A Pioneering Partnership: House of Friendship Community-Based Bond

Authored by KWCF and MaRS Centre for Impact Investing

Funded by KWCF in partnership with:

Introduction

In 2010, a national partnership of organizations focused on understanding, catalyzing and implementing transformative social innovation was formed through the creation of the Canadian Task Force on Social Finance. One of the key findings of their work was that Canada's public and private foundations should invest at least ten percent (10%) of their capital in mission related investments (MRI) by 2020.

Fast forward to now – and Kitchener Waterloo Community Foundation (KWCF) has embraced Impact Investing as a complement to grant making to drive greater impact by activating more dollars in Waterloo Region – and beyond.

As a leading community-building organization in Waterloo Region, KWCF collaborates with partners to identify and meet current and future community needs by enabling social capital and catalyzing creative and innovative impact-focused solutions.

"In addition to supporting the community through grant making, having the option of Impact Investing engages new investors and entrepreneurs who believe in market-based solutions to social issues. This aligns well with our mission of Making it Easy for People to Do More Good," said Elizabeth Heald, President & CEO, KWCF.

In 2018, one of the organizations KWCF invested in was House of Friendship to help them increase and enhance addiction treatment services in Waterloo Region by renovating and expanding an existing facility.

We're not investment experts, our passion is in serving the community," explained John Neufeld, Executive Director, House of Friendship. "Issuing a community-based bond seemed like a perfect fit to help raise the extra capital required as a result of dreaming bigger and adding a second floor to this new treatment centre."

We continue to learn – and want to share that knowledge with others.

By engaging MaRS Centre for Impact Investing in the process and having them develop this case study as we developed the community-based bond, we hope to assist other charities that want to consider an impact investment as part of their financing strategy.

We hope you find this tool useful and that it helps you consider new and innovative financing options to delivering on your organization's mission.

Elizabeth Heald
President & CEO
Kitchener Waterloo
Community Foundation

John Neufeld
Executive Director
House of Friendship

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What is an impact investment?

Impact investments are investments made into companies, organizations, and funds with the intention to generate social or environmental impact alongside a financial return.

Impact Investing is defined by four characteristics:

1. **Intentionality** – Investors must intend to have a positive social or environmental impact.
2. **Return expectation** – Investors understand there is a market return and a social return.
3. **Range of asset classes** – Investments can be made across asset classes, including but not limited to loans, fixed income, venture capital, and public or private equity.
4. **Impact measurement** – Organization receiving investment must measure and report the social or environmental performance of its impact investments.

Why impact investments?

