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EP42 | Making a difference: Impact investing

Andrew Johnson	**00:41**	Hello everyone, and welcome to the podcast. For our listeners out there, you will notice that you're hearing two brand new voices today. My name is Andrew Johnson, and I'm an Institutional Portfolio Manager here at Mawer, working alongside many of our pension, as well as endowment and foundation clients. I'll be your host today. Joining me is Bob Gibson, who is the current Board Chair of The Calgary Foundation, a community foundation based here in Calgary, and one of almost 200 community foundations across the country. The reason Bob is here today, is because a little earlier we had a little gathering and Bob spoke on the topic of impact investing. More specifically, how The Calgary Foundation has evolved in what [they're] doing in the impact investing space. We thought we would sit down with Bob today and continue that conversation. Welcome to the podcast, Bob.
Bob Gibson	**01:32**	Thanks very much.
Andrew Johnson	**01:33**	Before we get too deep into the conversation, I thought it would be good to provide our listeners with a little bit of background on who you are, your career, as well as your current role at The Calgary Foundation.
Bob Gibson	**01:44**	Sure. As mentioned, I am the Chair of The Calgary Foundation. I've been on the board for nine years, so, as I like to say, I'm the "dead chair walking." My term comes up in a matter of a month or so here. I also chair our Impact Investing Committee, which I'll go into a little more detail [about] how that's evolved from an ad hoc type of committee into actually a core committee of the board. And not surprisingly, given my background. I have been an investment banker on and off for 30 years, covering capital markets as well as M&A, mainly in the energy field. So, doing this is my penance for a career of 30 years in investment banking.
Andrew Johnson	**02:26**	Something I have to look forward to, then?
Bob Gibson	**02:28**	Exactly [laughs].

Andrew Johnson	**02:29**	Okay, well thank you very much for that. I did want to start with—it's actually a concept that we talk about a lot here at Mawer, and I think we've done a podcast on it previously. We've certainly written on the subject. It's this idea that we refer to as "suitcase words." A suitcase word is essentially anything that has these multiple definitions packed inside of it, depending on who that person is—their experience around whatever we're talking about. And impact investing certainly strikes me as one of those suitcase words. So, I thought that very simply, maybe you could unpack that suitcase for us and ask the question, "What is impact investing? What are impact investments?"
Bob Gibson	**03:09**	Sure. I actually think you've sort of hit the nail on the head as it relates to this. You can go—and the other day I read an article talking about [how] there were $260 billion of assets in impact investing. And we, as the Foundation, you'll see have a fund that's about $20 million. Yet in the context of what we're actually going to talk about, our $20 million is actually pretty large in the Canadian context… so, impact investing, or social investing, at a very high level, could be as easily as on your endowment you have an ESG screen on the type of investments that you're doing. It can be that you're into social enterprises. And even that should be unpacked a little bit on how people are defining social enterprises. For us, we take it down to the level that we are making investments in not-for-profits and charities, and I think as we unpack it a little bit more—I'll even get into some of our criteria on what we do, [which] is very Calgary-specific and there are reasons for that—that even narrow it a little bit more. But I think we can kind of get to that as we talk more.
Andrew Johnson	**04:23**	That's good. I've always thought of … the approach to impact investing being this bridging this gap between the philanthropic world, charitable giving—which is capital used to address a certain issue—and bridging that gap with more traditional investments, which is capital that's used for financial return. Is that a fair comment?
Bob Gibson	**04:46**	Yeah, I think so. And I would add the bookend at the other end are probably governments. So, for a lot of the social problems that we try and deal with, on the one hand, you can have philanthropy, on the other hand, you have government funding for a whole bunch of things. And what we are trying to do is find another bucket of capital to actually pursue a social agenda and get us more bang for the buck.

