

The Landscape for Social Impact Investing - a White Paper

Introduction: Opportunity for Impact

Impact investing is a term that has recently been introduced into the investment community. It describes a range of finance and investment approaches that have the goal of generating both financial return and benefit to society. In the past five years, the impact investing industry has grown tremendously. In 2010, global assets under management in impact investing were estimated to be approximately \$50 billion and are expected to reach at least \$400 billion by 2020.⁽¹⁾

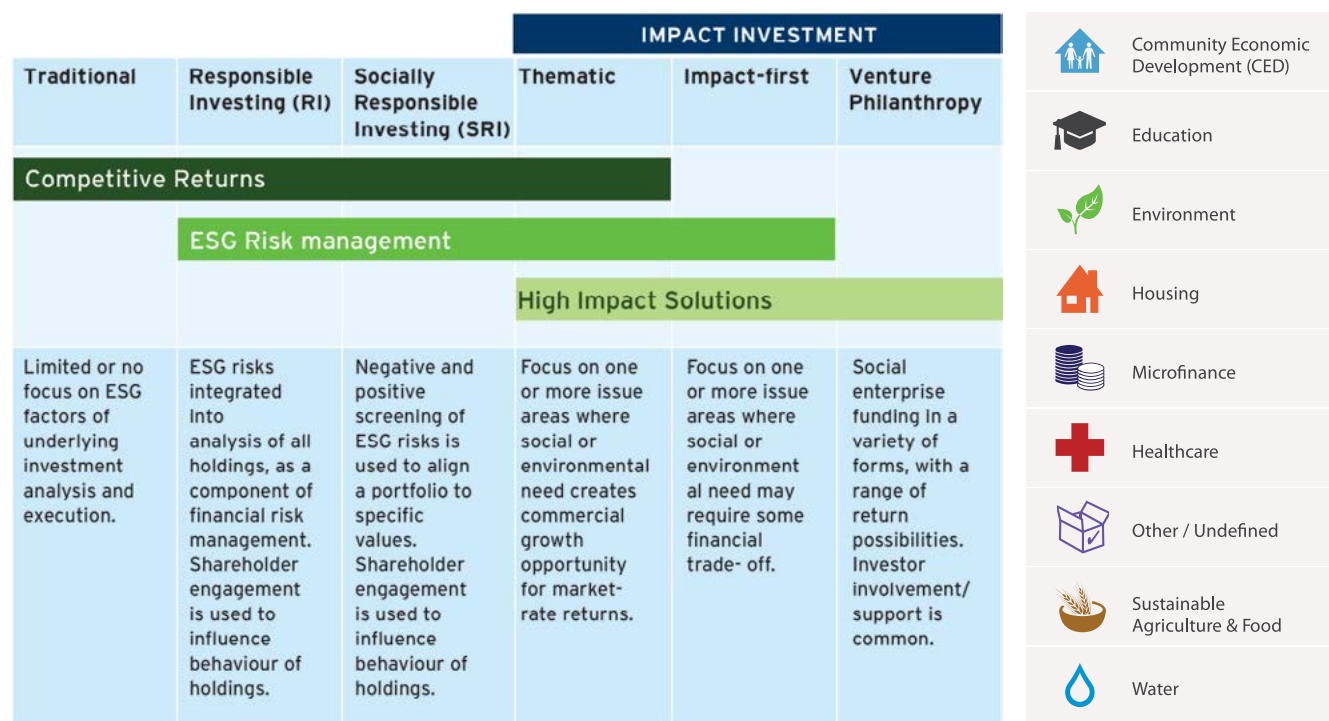
The impact investing market in Canada is taking root and poised for significant growth in the coming years, with promising signs for new opportunities. In mid-2012, TD commissioned a team from Purpose Capital and the MaRS Centre for Impact Investing to develop a white paper on the subject to provide investors with a summary of the key trends, issues, and opportunities around impact investing.

What is Impact Investing?

A relatively new term, “impact investing” has been applied to a broad range of activities. The most widely cited definition describes impact investing as “investments intended to create positive impact beyond financial returns”⁽²⁾ for society. Impact investors put their investments to work to address pressing social and environmental challenges. Some of the impact investing sectors that have gained popularity include:

- Clean technology financing: green infrastructure, alternative energy and energy conservation;
- Community economic development investments: investments in community-based initiatives such as affordable housing, Aboriginal-led businesses, and social enterprises;
- Microfinance: the provision of financial services, such as microlending, to underserved populations;
- Social impact bonds: financing tool for initiatives in the social sector that blend public and private investment.