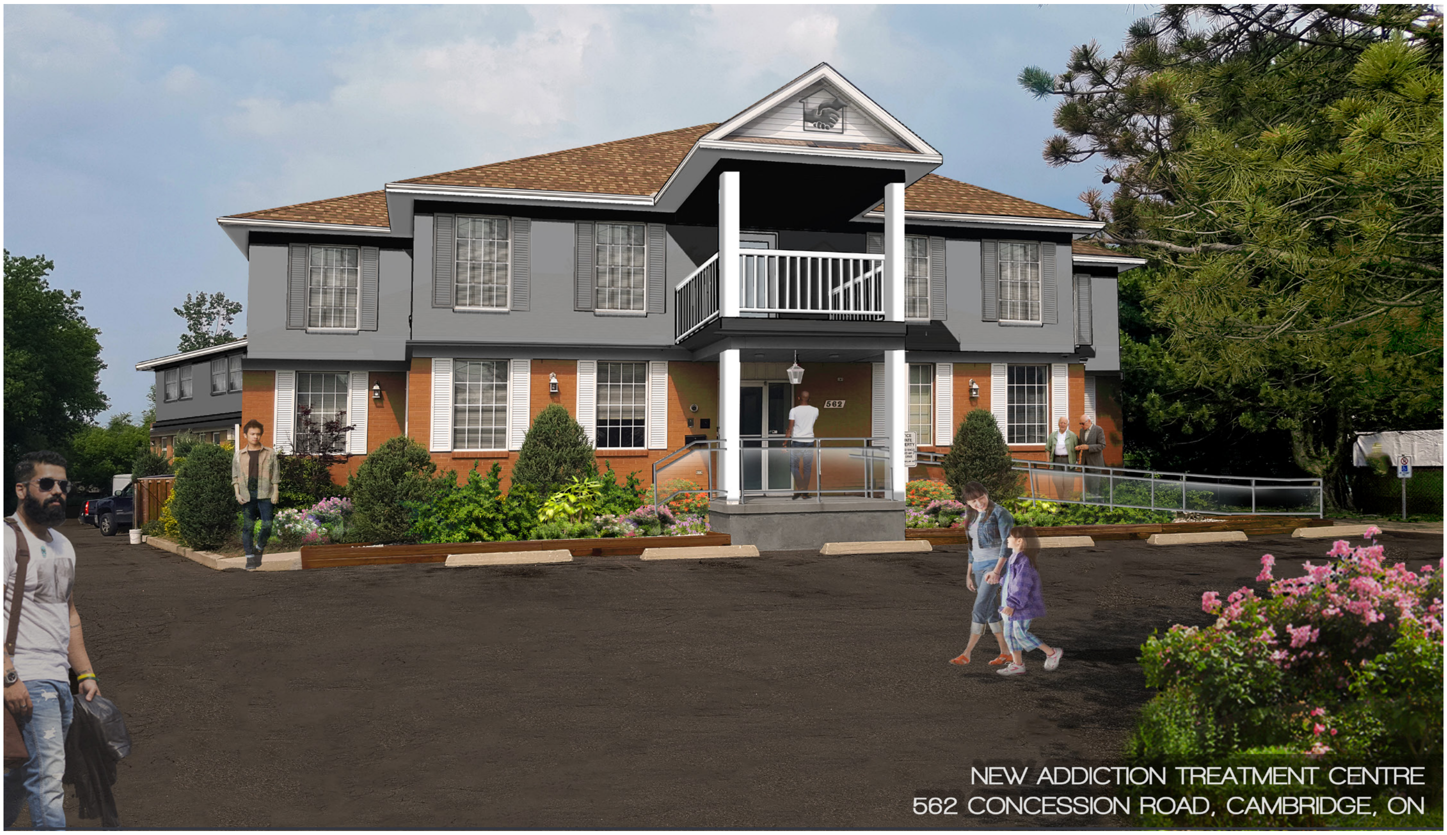
Impact investments challenge the long-held views that social and environmental issues should be addressed only by philanthropic donations, and that market investments should focus exclusively on achieving financial returns. The impact investing market offers diverse and viable opportunities for investors to advance social and environmental solutions through investments that also produce financial returns.

Executive Summary

House of Friendship, a community-based organization in Waterloo Region, successfully raised $1M in investment capital from Waterloo Region community-based investors ("$1M community-based bond") in 2018-2019. These investment dollars enabled House of Friendship to provide expanded addiction treatment in Waterloo Region.

This marked a successful pilot initiative that proved that community-based organizations can diversify sources of financing beyond more traditional approaches such as bank loans and grant funding. Kitchener Waterloo Community Foundation (KWCF) catalyzed the idea of a community-based bond, funding all of the work required to structure and raise capital for a $1M community-based bond and acting as lead investor. Social Venture Connexion and MaRS Centre for Impact Investing provided expertise in structuring community-based bonds and Miller Thomson provided legal counsel throughout. Importantly, education about and marketing of the bond offering was done in partnership with all of the key players.

The end-to-end process took 11 months. House of Friendship's $1M community-based bond was ultimately oversubscribed and today serves as a pioneering model for other community-based organizations to consider. This case study provides an overview of the process undertaken and lessons learned through House of Friendship's pilot project up to successfully raising the $1M.



I. Context

a. Intended audience

This case study documents how House of Friendship, a community-based organization in Waterloo Region, successfully raised $1M in investment capital from Waterloo Region community-based investors ("$1M community-based bond").

This case study is intended for community-based organizations that may be considering non-traditional financing options to raise investment dollars. Over the last decade, an increasing number of community-based organizations in Canada have decided to turn to sources other than traditional lenders such as banks to help finance their capital needs. In particular, several organizations have successfully raised capital from community-based investors who have a vested interest in seeing their own communities thrive. Reasons for turning to community-based investors instead of traditional financial institutions may include:

- Community-based investors may be willing to offer better or similar terms than traditional lenders
- Community-based investors concurrently provide not only investment capital but also support for the organization, increasing its profile in its community, in both present and future
- Community-based investors can offer a complementary and new source of financing alongside traditional financial institutions, allowing an organization to diversify its financing strategies, reducing its dependence on any one source of financing

For House of Friendship, an additional reason also applied; to pilot a $1M bond from community-based investors in the Waterloo Region in partnership with Kitchener Waterloo Community Foundation and share learnings and insights with other community-based organizations.

b. What is a community-based bond?

