiles of a variety of investors, ranging from foundations and family offices, to banks and insurance asset managers; exploring if and how social venture investments fit into their investment portfolios.	Section 3
What can be done to better support social ventures in Canada?	We provide recommendations that address the issues facing stakeholders from both the demand and supply side.	Section 4

Section 2 provides a quantitative and qualitative analysis of the demand for impact investment. It provides an estimate of the minimum universe of investment demand, and highlights key barriers that ventures face at various stages of development. Section 3 explores the supply of capital from a diverse selection of investors, ranging from foundations and family offices to insurance asset managers and corporate venture capital arms. It also provides a brief analysis of the landscape of global and Canadian social venture funds. Finally, Section 4 summarizes the key insights from this research and provides recommendations for organizations interested in advancing the social venture ecosystem in Canada.

2.0 DEMAND FOR CAPITAL: SOCIAL VENTURES

2.1 DEFINING SOCIAL VENTURES

Social ventures come in a variety of shapes and sizes. While one investor may define a company that creates jobs and economic growth as impactful, another may narrow their definition to businesses with products or services that actively contribute to one or more of the UN Sustainable Development Goals.

While it is difficult to provide a blanket definition of what constitutes a social venture, we propose the application of three frameworks. The first two were created by Social Venture Connexion (SVX) Mexico and the Impact Management Project, while the third was developed by our research team.

FILTER 1. DOES THE VENTURE HAVE A NET NEGATIVE (DESTRUCTIVE, EXTRACTIVE) OR NET POSITIVE (TRANSFORMATIONAL, REGENERATIVE) IMPACT ON THE WORLD?

The Social Venture Connexion's (SVX) "Holistic Impact Investment Spectrum" provided us with a high-level perspective:

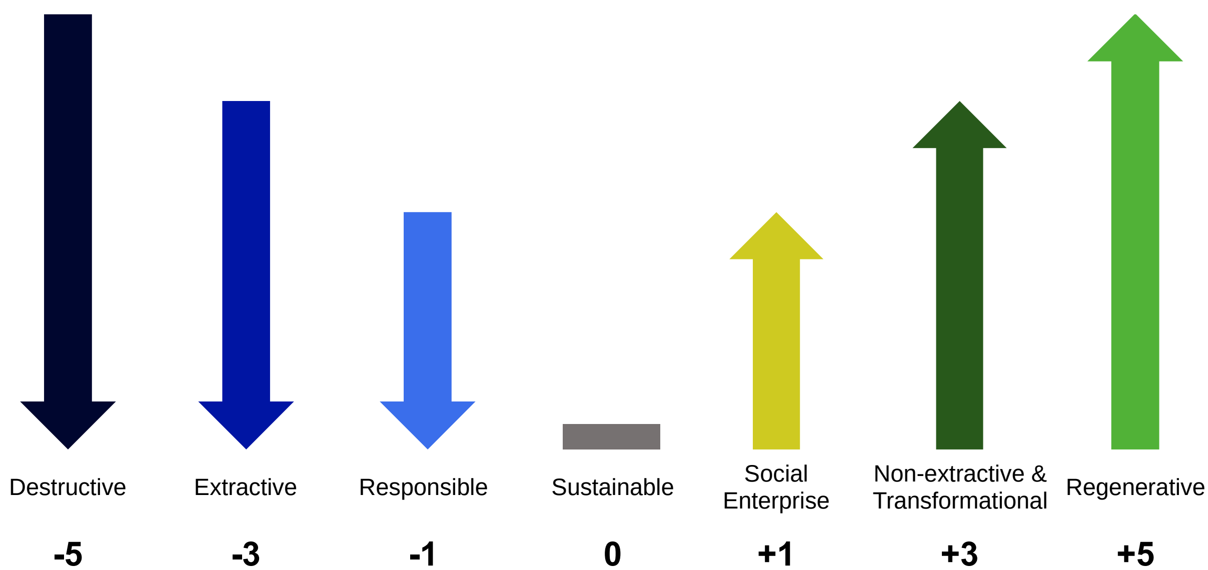

Figure 2. Holistic Impact Investment Spectrum - Adapted from SVX Mexico[5]

The spectrum describes a spectrum from companies that provide a "net negative" impact on the world, to those that generate a "net positive" impact. On the negative end, destructive and extractive companies are defined as companies that "create short-term profit and benefit through the extraction of resources from the system but ultimately deplete rather than grow the overall wealth of a system."[6]

Our definition of social ventures lies at the neutral/ positive impact end of the spectrum, in the range from 0 to +5 ratings. While it is simple to classify ventures at the extreme ends of the spectrum, those that are situated in the middle "grey" areas require further discussion. We explore these nuances using Filter 2.

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[5] Ortiz Montemayor, L. (2017) A New King of Impact Investment Spectrum: The Holistic Spectrum for Impact" https://medium.com/@lauraom/a-new-kind-of-impact-investment-spectrum-the-holistic-spectrum-for-impact-ac221a6b44c6
[6] Ibid.

FILTER 2. HOW DOES THE VENTURE ACHIEVE THEIR POSITIVE IMPACT?

In answering this question we found the Impact Management Project (IMP)'s "ABC" typology to be particularly useful. IMP categorizes positive impact into three types:

TYPE	DESCRIPTION
Act to avoid harm	The enterprise manages its operations to reduce negative impacts on their stakeholders, such as reducing their carbon footprint or paying appropriate wages.
Benefit stakeholders	The enterprise actively aims to improve the wellbeing of their stakeholders, for example, by training their employees with additional skills, or selling products that support good health and/or educational outcomes.
Contribute to solutions	The enterprise uses its capabilities to contribute to solving pressing social or environmental issues, for example, by providing services to underserved populations targeting positive health, education or financial outcomes.

Table 1. Impact Management Project - ABC Impact Typology[7]

This framework suggests a very important concept – all companies can have a positive impact regardless of whether they are selling a product or service that directly contributes to solving a social or environmental issue. A traditional mom-and-pop restaurant can provide stable income and positive contributions to a local population facing barriers to employment. A technology start-up can adapt their avatar comic product to help students tell stories about their experience with bullying.[8]

This idea of an inclusive definition of "impact ventures" permeated many of our interviews, where we learned about enterprises whose products or services may not be directly contributing to solving an issue, but the way they manage their operations, or the way they treat their employees can arguably be just as "impactful" as a social enterprise. Thus, for our research, we did not want to be exclusive in our definition of impact, but rather inclusive of ventures whose impact came from more than their core product or service. As a result, we narrow our focus on ventures that "Benefit stakeholders" and "Contribute to solutions".

FILTER 3. WHAT IS THE SOURCE OF THEIR POSITIVE IMPACT?

We recognize that a company's positive impact can originate from a variety of sources in their business model. For example, a company can work with their human resources team to provide financial planning workshops for their workforce, or they can work with their supply chain partners to reduce their greenhouse gas emissions. At the same time, their source of impact can be core to the products and services they sell, meaning the more successful their product or service, the more the company contributes to solving an issue.

[7] Impact Management Project. "How enterprises manage impact" https://impactmanagementproject.com/impact-management/how-enterprises-manage-impact/
[8] MaRS Discovery District. (2013). Case Studies in Social Innovation: Bitstrips for Schools. https://www.marsdd.com/mars-library/case-studies-in-social-innovation-bitstrips-for-schools/

We defined three “sources” of impact to narrow our research:

SOURCE	DESCRIPTION	EXAMPLE
Core product/ service	The enterprise’s main product(s) or service(s) is designed specifically to solve a particular social/ environmental issue. The majority of the enterprise’s revenue is therefore driven by their impact on the chosen issue.	Brighter Investment designs a financial product to help low-income students attend post-secondary school in Ghana.
Adaptive or Supportive product/ service	The enterprise’s main product(s) or service(s) can be: 1. Adaptive: The product/ service can be adapted to solve some social or environmental issue, but solving the issue was not intended to be the main function of the product/ service 2. Supportive: The product/ service is designed to support another group who is directly contributing to solving an issue. They are “one degree” removed from the social impact.	Adaptive: Bitstrip’s avatar comic product is mainly used for online messaging platforms, but was adapted into “Bitstrips for Schools” to help in a classroom setting, simultaneously helping students share stories about bullying or abuse. Supportive: Ayogo helps physicians and other health organizations better engage patients and improve health outcomes.
Operations	The enterprise’s operations management is the main source of their impact. This could include managing their human resources to improve employee wellbeing, or their supply chain to reduce their carbon footprint.	CleanStart is a junk removal and cleaning company that hires individuals with barriers to employment.

Our research uses these three filters to define a social venture. To summarize:

1. Ventures are situated on the “net positive” end of the SVX Holistic Impact Investment Spectrum
2. They are then narrowed into the “Benefit stakeholders” and “Contribute to solutions” categories of Impact Management Project’s ABC typology.
3. Lastly, the venture’s main source of impact can be clearly defined as (1) “Core” to their product/ service, (2) an “Adaptive/ Supportive” product/ service, or (3) measured by the way they manage their operations.

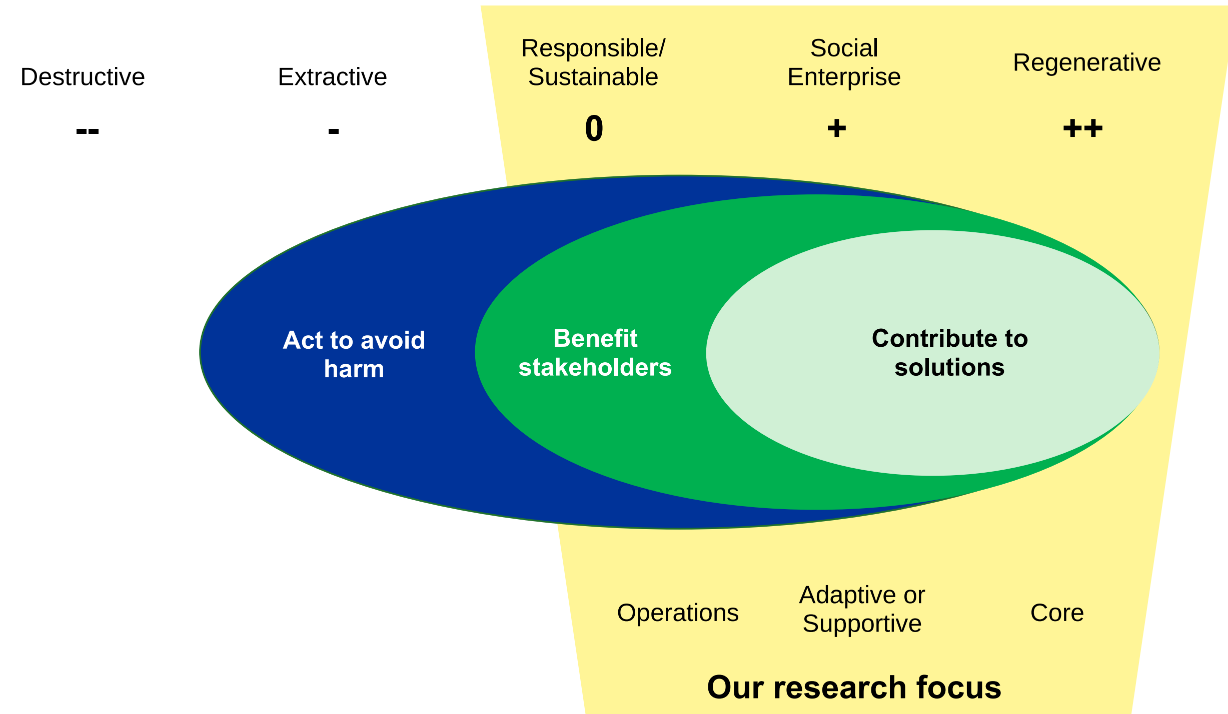

Figure 3. Our research focus

In Section 2.2, we estimate the minimum market size of social ventures in Canada. When classifying a venture as a "social" venture, we asked the following questions:

FILTER LEVEL	QUESTIONS	SOURCE
n/a. Characteristic qualifiers	• Are they based in Canada? If no, do they have substantial operations in Canada? • Are they for-profit? **→ If yes to both questions, move on to Filter 1.**	• Company website • LinkedIn page • Crunchbase "Company Type" field
1. Does this venture have a net positive or net negative impact on the world? (SVX Holistic Impact Investment Spectrum)	• Does this venture indicate they are focused on improving some social or environmental issue (if possible, focused on any of the UN Sustainable Development Goals)? **→ If yes, move on to Filter 2.**	• "About" page • Mission and Vision statements
2. How does this venture achieve their positive impact? (IMP ABC Typology)	• Does this venture go beyond acting to avoid harm, and instead actively aim to benefit their stakeholders or contribute to solutions? **→ If yes, move on to Filter 3.**	• Mission and Vision statements • Product and Services
3. What is the source of their impact?	• Does the venture have a product/ service with a core purpose of	• Products and Services

	contributing to solutions? → **If yes, include in research.** • Has the venture adapted their product/ service to solve some issue? Or, does their product/ service support a secondary group with a social mission? → **If yes, include in research.** • Does the venture's operations management indicate they are intentionally improving some stakeholder groups' wellbeing? → **If yes, include in research.**	• Company story, marketing, press releases, news articles • B-Corp Assessment

2.2 THE MARKET SIZE OF SOCIAL VENTURES IN CANADA

We were able to identify 2,575 unique ventures across 44 incubators and accelerators in Canada. Out of the 2,575, we classified 698 (27%) as social ventures. This section discusses the quantitative aspects of our research.

2.2.1 METHODOLOGY

To create a database of social ventures in Canada, we utilized the websites of 44 incubators and accelerators. The majority of these institutions have a robust list of supported ventures; both historical and current. These websites generated all 2,575 unique ventures for our analysis, at which point our team applied the framework defined in Section 2.1 to identify which fit the designation of "social venture".

Once classified as a social venture, we harvested the following data from the corresponding source.

DATA	SOURCE
Location	LinkedIn; Company website
Founded Year	LinkedIn; Company website
Number of employees	LinkedIn; Company website; Crunchbase
Sector	Products and services, Company "About" page
Funding (amount, type, year, investor)	Crunchbase; ImpactBase, Securities and Exchange Commission (if USA investor); SauderS3i granting and funding databases (e.g. Sustainable Development Technology Canada; Ontario Centres of Excellence; BC Innovative Clean Energy Fund); other funding databases (e.g. ImpactBase); Investor websites

A note on the funding data:

- We segmented the capital investments into five stages/ rounds: pre-seed (grants, crowdfunding, friends and family rounds), seed, Series A, Series B, Series C and beyond. These stages are typically identified on Crunchbase. If they were not listed, we looked at the venture's funding history to make targeted assumptions - for example, if they had received multiple rounds of grant financing in previous years, we classified earlier rounds as pre-seed and later rounds as seed.

- Investment amounts were not always disclosed. When unavailable, we searched several other databases, including the Securities and Exchange Commission's filings, granting databases, and online investor portfolios. Otherwise, funding amounts were marked as "unknown".

2.2.2 LIMITATIONS

COVERAGE OF INCUBATORS AND ACCELERATORS

It is difficult to ascertain the full number of incubators and accelerators in Canada, let alone the total number of social ventures. For instance, although we were able to find data from 44 incubators and accelerators, estimates of the total number of these organizations in Canada ranges from 27 to 150.[9, 10] However, as a reasonable proxy for this study, all the major incubator and accelerator programs in Canada are included.

NOT ALL VENTURES GO THROUGH INCUBATORS AND/ OR ACCELERATORS

Not all ventures go through Canadian incubator or accelerator programs. In fact, many of the social ventures identified in our interviews were developed through other means, such as organic growth, bootstrapping, university courses and non-Canadian venture programs.

CONSIDERING THEIR "IMPACT"

As previously mentioned, some ventures create positive social and environmental impacts primarily through their operational and management practices – not their product or service. If the venture does not actively document how their operations improve the wellbeing of their stakeholders, we are unable to classify them as a "social venture."

To the best of our understanding, these data have not been collected or analyzed since impact investing and social innovation has emerged across Canada. While we do not suggest the data are an exhaustive representation of the Canadian market, we believe the database provides the *minimum universe* of social ventures. We provide a sensitivity analysis of this in Section 2.4.

2.2.3 CAPITAL INVESTMENT AMOUNTS – BY STAGE

OVER $1.5 BILLION INVESTED INTO 285 VENTURES FROM 2007-2018.

Out of the 698 identified social ventures, at least 285 (41%) of the ventures received funding of some form.[11] The 285 ventures raised an aggregate of 400 investment rounds, representing C$1.59 billion in financing between 2007-2018.[12] The majority of the rounds were concentrated in the seed and angel stages (67%), while growth stage (Series A and B) and late stage (Series C) funding comprised 30% and 2% of the total number of rounds, respectively. These figures, compared to the market for traditional venture capital financing, show a slight bias towards early-stage investments.

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[9] MaRS Discovery District. (2013) "Canada's Startup Accelerators: A Closer Look". Retrieved from: https://www.marsdd.com/wp-content/uploads/2013/07/20130612-seedingsuccess.pdf

[10] Centre for Digital Entrepreneurship + Economic Performance (DEEP). (2015). "Accelerating Canada's Startup Ecosystem". Retrieved from: http://deepcentre.com/billiondollarfirms/do-accelerators-and-incubators-make-a-difference/mapping-canadas-accelerator-and-incubator-ecosystem-2

[11] This figure is likely an underestimate as not all ventures disclose financing details. The other 485 were either not funded, or did not have any information available online indicating financing from external sources.

[12] It is worth noting the Crunchbase database was launched in 2007, meaning data in the late 2000's is more sparse and investment amounts are more heavily weighted towards 2012-2018.

CAPITAL STAGE	TRADITIONAL VC	SOCIAL VENTURE FINANCING	DIFFERENCE
Early Stage (Seed & Angel)	59.9%	67.5%	+7.7%
Growth Stage (Series A, B)	33.0%	30.2%	-2.8%
Late Stage (Series C and beyond)	7.2%	2.3%	-4.9%

Table 2. Comparison of traditional VC vs. social venture financing investment activity[13]

Using the data we gathered, we were able to map out how the investment activity is concentrated across different stages of financing. It was important to make a distinction within the "Early Stage" classification. Many social ventures receive philanthropic financing in the form of grants, charitable donations, or crowdfunding campaigns. By digging through press releases and social media, we were able to identify these rounds for the social ventures in our database. We classify these very early stage investments as "pre-seed".