Andrew Johnson	**05:09**	Okay, great, so we've covered the what. Maybe we can move into a question around the why. So, why did The Calgary Foundation begin to work in the impact investment space?
Bob Gibson	**05:21**	I think there are a number of reasons around this. Let me, again, start with the bigger picture—and that came out of the U.S. within the foundation world. It was the basic idea that we, as an endowment, have a 4% spending problem. So, we happen to—as The Calgary Foundation—have about a billion dollars of assets under management now, and that allows us, simplistically, to grant out $40 million a year in the form of grants. There was the movement (as mentioned out of the U.S.), that is: as wonderful as that is, what are you doing with the other $960 million of your endowment? And this is where it gets into the idea of, is there more impact? At our session that was referenced from the other day, it always comes up in this context of: fiduciary responsibilities of people who run endowments and how does impact investing… how can you actually execute on all of that? And that's where you sort of jump into this idea that we were talking about of creating an asset class that people can actually rely on and meet their fiduciary responsibilities, but [also] make the kind of impact that you're looking at doing. So for us, that was the first thing—this overarching idea that we, as a foundation, want to do more with what we have. The second big part of it was, we happened to have an opportunity. The idea came up [that] what Calgary needs is an arts incubator. A group of people in the arts community in town got together with The Calgary Foundation, and it resulted in us purchasing the King Edward School in the southwest of town. It's a 100-year-old limestone school. And we were going to turn that into an art incubator. So, we bought the school—the school was $7 million that we got from the CBE, and we, in the form of an investment, put $5 million as a loan. So here was an actual, practical, example for us of essentially trying to make an investment outside of our endowment. And again, I think we can talk a little bit about some of the issues of doing that, but we actually found the money outside of our endowment—notwithstanding all the sort of fiduciary issues around that. With that success over a period of about five years, the art incubator was constructed, and we actually got paid our money back.

So, like anything, the fact that we had an actual example of impact investing that was a success went a long way for the board of The Calgary Foundation to get comfortable with this idea. Thirdly, I would suggest it was just related to—when you're a billion dollars you start thinking outside of the box on what can you do with your billion dollars. And obviously, the idea of making more of an impact, again, led us down the path of, "can we do something here?" And then I'd be remiss in not mentioning the final thing that actually has simplified our life dramatically—is that we got a $20 million anonymous donation for us to go off and do this.

I'm sure we'll touch on some of the endowment issues that can pop up here, but for us keeping it outside of the endowment in a specialized fund allowed us all sorts of flexibility to go and find the kind of things we were looking for.

Andrew Johnson **09:05** Yeah, and I can certainly appreciate—as somebody who works for a foundation or volunteers with a foundation—speaking mainly about the opportunities that presented themselves here when I asked that question. But maybe you can unpack some of the challenges that you faced, especially early on, but maybe even today.

Bob Gibson **09:22** Well, let's start with kind of the big one that we're referencing, and that is the legitimacy of this as an asset class. There is all sorts of discussion around this. There is movement by some within the social impact world to have governments and others essentially bless this as an asset class in advance of doing the tough work with correlations and historic returns and all of those kinds of things and suggesting that you are meeting your fiduciary responsibilities if you put 10% of your endowment in this. We—and I say we—but as a committee, we're very interested in making sure that we do the things required that we can justify to our board that this is an asset class. One of the euphemisms that we have internally, (we didn't create this, but it's totally applicable), is we don't want any "groans." And "groans" happen to be loans or investments that you have to turn into grants by virtue of: they're not supportable as a loan.

That's clearly one of the challenges. This is no different than if we were a private equity fund: we have to do our due diligence and we have to structure and all the rest of it to make sure that we have viable investments. Now, again—one of the vagrancies of what we do, is what an investment is (can move from equity to debt). Obviously, we are just mainly doing debt at this time, albeit we are starting to look more at equity type of things. Part of the reason [is] twofold: one is that we want our funds to turn over.

So we need to essentially get the money back so that we can actually deploy it again (as one of our objectives). And the other is, it's frankly just easier in the absence of exits to be able to measure our returns. So, back again to: we not only want to show a social good, we want to show that we are actually making positive investment returns off of this.

And then finally, the last challenge in all of this is reputational. Everything we do at the foundation…reputation and the impact on our reputation is the first thing that we look at before we would undertake any kind of initiatives.