A community-based bond is a debt instrument that raises investment dollars from community members who have a vested interest in achieving not only financial returns but also in creating positive impact in their community.

The primary ways in which a community-based bond differs from traditional bond lies in its focus on a community-based investor base and in the intentionality of both investor and investee entities to generate both social impact and financial returns.

A community-based bond belongs in the family of impact investment instruments. Impact Investing is defined as any investment made into organizations and funds with the intention to generate a quantifiable and measurable social or environmental impact as well as a financial return.

A community-based bond can take various shapes and forms. Some of the primary ways in which a community-based bond can vary include:

- Total size – e.g. $1M vs. $40M
- Investor base – e.g. institutional vs. accredited vs. retail (if retail, the bond likely requires RRSP / TFSA approval)
- % return – e.g. concessionary vs. market-rate returns
- Security – e.g. a community-based bond can be unsecured, but in general tends to be secured against property in order to de-risk the investment and thus appeal to a wider investor base

An organization may wish to consider a community-based bond when the following criteria are met:

1. There is a need for debt financing and the organization is able to take on debt and pay investors both the principal investment amount and a positive financial return within a fixed time frame

2. The organization wishes to raise not only investment dollars but also community awareness and support

3. If community-based investors are relatively risk averse, the organization can offer its owned property as collateral

c. The impetus – need for investment capital

House of Friendship, founded in 1939, is an organization that serves over 42,000 individuals struggling with low income or addiction across Waterloo Region today. In 2016, House of Friendship purchased the former Haven House (562 Concession Road, Cambridge) to renovate and repurpose to provide addiction treatment with more dignity, expanded access, and programming. House of Friendship aimed to increase its indoor facility from 3,000 sq. ft. to 19,500 sq. ft. and its outdoor space from 0.2 acres to 1.2 acres. To fully renovate and open the facility in 2019, House of Friendship needed to raise an additional $1M. House of Friendship decided to raise the $1M from Waterloo Region community-based investors instead of turning to traditional financial institutions.

d. Origins of the community-based bond idea

The idea to raise capital from community-based investors is not new. Almost a decade ago, several members of Barnraisers Council, an informal group of networked community leaders who work largely in the background for the long-term betterment of the community, began discussing the idea of piloting a community-based investment model in their own Waterloo Region community. Two Board Members of Kitchener Waterloo Community Foundation (KWCF), an existing supporter and grant funder of House of Friendship, were part of Barnraisers Council. The conversations through Barnraisers Council sparked the impetus for KWCF to reach out to House of Friendship to gauge interest in piloting a community-based investment model.

In 2018, KWCF Board Members knew that House of Friendship needed to raise additional capital to fully renovate and open the facility for addiction treatment, and so began discussions about the possibility of House of Friendship piloting a community-based investment model in the Waterloo Region. House of Friendship is a well-established and highly respected community-based organization with many decades of proven leadership and track-record; from the perspective of KWCF's Board Members, House of Friendship would be the ideal community-based organization to pilot a community-based investment model and serve as a pioneer. From the perspective of KWCF's Board, partnering with House of Friendship on a pilot community-based investment project would continue demonstrating that KWCF serves as a pioneering leader of innovative projects in the Waterloo Region. Throughout the pilot project, Barnraisers Council provided an essential platform for discussion as well as its Waterloo Region network to help make the pilot a success.

House of Friendship was considering a traditional financing route (i.e. through a bank) for the same amount of capital when conversations about piloting a community-based investment model began with KWCF. House of Friendship was excited to explore a community-based financing model and serve as a pilot case in Waterloo Region. Ultimately, House of Friendship needed access to capital, which they could get from either traditional or non-traditional sources. Going to community-based investors to acquire the needed capital provided House of Friendship with the opportunity to not only access capital, but also to connect with new potential funders and supporters, potentially get access to less expensive capital, and contribute learnings from the pilot to other community-based organizations. For House of Friendship, the only concern was that the organization had never previously tried the community-based investment model. In particular, they needed expertise to navigate through the experience and a good understanding of the steps and resources required of them.