In following graph, the investment activity is mapped out throughout five main financing stages. The data identify two key friction points on both sides of the seed stage: (1) Firstly, we identified pre-seed investments as a pain-point for finding capital for social ventures. While ventures are aware of the numerous grants and related programs available to them, there remains a lack of flexible pre-seed capital that allows them to invest in their business as needed. Rather, most pre-seed investment programs have stringent policies to guide the funding recipient's expenditures. For example, some grants prohibited them from hiring new staff, but must spend the funding on technology development. (2) Secondly, post-seed capital for ventures entering growth stages is lacking. Although the reason the data show a drop-off in financing at the Series A stage may be simply due to a high mortality rate for start-ups, our interviews with ventures at this stage also reveal a lack of patient capital to guide ventures through this "valley of death". We go into more detail on these friction points in Section 2.3.

[13] Source for traditional VC statistics: Rowley, J. D. (2018). "Q1 2018 Global Investment Report: Late Stage Deal-Making Pushes Worldwide VC to New Heights." *Crunchbase News*. Retrieved from: https://news.crunchbase.com/news/q1-2018-global-investment-report-late-stage-deal-making-pushes-worldwide-vc-new-heights/

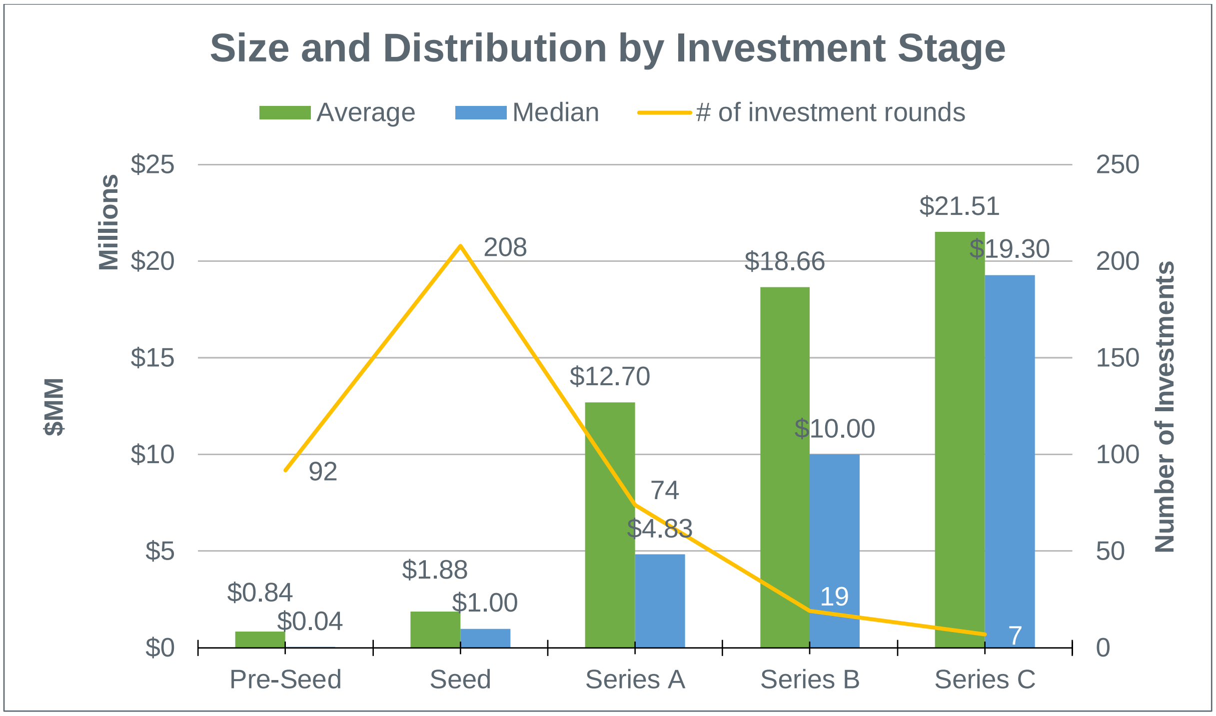

Figure 4. Size and Distribution of Investment stage

STAGE	TOTAL	AVERAGE	MEDIAN	MINIMUM	MAXIMUM
Pre-seed	$65,387,515	$838,301	$42,437	$1,000	$13,900,000
Seed	$301,878,399	$1,875,021	$1,000,000	$10,000	$15,000,000
Series A	$787,682,637	$12,704,559	$4,831,316	$50,000	$225,000,000
Series B	$279,900,000	$18,660,000	$10,000,000	$1,600,000	$75,000,000
Series C & Beyond	$150,600,000	$21,514,286	$19,300,000	$4,800,000	$58,000,000
TOTAL	$1,585,448,551				

Table 3. Investment sizes by stage

	RANGE								
STAGE	<$100,000	$100,000-$500,000	$500,000-$1M	$1M-$2M	$2M-$5M	$5M-$10M	$10M-$20M	$20M-$50M	>$50M
Pre-seed	48	14	4	5	5	3	1	0	0
Seed	19	40	23	38	34	4	6	0	0
Series A	3	3	4	13	14	14	12	0	0
Series B	0	0	0	1	0	7	2	4	0
Series C & Beyond	0	0	0	0	1	2	2	1	0

Table 4. Investment size range by stage

STAGE	# OF INVESTMENT ROUNDS	% OF ALL INVESTMENT ROUNDS
Pre-seed	92	23.00%
Seed	208	52.00%
Series A	74	18.50%
Series B	19	4.75%
Series C & Beyond	7	1.75%
TOTAL	400	100.00%

Table 5. Distribution of investments by stage

$50M-$160M IN ANNUAL DEAL FLOW FOR EARLY-STAGE INVESTMENTS.

Based on the social ventures retrieved from the 44 incubators, we estimate annual deal flow to range from $50M-$160M for early-stage investments. The estimate depends on how "early-stage" is defined. Table 6 below provides details on the estimates.[14]

	PRE-SEED	PRE-SEED & SEED	PRE-SEED, SEED & SERIES A
Average Annual Deal Flow	$6.6M	$47.8M	$159.2M

Table 6. Estimated annual early-stage investment deal flow

It is worth noting that this estimate is not the total investment *demand*, but rather the amount of capital that was *actually raised*. We suggest that this figure is representative of the *minimum universe* of investments into early-stage social ventures. There are several factors to consider including:

1. The database used only a sample of incubators; not all ventures go through an incubator program,
2. Some ventures did not raise all the capital that they intended to raise, and
3. It does not take into account the ventures that tried to raise money but ultimately failed.

Out of the 400 investment rounds recorded, 208 (52%) were classified as seed stage investments[15], while 92 (23%) were classified as "pre-seed" investments.[16] There is a steep drop off in investment rounds after the seed stage, for a variety of reasons. The well-documented low survival rate for start-ups[17] can be a factor, as fewer and fewer ventures make it past the difficult first years. Another reason could be unique to social ventures: few actually require structured Series A, B, or C financing. Given the non-traditional business models of some social ventures, there are many that do not have traditional exit strategies; Silicon Valley-style venture capital may simply not be appropriate for social ventures. Rather, some ventures may choose to grow organically, or seek alternative sources of financing[18] that deviate from traditional models. The key insight derived from this analysis is the prevalence and importance of pre-seed and seed-stage investments in supporting early-stage social ventures.

[14] These figures are estimated based on taking the average of investment data from 2012-2017. Data from 2007-2011 is sparse as and likely not reflective of the true level of activity.

[15] The ventures' financing data are self-reported or crowdsourced. We recognize there are potential risks of mislabeling investment rounds. We assume the best judgements for labelling investment rounds are provided by the ventures themselves.

[16] We define pre-seed as financing raised in the early years since the founding date, mainly sourced from grants, crowdfunding, friends and family.

[17] Hoque, F. (2012) "Why Most Venture-Backed Companies Fail" Fast Company. https://www.fastcompany.com/3003827/why-most-venture-backed-companies-fail

[18] See: Transform Finance (2017) "Innovations in Financing Structures for Impact Enterprises: Spotlight on Latin America" http://transformfinance.org/briefings/2017/9/1/innovations-in-financing-structures

EARLY-STAGE INVESTMENTS MAINLY RANGE FROM $100,000-$2M.

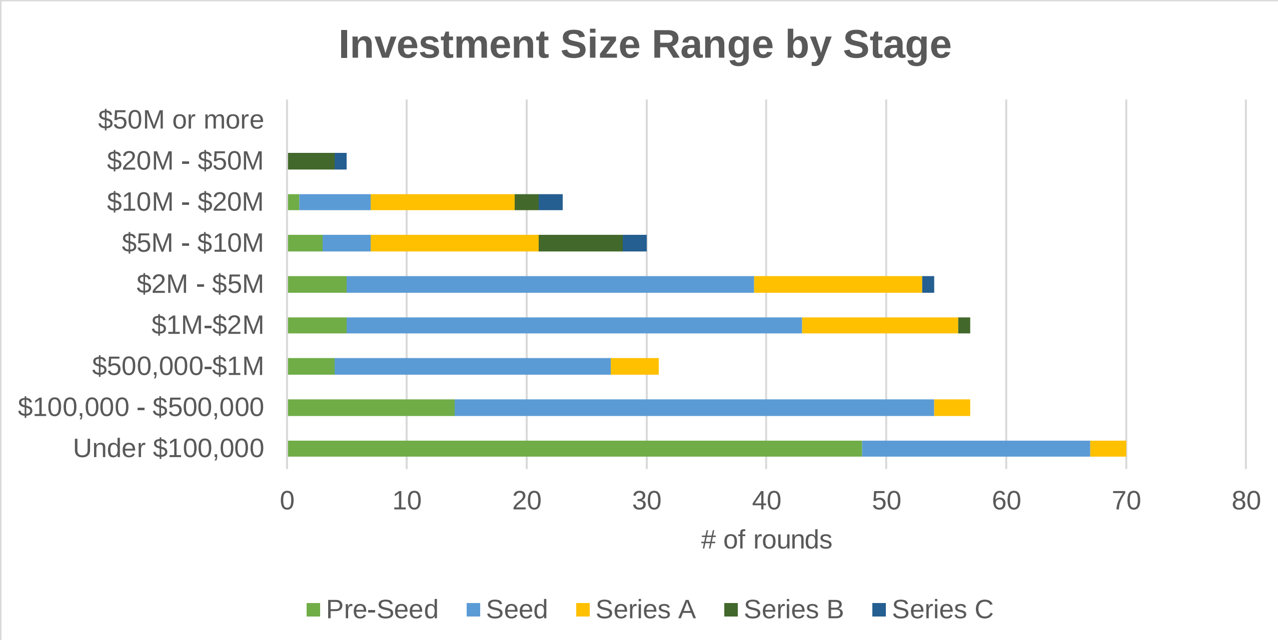

Figure 5. Investment Size Range by Stage

The majority of pre-seed investments were under $100,000 and provided primarily by incubator or accelerators, government agencies, or crowdfunding platforms. Capital at this stage is generally used to develop a low-fidelity prototype to explore the target market of the company, thus serving a critical role in early venture development. On the other hand, there is less consistency in the size of seed-stage rounds. Broadly speaking, seed rounds tend to be between $100,000-$2M, with a median of $1M. This variation in investment size is likely a result of the different capital needs of early stage ventures, based on their sector, product type, and intended scale of operations.[19]

2.2.4 SECTOR

The types of social ventures identified were categorized into five sectors. Not surprisingly, the sectors with the most ventures were health- and climate-related.

SECTOR	# VENTURES (%)	SUB-SECTORS
Climate	173 (24.8%)	Batteries and related technologies Electric vehicles & other transportation Emissions reduction technologies Clean and renewable energy Energy efficiency Waste Water management
Education	63 (9.0%)	Education technology platforms Education support and capacity building
Food	75 (10.7%)	Agriculture and agritech Alternative protein Food waste

[19] There appears to be an absence of rounds in the $500k-$1M range; however, this is likely a result of our methodology. If a venture completed multiple seed rounds within a short time span, these rounds were combined in the database as a single round. It is likely that this gap is a result of the methodology used, pushing many of these combined rounds to the $1M-$5M range.

		Nutrition and healthy eating Food safety
Health	313 (44.8%)	Medical hardware Diagnosis and monitoring Wearables, lifestyle products
Other	74 (10.6%)	Accessibility Disaster protection and response Ethical retail Gender equity Non-profit technology

- Health: This category of ventures was the most prominent in our research, representing almost half of the total ventures in the database (44.8%). Ventures categorized in health serve any of a wide variety of roles in improving human health and healthcare outcomes. Sub sectors include medical devices, biotechnology, and healthcare software/applications.

- Climate: 24.8% of the ventures in our database were cleantech ventures, with subsectors of cleantech including renewable energy, waste water management, energy efficiency, and electric vehicles. According to Analytica Advisors' 2017 Canadian Clean Technology report, there are over 800 Canadian businesses operating in cleantech who collective earned more than $13B in revenue in 2015.[20]

- Education: 9.0% of the ventures in our database were ventures in the education sector. Education ventures consist of businesses whose operations improve upon existing educational platforms and practices, or create new products to improve educational practices and/ or access to education. In 2017, global educational technology (edtech) investment hit a record high of $9.52B – a 30% increase from the previous high set the year before.[21]

- Food: Food ventures comprised 10.7% of total ventures. Ventures were categorized in the food sector if they demonstrated potential to improve agricultural outcomes while minimizing environmental or social stresses, and/ or provided alternative, climate and animal welfare-friendly food products. With a steadily growing global population, activity in this space is only expected to grow.

- Other: This category consists of all ventures that fit into our definition of a social venture, but did not belong to any of the conventional social sectors above. About 10% of all social ventures fit under this category. There was a wide range of ventures included in "other", whose prominent sub sectors included: disaster protection and response, non-profit technology, fintech, and ethical retail.

2.2.5 OTHER CHARACTERISTICS

GEOGRAPHY

The social ventures originated in 74 cities across all 10 provinces, with the majority headquartered in Ontario (48%) and British Columbia (27%). Alberta and Quebec were the second most active regions, home to 7% and 11% of the ventures, respectively.

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[20] Analytica Advisors (2017). "2017 Canadian Clean Technology Industry Report". Retrieved from: http://analytica-advisors.com/sites/default/files/2017%20Canadian%20Clean%20Technology%20Industry%20Report%20Synopsis%20FINAL.pdf

[21] Metaari (2018). "Global Edtech Investment Surges to a Record $9.5 Billion in 2017." *Puget Sound Business Journal.* Retrieved from: https://www.bizjournals.com/seattle/prnewswire/press_releases/Washington/2018/01/09/MN83840

This distribution is likely to result of the venture databases from which we built the database. 39% of the incubators/ accelerators we used for our database was based in Ontario, 10% in British Columbia, 15% in Alberta and 12% in Quebec.

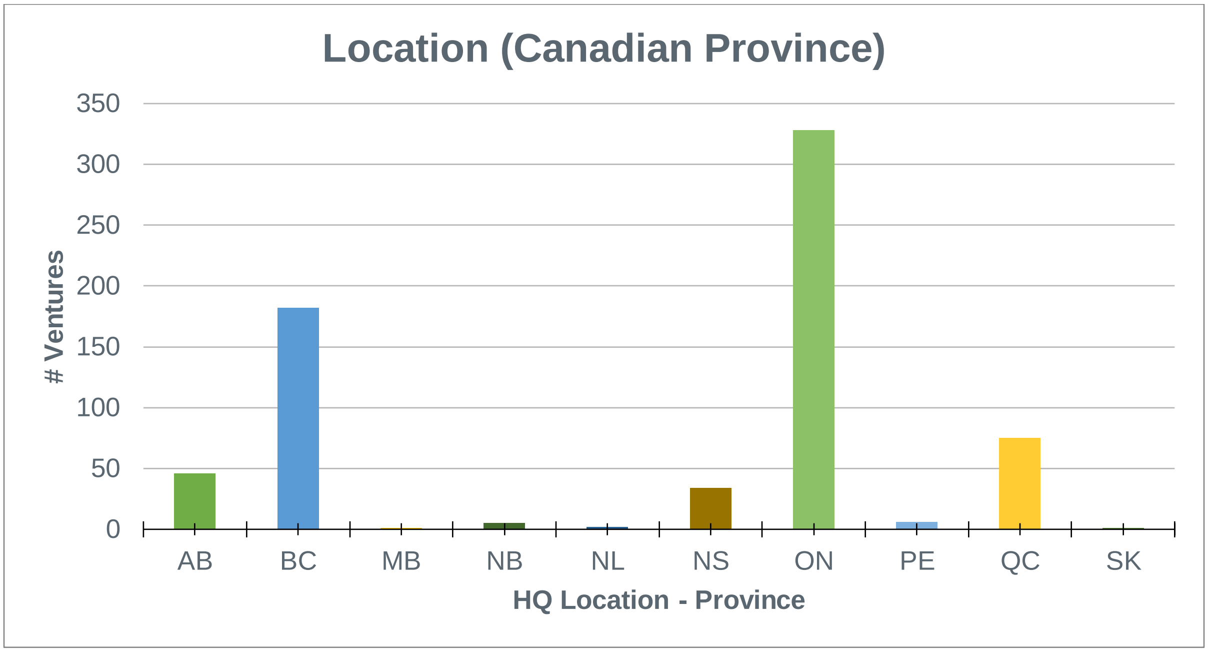


Figure 6. Geographic distribution of social ventures

COMPANY AGE

60% of the ventures in our database are less than 5 years old (formed in 2013 or later), while only 13% were older than 10 (formed in 2008 or earlier).