Andrew Johnson **11:42**

I like that comparison to the private equity and, well, private debt currently. In your case it's almost a private debt fund aimed at providing some sort of social change in and around Calgary (for you specifically). But obviously other foundations could do whatever is under their mission and under their purview.

You touched on it just a minute ago—on one of the challenges—and this is one of the questions or the concerns that I've noticed in my conversations with some of our clients…the executive director or the CEO struggling to compel their board to get onside with this sort of thing and allocate resources to it. You touched a little bit on the logistical challenges, which is getting money outside of an endowment. But what are some pieces of advice that you would give to an executive director that [has] convinced themselves that they want to move forward with this but is getting resistance at the board level?

Bob Gibson **12:34**

Well, this is where we wish that there was more background on this asset class. Lauren Frosst, who is with me today and has done a lot of work in terms of laying the groundwork for all of this; [and] posted on our website are the various criteria that we are looking for when we go out and do this; but it is, frankly, difficult to find the kind of product that we want. And we're actually doing some initiatives to build the capability of the not-for-profit world to actually accept what we are doing. A lot of the not-for-profit world does not have the financial acumen for example, or the ability, to track some of these things.

There's no question that when you're getting into this, it's not a matter of, "here's Fund XYZ" and you're now a player in the space. We are at the infancy of this, and we're needing to grow this, and at the same time avoiding some of the missteps that could effectively happen in this. We're quite proud of how our portfolio has come together.

It was actually, again, mentioned at the earlier session of, “how do you find things that are not just real estate based?” That would be the logical thing. And there’s no question that we do a bunch of that in our current portfolio, but at the same time, we pride ourselves on trying to find things that are what we call “non-bankable.” So, if the banks—and the banks are, frankly, getting fairly aggressive in some of this—if the banks are out there trying to do some of this, we’re trying to go into a space that they’re not.

An example of that may be that…we might do something where…two examples, I guess: one is if the not-for-profit or charity has a history of being able to raise capital through capital campaigns and that kind of thing, we will actually give them monies in advance of that, with the capital campaign being part of how we actually get taken out of it.

Another example that I’ll let Lauren talk to later, is one of our most successful, albeit small ones, was for an autistic organization that wanted to develop an app for the managing of the life of their clientele. They were getting a government grant, but the government grant wouldn’t come through unless they had the development of the software, and they couldn’t develop the software without the government grant. So we stepped in front of that, gave them the money—there was a bit of a bridge, in terms of the grant didn’t cover all of the money required—but at the end of the day, they’re actually one of our successful ones who have paid off it and moved forward.

So, again back to your initial question: on a board, no easy answer here. But I[’ll] also use the phrase at the earlier meeting this week that, “this is a journey.” I think what you want to do is you want to prepare your board for the journey. They continue to ask questions through the journey as you try and do things. Maybe you do something, or you play with us—and we’re all about essentially having relationships with like-minded foundations. We’re in here to further philanthropy; we have no grandiose vision of the world [and] ourselves in this space. So, to play with others who may want to come and get some value out of our learnings, [or] also actually move forward with us [and] make our dollars go farther, would also be it. But again, [the] short answer is, you’re not going to get any guarantees out of this, but you’ve got to be prepared for the journey. But we think it’s well-worth the journey.

Andrew Johnson **16:21** A couple of things there that I know: one is, this isn’t just all of the work that needs to be done on the individual investments that you’re making or the lending that you’re making—all the due diligence that goes into that.

But also all of the legwork that you're trying to do to move this in a direction that is going to set up some sort of long-term sustainable success, as you say, as a legitimate asset class. And that's going to benefit not just other foundations going forward, it's going to benefit donors as well that want to put their money in a different capacity to help achieve what they want to in their lives and their giving. The other thing is along those themes of, again, bridging that gap between what a philanthropic institution wants to do and their access to capital to do that. So, that chicken and the egg comment you made about the app development and getting the money to do that is an all-too-common thing we hear out there. I think it's important that a foundation like The Calgary Foundation is doing something along those lines.