However the parameters, and the terminology surrounding the concept, continue to evolve. Figure 1 shows TD’s perspective on where impact investing fits within the spectrum of investment approaches:



There is some debate as to where Socially Responsible Investing (SRI) fits into the impact investing landscape. What typically distinguishes impact investing from SRI is the specific intent of the investment: impact investments are made in organizations whose core mandate is to do social or environmental good, while the focus of SRI is traditionally organizations that employ high standards of social responsibility.

Traditional SRI tends to employ screens to avoid investing in companies with poor environmental, social or governance (ESG) practices. Some SRI funds, however, take a more proactive, or positive approach, screening not simply to remove companies with poor ESG practices but also to identify those with best-in-class practices. Typically, SRI (or ethical) screening is applied to companies whose core business is focused on areas other than social or environmental improvement. (Example, companies such as Google Inc. Johnson & Johnson, Visa Inc. etc.)

However, SRI and impact investing can be complementary - SRI funds, which often hold large, established companies can effectively provide liquidity or reduce volatility in a broader impact investment portfolio, without conflicting with the “impact mission” of the portfolio. In and of itself, however, TD does not consider SRI to be categorized as an impact investment.



How do you measure social and environmental benefits?

Measuring impact remains a challenge because there is no single consistent measurement standard. Among the most common are the following:

The Impact Reporting and Investment Standards (IRIS): IRIS provides a standardized measurement framework and a set of definitions for social, environmental and financial performance. The IRIS initiative has involved the development and refinement of standards, the promotion of adoption of these standards, and the solicitation of aggregated performance data.

The Global Impact Investing Rating System (GIIRS): GIIRS represents a set of third-party assessments of the social and environmental impact of both companies and funds. GIIRS Impact Ratings are analogous to Morningstar investment ratings or Standard & Poors credit risk ratings. Using a series of key performance indicators and guided by the IRIS definitions, the GIIRS assessment looks at four performance areas: governance, workers, community and environment.

Social Return on Investment (SROI): a principles-based methodology to put a monetary value on the benefits that result from social or environmental initiatives.

Given the complexity of impact measurement, some investors have turned their attention to investments and enterprises whose impacts are unambiguous and explicit, such as affordable housing projects and green bonds.

Products and Vehicles

There are a wide range of impact investing vehicles with varying levels of risk, return and impact.

Bonds

Community Bonds: A community bond is a debt instrument, most commonly in the form of an interest-bearing note that is offered for asset purchase or project financing. Community bonds are usually structured as a non-redeemable guaranteed investment certificate.

Example – SolarShare

SolarShare, a project of the TREC Renewable Energy Co-operative, offers five-year Solar Bonds earning 5% annual interest to members (Ontario residents only). Today, 18 projects have been completed: 17 smaller ground mounted rural installations and one large industrial rooftop system have been installed and are now generating electricity.

Social Impact Bond: A social impact bond (SIB) is a contract with a public sector body to pay for programs that address specific social issues for a target population. The investment capital is raised from private investors, with government agreeing to provide a return to investors from a portion of the projected cost savings if the program is successful.

Example – Social Impact Bond at Rikers Island

A recent SIB pilot was announced in New York City with Goldman Sachs as the primary investor. The four-year program is intended to reduce the rate at which male juveniles incarcerated at Rikers Island reoffend after their release. Goldman Sachs is providing a \$9.6 million investment, backed by a partial guarantee of \$7.2 million from Bloomberg Philanthropies. The NYC Department of Correction is the government agency signing the SIB contract and agreeing to pay a return to Goldman Sachs if recidivism rates fall more than 10%.

Green Bonds: Green Bonds are designed to raise additional funding for environmentally beneficial projects. They are securitized by the assets they fund, the issuing institution, mortgages or public sector loans or are guaranteed by a third party.

Example – World Bank Green Bonds

World Bank Green Bonds are AAA-rated fixed-income vehicles issued by the World Bank to finance projects that tackle climate change challenges in developing countries. The World Bank has issued over (US)\$3.3 billion in green bonds since 2008. Bonds have been issued for terms of two to 10 years, at rates of between 0.5 and 10 percent. TD has played a significant role in the development of the green bond market -- TD Securities Inc. (TD Securities) was a lead underwriter in support of the World Bank's first green bond program, launched in 2009, and is currently the second-largest North American lead manager of World Bank Green Bonds.⁽³⁾

Community Investment

Community Notes: Community Notes raise capital for non-profit loan funds, community development banks, and credit unions to support local or regional community projects.