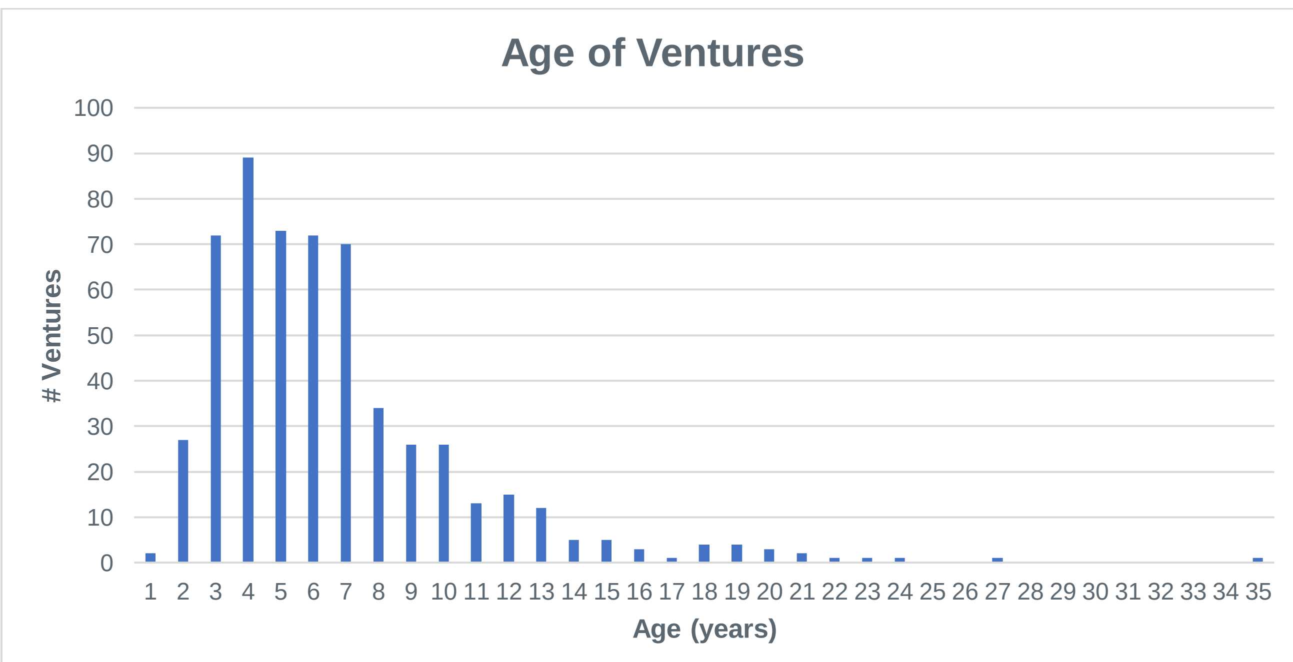


Figure 7. Company age distribution

COMPANY SIZE

As with most start-ups, the companies are staffed with a small team. The majority – 338 ventures, or 63% – range between 0-10 employees. The median company size is seven employees.

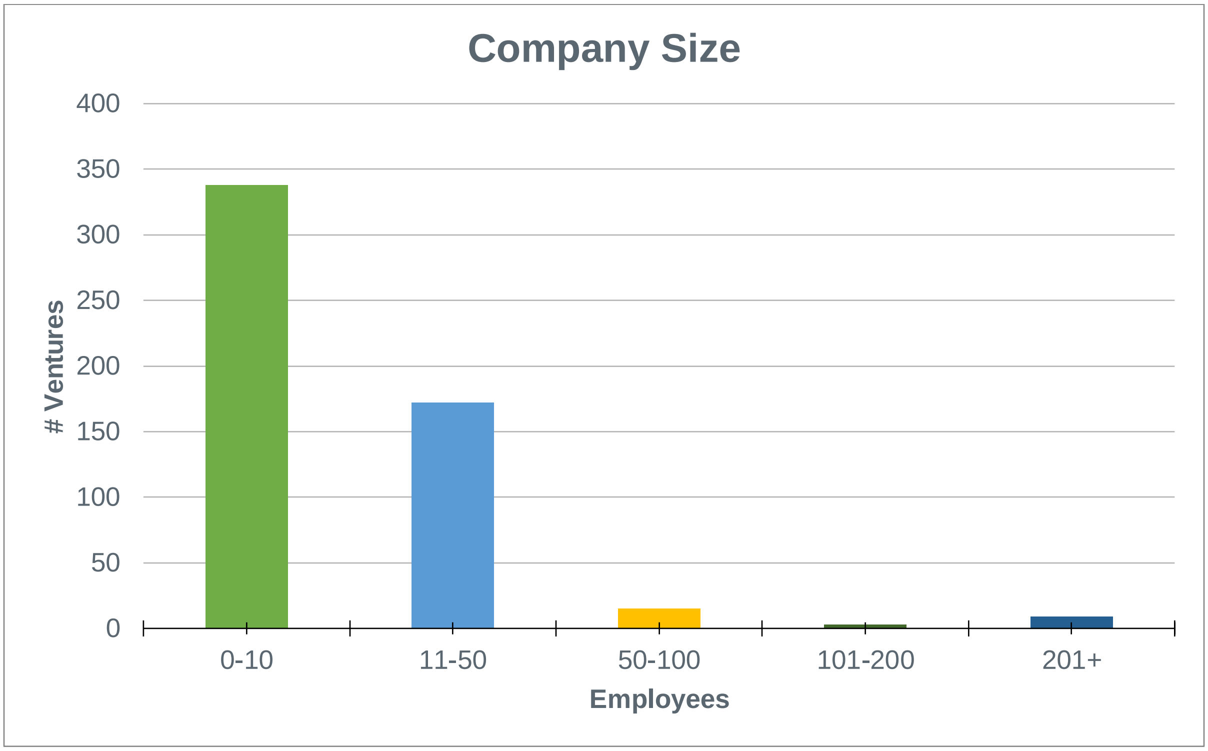


Figure 8. Company size

2.3 RAISING CAPITAL: PAIN POINTS & BARRIERS

To go beyond the quantitative data and understand the nuances and dynamics of raising investments from the social ventures' perspective, we conducted interviews with 25 social ventures. The sample of interviewed ventures was diverse, varying in sectors, financing stage, revenue stage and geographic location. Appendix 1 provides a summary of the ventures' backgrounds.

Figure 9 combines both the quantitative and qualitative data to illustrate the journey that ventures take to raising financing. The x-axis represents the business and financing stages and the y-axis represents the difficulty in raising funds. We identify four key stages in the social venture financing journey:

1. Demonstration Financing Struggle
2. Transition Financing Gap
3. Commercialization Financing Influx
4. Growth Financing Challenge

When describing the venture business stage in this section, we reference language used by Village Capital's VIRAL Pathway.[22] We echo Village Capital's call for ventures and investors to use a precise and consistent language to describe venture investment readiness.

[22] Baird, R. (2017). "Why Most Entrepreneurs Hate Fundraising – And How to Fix It." *Medium.* Retrieved from: https://medium.com/village-capital/entrepreneurs-and-vcs-need-to-be-more-precise-in-the-way-they-talk-to-each-other-3e714e7a5245

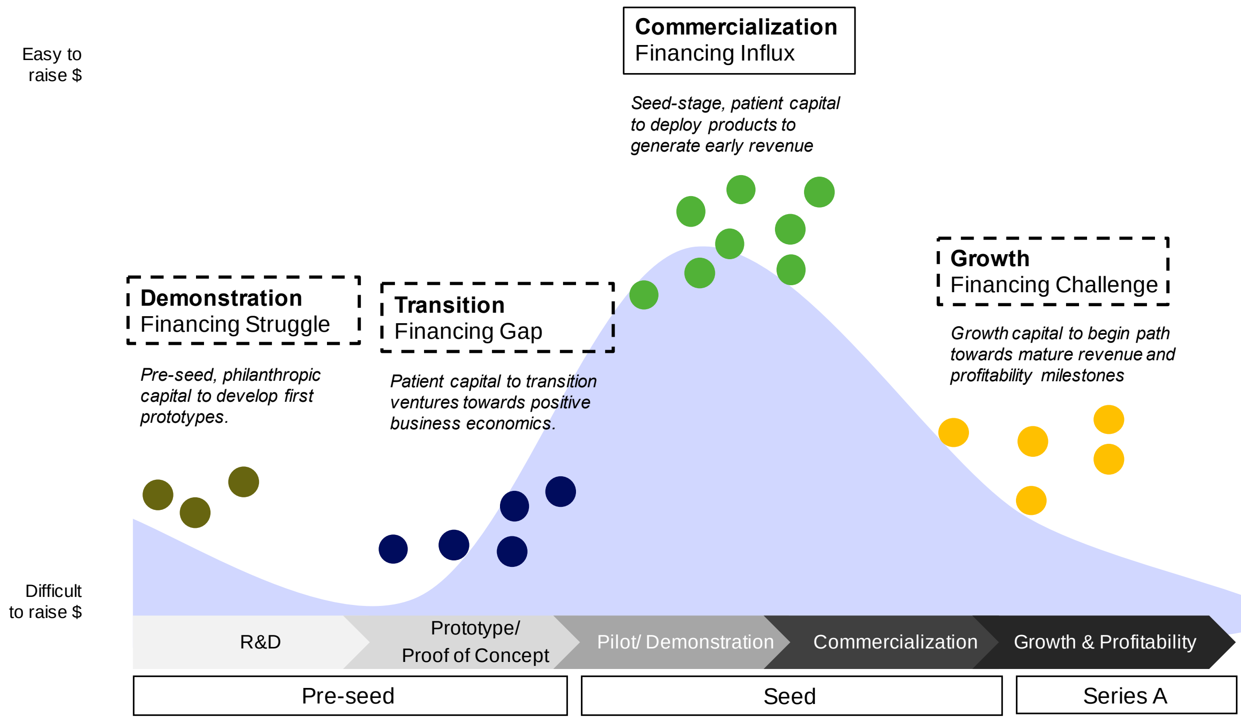


Figure 9. Social venture financing stages

2.3.1 DEMONSTRATION FINANCING STRUGGLE

STAGE OF VENTURE DEVELOPMENT

This segment is defined by ventures that struggle to raise initial capital to build a working prototype and test their target market. The capital required at this stage varies based on the venture's industry and whether it is developing a hardware or software product, but is generally considered to be pre-seed. Common ticket sizes at this stage range from $10,000-$50,000. The ventures at this stage have succinctly identified a problem and articulated a solution that needs to be further developed. Ventures who struggle at this stage tend to face challenges tapping into sources of small injections of early capital, such as grants.

COMMON BARRIERS

The barriers faced at this stage are diverse, largely depending on the particular business model, product offering and team make-up of the venture. We were able to interview a few ventures at this stage (or had recently left this stage), and two particular barriers were consistently cited.

BARRIER	DESCRIPTION
Characteristics of Founder(s)	Female entrepreneurs of early-stage social ventures expressed frustration with fundraising as they face a different, more critical investor perspective throughout the process. A study published in the Harvard Business Review found that when pitching, males faced a majority of questions that were "promotion" oriented and focused on positives such as future aspirations and past successes. Conversely, females faced a majority of question that were "prevention" oriented and focused on concerns such as safety and security.[23] Due to the negative framing of questions, these female-led ventures faced a greater challenge to financing and were much more unlikely to raise

[23] Kanze, D., Laura Huang, Mark A. Conley, E. Tory Higgins (2017) "Male and Female Entrepreneurs Get Asked Different Questions by VCs – and It Affects How Much Funding They Get" *Harvard Business Review*. Retrieved from: https://hbr.org/2017/06/male-and-female-entrepreneurs-get-asked-different-questions-by-vcs-and-it-affects-how-much-funding-they-get?

	money holding all else equal. The report further found that after controlling for other venture and entrepreneur-specific characteristics, question framing explained the entirety of the gender financing gap.[24] Age was also a concern raised by interviewees. Young entrepreneurs mentioned they felt they had a lack of credibility with potential investors due to their age and lack of an entrepreneurial track record. Building upon these challenges, success in financing often has to do with the size of one's network. This is a disadvantage to young entrepreneurs who lack extensive work experience and the associated network that comes with it. Therefore, they struggle to connect with investors and are less likely to have the pre-existing relationships that help facilitate investment. Furthermore, young entrepreneurs have an innate disadvantage because they are unlikely to have as much personal capital to invest in their ventures. Alternatively, they can try to raise more financing at a pre-seed stage but, as mentioned previously, this is challenging without proof of traction.
Access to investors	Ventures require like-minded, values-aligned and risk-taking investors to make it through this particularly challenging stage of business development. For entrepreneurs without previous entrepreneurial successes, there is a struggle to successfully raise initial funding. Furthermore, challenges associated with the venture's product can lead to financing difficulties at this stage. If the product is serving a low-income group, or is fundamentally novel to the sector, the company may have a shallow track record thereby presenting challenges to gaining investors' trust. Without a strong support network of mentors and supporters to advocate for the venture, it is quite difficult to find such investors. In fact, multiple ventures cited the role of pure chance in meeting their very first investors, whether it was through a plane ride or fortunate encounter. Throughout our interviews, we heard the clear need to take the pure chance element out of these encounters and better facilitate channels for investor-investee meetings.

CAPITAL AVAILABILITY

It is worth noting that this stage is not labelled a financing "gap", as interviews have revealed that ventures believe there is an abundance of grants available. It is, however, difficult to identify which sources are relevant and the constraints on the use of grants do not always align with venture needs. For example, there is an abundance of hiring grants but grants for equipment and facilities are harder to come by. This brings to light a "chicken and egg" problem: ventures at this stage require initial funding to complete their research and development to build a minimum viable product, while investors want to see traction before providing the necessary funding. Given the inability of some ventures to tap into grant funding and on-board investors at this crucial early stage, it is a common period for venture failure.

2.3.2 TRANSITION FINANCING GAP

STAGE OF VENTURE DEVELOPMENT

While this second stage overlaps with the "Demonstration Financing Gap", it is important to distinguish between ventures undergoing the ideation and prototyping stage (as discussed in the previous section on the demonstration stage), and ventures with their first products on the market beginning to earn revenue. At this stage, ventures tend to be transitioning from a pre-revenue to a revenue stage. They have

[24] Kanze, D., Laura Huang, Mark A. Conley, E. Tory Higgins (2017) "Male and Female Entrepreneurs Get Asked Different Questions by VCs – and It Affects How Much Funding They Get" *Harvard Business Review*. Retrieved from: https://hbr.org/2017/06/male-and-female-entrepreneurs-get-asked-different-questions-by-vcs-and-it-affects-how-much-funding-they-get?

identified a cost-effective method of building their product and have a clear understanding of their target market, but they have yet to obtain an established customer base.

COMMON BARRIERS

At this stage, ventures are unable to robustly prove their product-market fit, nor are they able to prove their sales map their projected figures. While they have a strategy to deliver the necessary metrics (sales revenue, number of users, positive unit economics), the capital available to them is not quite adequate: grants, crowdfunding, and "family and friends" rounds are too small to help them achieve the scale they need, and larger, more structured seed funds consider them too early and too risky for investment. Yet, this represents a crucial stage of business development. Given the need for capital to market, distribute, and manufacture products, it is challenging to transition to stable sales and revenues without the necessary investment support.

BARRIER	DESCRIPTION
The "Like Uber But For" Problem	Ventures that occupy a unique niche and are pioneers in their field face greater difficulties raising funds. It was perceived that investors feel more comfortable investing in a business model that has been implemented before. Even if the product is new, but can be associated with an existing model, the investment then becomes familiar enough for investors to understand. We frame this as the "Like Uber But For" problem: a venture that can demonstrate how their product is similar to an existing model (e.g. "Like Uber"), but adds a twist for differentiate it (e.g. "But for scooters"). Ventures that have a widely-known comparable appear to face fewer hurdles raising financing than a venture with no precedent. In Appendix 2, we outline the degree to which a venture is pioneering. The ventures we interviewed that are considered "Pioneering" cited high levels of difficulty raising funds, while ventures with more familiar products faced relatively less roadblocks.
Early Traction	The most cited reason for a lack of success in fundraising was insufficient traction. Based on the interviews, ventures in the pre-revenue stage faced significantly more difficulties raising capital (88% of interviewees faced difficulty) in their most recent/current round, when compared to ventures in the revenue stage (50%). As expected, investors are very cautious about pre-revenue ventures, as they lack validation and the proven product-market fit that comes with selling their product or service. There is a greater perceived risk of investing in pre-revenue ventures because they do not have a track record to indicate their potential for future success.
Hardware vs. Software	The type of product being sold or developed by a venture was also an important factor to their success raising funds. Overall, we found that ventures with hardware products struggle more than those developing software products. This is mainly due to the fact that hardware products tend to have higher costs of development, longer cycles of iterations during their research and development phase, require higher amounts of capital expenditure, and take longer to gain traction and scale. Hardware ventures tend to have higher product development costs, meaning their business success often depends on their ability to secure pre-seed capital. To compound the problem, however, there is a lack of pre-seed capital for hardware ventures. In an article, Kurt Kuhlmann of Amped Innovation (a company that provides pay-as-you-go solar home systems) states: "In my experience, there is very little pre-seed money until a company is ready for full production and has 1,000 units in the field and orders in hand. It's a long slog to get to that point of course. And with hardware, there is no inexpensive path to that point."[25]

[25] Pothering, J. (2018) "Hardware is hard: Impact investors overcome obstacles to back a new crop of makers." *ImpactAlpha*. https://impactalpha.com/hardware-is-hard-impact-investors-overcome-obstacles-to-back-a-new-crop-of-makers/

	Many investors want to see a proven, de-risked model before they are willing to invest. In our interviews, many entrepreneurs have mentioned the importance of having more available grant, philanthropic, and patient capital to bridge this gap. In other words, more structured sources of pre-seed financing are needed.
Geography	A venture's physical location can also be an influential factor to their financing success. Toronto, as the financial capital of Canada, holds a dense concentration of venture development resources and investors. Vancouver and Montreal are similarly known within Canada for having good start-up conditions and an abundance of incubators and accelerators. Unfortunately, due to Canada's vast geography, ventures located outside of these hubs have an inherent disadvantage accessing these resources within those cities. In other words, there are significant barriers for ventures located in one city that wish to tap into the investment capital of another city. Many investors focus on the local ecosystem for a variety of reasons, including an organizational mandate, personal philosophy, or preference to remain close to their investees. Some ventures also cited difficulty raising capital from investors from other countries due to pre-conceived notions that Canadian ventures do not grow to a large enough scale, tend to sell their companies too early, or are too risky.

CAPITAL AVAILABILITY

We believe there is a significant gap in financing at the stage where ventures are transitioning from idea to business. As mentioned in previous sections, in our interviews, the ventures that were pre-revenue cited a higher difficulty raising funds. Other reports also document this transitionary financing gap – a report estimates that ventures not earning revenue face a capital gap four times larger than those that are earning revenue.[26]

Patient, flexible capital is necessary to a venture's long-term success at this stage. As ventures are transitioning from an idea to a business, the decisions they make at this stage will have implications in their future development. If they receive capital that is not suitable for their business model (e.g. capital with expectations of short-term gain), the venture may result in developing to fit the needs of the investment. Well-designed pre-seed capital would provide investments that act as the venture's stewards; investment that aims to *generate* impact, not solely to *extract* returns.

2.3.3 COMMERCIALIZATION FINANCING INFLUX

STAGE OF VENTURE DEVELOPMENT

At this stage, ventures have a product that is fully-developed and built with positive unit economics. They have established a substantial customer base and are beginning to build significant traction with sales. When we spoke to ventures at this stage, they cited higher levels of success in raising financing and have begun to target other markets and customer segments.