I did also want to ask you a question because I did ask it in the earlier session around…you know, in our world at Mawer, the general public as well as our clients want to be able to benchmark the performance of what we're doing. Is there a way to do that in the impact investment space right now? Or is that even the proper way to be thinking about that right now at this stage?

Bob Gibson **17:50**

It's difficult, would be the short answer. A couple of observations, though: some of the justification early on with this was the fact that in the financial crisis, for example, people who were early into the game made the comment that their impact investments performed well through the financial crisis, and therefore obviously the correlation of this asset class versus others is kind of a positive to it. But that was not based on quantitative analysis. That was anecdotal that that's what happened. Now, the issues of liquidity and all those other things that you would look at when you're trying to look at how something performs through a down market would come into all of this, and clearly these are not liquid-type assets.

So, there's an anecdotal answer. We are actually tracking our investments…lots of discussion around market rates of return. I would suggest that that's a little difficult to achieve. On the other hand, we are looking for positive rates of return. And then the other component to it is the social return. And this gets… there is all sorts of literature on this, by the way, if the listeners want to go and kind of delve into that. But frankly, that's all qualitative at this point in time. We like to think that our portfolio…it has positive returns; we have no problem loan situations at this point in time; and certainly, we would stack our social returns on what we're doing at a very high level.

Andrew Johnson	**19:30**	One other thing that I think that community foundations across the country are doing, but Calgary Foundation is doing a very good job with this is, the publication of the Vital Signs report that goes out every year, which is an intense survey of the community and helps prioritize things as a foundation. Is that playing a role in conjunction with your impact investing and where you direct some of this capital?
Bob Gibson	**19:55**	Most definitely. So, we currently have not played in—and there are funds out there that are trying to do things in other parts of Canada—we are basing what we do on Calgary. We are a community foundation. We do have our five vital priorities, though. The first thing we do when we look at something coming in the door, is how it actually stacks up against these five priorities that we have. And it's things like poverty, living an artful life—that type of thing. We have our five we use as an evaluation tool against the various things. That doesn't mean that if it is the right kind of project we won't look at it, but we definitely do a screen [to see] that it is meeting what our objectives as a community foundation are trying to do.
Andrew Johnson	**20:47**	Obviously we are talking with you, from The Calgary Foundation, one of the larger community foundations here in Canada and in North America. Is this something that only large foundations can do?
Bob Gibson	**20:59**	Well, I think it's tough if you are smaller. Again, you need the resources. With Lauren, we have a dedicated person looking at doing some of this. I would think if there's going to be a movement within the almost 200 community foundations in Canada, that we're going to have to find some mechanism to pool things that we can piggyback off of—work done by others. And there is discussion of all of that. But when you look at our average deal size—probably in the one to two million dollar [range]—that is a significant chunk of the assets of all but the top kind of dozen community foundations in Canada.
Andrew Johnson	**21:42**	We've talked a little bit about the strategy and implementation here, but I did want to ask you about the governance and some of the structure that maybe you've put around this that could be useful for other foundations to hear about.
Bob Gibson	**21:54**	Sure. Where we are currently at, as I mentioned earlier, the cSPACE [King Edward] was our first ad hoc-type impact investment. Since that point in time, we have put a core committee in place that has four board members on it, as well as three community members that bring a wealth of different experience to it.

This meets quarterly, and we essentially have an investment process that Lauren brings forward; investments that she's gotten to the point where we want to either proceed or not based on the committee structure. We also have put a statement of investment policy together for this as an asset class. So again, the fact that we have this policy actually allows us to use 5% of our endowment. We have not done that yet, so we're a little bit in this quasi group between doing our own thing outside of the endowment, as well as having all the policies in place to use the endowment if we are so inclined.

Via the investment committee and via that statement of investment policy, we have limits on what we can do, and portfolio construction type of things. The committee itself can actually approve investments below a million dollars. If they're more than that, they actually go to the board for approvals. We have set consistent methodologies with regard to due diligence and the processes that we go through with regard to the type of information that Lauren provides to the committee in the first instance.