Example – Vancity Resilient Capital

The Resilient Capital program provides debt and equity financing for social enterprises, raising funds through interest-bearing insured-term deposits that are backed by Vancity and the Vancouver Foundation. Individuals and institutions are eligible depositors with a minimum investment of (CDN)\$50,000, with a five- to seven-year term. The program focuses on: local, natural and organic food production; energy efficiency; improving access-ability for those with disabilities; eliminating economic barriers for Aboriginal communities; and supporting community and housing development.



Project Finance

Affordable Housing: Affordable housing investment products exist across asset classes. In Canada, housing developers and projects have been financed through bond issues such as the YWCA Community Housing Bond and the Toronto Community Housing Corporation Bond.

Green Financing: Green project financing has been deployed for environmentally focused projects. Total investments in renewable energy, green construction, cleantech, smart grid, and corporate research and development have exceeded \$3.3 trillion since 2007.⁽⁴⁾ Asset financing of large-scale projects such as wind farms, solar parks and biofuel plants has been a major area of growth since 2010.

Private Equity

Private Equity Impact Funds: There are a number of impact funds in North America and globally focused on a range of sectors and locations. Many can be found on the ImpactAssets 50 (IA 50), an open-source, publicly available database of experienced private debt and equity impact investment fund managers. In Canada, there are approximately 10 impact-focused private equity funds.

Example – Sarona Asset Management

Sarona Asset Management manages two private equity “fund of funds” that invest in small- and medium-sized companies in emerging markets. Sarona boasts 52 impact-related investments and nine private equity impact funds in frontier markets.

Philanthropy

Mission- or Program-Related Investing (MRI/PRI): MRI and PRIs are investments mainly utilized by philanthropic foundations and donor-advised funds that pursue financial return and social impact in line with the foundation’s mission and philanthropic priorities (i.e. affordable housing).

Example – Impact Assets

Impact Assets offers a range of impact investment options (like community investments, microfinance and socially responsible mutual funds) to donor advised funds that support causes like alternative energy, health and the environment.

Venture philanthropy: Venture philanthropy offers social enterprises a combination of medium-term financing and management support with other non-financial resources. Funding may be structured to suit the needs of the enterprise and returns can be provided in various ways. Venture philanthropy is characterized by a high level of involvement of investors in the management of the organization and a focus on achieving measurable social and/or environmental outcomes.

Resources and further information

We encourage you to visit the following resources to learn more about impact investing:

- [SocialFinance.ca](#) – a Canadian website that provides [information](#) and news on impact investing and social finance, including [The Guide to Social Finance](#)
- [Report: Task Force on Social Finance](#) – a series of recommendations seeking to ignite the development of impact investing in Canada
- [Global Impact Investing Network](#) – an international association that shares information and news on impact investing developments globally
- [Report: Accelerating Impact](#) – a comprehensive scan of how impact investing has evolved globally over the last five years.

Impact Investing and TD

Although the term “impact investing” began to emerge in the early 2000s, TD has been committed to the principles of impact investing for much longer. TD’s approach to impact investing spans across our major areas, from Commercial Banking to community relations -- both in Canada and the U.S. Broadly, TD’s activity can be grouped into three areas: promotion and integration of ESG standards; structuring of impact-focused financial vehicles and products; and deploying assets into community investments.

Environmental, Social and Governance Standards

As previously discussed, while we do not see ESG and SRI alone as impact investments, they are important complements and often precursors to higher impact tools. TD has taken responsible financing and sustainable investing seriously for some time -- we were early movers in the adoption, promotion and development of ESG standards.

TD plays an industry-leading role in convening and participating in multi-stakeholder dialogue to discuss these issues and, where possible, to develop practical guidance. TD has been a signatory to the Equator Principles (EP), the voluntary framework by which banks can manage environmental and social issues in project financing, since 2007 and is a member of a number of EP working groups. TD is currently participating in the update of the EP, scheduled for completion in 2013. In 2012, TD participated in the development of practical guidance for implementation of free, prior and informed consent (FPIC) in Canada (the report is a first step in developing practical guidance for implementation of FPIC by resource developers and Aboriginal communities).

TD's ESG lending policies culminate in our Environmental and Social Risk (ESR) Policy for Non-Retail Credit Business Lines, which is applied to general corporate purpose, project and fixed-asset financing. The ESR Policy is applied to 100% of our wholesale and commercial banking transactions.

As a fiduciary for its clients and a signatory to the United Nations Principles for Responsible Investing (UNPRI), TD Asset Management (TDAM) integrates environmental, social and corporate governance consideration into investment decision-making in order to maximize the value of its clients' investments. Since 2008, TDAM has supported over 200 shareholder proposals on environmental and social issues. TDAM's Sustainable Investing Policy outlines how it incorporates ESG factors into its investment decision making.