COMMON BARRIERS

While ventures at this stage tend to face fewer barriers in raising financing, some interviewees cite challenges they foresee in the near future. With ambitious goals to grow their product offering, or expand into other markets, some ventures were unsure whether they would be able to finance their growth organically, or whether they would eventually need a growth round of investment. If they needed to

[26] Farthing-Nichol, D., Muska Ulhaq, Sidhant Bahl, Garret Cree (2017). "Do Ontario's For-Profit Social Enterprises Face a Capital Gap?" *MaRS Centre for Impact Investing & MaRS Data Catalyst.* https://impactinvesting.marsdd.com/wp-content/uploads/2017/10/MaRS_Ontario_Social_Enterprise_Report_2017.pdf

pursue the latter path, the ventures would need to have high revenue goals to achieve in order to qualify for structured Series A financing.

CAPITAL AVAILABILITY

The most common type of financing raised at this point in the venture's development is structured seed rounds. Our quantitative and qualitative datasets indicate an influx of capital for these ventures. As seen in Figure 4, there is a spike in investment at the seed stage. In our interviews, we found that multiple ventures had in fact turned down investors due to oversubscription to their investment rounds. To supplement these insights, we built a database of 198 North American venture-focused funds and found that much of the early-stage investment activity was concentrated around this stage. Section 3.5 provides an in-depth analysis of our funds database.

2.3.4 GROWTH FINANCING CHALLENGE

STAGE OF VENTURE DEVELOPMENT

The third area of challenge we identified involves ventures that are in the process of scaling. These ventures have reached core customers and have a financial model with evidence-based projections, but they have yet to obtain sales that track projections. These ventures are also typically seeking capital to scale and reach more customers, but cannot yet reach the necessary venture capital funding as their sales have not reached certain thresholds.

COMMON BARRIERS

These ventures are at a pivotal stage in their business development. With a few years of track record and a burgeoning customer base, the priorities of these ventures is to prove their business model can scale into new products, services and markets. Despite the traction generated up to this stage, ventures described a "reality check" in financing activity after their seed round.

BARRIER	DESCRIPTION
Growth-Stage Traction	Ventures at this stage need to achieve much more ambitious milestones in order to qualify for growth financing. Metrics for traction differ by industry and product type: for software ventures, the term generally refers to the number of existing users, whereas for hardware products, traction usually consists of the amount of revenue generated. For these ventures to access mainstream venture capital funds, significant traction is required. For example, many of the venture capital funds require at least \$1.0M-\$1.5M in booked revenue before a venture is considered. Hardware ventures are particularly likely to experience difficulties reaching these milestones. At this stage, high fixed costs are spread over a relatively low number of units produced and most money raised is going towards production.[27] Unfortunately, this takes away funds from vital areas needed to grow sales, such as marketing and distribution. Additionally, at this sales volume, ventures tend to still be improving the product, which can lead to mediocre sales and reviews.[28]
Balancing Financing and Growth	Another challenge ventures encounter almost universally is balancing the process of raising funds while maintaining a growing business. Raising capital is a lengthy process involving meetings with many different investors before finding those who eventually invest. Many entrepreneurs likened the process of raising funds to a full-time job of its own, due to the time associated with finding potential investors, preparing custom presentations and pitchdecks, and attending meetings and events.

[27] Quintero, C. (2016) "The Hardware Startup Valley of Death" Retrieved from: https://blog.bolt.io/the-hardware-startup-valley-of-death-f66be30665e7
[28] Ibid.

CAPITAL AVAILABILITY

At this stage, ventures are beginning to qualify for Series A financing, thereby opening up channels with more "mainstream" investors such as Silicon Valley venture capital funds, or structured financing from major banks and other financial institutions. The issue that ventures face at this point is meeting the metrics and thresholds that these sources of capital demand. Milestones such as the number of users or revenue are required for them to access the necessary growth capital. For ventures that are close but have not achieved those milestones, they face major hurdles at this stage.

2.4 SUMMARY – DEMAND FOR CAPITAL

The data presented in this section suggests several key insights regarding the demand for impact capital.

THERE IS A SUBSTANTIAL AND GROWING DEMAND FOR EARLY-STAGE INVESTMENT FROM SOCIAL VENTURES IN CANADA.

There is a minimum universe of $48M of average annual deal flow in just pre-seed (grants, crowdfunding, family & friends) and seed capital. If we include Series A financing as well, the minimum universe is $159M annually. This is illustrative of the volume of investment deals we could find if we just sourced from major incubators in Canada (mainly from BC, ON, AB, QC).

To account for the limitations listed in Section 2.2.2, we provide a sensitivity analysis to determine the "reasonable universe" of investment demand. Assuming that we covered most of the major incubators in Canada, we adjust our estimates using two factors:

- Factor A: the percentage of ventures that do not go through incubators, and
- Factor B: the percentage of ventures that are viable investments, but still fail to raise money

The assumptions used are largely estimated based on anecdotal evidence provided through interviews with investors and entrepreneurs. The figures are meant to be used as rough estimates, not robust calculations. The table below suggests that a "reasonable" universe of average annual investment in social ventures is approximately $100M when only counting pre-seed and seed-stage investing, and $332M when Series A financing is included.

	ASSUMPTIONS		**REASONABLE UNIVERSE ESTIMATE – ANNUAL INVESTMENT DEMAND**	
ESTIMATE	FACTOR A: INCLUDE NON-INCUBATOR VENTURES	FACTOR B: VIABLE INVESTMENTS BUT FAIL TO RAISE MONEY	PRE-SEED & SEED	PRE-SEED, SEED & SERIES A
Low	30%	10%	$75,880,312	$252,759,317
Reasonable	40%	20%	$99,592,910	$331,746,603
High	50%	30%	$136,584,561	$454,966,770

Table 7. Sensitivity analysis for annual investment demand

THESE VENTURES REQUIRE PATIENT CAPITAL AT THE TRANSITION AND GROWTH STAGES.

These social ventures have unique financing challenges, which vary depending on the stage of development. We identify three main friction points:

- Demonstration: Developing and demonstration feasibility
- Transition: Going from pre-revenue to revenue-stage
- Growth: Achieving Series A-stage financial benchmarks

To best serve these ventures, we need capital with the following features**:**

STAGE	TIME HORIZON	RISK TOLERANCE REQUIRED	RETURNS	TICKET SIZES	CAPITAL TYPE & AVAILABILITY
Demonstration Financing Struggle	Long	High	Concessionary, Potentially negative	$10,000-$50,000	Type: Grants, Family & Friends Availability: Available but fragmented
Transition Financing Gap	Long	High	0-5%	$50,000-$100,000	Type: Angel investors, family offices, some foundations Availability: Large gap
Commercialization Financing Influx	Medium	High	Varies	$100,000-$500,000	Type: Seed Funds, individual angel investors Availability: Adequate
Growth Financing Challenge	Medium	Medium-High	Varies	$500,000-$2M	Type: Venture capital funds, foundations Availability: Moderate

Figure 10. Capital needs by stage

3.0 SUPPLY OF CAPITAL: IMPACT INVESTORS

Over the past decade, the number of impact investors and amount of capital earmarked for impact investments has increased substantially. In Canada, this trend has been widely documented, with strong evidence of growing momentum year after year.

This section primarily focuses on investor sentiment towards investing in social ventures. We begin with a nuanced analysis of the market for general impact financial products in Canada. This ranges from public securities and fixed-income products, to alternative investments in real estate, real assets, and infrastructure. We conclude this report with a deep dive into how investors interact with social ventures, exploring their sentiments and perceptions towards social ventures as an investment, as well as any legal or policy restrictions that may influence them.

We cast a wide net in selecting our study's population of investors – including 37 organizations that can be broadly segmented into four types:

TYPE	DESCRIPTION
A. Values + Experimental	Values-based organizations with an experimental arm open to impact investments, such as community/ private foundations, family offices and high-net worth individuals
B. Values + Conservative	Values-based organizations with a conservative investment profile, such as Indigenous trust and Indigenous trust asset managers
C. Mainstream + Experimental	Mainstream investors with an experimental arm, such as corporate investment arms or insurance asset management arms
D. Mainstream + Conservative	Mainstream investors with a conservative investment profile, such as pension funds, education trusts, or university endowments

This section provides an overview of each investor type's organizational characteristics, including insights into their purpose and mandate, as well as how capital moves through their organizational structure.

3.1 PURPOSE AND MANDATE

3.1.1 TYPE A. VALUES + EXPERIMENTAL

Type A organizations are founded upon a set of values or a vision for solving a social, environmental, cultural or economic issue. These ambitions originate from a variety of sources: some are driven by a local community or an urgent issue, others through a generous benefactor, or religious/ cultural beliefs.

Common across their purpose statements is a focus on Canada. For instance, Inspirit Foundation's vision is for "a more inclusive and pluralist Canada"[29], echoing the J.W. McConnell Family Foundation's vision for "a Canada in which the economy and social systems advance the well-being of all people… committed to reconciliation between Indigenous and non-Indigenous peoples"[30]. Other foundations, specifically community foundations, have a more local-scale focus, such as London Community Foundation's commitment to "create [a] vibrant, smart and caring community through strategic investing

[29] https://inspiritfoundation.org/
[30] https://mcconnellfoundation.ca/

that drives innovative community-based initiatives"[31]. Other community foundations identified (e.g. Calgary Community Foundation, London Community Foundation) have similar purposes.

Unique to Type A organizations is a conscious understanding of the role that existing allocations of endowment/ investment capital can play in hindering their mission. They look beyond traditional philanthropic models and dive into their endowments to ensure their investment portfolios properly reflect their organizational purpose. Due to their values-based orientation, coupled with a conscious effort to understand the impact of their capital, these foundations have been perceived as high potential targets to become impact investors. In fact, many are already a driving force behind the development of the Canadian social innovation and social finance market.

3.1.2 TYPE B. VALUES + CONSERVATIVE

Similar to Type A organizations, Type B organizations are founded upon strong social, environmental, or cultural values. For example, Type B organizations include many non-profit, charitable or Indigenous trusts.

Despite their social or environmental roots, Type B organizations are more hesitant to implement responsible investment principles and impact investments. Managers are bound by fiduciary duty to invest assets in a financially sustainable manner, which leads them towards a traditional approach for investment product selection. Conversely, the grant-making and loan teams of these trusts do manage their assets in alignment with local communities' values: "While the grant-making committees are mandated to ensure their capital allocation decisions are strongly aligned with the trust's values and vision, the investment committees typically do not have the same mandate."[32]

3.1.3 TYPE C. MAINSTREAM + EXPERIMENTAL

Next, we explored organizations with assets derived from more mainstream sources, such as insurance investment arms and corporate funds. These organizations mainly reside within a much larger parent company. Particularly in the case of corporate investment arms, these units often have a mandate beyond solely maximizing financial returns. They have a strategic goal to identify key growth areas for their firm, often through the identification of merger and acquisition targets, or by selling their investment services to new clients. For example, Salesforce Ventures aims to "[invest] in the next generation of enterprise technology that extends the power of the Salesforce Customer Success Platform"[33] while Manulife Asset Management Private Markets provides "comprehensive asset management solutions for pension plans, foundations, endowments, financial institutions and other institutional investors worldwide."[34]

3.1.4 TYPE D. MAINSTREAM + CONSERVATIVE

Finally, Type D organizations manage assets derived from sources such as public and private pension contributions, municipal governments, commercial bank assets, or education trust contributions. They represent the majority of institutional investors in the Canadian market. Managers value maximizing returns while limiting undue exposure to excess risk, and limiting their social responsibility to selective ESG screening, while very rarely implementing negative screening measures or impact factors that would influence investment decisions. Unlike Type C organizations, their beneficiaries are less risk tolerant – pensioners rely on these organizations for their retirement payments, and parents put their trust in these investment managers to provide returns for their children's education.

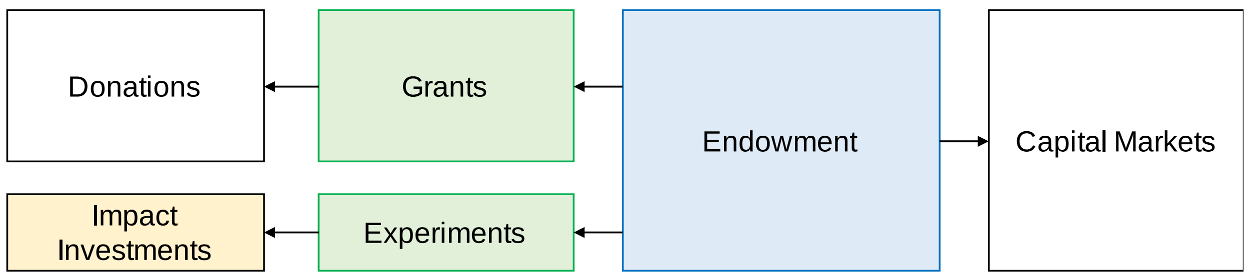
[31] http://www.lcf.on.ca/
[32] Centre for Social innovation & Impact Investing, Purpose Capital (2018). Impact Investing in the Indigenous Context. Retrieved from: https://www.impactinvestmentforum.com/research-and-resources/impact-investing-indigenous-report
[33] https://www.salesforce.com/company/ventures/
[34] http://www.manulifeam.com/ca/About-Us/

3.2 CAPITAL STRUCTURE

3.2.1 TYPE A. VALUES + EXPERIMENTAL

The key differentiator of this group lies in the existence of a team or unit dedicated to impact investing (whether that be related to exploration or implementation of impact strategies). While traditional values-based organizations normally have two units to manage capital – one arm for endowment investments (which invests in capital markets), and another for granting (for donations) – Type A organizations have a third arm to "experiment" with impact investments.

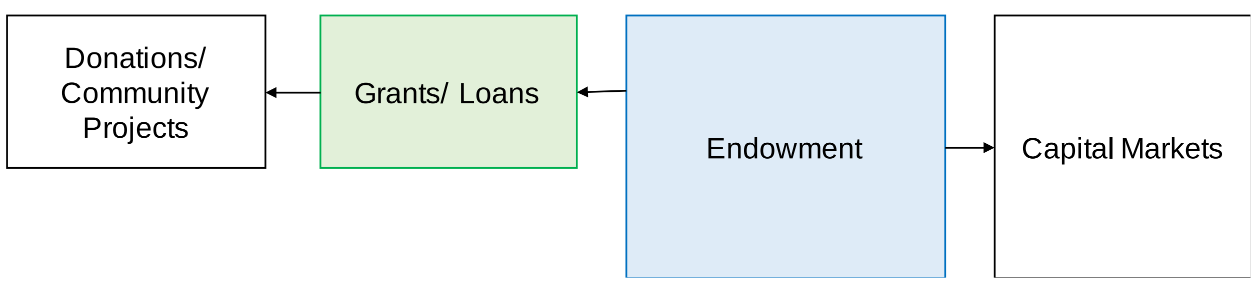
Type A



3.2.2 TYPE B. VALUES + CONSERVATIVE

Type B organizations assume a traditional endowment/ grant structure, in which the endowment is managed to maximize financial return, in order to contribute to grant or loan funds that support community-based projects. In the "Type B" organizations analyzed, there is virtually no existing track record of impact investments, although several indicate a willingness to explore responsible investing principles in managing their endowments.

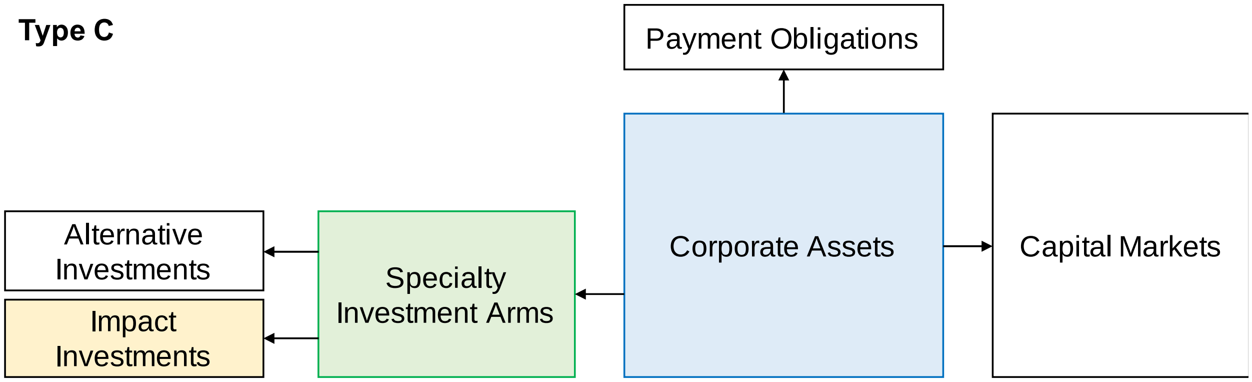
Type B



3.2.3 TYPE C. MAINSTREAM + EXPERIMENTAL

Type C organizations have a more sophisticated capital flow structure. Their main source of capital comes from corporate assets (e.g. insurance, telecommunications, software), which are often invested into capital markets. An interesting feature of these organizations is that it is common for them to establish a "specialty investment arms". These arms often allocate capital towards riskier, alternative asset classes such as venture capital and private equity, mortgage backed securities, timberland, and infrastructure assets. A differentiating factor in these organizations is the existing track record and apparent appetite for impact investments (potentially due to their traditional capital base's orientation towards VC/PE). For example, Salesforce Ventures has created a $50M Salesforce Impact Fund and Manulife Asset Management is a vocal signatory of the UN's Principles for Responsible Investment (UN PRI) and has invested in clean energy projects across North America.