And, as I mentioned earlier as well, the first thing we do is talk about the social benefits of that, as well as pricing, [and then we get into a full-blown discussion]. We have made a conscious effort to try and price...albeit I wouldn't call it market, but we are putting a pricing grid together that tries to essentially look at risk and return in a very methodical type of way. We are also putting all the controls in place at the back end, obviously to get paid on these investments, but also to track performance.

So [it's], back to the earlier comment on [how] we would like to, off of the back of all of this, be able to put forward the case that this is an asset class and as a result you could actually run correlations on this versus other assets. You could look at historic returns and losses, if there are any. All these kinds of things such that again, you can give comfort both to a board, but externally, that this is a legitimate class. And this is where I think to your comment that if we do that, then all of a sudden we're a big fund at $20 million. Maybe we do find the millions that get moved into space over time if it truly becomes a legitimate asset.

Andrew Johnson **24:52** So again, striking that balance between spending time and energy on the actual projects that the foundation wants to accomplish, but also contributing to, as you say, the legitimacy of this as an asset class. Because that's going to have dividends that will pay five, 10, 20, 50 years from now, hopefully, for the communities that are being served by foundations doing this type of work.

Bob Gibson	**25:13**	Right, and not just for us, but then I think if we get to that point, then all of the smaller communities will find there will be more vehicles that they can play in at that point in time, which will benefit everybody. And hopefully the ability to do it both in their community but also in a broader Canadian context.
Andrew Johnson	**25:33**	Yeah, and I think that would be a great scenario that unfolds from today onward.
Bob Gibson	**25:38**	Right. Because as much as we are limiting ourselves because we are The Calgary Foundation, we have not limited within our statement of investment policy that we can't go beyond Calgary. It's just a logical step in the journey I referenced that I'm sure one day if we decide to employ $50 million out of the endowment as an example, that we will start to look at things much broader than Calgary—just from a practical standpoint.
Andrew Johnson	**26:04**	Yeah, naturally there would be a greater opportunity set out there for you to do that.
Bob Gibson	**26:08**	Right.
Andrew Johnson	**26:08**	We're going to bring Lauren Frosst into the conversation now. She is the [Director, Investments] with The Calgary Foundation, specifically heading up a lot of this impact investing that the foundation is doing. Lauren, I wanted to bring you in because I want you to give us and our listeners a sense of, from a high level, what things look like today at The Calgary Foundation under the impact investing that Bob just greatly described for us.
Lauren Frosst:	**26:32**	Sounds great, thank you. We have developed a program, as Bob said, that focuses specifically on debt financing to charities and not-for-profits in Calgary and area, and we look at, from a social perspective, 160 degree landscape. So, we have our vital priority areas, but we're not opposed to looking at other aspects of the charitable community as well. We play a unique role in that we are not looking to replace other capital resources for charities and not-for-profits. We would rather be able to augment. So, if there is a banking partner involved, we like to be able to provide financing alongside them. Or, we will replace a bank if we feel comfortable in the cash flow forecast of the organization—whether it be through grants coming in or a capital campaign.

		We have that track record and we can see those cash flows, but maybe a banking partner feels a little bit uncomfortable playing the role as lender. Eligibility-wise, we want our investments to help further our mission and vision. We want them to focus on Calgary and area. We want to be able to see a reasonable repayment plan, preferably more than one option for repayment. We want the charity to be able to demonstrate good planning, a strong management team being at a state of readiness, and we want them to have some sort of proven track record too in the area of focus [of] their project—where it originates.
Andrew Johnson	**28:06**	Very similar wording and language as I would describe some parts of our own investment philosophy, where a lot of it has to do with getting to know the people involved and ever important, is a track record. It's very hard to convince not yourself as the investment associate bringing these to the board, but even the board themselves—they have to be convinced as well. So you've got to have that other layer of assurance.
Lauren Frosst:	**28:29**	And where I would say that we are willing to take some risks, but we also want to make sure that we are setting up our organizations that we're partnering with for success, and if it doesn't make sense to be a loan, then it shouldn't be a loan. It should be a grant. And we make sure to work alongside our lending partners to see, is there a solution that we can find that makes sense from a lending perspective? And if that's not the case, then we direct them to one of our granting resources, because ultimately that's the thing that's going to make the most impact for these charities.
Andrew Johnson	**29:03**	So very much a partnership.
Lauren Frosst:	**29:05**	Very much a partnership.
Andrew Johnson	**29:06**	And looking to be complimentary as opposed to competitive with other people maybe trying to help these foundations.
Lauren Frosst:	**29:13**	Mm-hmm (affirmative). And quite a few of our projects to date do have your more traditional lenders also attached to them, so we're not necessarily the only one in the capital stack, but we do like to be right alongside those banking partners, not necessarily in a secondary position.