To address this concern, KWCF sought and paid for the work of Social Venture Connexion and MaRS Centre for Impact Investing as a partnership ("MaRS SVX") to provide House of Friendship with expertise on structuring and raising capital from community-based investors. Social Venture Connexion is a financial services firm and registered Exempt Market Dealer (EMD) that offers a platform for raising impact investment capital, designs private offerings, and manage place-based funds. MaRS Centre for Impact Investing creates and implements impact investment strategies and instruments for impact investors, government, and social service providers. Together, the joint partnership of MaRS SVX had a track-record of successfully structuring and raising capital for impact investment mechanisms, including community-based bonds.

KWCF not only served as champion and partner of House of Friendship's pilot, but also financed all of the work of MaRS SVX as they consulted on the pilot from start to finish, including documenting this case study. Additionally, KWCF served as a lead investor in the $1M bond, giving other co-investors the comfort of knowing that KWCF had also invested, and taking on the power of attorney to act as an agent for co-investors.

With KWCF's and House of Friendship management's support and approval, the House of Friendship's Board of Directors readily signed off on the pilot.

Ultimately, Waterloo Region's community members stepped forward and made possible the $1M community-based bond – within 2 months of launching the bond, it was oversubscribed.

e. Key stakeholders and necessary ingredients

Each stakeholder group brought the expertise and organizational characteristics required to successfully pilot a $1M community-based bond:

House of Friendship

- Well-respected community-based organization with strong track record of success in delivering social outcomes
- Ambitious leadership and Board keen to demonstrate innovative ways of financing
- Ownership of the property that requires renovation to enable larger scale provision of addiction treatment with more dignity, expanded access, and programming (ownership of property permitted House of Friendship to a) be ultimate decision-maker in how the $1M community-based investment is used to fully renovate and open the property and b) offer a secured bond offering to community-based investors, making the $1M raise easier)

www.houseoffriendship.org

KITCHENER WATERLOO COMMUNITY FOUNDATION

- Well-respected and connected leadership and Board Members who could help raise support from Waterloo Region-based investors
- Ambitious leadership and Board keen to catalyze and test innovative financing models in the social sector
- Willingness to fund work necessary to pilot a community-based investment model and also serve as lead investor

www.kwcf.ca/impact-investing

MaRS

- Expertise and track-record in structuring and raising capital for impact investment models including community-based bonds
- Existing network of impact investors to pitch investment opportunity to

www.impactinvesting.marsdd.com

MILLER THOMSON
AVOCATS | LAWYERS

- Expertise and track-record in creating legal documents for impact investment mechanisms

www.millerthomson.com

Waterloo Region community members

- Interest in investing in an alternative financing mechanism to support a community-based organization

II. Feasibility Analysis – Duration: 1 Month

a. Objectives and Outcomes

OBJECTIVES	OUTCOMES
1. To establish a clear understanding of why House of Friendship wanted to raise $1M through a community-based bond	Understanding that the $1M community-based bond would enable House of Friendship to: • Serve more people through its addiction programs • Serve more complex needs • Respond to Waterloo Region's evolving addiction treatment needs ...in a renovated and expanded facility with greater dignity for those who seek treatment
2. To make a go / no-go decision on the feasibility of structuring a $1M community-based bond for House of Friendship	Go-decision from House of Friendship, based on feasibility analyses conducted by MaRS SVX

b. Process

Setting objectives

Key members from House of Friendship, KWCF, and MaRS SVX conducted introductory and context-setting meetings to align on the goals of pursuing a $1M community-based bond. To ensure that all stakeholders were aligned, the goals were shared in written form and iterated upon. It was especially important for House of Friendship and MaRS SVX to speak the same language and align on goals as these two stakeholder groups were the primary entities responsible for implementing the idea that KWCF catalyzed and was funding.

These early discussions also served as a first opportunity to discuss the pros and cons of various options to raise and structure the funds. For example, how the size of loans, interest payment arrangements/frequency, and RRSP eligibility of loans would impact the required ongoing administrative efforts for House of Friendship. These were important considerations based on often tight resource availability in the not-for-profit space.

Conducting due diligence

MaRS SVX and House of Friendship worked closely together to identify and gather financial statements and related information required to determine:

1. If House of Friendship could take on debt
2. If House of Friendship would be able to repay investors, and if so, through which revenue streams

MaRS SVX analyzed House of Friendship's financial statements (cashflows, revenues, etc.) to ensure that House of Friendship could pay back investors $1M plus an interest of at least above the prime rate. MaRS SVX built a financial model (historical to 2025) to illustrate how taking on and repaying $1M of debt would affect House of Friendship's cashflows. MaRS SVX modelled out various rates, terms, and payback structures to illustrate how these variables would impact House of Friendships' financials.