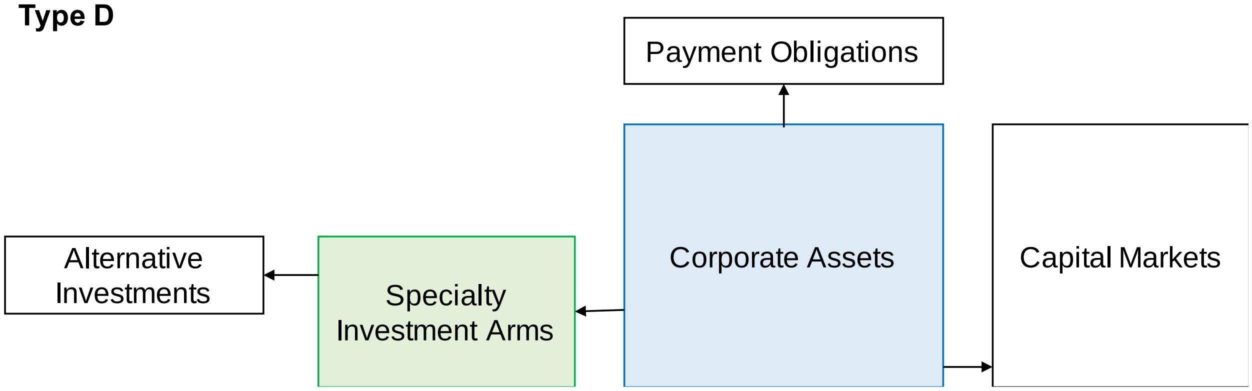
Type C



3.2.4 TYPE D. MAINSTREAM + CONSERVATIVE

Type D organizations operate under a similar capital structure compared to Type C. However, unlike Type C organizations, underlying all investment activity is a priority to meet payment obligations for pensions, academic institutions' expenses, or student tuitions. Some of these organizations are restricted by law from investing in certain riskier asset classes. As a result, while many (particularly pension funds) tend to integrate ESG screens and are often aligned with the UN's PRI, the capital structures of Type D organizations tend to be much more risk averse (and less impact-oriented) than other types analyzed.

Type D



3.3 INVESTMENT APPROACHES

A variety of factors influence how an investor designs their portfolio, including the total size of the assets under management, return and risk expectations, asset allocation policies, and considerations of responsible or impact investment principles. This section provides an overview of those factors.

3.3.1 ASSETS UNDER MANAGEMENT

Using our sample of 37 investment organizations, we analyzed the total amount of assets under management (AUM) for each organization type. The table below provides a snapshot of the size of the organizations' investable assets. We focused on their investment capital, excluding their granting activity, and including their program-related investments (PRI) and mission-related investments (MRI) when possible.

ORGANIZATION TYPE	AVERAGE TOTAL AUM	RELATIVE SIZE (COMPARED TO TYPE D)
A	$0.3 billion	0.003x
B	$0.1 billion	0.001x
C	$34.9 billion	0.4x
D	$78.4 billion	1x

Table 8. Assets under management comparison

The assets under management of Type A organizations tends to be much smaller than traditional investment organizations. Disaggregated, the size of Type A organizations' investable assets ranges from $36 million (Inspirit Foundation) to $925 million (Calgary Foundation). Nonetheless, the majority of organizations included in this study had less than $100 million in investments. The largest of the four types analyzed, Type D, average a total AUM of $78.4B. These organizations fall primarily into two sub-categories: (1) university endowments and (2) pension funds. University endowments are usually much smaller than the average AUM figure, while pension funds are much larger.

3.3.2 RETURNS

In this section, we analyze the target and actualized investment returns of these organizations.[35]

ORGANIZATION TYPE	AVERAGE TARGET/ BENCHMARK RETURNS (1-yr)	AVERAGE ACTUALIZED RETURNS (1-yr)
A	6.45%	9.71%
B	8.52%	8.40%
C	6.28%	5.02%
D	7.52%	9.14%

Table 9. Benchmark and actualized return comparison

This table is intended to be a snapshot of the return expectations of the investment organizations, and not a robust documentation of their financial returns. Returns may be highly influenced by the organization's asset allocation policies. For example, in 2018, an increased exposure to public equities and limited

[35] A note on the methodology: The data in this section represent returns from the organizations' investment capital, based on their "main" body of capital (e.g. for foundations, we look at their endowment fund, not their granting activities) unless otherwise specified. There are some instances in which, due to the absence of clear data, we must make assumptions on target and actualized returns. We intended for the target returns to be calculated based on explicit return expectation statements. We found, however, that these expectation statements were often unavailable, and instead based off of benchmark indices. Thus, when reading this section, the reader must consider that the "target returns" are strongly influenced by the investment environment for the past year. We reference Bloomberg and FTSE Russell for the most recent figures on benchmark indices.

allocation towards alternative investments such as real estate, infrastructure and private equity or venture capital, may have led to higher realized returns. Additionally, legal factors play a major role in realized returns. For example, some organizations are bound by regulations that limit their exposure to risky, alternative assets. We discuss this further in the section below. Furthermore, the returns analyzed are based on one-year timeframes, and are therefore not reflective of longer-term trends.

3.3.3 RISK

ORGANIZATION TYPE	RISK TOLERANCE	EXAMPLES
A	Average	Community foundations have a long-term investment horizon and can thus be exposed to a certain degree of risk. The potential of growth securities like private equity or real assets outweighs concerns of short-term volatility.
B	Below average	**First Nations Finance Authority** The FNFA is subject to regulations such as the First Nations Fiscal Management Act, which limits its investments to secure, low-risk opportunities – e.g. Securities issued or guaranteed by Canada or a province, and/ or investments guaranteed by a bank, trust company, or credit union.
C	Above average	Type C organizations are willing to test and experiment with new products – pending they fit their investment profile. For example, Manulife Asset Management's long-term time horizon permits them to employ a buy-and-hold approach to investing.
D	Below average	**Universitas Financial** Policy No. 1 - Contributions received from subscribers and government grants before plan maturity can ONLY be invested in fixed-income securities guaranteed by a Canadian government. Policy No. 2 - Contributions from subscribers whose plans have reached maturity are invested in money-market securities guaranteed by a Canadian government, or held as cash/ cash equivalents. Policy No. 3 - Other funds (income earned on contributions, grants, refund of sales charges) are invested entirely in Canadian equities, with the balance invested in bonds.[36]

Table 10. Risk tolerance comparison

On the whole, Type A and C organizations have an average to above-average risk tolerance. A common theme across risk assessments in these organizations' documents is the dual priority of: (1) Balancing the need to meet short-term financial obligations (for granting activity) through adequate liquidity and conservative returns; and (2) the need to preserve and grow cash flow for the long-term. These organizations are willing to test and experiment with new products, as long as these products fit their

[36] Universitas Foundation (2017). Prospectus: Continuous Offering. *Universitas Foundation.* Retrieved from: https://www.universitas.ca/en/about-us/documents-resp-forms/

investment profile. Their long-term time horizon permits them to employ a “buy-and-hold approach to investing.”[37]

Type B and D organizations have a below average risk tolerance. Their annual reports and financial performance documents suggest a strict adherence to maximizing returns and minimizing risk. In some cases, they are subject to regulations like the *First Nations Fiscal Management Act* to limit investments into secure, low-risk, government-guarantee investment opportunities. Type D organizations like education trusts are mandated by law to restrict parent contributions into the fund from exposure to anything *but* fixed income instruments guaranteed by a Canadian government.

3.3.4 ASSET ALLOCATION POLICIES

Capital allocation policies towards various asset classes play a major role in characterizing an organization’s investment profile. Exposure to certain types of project financing, such as private equity or venture capital, may suggest a willingness to take on risk, while limiting investment in fixed income and equities may signal a priority to preserve capital with minimum exposure to volatility. Table 11 provides a snapshot of the role that asset classes play in a portfolio.

ROLE	EQUITIES	FIXED INCOME	REAL ASSETS[38]	PE/VC[39]
Growth upside/ higher risk adjusted returns	Yes			Yes
Inflation protection			Yes	
Income stability		Yes	Yes	
Diversification			Yes	
Responsible Investment Targets	Yes	Yes		
Impact Investment Targets			Yes	Yes

Table 11. Role of specific asset classes in portfolio

Type A organizations have dual priorities to ensure they have the ability to meet financial obligations to their community, while growing their endowment for the future. Similarly, Type C organizations represent the risk-taking arm of an investment organization. As a result, Type A and C organizations have the most diverse portfolio make-up of the organization types analyzed – they have exposure to asset classes from government-backed fixed income investments to private equity and venture capital. An additional caveat is their willingness to be flexible when considering impact investments. For example, Tides Canada’s investment documents state: “We recognize that Impact Investments usually take the form of one of these investment approaches and grant the Finance and Investment Committee the authority to approve such investments on a case by case basis.”[40]

On the other hand, Type B and D organizations have a more reserved approach to asset class exposure. Policies such as the *First Nations Fiscal Management Act* [41] and other regulations governing specific types of investors restrict their investment portfolios to specific products.

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[37] http://www.sunlifeinvestmentmanagement.com/im/sliicanadainc/About+us?vgnLocale=en_CA
[38] Includes real estate, infrastructure, natural resources
[39] Includes loans, lines of credit to community projects
[40] Tides Canada (2012). “Investment Policy”. Retrieved from: http://tidescanada.org/wp-content/uploads/Tides-Canada-Investment-Policy-Approved-October-2012.pdf
[41] The *First Nations Fiscal Management Act* Paragraph 87(1) and (2) states that short-term pooled investment funds may be invested only in: (a) securities issued or guaranteed by Canada, a province or the United States; (b) fixed-term deposits, notes, certificates or other short-term paper of, or guaranteed by, a bank, trust company or credit union, including swaps in United States currency; (c)securities issued by the Authority or by a local, municipal or regional government in Canada; (d) commercial paper issued by a Canadian company that is rated in the highest category by at least two recognized security-rating institutions; € any

Table 12 and Figure 11 provides an overview of asset allocation policies across the investor types.

TYPE	BONDS[42]	EQUITIES	REAL ASSETS/ REAL ESTATE[43]	ALT. IMPACT PRODUCTS[44]	PE/ VC
A	37.28%	51.75%	3.13%	2.00%	3.69%
B	48.13%	51.67%	13.50%	n/a	n/a
C	69.23%	13.94%	18.75%	Yes[45]	12.00%
D	35.08%	45.44%	21.28%	n/a	n/a

Table 12. Asset allocation comparison[46]

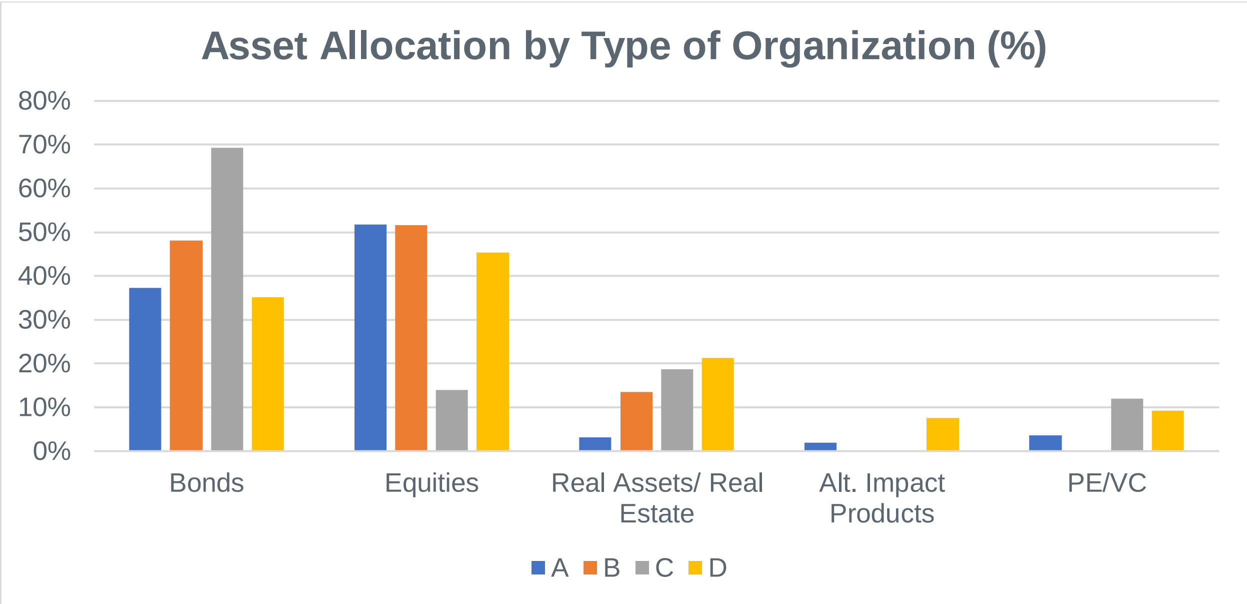

Figure 11. Asset Allocation Distribution

class of investments permitted under an Act of a province relating to trustees; or (f) any other investments or class of investments prescribed by regulation.

[42] Includes money market, loans, cash and cash equivalents

[43] Includes infrastructure projects, affordable housing mortgage funds, green bonds, renewable energy projects

[44] Includes Social Impact Bonds, recoverable grants, loan guarantees

[45] We were unable to find exact numbers but these organizations have made investments in social impact bonds.

[46] A note on the methodology: We examine the asset classes in which these organizations have made investments. Depending on data availability, we provide a snapshot of how all investable capital is allocated by the organization. When possible, we provide percentage allocations. Otherwise, we indicate whether or not they have invested in the corresponding asset class (i.e. yes/ no). The rows do not sum up to 100% because not every organization fully disclosed their asset class allocation policy; thus, the table may overweigh certain asset classes for which we were able to find data.

3.3.5 RESPONSIBLE AND IMPACT CONSIDERATIONS

To our surprise, we found that the majority of the organizations studied have made commitments to responsible or impact investments (only 10 out of 37 organizations did not have any mention of such strategies). Responsible or impact investment units, however, manifest themselves in various forms for different investors. We identified three models, outlined in Table 13.

MODEL	% OF INVESTORS STUDIED	DESCRIPTION
Considered	41%	The impact investing practice resides inside another unit; usually an investment arm. Tools such as ESG ratings, screening and carbon profile are "considered", but are not a core decision factor for investments. There remains a divide between the "mainstream" capital investment decisions and the impact investment allocation. Only a percentage of their capital is earmarked for responsible or impact investments, while the rest of the capital is managed in a traditional manner.
Committed	27%	A separate investment unit is committed and focused on a specific function/ mandate related to impact investing. These models are often a "sandbox" for the organization to test out impact investing concepts.
Core	5%	The investment operations of the organization are completely managed with responsible and impact investment principles. These organizations have a stated goal of managing the majority (if not all) of their capital in a manner that aligns with their values. Few organizations have been able to achieve this level of commitment.

Table 13. Responsible and impact investment approaches

The diversity in approaches may also indicate different definitions of "impact investing". For example, the organizations labelled "committed" (those with a stand-alone/ sandbox initiative) translate impact investing as primarily investments in alternative financial products, such as venture capital, housing projects, or loans to non-profits. On the other hand, organizations with a "core" model cast a wider net – *in addition* to alternative investments, they use responsible investment tools (ESG analysis, negative or positive screening) for their public market investments.

The table below breaks down the distribution of responsible or impact investment integration approaches across the four types of organizations.

ORGANIZATION TYPE	NONE	CONSIDERED	COMMITTED	CORE
A	0 (0%)	3 (38%)	3 (38%)	2 (25%)
B	3 (75%)	1 (25%)	0 (0%)	0 (0%)
C	2 (33%)	1 (17%)	3 (50%)	0 (0%)
D	5 (26%)	10 (53%)	4 (21%)	0 (0%)
TOTAL	**10 (27%)**	**15 (41%)**	**10 (27%)**	**2 (5%)**

Table 14. RI/ II integration approach comparison

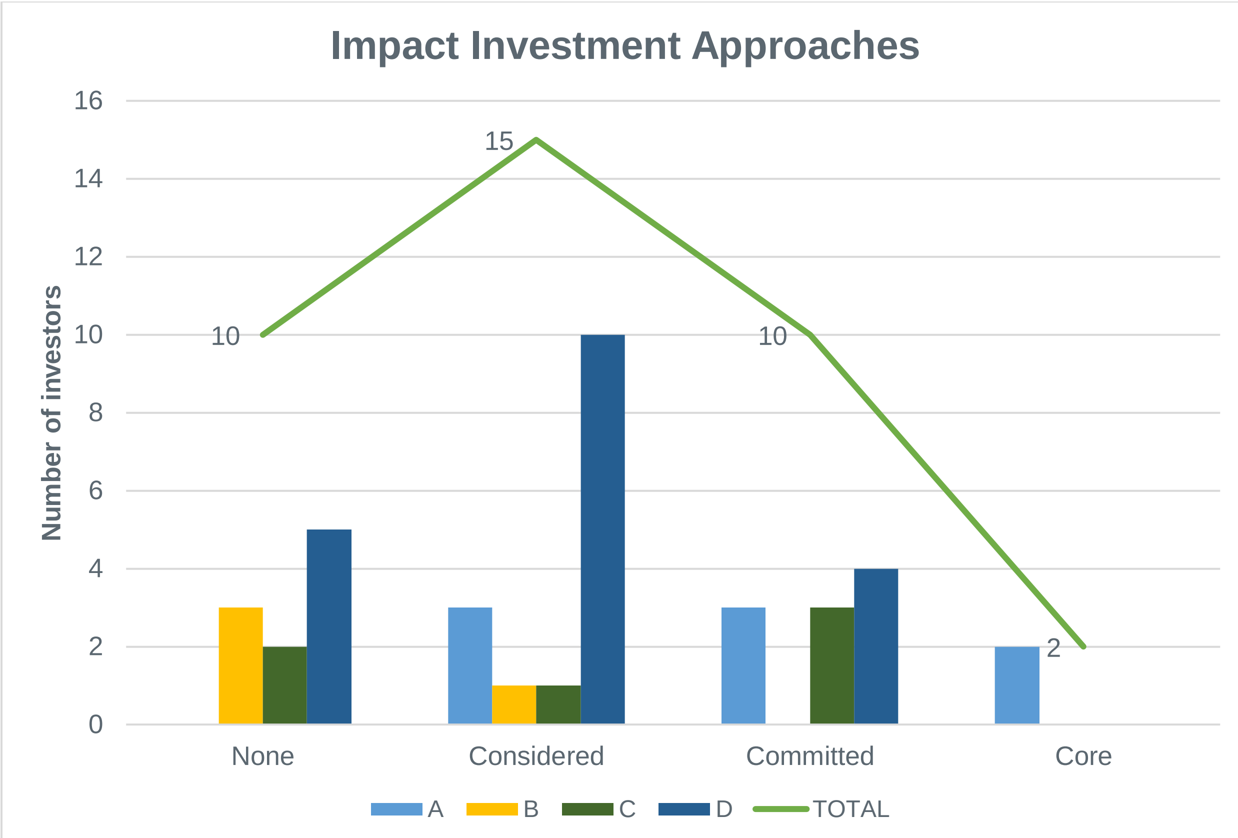

Figure 12. Impact Investment Approaches

While there is still a substantial group with no mention of these principles, the results suggest that there is a clear trend towards, at minimum, the consideration of responsible investment principles. It is worth noting that organizations were labelled under the "considered" model if their financial statements, annual reports or other relevant documents mention the use of responsible investment tools. It does not necessarily translate into meaningful evaluation of social and environmental factors in their investment decisions.