Andrew Johnson	**29:32**	So you touched on some of the criteria that's involved, but let's play the role, or let me play the role as the sole person running a very small foundation in the Calgary area. I've got this great idea, I'm running into trouble finding capital for it. How do I go about getting involved with some sort of impact investment from The Calgary Foundation? Is it an application process, do I call somebody up, or do I just take you out for a couple of drinks and try to figure this out? How does it work?
Lauren Frosst:	**30:04**	We do have guidelines and an application on our website, if you just go to the impact investing webpage. Anyone can fill it out and we'll start a conversation. Sometimes though, a great feeder for our program is also our community knowledge—just being out there on a regular basis, getting to know the charities who are working in Calgary, and some of the grant programs that we run. Sometimes someone will come to us and they'll be seeking grant funds to seed something, and it might be to seed a renovation or the purchase of a building. And later on down the road, we'll make note of that because it could be an impact investment for us to be able to front the purchase of a plot of land, or to put some capital to use on the renovation side, knowing that there will be some dollars coming in from a government or philanthropic source that can pay that loan back.
Andrew Johnson	**31:04**	So let's keep moving in that direction. Let's take it another level lower in terms of… you just gave a great overview of what things look like, but maybe what are some examples, if you've got one or two that really show the essence of what you're trying to accomplish through this program?
Lauren Frosst:	**31:20**	About a year ago we partnered with the Calgary Drop-In Center. They have refurbished a hotel in the community of Greenview into an affordable living complex, and there are 79 units. Some of them specifically provide wrap-around services for individuals who are trying to get out of the shelter and into the housing market, and others are below market rent that helps to make the economics of the building go round. So, they in some way subsidize the wrap-around services provided to maybe those clients that need a little bit more support. We were able to provide a $3 million loan that was secured against the building alongside another banking partner. The project overall was $17-20 million, but it would have cost the Drop-In Center $30 million to build something from scratch. So, our money really did provide the cash to make the project go around, to keep that cash flow steady over the period of refurbishing the building itself. The project is almost complete, it should open sometime over the summer.

And it looks like—we've been in there for about a year and a half, and they're probably going to take us out with some alternative financing coming down the road at the end of June. So, that's a really great success story for us. We put it out there as a three-year term, but we're going to get paid back in a year and a half.

Andrew Johnson **33:02** That's an excellent story. Bob also mentioned earlier, and it was mentioned in the session, of, often these deals, these investments, are related to real estate. Are there any non-real estate related examples that you can provide our listeners?

Lauren Frosst: **33:17** Yeah, I think Bob actually also did mention this one, but one of our very first investments was to support the Autism Aspergers Friendship Society with some funding along a piece of software that would help their clients with living more independently. It also supported some of the backend administration of the organization. It was about two-thirds secured against a government funding program that we had to be quite patient [with] because those funding processes can take some time, and you have to have confidence that the government will provide the grant at the end of the day.

But the great thing about that project is, when they came to us you know, as most charities and not-for-profits do, (there's not necessarily a ton of free cash available in some of these organizations), we had the government funding coming in, we had some cost savings that would be applied when the software was operational, and so they really only had to raise about $20,000 from their community on a $175,000 loan. We had a lot of confidence in the end they would be able to get there. And they did! And they've been able to free up a bit more cash flow, as I said, through cost savings and by paying down our debt, and the government grant came through after much nail-biting [laugh]. But it was our first loan through this program, and it was definitely a great success story for us.