Decision-making

MaRS SVX presented to House of Friendship and KWCF on its findings that House of Friendship would be able to take on $1M of debt and repay investors over a reasonable time frame. House of Friendship presented on its decision to pursue a $1M community-based bond at its Annual General Meeting.

c. Lessons Learned

Understand the value proposition:

It is essential to clarify that there is both a need for investment capital and for community-based support in order to justify the additional cost of structuring a community-based bond to raise $1M when an organization could in theory negotiate similar rates with traditional lenders like banks.

Be clear on roles and responsibilities:

Considering that multiple stakeholder groups were involved, it was very important to be explicitly clear on roles and responsibilities. As KWCF stated in an interview, "knowing what [being a lead investor] actually means is part of the process."

For example, KWCF was to serve as lead investor in the $1M community-based bond. However, there are numerous ways to define "lead investor":

1. The investor that has committed the largest dollar amount
2. The investor that has catalyzed the idea behind the investment offering
3. The investor that is prepared to provide first loss capital
4. The investor that permits use of its name to use to market to and attract other investors

A lead investor could meet one or more of the above characteristics. In this pilot project, KWCF served as the investor that met criteria 1, 2, and 4 of the above. House of Friendship commented, "For us, thanks for the partnership of KWCF, were not bearing the SVX fees. This may be an important difference for other charities considering this way to raise capital, or for us for example for a future project, considering the all-in cost of this approach vs. traditional funding such as a mortgage."

III. Structuring the Bond – Duration: 5 Months

a. Objectives and Outcomes

OBJECTIVES	OUTCOMES
1. To determine optimal terms and rates to raise $1M from community-based investors	4% return over 6 years offered to accredited investors in Waterloo Region

b. Process

Exploring bond parameters

MaRS SVX and House of Friendship needed to answer the following questions to determine how the $1M community-based bond should be structured:

- Who should be the target community investor base – accredited vs. retail investors?
  - Should House of Friendship make the $1M bond RRSP / TFSA eligible for retail investors?
  - What should be the minimum investment amount?
- Should the bond be secured or unsecured?
- What should be the return %?

Securities offered to the public in Ontario generally must be offered under a prospectus, a document with detailed information about the security and the issuing company. There are some exceptions permitted to this rule, permitting securities to be offered without a prospectus. A prospectus exemption enables a company to raise investment capital without incurring the relatively costly time and fees of preparing a prospectus.

Investors who purchase securities offered through prospectus exemptions do not have the right to acquire ongoing information about the security that they are buying or the issuing company, and often cannot easily resell the security.

Under the Offering Memorandum Exemption, non-eligible investors ("retail" investors) may invest up to $10,000 in a 12-month period, with the ability to invest up to the entire limit amount in one individual offering. House of Friendship would need at minimum 100 retail investors, and likely more than 100 in practice, since some retail investors may have already invested a portion of the permitted $10,000 in a different security offered under the Offering Memorandum exemption within a 12-month period. To avoid requiring so many investors and the corresponding administrative work for each investor, House of Friendship would likely need to offer its community-based bond under a prospectus, which lifts the $10,000 restriction. Conversely, accredited investors have no restrictions on the investment amount they can make in private offerings.

Targeting retail investors would have likely meant that House of Friendship needed to offer its community-based bond under a prospectus. Targeting retail investors would enable House of Friendship to catalyze more involvement from more community members. However, it would incur significantly higher costs and longer time. Conversely, targeting accredited investors would enable House of Friendship to sell its community-based bond under the Offering Memorandum Exemption, which would involve fewer community members but cost less and take less time.

MaRS SVX and House of Friendship determined that the target community investor base should be restricted to accredited investors, and set a minimum investment amount to $100,000.

Because this was a pilot project, it was important to test the concept of a community-based bond with a fewer number of investors who could afford to invest larger amounts. Keeping the number of investors involved low would help curtail the legal and administrative fees associated with raising $1M, and also obviate costs and fees associated with issuing a prospectus. It would simply be more expensive to raise the same amount of investment capital from a larger number of investors.