3.4 INVESTING IN SOCIAL VENTURES

Based on the landscape overview analysis in the previous sections, we narrow down our research to two core types of investors who appear to have the investment appetite and interest to consider social ventures:

1. Foundations: Community and Private
2. Individual investors: High-net worth individuals (HNWIs), Family Offices

This section's insights are primarily based on interviews with these investors. We interviewed 27 investors, including foundations, family offices, high-net worth individuals, banks and asset managers. We begin by providing a review of the key structural facts about the organizations, as well as their sentiments towards investing into early-stage social ventures.

3.4.1 FOUNDATIONS – OVERVIEW

Community and private foundations manage endowments that are grown in capital markets. Between 3-5% of their endowment assets are used, annually, to finance impact-side granting activities for them to maintain their charitable status.

From the endowment pool, besides their mainstream investing activities, foundations may also make investments under MRI (mission-related investments) or PRI (program-related investments). While MRIs are mission-oriented but give a competitive return to the portfolio (market return), PRIs are made at concessionary rates.

While both foundation types (community and private) are similar in many regards, there are differing approaches to impact investing in social ventures. For instance, while community foundations use PRIs to give out loans to charities; private foundations have gone a step further and also used PRIs to invest in impact funds. Additionally, private foundations are largely bound by a "mission" while community foundations are largely bound by a "community" – usually in a demarcated, geographic area.

3.4.2 SENTIMENTS TOWARDS SOCIAL VENTURES

With 191 community foundations in Canada, these organizations are positioned to play a major role in supporting social ventures. Some of these community foundations are just beginning to learn about impact investing, while others have gone as far as setting up dedicated funds to finance social ventures and related projects. Similarly, there are many private foundations in Canada acting as pioneers in the impact investing field, such as the J.W. McConnell Family Foundation and Inspirit Foundation. This section summarizes the key insights from our research on the approaches of community and private foundations to investing in social ventures.

Local in scope, national in scale
Community foundations that have a more developed impact investing practice were able to provide a nuanced description of what they look for in social ventures. The key consideration is their focus on local communities. While the foundations indicated a willingness to explore and understand how social ventures of other regions work, their organizational mandates require a more localized investment focus.

Beyond just a typical start-up
The idea that "social enterprise is a verb and not a noun" was common across our interactions with foundations. Foundations, through their involvement in their communities, identified to us that impact can occur beyond just a core product or service, but also through the manner in which the organizations manage their business, supply chain, and human resources. Foundations have adopted an inclusive definition of social ventures – including not only a typical start-up but also enterprising non-profits, small businesses, and related projects.

Transaction costs are too high
Many foundations cited the high, and sometimes prohibitive, financial and non-financial costs associated with investing in social ventures. Without adequate in-house capacity to source, assess, and invest into ventures, many foundations struggled to build a case for growing their social venture investments. Investment services that the foundations desired include shared due diligence, a more robust deal flow pipeline across Canada, and advice from more experienced investors.

Champions and anchor investors are needed
Several foundations cited the need for a core investor to "anchor" the investments into social ventures. Having a well-respected peer or related organization (including the government, major banks, other venture capital funds) act as the first investor into a venture or fund helps guide foundations that are reluctant or nervous about investing in social ventures. Anchor investors could participate through financing mechanisms such as first-loss reserves, loan guarantees, tax credit incentives (for individual investors) or matching programs.

Spotlight: Housing Partnership Equity Trust
The Housing Partnership Equity Trust (HPET) is a collaborative effort between the Housing Partnership Network (HPN) and investors such as Charles Schwab, Citi, Morgan Stanley, Prudential Financial, the John D. and Catharine T. MacArthur Foundation. The objective of HPET is to provide affordable rental housing to low- and moderate-income groups. HPET would provide funding to non-profit housing developers to acquire housing units across the USA. Although the HPET is not a venture financing investor, their capital structure is unique and innovative, with lessons that the social venture financing community can learn from. To attract equity investments into the fund, the HPET needed to reduce concerns related to liquidity. As a result, the MacArthur Foundation participated as a quasi "secondary market" investor, in which they agreed to purchase 12.5% of an organization's investment five years after the initial investment date. Subsequently, the investor could sell an additional 2.5% annually to the MacArthur Foundation. This capital structure provides reluctant investors with the necessary risk reduction and liquidity. For investments into social ventures, these are common concerns. HPET's innovative capital stack represents a creative way to approach these issues. See The Global Impact Investing Network report for more details about the HPET: https://thegiin.org/housing-partnership-equity-trust

3.4.3 INDIVIDUAL INVESTORS – OVERVIEW

In this section, we will refer to the second branch of the capital spectrum: individual investors. High-net worth individuals are individuals with more than $1,000,000 in financial assets, individuals with a net income (before taxes) that exceed $200,000 in the past two years, and certain institutional investors. These individual investors may act independently as angels or have family offices that work on their behalf.

Individual investors' interest in impact investing have grown steadily over the years. Multiple reports, including the Responsible Investment Association (RIA)'s 2016 Canadian Impact Investment Trend Report[47] and MaRS Centre for Impact Investing 2018 report[48], document an increasing demand for impact investments by individual investors, particularly women and millennials.

[47] RIA (2016). "Canadian Impact Investment Trends Report". *Responsible Investment Association*. Retrieved from: https://www.riacanada.ca/impact-trends/
[48] Spence, A., Marie Ang, Sunny Han. (2018). "Market Momentum: Impact Investing & High Net Worth Canadians". *MaRS Centre for Impact Investing*. Retrieved from: https://impactinvesting.marsdd.com/wp-content/uploads/2018/07/HNWI-Report-Final-Copy-For-Release.pdf

Spotlight: Non-accredited investors

Non-accredited investors represent a high potential demographic for impact investments into social ventures. Without the financial assets to meet the accredited investor thresholds, there remain several mechanisms to allow these non-accredited investors to support social ventures.

Exempt market dealers (EMD) are organizations that can offer non-accredited investors opportunities to allocate capital towards alternative investments. The EMD conducts proper due diligence in the investment opportunity, and performs a robust Know-Your-Customer (KYC) process to understand the investors' financial needs. Upon the completion of these functions, investors are allowed to invest up to $10,000 annually in private investments. For those earning $75,000 (or $125,000 per household), the permitted investment amount is $30,000 annually, or $100,000 upon receiving suitability advice from the EMD.[49]

3.4.4 SENTIMENTS TOWARDS SOCIAL VENTURES

Almost 90% of the surveyed Canadian HNWIs indicated interest in impact investing, with almost half of them planning to increase allocation over the next year.[50] Despite this trend, there remain some challenges.

Innovative financing mechanisms needed
Social ventures rarely follow a traditional exit strategy approach (through an Initial Public Offering, or becoming an acquisition target for a larger company). Yet investors still require a pathway to realize their returns, in addition to liquidity needs. Over the past several years, alternative deal structures have proliferated to account for these dynamics, such as demand dividends, impact-adjusted loans, or equity redemptions.

Co-investment as a key decision factor
Given the high level of uncertainty and risk when investing in social ventures, investors cite having a trusted peer (person or organization) as a co-investor as an influential factor that helped them make the decision to invest.

Social value investments and impact-adjusted returns
The concept of "Social Value Investments" refers to investments that are designed to achieve impact first and can achieve below-market financial returns. Investors that adopted this approach made it clear they did not equate such investments to charity or donations, but also drew a line between social value investing and typical impact investments that required market returns. The HNWIs that subscribed to this approach sought to achieve "impact-adjusted returns" – that is, returns that may be concessionary but only at the expense of increased impact.

3.5 LANDSCAPE OF VENTURE FUNDS

To supplement our insights on the capital financing gap for ventures in the Transition stage (ventures that are beyond their initial prototyping stage and beginning to transition towards stable revenue streams), we conducted a survey of impact funds focused on social ventures.

This section of the analysis explores the composition of impact-specific funds in the market, primarily by sector, stage and geography. The database started with a broad scan of all funds listed as "impact". This

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[49] Critchley, B. (2016). "New exempt market rules take effect in Ontario with harmony across most of the country." *Financial Post.* Retrieved from: https://business.financialpost.com/investing/investing-pro/new-exempt-market-rules-take-effect-in-ontario-with-harmony-across-most-of-the-country

[50] Spence, A., Marie Ang, Sunny Han. (2018). "Market Momentum: Impact Investing & High Net Worth Canadians". *MaRS Centre for Impact Investing*. Retrieved from: https://impactinvesting.marsdd.com/wp-content/uploads/2018/07/HNWI-Report-Final-Copy-For-Release.pdf

includes various asset classes, from traditional venture capital (VC) and private equity (PE), to real assets, real estate, fixed income, and microfinance funds.

The funds were sourced from various open-access databases and resources, such as:

- GIIN ImpactBase
- ImpactSpace
- UK Big Society Capital Investment Database
- Impact Investing Network Map (www.impactinvestingmap.com)
- Crunchbase
- Industry reports (BDC VC Landscape, Senate of Canada)

We found 198 North American venture funds and 80 based in Canada. Of the Canadian funds, 56 of the 80 were identified as early-stage venture funds. To ensure the precision and accuracy of the data, a number of checks and balances were applied. Key methodological assumptions are:

- Asset totals for each fund were verified across multiple sources to ensure we were evaluating the best-available data.
- To compare Assets Under Management across countries, annualized exchange rates from the Bank of Canada, for 2017, were used. The rates are as follows: $1.2986 CAD/USD, $1.4650 CAD/EUR, $1.6720 CAD/GBP. All amounts/totals listed in the report are in Canadian dollars ($CAD).
- In the case where funds dedicated a percentage of their assets towards multiple stages or sectors, we split them up as respective list items, or categorized the fund as the sector or stage in which it had the majority of its assets (generally >75%).
- A 'general' stage category was created to accommodate funds which evenly split their assets across sectors.

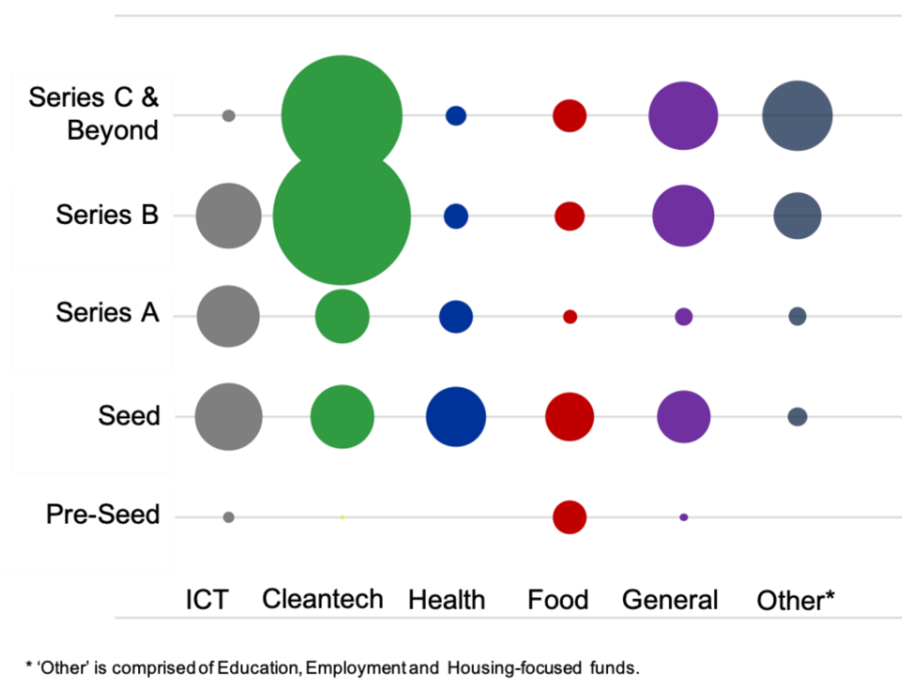


Figure 13. Comparison of fund activity based on sector and stage (Canada, US, UK)

The bubble size in the figure above represents the respective amount of capital in each sector/stage combination. The category ‘Other’ is a combination of Education, Employment and Housing-focused funds.

This analysis suggests there is substantial activity in early-stage funds, but a lack of structured “pre-seed” capital. There are clear gaps in pre-seed financing stage, across sectors. While this is partly a function of low capital requirements at the pre-seed stage, these findings are illustrative of the lack of *structured* pre-seed capital. Sectors such as ICT and cleantech retain the majority of capital in Canada, a finding which is consistent with review of Canada’s venture capital landscape by BDC[51], which surveyed non-impact venture capital funds in Canada.

Concessionary loans or philanthropic capital may be needed to fill this gap in funding, particularly for ventures that are unable to access the current pool of venture capital funds. We note that further statistical analysis is needed to verify these hypotheses; nonetheless, the data provide a high-level snapshot of the funding landscape for social ventures.

For more information about the funds database, please refer to APPENDIX 3. GLOBAL AND CANADIAN IMPACT FUNDS DATABASE.

3.6 SUMMARY – SUPPLY OF CAPITAL

THERE IS SUBSTANTIAL INTEREST FROM INVESTORS IN ALLOCATING CAPITAL FOR SOCIAL VENTURE IMPACT INVESTING.

The vast majority of the investors we analyzed and interviewed indicated a significant interest in allocating capital towards impact investing in social ventures. Many are moving away from solely considering social and environmental factors, and are now actively committing to impact by earmarking capital towards stand-alone funds or developing new departments to focus on impact investing.

While there is expressed interest in impact investing, the reality is that social venture investing is still a risky and uncertain practice. The table below summarizes the pain-points and concerns that investors face.

INVESTOR TYPE	PAIN-POINTS	CONCERNS
Foundations	• Interested in social venture investing but unsure how venture capital will fit into their overall financial strategy • Lack of resources to support internal due diligence, investment management operations. • Not enough opportunities to find co-investors for venture investing.	• The social ventures must be tied to their organizational missions, sometimes geographically constrained. • The impact needs to be clearly demonstrated and defined to fit their mission. This means beyond just “start-ups”, enterprising non-profits, small businesses should be considered. • Champion(s) needed to act as an anchor investor in order to instill confidence in social venture investing.

[51] BDC (2017). “Canada’s Venture Capital Landscape: Challenges and Opportunities”. Retrieved from: https://www.bdc.ca/EN/Documents/analysis_research/venture-capital-landscape-paper-en.pdf

		• Concerns with ensuring some level of liquidity to their investments – innovative financing mechanisms needed.
Individuals	• Lack of co-investment opportunities with other, trusted organizations. • Too costly to conduct extensive due diligence in-house, yet lack of third-party with rigorous due diligence process and adequate expertise for them to entrust. • Lack of robust national pipeline for deal flow. • Liquidity concerns – how can they financially realize their investments?	• Perceived capital gap for ventures in the \$200,000-\$800,000 investment range – not enough investors (and co-investors) offering those ticket sizes. • Individual investors can tolerate concessionary returns if the impact can be high – some HNWIs are championing the idea of “impact-adjusted returns”. • Perceived exclusion of grassroots businesses amongst other impact investors – capital is generally allocated towards high-growth traditional start-ups.

Table 15. Investor pain-points and sentiments towards social ventures

THERE IS A ROLE FOR A NATIONAL ‘SOCIAL VALUES’ FUND

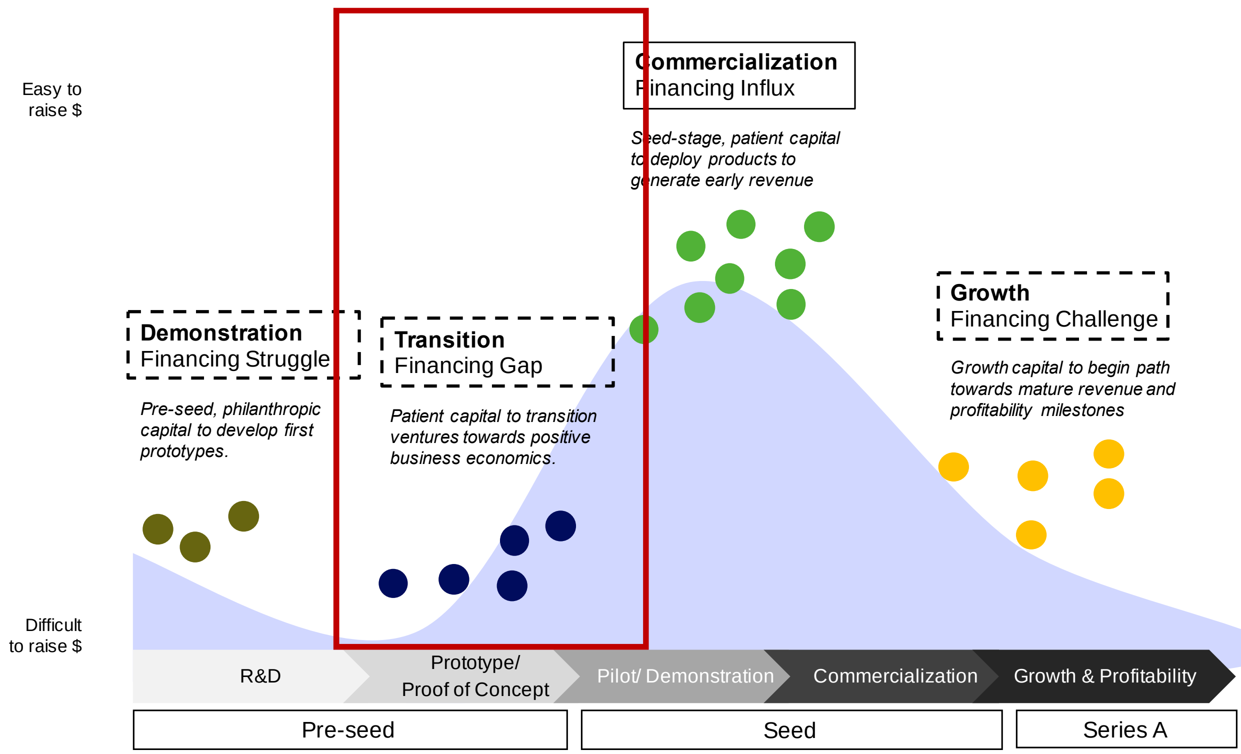
The evidence suggests that social ventures do not yet represent an asset class that can replace the traditional investments of all impact investors. Yet, many of the investors we surveyed indicated they are planning to (if they have not already) allocate capital towards supporting businesses with a social impact mission. Although some are constrained by geographic restrictions, there is substantial interest in developing robust national infrastructure to identify high-potential social ventures amongst regional communities. Furthermore, a model – “Social Value Investing” – has begun to gain popularity amongst the investors we interviewed. We conclude this paper by discuss this concept in further detail in Section 4.2.