Andrew Johnson **34:52** That's great, thanks for both of those examples. I did want to just wrap up with sort of a general question out there, and I'll start with you Lauren and I'd like to hear from Bob as well. The question that I'm thinking of is more along the lines of, what are you most excited about in the future of impact investing? Maybe broadly speaking, but even with The Calgary Foundation itself. What sort of things do you envision being able to accomplish with this approach?

Lauren Frosst:	**35:22**	The thing that I appreciate most about the way that The Calgary Foundation is looking at impact investing, is that right now we disburse 4% of our assets to the charitable sector as grants. And if we get to the point where we are also adding 5% of the endowment through investments, then that's 9% of our capital that is going directly to charities and not-for-profits doing charitable work in Calgary and area, and I think the impact of that would be phenomenal. And so, I'm really excited about scaling what it is that we're doing. I also think that it would be really great to work with others on a local basis who are interested in this space through co-investment, so we would invite our partners out there to, if they're interested in what we're doing and they want to help play a role, that they reach out to us. In terms of impact investment just in general, I think Bob talked about some of the challenges associated with the equity side of things. If we can get to this place where we build a little bit more legitimacy around impact investing, and almost the various types of asset classes that you can have within that, then it would be great to be able to solve some of the problems with: what is the exit strategy? what is the structure that we're investing in? and what are the business models around some of these social enterprises, and how can we play a role? Some of those structures that exist in the capital market proper don't necessarily translate so well into the impact investment space, and it would be nice to see that evolve.
Andrew Johnson	**37:10**	Great, well thanks, Lauren! Bob, how about you? What are you most excited about for the future of impact investing?
Bob Gibson	**37:15**	As I mentioned, and I think Lauren did a great job of laying the groundwork of where we as an organization hope it goes, but to use the journey metaphor that I talked about before, and the fact that as an investment person I have seen capital markets evolve, one, you want legitimacy in this as a true asset class. That will open up to institutional investing money and notwithstanding, the philanthropic world would be interested in this. I think it also will just bring more intellectual capital to bear, which will come up with all sorts of interesting ideas. An example of that, we haven't done one yet, but we've cast about, is what's called a social impact bond, as an example. It's a SIB acronym that they use. And I must admit when I first heard about these I put on my investment hat and was looking for a bond indenture and all the rest of it.

Essentially, though, what it is, is a partnership between a group like us at the front-end that would provide some money, a social problem, and organizations that help deal with that social problem, and then someone who takes you out at the back-end of your investment.

And this actually can be quite controversial. I won't get into all of it, but there are those whose view [is] that all the philanthropic world is just taking advantage of the system and all the rich guys effectively are getting paid out for helping a social cause. But there are some classic examples, though, where the part missing of that, I think, is the fact that the social problem in the middle is a true problem. It is currently not being addressed in the way that it should. And what the structure allows you to do, is the people providing the money up front work with all the necessary organizations to essentially address that problem, and effectively will get paid out at the back-end by governments in a lot of instances. But the government will have saved money through the process and will have ended up with a more efficient process.

I'll use an example that I know an ex-colleague of mine is involved with and he'll probably appreciate it, but an easy one to get your head around is organ transplants. If you are someone that needs a kidney, a new kidney, chances are you are on dialysis and you will find that the cost curve for that is like a J. Through the course of your life, the system is going to pay out a fortune. If you get a kidney transplant, then the dialysis expense curve disappears, and notwithstanding the cost of doing the transplant, your cost to the system goes dramatically afterwards. And not surprisingly, there's a crossover point. It's three years, I think, based on some of the economics that I saw.