From a product perspective, TD also offers its clients the TD Global Sustainability Fund and the PIC North American SRI Model. The aim of both products is to achieve long-term capital appreciation by investing primarily in companies that are viewed as best-in-class with respect to ESG factors; additionally a portion of both products is invested in environmental specialists focused in the areas of clean energy, water and resource efficiency.

Impact Products



In playing a leading role in the development of the Green Bond market, TD Securities was a lead underwriter for the World Bank's first green bond program, launched in 2009 and is currently the second-largest North American lead manager of World Bank Green Bonds. Additionally, TD has financed \$2.6 billion in clean energy projects. We are working to understand opportunities to provide our customers with green product options and services, focusing on e-banking options; clean energy products and services; and insurance. Currently, the Private Giving Foundation, available through TD, is a donor advised fund program that allows clients to make tax-effective donations and grants to causes that are important to them.

Community Investment

The principles of impact investing extend to our commitment to communities as well. We've made commitments in the areas of financial literacy and education, helping the environment, creating opportunities for young people, and affordable housing. In the U.S. in 2012 we invested over \$450 million in community development projects.

Our success as a company depends on the well-being of the communities we serve, so we believe in playing an active role in their development. Our approach to community investment includes:

- Providing financial support to create change, through both donations and community development investments;
- Encouraging employees to volunteer;
- Collaborating with community partners – contributing our insights, ideas and corporate resources to help advance their work; and
- Helping organizations build capacity to increase their reach.

We recognize that social finance and impact investing have application to these priorities. The tenants of venture philanthropy are consistent with our approach to community investment, and we have recently become early investors in both LIFT Philanthropy Partners and the Pecaut Centre for Social Impact.

We are always working on new initiatives to make TD more sustainable, more relevant, more engaging and more involved in our communities. Stay tuned for more news and information, as we continue to expand our knowledge the subject. If you would like to learn more about our approach, please e-mail socialfinance@td.com

⁽¹⁾ O'Donohue, N., C. Leijonhufvud and Y. Saltuk (2010). Impact Investments: An Emerging Asset Class (New York: J.P. Morgan Global Research). Available at www.jpmmorgan.com/pages/

⁽²⁾ O'Donohue, N., C. Leijonhufvud and Y. Saltuk (2010). Impact Investments: An Emerging Asset Class (New York: J.P. Morgan Global Research). Available at www.jpmmorgan.com/pages/jpmmorgan/investbk/research/impactinvestments

⁽³⁾ TD Bank 2012 Corporate Responsibility Report, page 56

⁽⁴⁾ Ethical Markets (2012). Green Transition Scoreboard 2012. February 2012 Report. Available at: <http://www.greentransitionscoreboard.com/>



The information contained herein is current as of March 31, 2013 and has been provided by for information purposes only. The information has been drawn from sources believed to be reliable. Where such statements are based in whole or in part on information provided by third parties, they are not guaranteed to be accurate or complete. The information does not provide financial, legal, tax or investment advice. Particular investment, trading or tax strategies should be evaluated relative to each individual's objectives and risk tolerance. The Toronto-Dominion Bank and its affiliates and related entities are not liable for any errors or omissions in the information or for any loss or damage suffered.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus, which contains detailed investment information, before investing. Mutual funds are not guaranteed or insured, their values change frequently and past performance may not be repeated.

TD Mutual Funds are managed by TD Asset Management Inc. a wholly-owned subsidiary of The Toronto-Dominion Bank and are available through authorized dealers.

The Private Giving Foundation is available through TD Wealth. TD Wealth represents the products and services offered by TD Waterhouse Canada Inc. (Member – Canadian Investor Protection Fund), TD Waterhouse Private Investment Counsel Inc., TD Wealth Private Banking (offered by The Toronto-Dominion Bank) and TD Wealth Private Trust (offered by The Canada Trust Company). TD Asset Management operates as TD Asset Management Inc. in Canada and TDAM USA Inc. in the U.S. TD Securities represents TD Securities Inc., TD Securities (USA) LLC, TD Securities Limited, and certain investment and corporate banking activities of The Toronto-Dominion Bank. TD Asset Management Inc., TDAM USA Inc., TD Securities Inc., TD Securities (USA) LLC, and TD Securities Limited are wholly owned subsidiaries of The Toronto-Dominion Bank. All trade-marks are the property of their respective owners.

©/ The TD logo and other trade-marks are the property of The Toronto-Dominion Bank or a wholly-owned subsidiary, in Canada and/or other countries.