4.0 SUMMARY

Based on thousands of data points, hours of interviews and countless transcripts, this report provides a snapshot of the social venture impact investing market from both the demand and supply side. In the process undertaking this research, some of our initial assumptions were confirmed, others rejected, and many were modified. This section provides a summary of our key findings and provides a set of recommendations for institutions wishing to advance the Canadian social venture ecosystem.

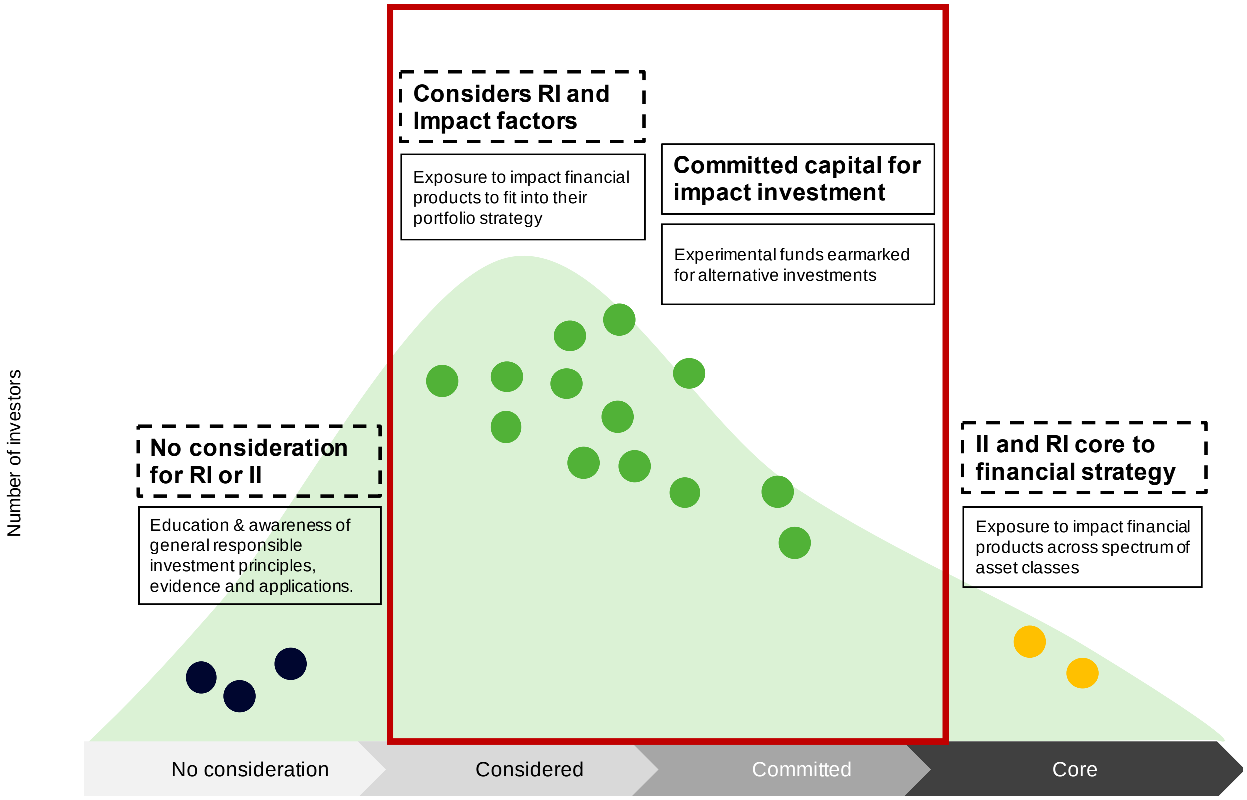
4.1 KEY INSIGHTS

SOCIAL VENTURES AT THE TRANSITION STAGE FACE A FINANCING GAP



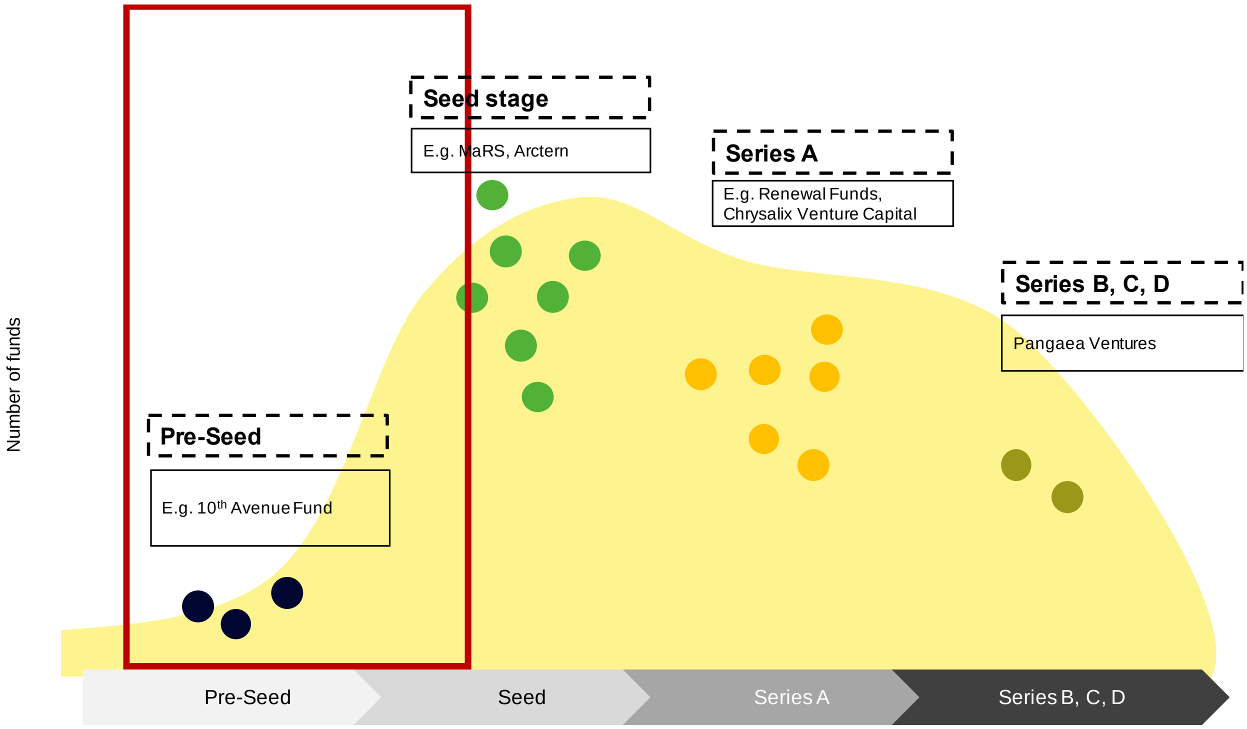
On the demand-side of the capital equation, there is a robust pipeline of social ventures seeking investment capital. Depending on the venture's characteristics (such as their business stage, products and services offered, or the make-up of the founding team), they require different types of capital. Our research found that ventures at the "transition" stage – the stage between having only prototypes and initial customers and having an established product and steady income – particularly struggled to raise financing. The quantitative assessment of early-stage social venture investing confirmed this trend (see Figure 4).

INVESTORS HAVE AN APPETITE TO PROVIDE PATIENT CAPITAL TO THESE VENTURES



The analysis of the supply of capital revealed clear evidence of investors shifting their assets towards responsible and impact investing – especially amongst what we entitled "Type A" organizations (foundations, family offices) and "Type C" organizations (corporate venture capital arms, banks and credit unions). These investors have gone beyond a peripheral consideration of responsible investment factors, and already (or plan to) allocate capital towards impact investing. We classify these investors as using the "Considered" and "Committed" models of integrating impact in their portfolios (see Section 3.3.5 for more details). Although social venture capital does not quite fit into their overall financial strategy yet, nor can it fully replace their traditional investments, many have earmarked capital towards experimenting with new products. Currently, they are looking for additional products in which they can invest impact financial that can help them understand how impact investing works and assist in beginning to build a track record for their portfolio.

THERE IS A LACK OF PRE-SEED FUNDING THAT CAN PROVIDE PATIENT SOCIAL VALUE INVESTMENTS



Finally, our analysis of venture-focused funds in North America and the UK revealed a lack of structured pre-seed capital. While there is significant activity in the seed stage and beyond, we were unable to find evidence of robust activity at the pre-seed stage. Nonetheless, in our research, we came across one example of a pre-seed fund: 10th Avenue Impact Capital Partners (ICP).

Spotlight: 10th Avenue Impact Capital Partners

10th Avenue Impact Capital Partners (ICP) is operated in Vancouver, BC with the goal of "empowering students and social enterprises to make our local worlds better."[52] The fund focuses on "social value investing", meaning they "prioritize impact-adjusted returns in each of [their] investments, and tailor [their] investments to ensure they suit each individual venture."[53] This specific characteristic of tailoring investments to serve the business' unique characteristics (rather than the business model serving the investment) is particularly valuable to ventures at the transition stage. As an example, 10th Avenue ICP created a venture-specific loan to support a local social enterprise's business expansion onto Vancouver Island. The 10th Avenue ICP team modelled a loan to align with both the social venture's business goals and the impact their expansion would create. The loan had several unique characteristics that allowed the venture to complete the expansion with their impact and purpose intact:

- The interest rate was variable - the rate would decrease upon the achievement of certain milestones measured each quarter. These milestones were tailored specifically to the social venture.
- The first milestone was for the social enterprise to achieve 30% of their employee hours worked by individuals who identify as female. Prior to the loan, that percentage was zero.
- The second milestone was for the social enterprise to achieve 50% of their employee hours worked by individuals who self-identified as having a barrier to employment.

[52] https://10thavenue.ca/
[53] Ibid.

- If both milestones, core to the social enterprise's mission, were met in three months, then the interest rate payable on the loan for that financial quarter would be halved. The milestones were set to be attainable but still a small stretch from current operations.
- The loan was patient. No interest would accumulate or be paid for the first nine months after the loan was given. This allowed the social venture enough room in their cashflow to complete the expansion within those nine months and make hires in their expansion that would lead toward reaching the two milestones before payments began.

Through this tool, 10th Avenue ICP was able to provide a small financial incentive to help a local social enterprise achieve its business goals and impact goals simultaneously. This type of investment has been coined as an impact-adjusted return investment by 10th Avenue ICP and their founding family office, Helder Ventures. Impact-adjusted return meaning that the financial return expected is negatively adjusted based on measurable positive impact being created with the capital.

Another unique characteristic of the 10th Avenue ICP is that it is entirely student-led. Based at the University of British Columbia and Simon Fraser University, third- and fourth-year students across various disciplines are given the responsibility of sourcing ventures, conducting due diligence and designing investments like the one detailed above. As of January 2019, 10th Avenue ICP is operated by 12 students from disciplines ranging from finance to philosophy, and is supported by the founding team at Helder Ventures as well as other local advising partners.

The data suggest investment capital that is patient, flexible, and above all impact-first is strongly needed. Helder Ventures, a family office based in Vancouver, has coined this philosophy as "Social Value Investing". Such investments are distinguished from traditional venture investments due to three characteristics.

- **Inclusive Impact:** Investments prioritize a venture's ability to contribute to solutions, and not their financial profitability potential. This allows social value investors to be inclusive of their definition of social venture investing to include small-medium businesses, enterprising non-profits, cooperatives, or even traditional technology ventures that have the potential to adapt their product to serve a social or environmental issue.

- **Generative, impact-adjusted returns:** The investment deal design is venture-centred, meaning investors primarily view their capital as a service to the investees' mission. The capital providers are stewards of the venture and not acting as a principal-agent (or "shareholder-investee") relationship. The investment prioritizes the *generation* of impact, and does not solely focus on the *extraction* of returns. As seen in the 10th Avenue ICP deal, at times the returns are adjusted to incentivize impact-based milestones.

- ***Ex-post* returns:** The financial return is largely determined "after-the-fact" (*ex post*) by the ventures' specific traits, characterized by their business model and Theory of Change. This results in a diverse set of investment deals, ranging from innovative structures like demand dividends, revenue-based loans and impact-adjusted returns, to more established designs such as convertible notes, recoverable grants or loan-loss guarantees. In contrast, a traditional fund determines their return "before the fact" (*ex ante*) and screens investments based on some pre-determined financial hurdle rate. As a result, many of the investment deals are designed with features like equity conversion and liquidation preferences to achieve the financial objective.

The figure below illustrates the SVI model compared to traditional impact investing.

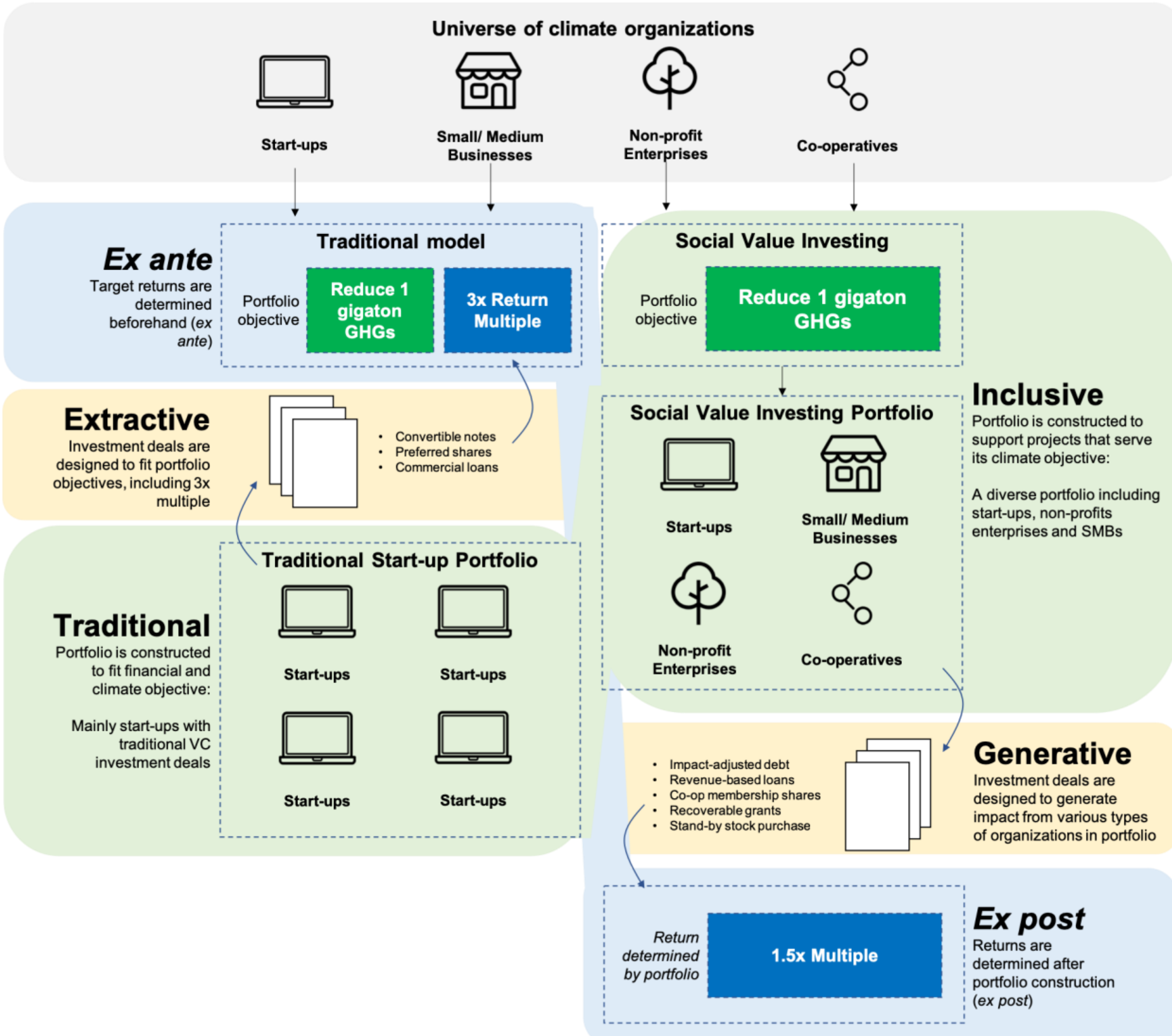


Figure 14. Social Value Investing - Applied to climate investments

4.2 RECOMMENDATIONS

The Canadian impact investment community has grown considerably over the past decade. With pioneering leaders such as The McConnell Foundation, MaRS Centre for Impact Investing, Rally Assets, and Renewal Funds, as well as more recently developed organizations such as Active Impact Investments, the VERGE Breakthrough Fund, and 10th Avenue ICP, the amount of work dedicated towards supporting social ventures is substantial.

Nonetheless, there is room for improvement. Our research provides an in-depth examination of the social venture ecosystem in Canada and has highlighted several key issues, as summarized in the previous section. In this section, we do not wish to prescribe specific solutions, but hope to provide some guidelines for how capital could be designed to better support social ventures in Canada. The tables below summarize the key design principles in mind.