So, on the one hand, that's sort of easy economics and why isn't government doing that? Well, part of it is that you actually need to change the system—both to get kidney donations, and you may have seen that Nova Scotia, for example, now you have to opt out of it, otherwise you are essentially an organ donator whether you like it or not. That kind of policy, though, provides the supply. But then you [also] have to change the system to be able to deal with this. And my understanding in the Alberta situation, is that a number of things within hospitals would have to change to be able to deal with it.

So, it is not a matter of, "just throw money at it," you get more kidneys donated, and the government should therefore pay you because you're saving them a bunch of money. It's the actual process of changing the system itself.

		And this is the impetus for doing that. Then, once you have done it, then clearly you don't need the SIB anymore and you've achieved your goals, and there are incentives based on how well you do. That's just an example of a structure that has been used successfully in Britain, and they're bringing it to Canada. But [it] helps you address things that currently are not getting the attention they deserve.
Andrew Johnson	**41:36**	So w,ith all this money that we're saving the government, it's safe to assume that we'll have lower taxes going forward too?
Bob Gibson	**41:41**	Oh, most definitely, yes [laughter].
Andrew Johnson	**41:44**	Not holding my breath!
Bob Gibson	**41:46**	Actually, if I can add as well the interesting thing about the British example—which people are trying to find similar mechanisms in Canada—but the British government ended up taking all the dormant bank accounts in the country. I don't recall how many years it had to be dormant, but assume if an account been dormant for 10 years, then they took the money. They raised two billion pounds, and they then used those two billion pounds to then go deal with some of these social problems, and SIBS were one of the mechanisms they used to then get the kind of results. So again, just in a Canadian context, there is one structure that if we could roll this out and truly have it accountable—again, it can't be kind of a faux structure that you're really not changing anything to come out the other side—but if you truly do make social change and impact, what a tremendous opportunity it is to do things differently and get a great outcome.
Andrew Johnson	**42:52**	Yeah, and that comes back to your previous comment about, the more this grows, the more eyes we get on it, the more intellectual capital that we're going to have—
Bob Gibson	**42:52**	Exactly.
Andrew Johnson	**43:00**	—the more innovative ways we're going to find to solve these types of problems.

Bob Gibson	**43:05**	Exactly. And you will attract the intellectual capital. Everybody talks about the millennials and how they are socially aware and conscious, but you're going to attract more of them to the sector, and...well, you want the ones who are the MBA grads to come into this space, the ones who bring a different mindset other than just the social awareness.
Andrew Johnson	**43:31**	Maybe I'll ask you one more question before I let you go. You're a chartered financial analyst yourself, you spent years in a related industry to what we're going here at Mawer...what is something that you would like to see an individual like myself as a CFA charter holder, a firm like Mawer, an industry that I work in—what could we be doing better to contribute to the success of something like this?
Bob Gibson	**43:55**	Good question. I think part of it may be the mentorship with the not-for-profits themselves—and to maybe institutionalize that. I don't have a structure in mind, but if you think about a normal capital project that the average not-for-profit would do that is real estate-related (so again we're kind of back to the real estate world), but a lot of them do not have the in-house capability to do property development, as an example. And financing. So what do they do? Chances are they have a person on their board who is "the real estate guy," and the real estate guy ends up being their eyes and ears on the thing in trying to move it forward. It would be great if you could bring a group of people with those skills well beyond just having a board member do it; that there would be a not-for-profit organization that has people staffing it in their spare times to help with those kinds of projects. Again, just to replace the intellectual capital, or actually not replace, but to bring in the intellectual capital. 1) to mentor, and 2) to kind of bridge to hopefully a point where we will have people qualified like that within the space itself. So, that would be one idea.
Andrew Johnson	**45:13**	Well, I've really enjoyed this, Bob and Lauren. You've both been incredibly generous with your time. We can't thank you enough for that, in providing that time to us and our listeners. So, thank you for joining us today, but also thank you for everything you both do at The Calgary Foundation and for community foundations in general.
Bob Gibson	**45:31**	Thanks, Andrew. It's been a pleasure. It was fun.
Lauren Frosst:	**45:33**	Thanks so much, Andrew, it was a pleasure to be here.