Given the decision to focus on accredited investors, the question of making the bond RRSP / TFSA eligible was not explored in detail. If a community-based organization wished to make their bonds RRSP / TFSA eligible, it would need to provide security for the investment, and need legal counsel and expertise to ensure that the bond qualifies as an RRSP / TFSA eligible instrument. House of Friendship would also have needed to find financial institutions that were willing to make its $1M community-based bond available to their customers through RRSP / TFSA accounts.

Consulting legal counsel

MaRS SVX consulted legal counsel (Miller Thomson) to determine whether or not the $1M community-based bond should be secured against House of Friendship's property, which already had a first mortgage. Legal fees were born by House of Friendship, as part of administrative costs associated with structuring the investment documents. To provide security for the community-based bond, House of Friendship's mortgagor would need to permit a second mortgage on the property. Providing security for the $1M bond would likely allow House of Friendship to offer a lower rate of return to investors over a relatively longer term, since the risk of the investment would be lowered. It would likely be easier to attract investors to a lower risk investment opportunity. An unsecured offering would likely require a higher return to investors in exchange for bearing a higher investment risk, since no collateral is offered in the event of project default. Key stakeholders debated whether or not a secured offering would be costlier and take more time to create, because of the added complexity of securing the bond against property.

Legal counsel clarified that the costs of creating legal documents for a secured vs. unsecured offering would be similar.

Legal counsel identified specific questions that must be answered in order to determine whether or not House of Friendship could provide a security on its assets in the first place:

1. Does House of Friendship have restrictions on providing a security on its assets (e.g. assess incorporation documents / letters patent and agreements that govern House of Friendship operations and sources of funding)?

2. If required, can House of Friendship obtain consent for providing security for investors (e.g. acquire written consent from the first mortgagee of the property to place a second mortgage)?

Analyses indicated that House of Friendship can provide a secured bond offering, and that doing so would likely make target accredited investors more likely to invest.

Conducting sensitivity analyses

MaRS SVX developed a three-statement financial model that projected House of Friendship's Income Statement, Balance Sheet, and Cash Flow Statements to 2025, based on historical financial statements and known future service agreements, revenue streams, and anticipated organizational expenses, to project expected changes. MaRS SVX selected the most conservative assumptions for revenue growth, direct cost growth, operational expense growth, and reserve funding stewardship. MaRS SVX also conducted sensitivity analyses to illustrate the impact of different bond return rates and terms on the three-statement financial model. Based on these analyses, MaRS SVX proposed two sets of term and rates to beta-test with KWCF as lead investor: 1) 2.75% over 4 years 2) 4% over 6 years.

Market circumstances played a direct role in determining attractive terms and rates. For instance, the prime rate was lower than 4% at the time of discussing potential rates; if the prime rate had been in the double digits, 4% would have likely been unappealing to many investors. Bond issuing organizations should consider their present-day market factors to gauge what kinds of terms and rates potential investors may or may not find attractive.

Creating investor pitch deck and beta-testing

MaRS SVX and House of Friendship created multiple iterations of an investor pitch deck to use to beta-test the two sets of terms and rates with KWCF. A beta-test meeting with KWCF indicated that a 4% return over 6 years would likely be most attractive to investors for two reasons. First, it provided a higher interest rate. Second, the difference in liquidity offered by a 4-year term vs. 6-year term was not sufficiently material to make a lower 2.75% return attractive. As the official bond issuer, House of Friendship presented on the investor pitch deck. House of Friendship also conducted a few other beta-tests with community-based investors within their own network.

House of Friendship and MaRS SVX decided to offer one series instead of multiple for the $1M bond for the sake of simplicity in marketing and administering the capital raise.

c. Lessons learned

Understand the trade-off between minimum investment size and administrative effort:
Initially, some stakeholders wondered if a minimum investment size of $100,000 was too high, and considered offering smaller tranches (e.g. $10,000). The decision to make the minimum investment size $100,000 and thus to target only accredited investors was made largely due to the fact that keeping legal and administrative fees low was important for the pilot, as explained above. As well, House of Friendship wished to target a smaller number of new supporters in the Waterloo Region who would likely provide future support for House of Friendship's mission. It was relatively easier than expected to find investors in the Waterloo Region willing to invest $100,000 each into the House of Friendship bond. The $1M community-based bond was oversubscribed within 2 months. A larger bond offering (e.g. $10M) in the future may warrant exploring a retail investor base as an option.