TO BETTER SERVE VENTURES

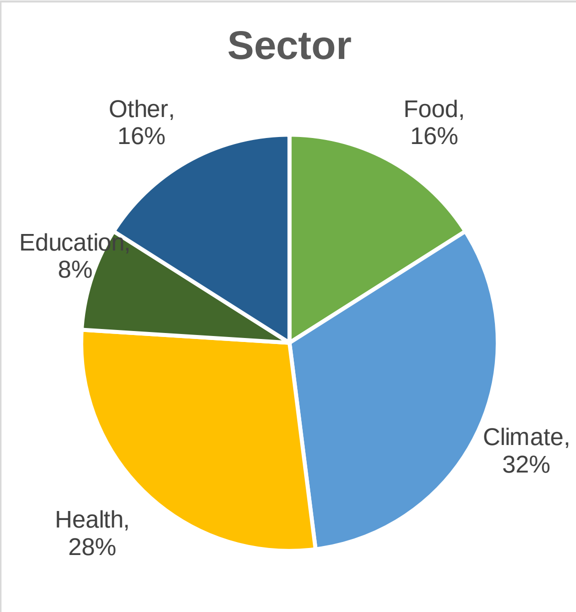
DESCRIPTION	DESCRIPTION	DESCRIPTION
Business Type	Impact is generated not only by “start-ups” but also by grassroots organizations, small businesses, and enterprising non-profits.	Recognize impact can be generated by businesses of all shapes and sizes. Even if the venture’s product is not necessarily contributing to solving an issue, positive impact can come from adapting the product, improving the company operations, or providing support to the community and stakeholders.
Return	Unlike green bonds or real estate funds, social venture capital is riskier with less certainty towards factors such as liquidity. Overly aggressive terms to achieve market returns can end up being detrimental to the venture’s mission.	Consider targeting “impact-adjusted returns” which uses the investment capital *as a service* to the venture’s impact mission. For example, the capital can play an influential role in encouraging more equitable, just and sustainable management practices. The investment should *generate* impact, not *extract* returns.
Deal Design	Investing into social ventures is inherently risky. “Aggressive” mechanisms to extract value from the investment and protect the investor from downside risk may be inappropriate for supporting early-stage social ventures.	The investment deal should serve the venture’s business model, not the other way around. Innovative financing mechanisms such as impact-adjusted loans, revenue sharing, and demand dividends can be used to design investee-friendly deals.
Stage	We identify three main friction points: Demonstration, Transition, and Growth. Each of these stages require different types of financing.	A variety of sources of capital is needed to serve Canada’s social ventures. Consider a blended finance approach that provides a range of capital: for example, a base layer of philanthropic capital to absorb risk (for “Demonstration” stage ventures); mezzanine debt that utilizes innovative financing mechanisms (for “Transition” ventures); and friendly bridge deals to help ventures transition towards mainstream Series A financing (for “Growth” stage ventures).
Business Support	Almost all the early-stage ventures we interviewed cited a large need for business support and mentorship. This was especially common for niche products and services; whose ventures need a wide range of support services.	The most common needs include support in sales, marketing, human resources and talent recruitment.

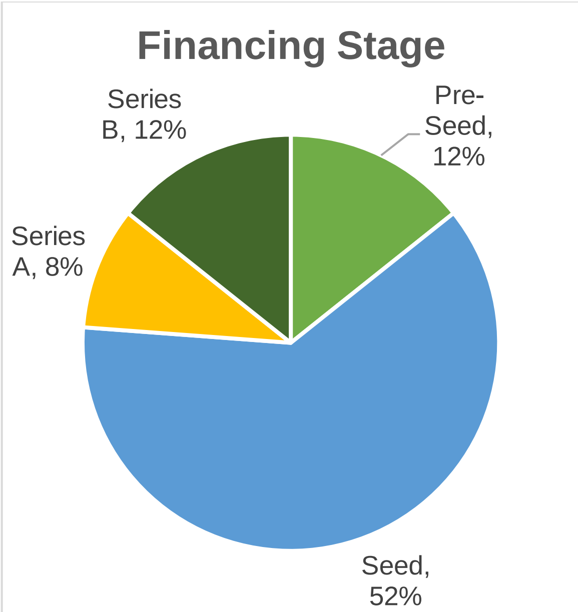
TO BETTER SERVE INVESTORS

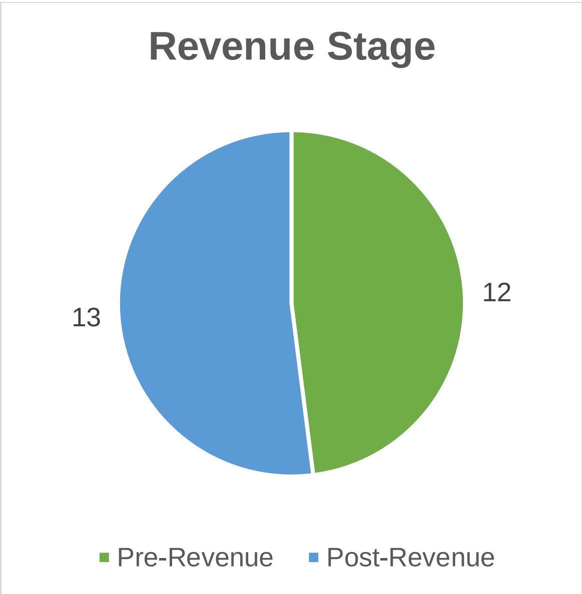
FACTOR	DESCRIPTION	RECOMMENDATIONS
Outcomes Focus	Canada faces a myriad of issues, spanning multiple sectors. New funds must also account for the fact that different investors have different approaches to impact investing, and are grounded in achieving specific outcomes.	Each region has their unique set of characteristics, from their public and legal policies, to their culture, and their community resources. Utilizing a community's knowledge to define a fund's desired outcomes is key.
Geographic Focus	There are many investors focused on regional outcomes in their local communities, while others are more nationally-focused (or perhaps internationally). A fund must understand this dynamic and cater to these varying needs.	There is a clear desire for a robust pipeline of social ventures that is "National in Scale, Local in Scope". Investors can tap into this pipeline to understand the activity within their own community, while also monitoring what other ventures are doing across the nation.
Investment Committee	Credibility and trust are instrumental in helping an investor decide to allocate capital towards social ventures.	An experienced and credible investment committee is extremely important. The investment committee should be experienced in not only investing, but also the targeted social/environmental issue(s) itself (themselves).
Catalytic Capital	Catalytic capital can include loan guarantees, anchor investments, first-loss reserves, or tax credit incentives. These "sweeteners" can help reluctant investors overcome the financial hurdles preventing them from investing in social ventures.	Explore opportunities for investors or intermediaries to provide catalytic capital, instead of just pursuing a traditional fund model. Taking this action could result in a leveraging effect that would catalyze other investments.
Transaction Costs	Many investors lack the internal capacity to hire a team of seasoned analysts. Transaction costs should be kept low to attract these impact investors.	Management fees should be kept below 2% to ensure cost effectiveness for investors, particularly in the case of concessional returns. The cost structure, however, should not be designed at the expense of high-quality research and analysis.
Return Expectations	The returns should be reasonable to both the investor and portfolio companies. We identified a potential segment of investors – "Social value investors" – targeting 0%-5% returns.	Consider a portfolio-determined return: instead of having a pre-determined (*ex ante*) return hurdle rate, design the return expectations that are appropriate for the impact of the investee companies (*ex post*).
Liquidity	While there are many patient investors, it is important to consider liquidity concerns. Increasing liquidity can also help build a positive track record for social venture investments.	Consider designing mechanisms to increase the liquidity of social venture investments, through means such as innovative loan structures, or a secondary market for venture investments.

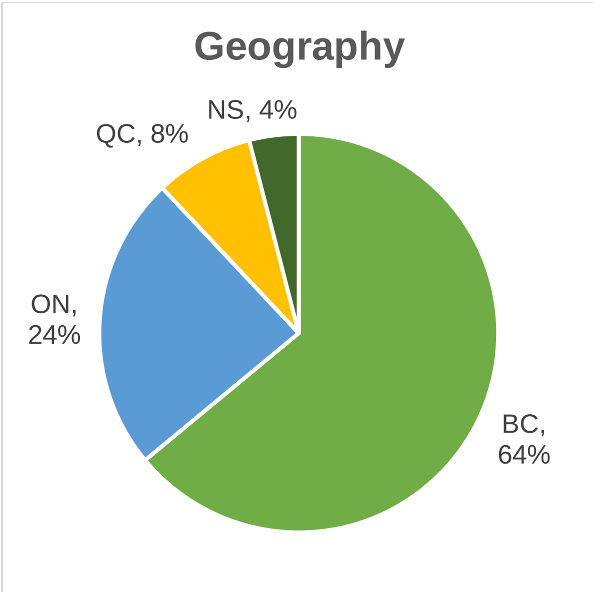
5.0 APPENDIX 1. SUMMARY OF INTERVIEWED VENTURES

We interviewed 25 social ventures to supplement our quantitative findings. The ventures spanned multiple sectors, financing and revenue stages. The following figures illustrate our interviewees' characteristics.









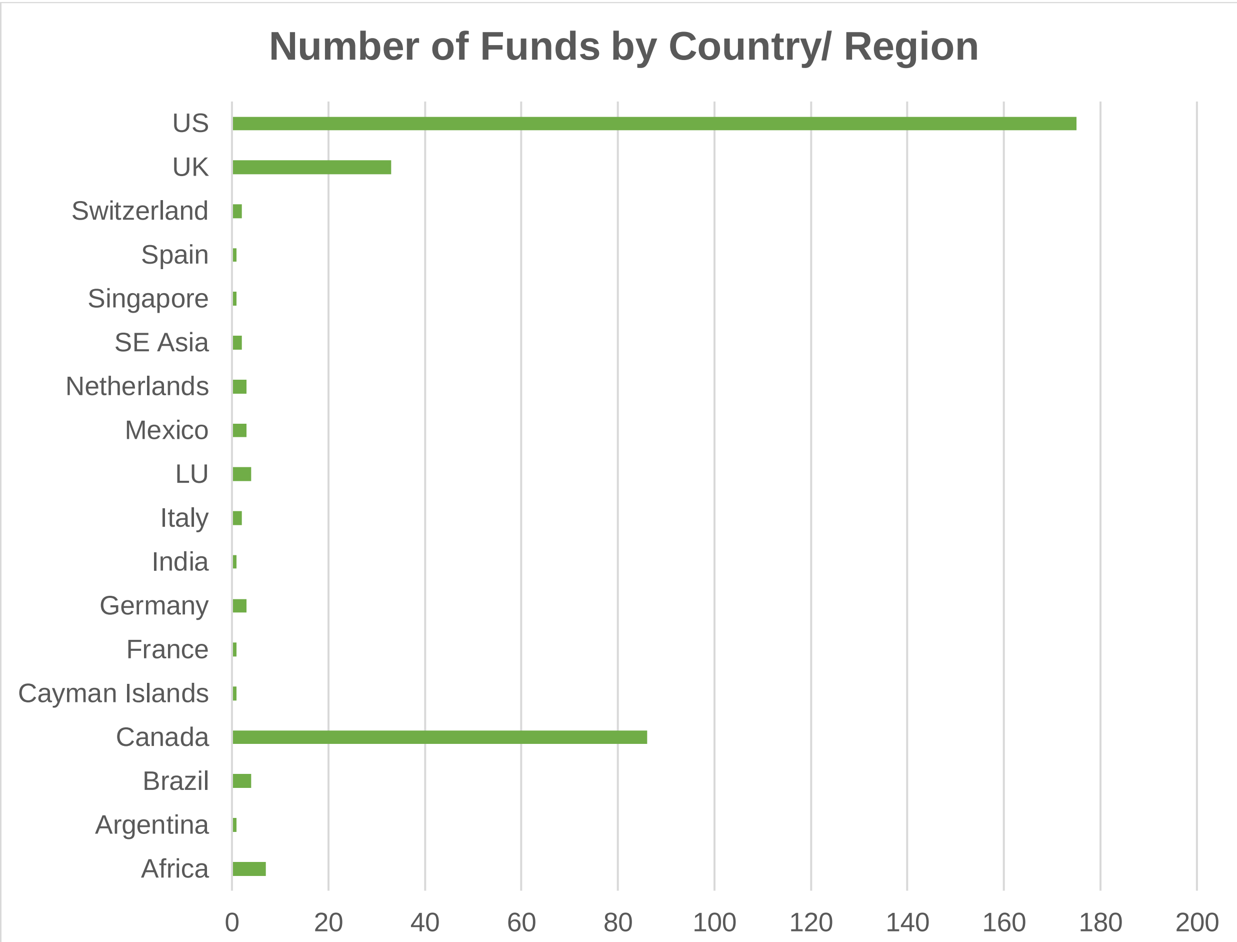
6.0 APPENDIX 2. INNOVATION TYPOLOGY

Type	Competitors	Risk	Product/ Service Familiarity	Industry
Pioneering	There are no or few (1-2) other direct competitors competing in the product/ service's niche, and no indirect competitors.	There is a large degree of risk associated with the venture's level of innovation due to its core concept being unproven/uncertain.	Consumers/ Investors are largely unfamiliar with the specifics of the niche the product/ service occupies and there is a need for education on the associated value.	The industry is extremely young or even brand new. There is great need for services, supports and research to better facilitate venture development.
"Like Uber But For"	There are a number of direct competitors operating in the product/ service's niche. Ventures must find unique points of differentiation to compete.	The core concept is relatively proven; however, variation/ differentiation may be unproven and carry associated risk.	Consumers/ Investors have some knowledge of product/service but need education on unique value proposition of venture.	The broad industry that the venture operates in is formed, but the venture is operating in a new/young niche. growth, education and awareness is needed.
Established	The market is reaching maturity with both direct and indirect competitors possessing extensive experience and strong brand recognition.	There is little risk associated with the venture's level of innovation due to the core concept being fully proven.	Consumers/ Investors are fully familiar with the value and specifics of the industry. Little to no additional education is needed.	The niche industry that the venture operates in is fully formed and mature. There is no major need for education and awareness.

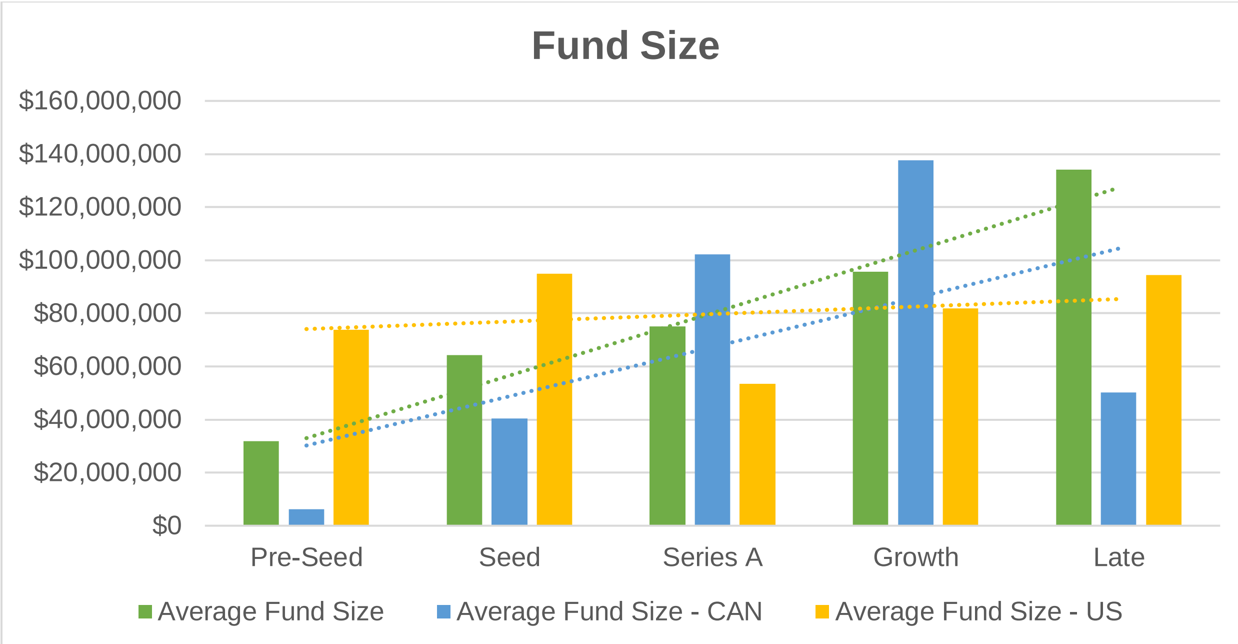
Table 16. Innovation Typology

7.0 APPENDIX 3. GLOBAL AND CANADIAN IMPACT FUNDS DATABASE

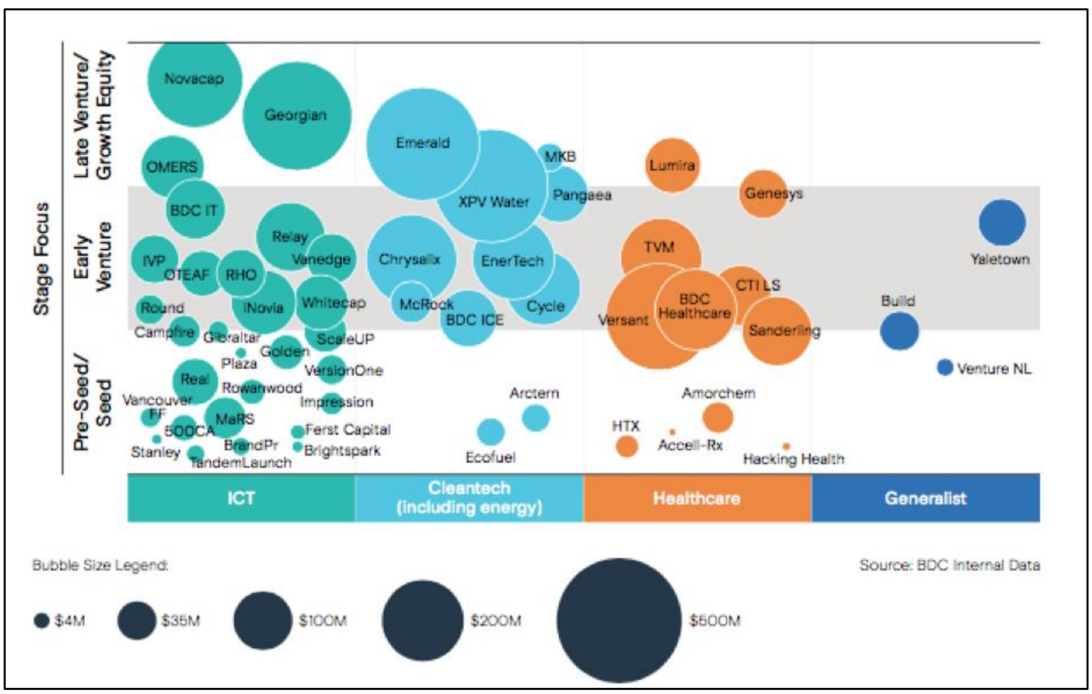
Our database sourced 333 total funds, of which 175 were based in the US and 86 based in Canada. The make-up of our funds database is diverse in geography, coming from 18 countries/ regions, with the majority (89%) based in the US, UK, and Canada.



Average fund size differs substantially when compared individually between Canada, the U.S., and Global. While the total database of global funds faces virtually linear trends, the Canadian and U.S. trends are vastly different between stages.



This figure is sourced from BDC's 2017 report on Canada's venture capital landscape.[54] It closely resembles Figure 13, indicating an abundance of activity in the seed, Series A stages, while there is a lack of pre-seed capital.



[54] BDC (2017). "Canada's Venture Capital Landscape: Challenges and Opportunities". Retrieved from: https://www.bdc.ca/EN/Documents/analysis_research/venture-capital-landscape-paper-en.pdf

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