House of Friendship commented that "$1M isn't actually that big... now [we're] dreaming of projects in the $15-20M range...need to understand longer term implications of administration [required] throughout the life of the loan."

Involve Legal Counsel early to consider secured vs. unsecured offering:
Answering the question of offering a secured vs. unsecured bond took a relatively long time. This phase took longer than anticipated by a few months. Seeking legal counsel sooner rather than later in the process of structuring community-based bonds would help quickly mitigate uncertainties around the costs and time associated with secured vs. unsecured offerings. The costs associated with offering a secured vs. unsecured offering may vary depending on the bond issuing organization's specific circumstances.

Lead with the compelling social impact in the pitch:
It was important to tell the impact story behind the $1M community-based offering. Although the bond offering is ultimately an investment opportunity, it is specifically a community-based bond; the social and community-based impact enabled by the investment dollars is a fundamental piece to the investor pitch, just as much as the actual investment terms proposed. Several investors in the $1M community-based bond commented that the pitch deck was very helpful and answered all of their questions as an investor. The pitch deck included both the impact story and the financial terms of the offering.

Consider best approach to beta-testing:
Having KWCF as a lead investor meant that acquiring KWCF's buy-in to proposed bond rates and terms was most important, and practically decided the optimal bond terms and rates for House of Friendship to offer. For organizations that may not have a lead investor, the beta-test process may take a longer time and require more beta-testing with multiple investors to determine what rates and terms may make sense in order to attract sufficient investor capital.

IV. Raising $1 Million – Duration: 5 Months

a. Objectives and Outcomes

OBJECTIVES	OUTCOMES
1. To draft and finalize legal documents for $1M community-based bond offering	Term sheet Loan / subscription agreements Pari passu and power of attorney agreements
2. To raise $1M from community-based accredited investors	$1M successfully raised (oversubscribed at $1.2M)

b. Process

Creating legal documents

Legal counsel (Miller Thomson) helped create the following legal documents for a secured $1M community-based bond offering for accredited investors:

- Term sheet
- Loan / Subscription agreements between investors and House of Friendship
- Pari passu and power of attorney agreements between KWCF as lead investor and other co-investors

Having a power of attorney agreement between KWCF as lead investor and other co-investors helped streamline investors' decision-making processes related to the $1M community-based bond, simplifying processes for House of Friendship. A power of attorney document gave KWCF the legal authority to act on behalf of other co-investors to manage community-based bond related issues.

All of the above legal documents went through multiple iterations based on review and feedback by all stakeholder groups. Because this was a pilot project, Miller Thomson began drafting all legal documents except the term sheet only after House of Friendship and MaRS SVX could determine that they could raise $1M from community-based investors; otherwise, other legal documents would not be needed.

Onboarding onto SVX platform

Once the term sheet was drafted, MaRS SVX began the process of onboarding House of Friendship as a bond issuer on Social Venture Connexion (SVX)'s online platform, which connects impact investors with impact investment opportunities.

The SVX onboarding process required the following documents:

1. Background checks on House of Friendship Board members and senior management

2. Financials: House of Friendship financial statements (quarterly and annual audited financial statements); other property assets and related debt agreements; 2018-2020 budget and related service agreements

3. House of Friendship annual impact report and impact metrics of the proposed new facility

4. Construction project and finance related documents (first mortgage agreement, third-party property appraisal, construction tender and contract, property insurance, and others)

5. Various other compliance documents and checks (Articles of Incorporation, Board resolution on capital raise, and others)

House of Friendship also presented its investment offering to the SVX Issuer Review Committee, which reviews prospective investment offerings for suitability for the SVX platform and its community of impact investors.

Acquiring investors

Leveraging investor networks of House of Friendship, MaRS SVX, and KWCF, the $1M community bond was quickly oversubscribed within 2 months to investors that ranged from high net worth individuals to funds and foundations.

House of Friendship decided to target new community-based investors (i.e. those who were not already donors or investors) in order to acquire net new future supporters of House of Friendship's mission. As well, House of Friendship decided to limit the investment size per investor to $100,000; this would enable House of Friendship to acquire ten new supporters. There were several potential investors who did not meet one or both target criteria, and House of Friendship decided to decline at the time.

Suggesting to potential investors that they move a portion of their funds from their existing fixed income investments to the $1M community-based bond was effective. Existing fixed income investments (given prevailing interest rates at the time) were providing potential investors with returns similar to those of the community-bond. By transferring a portion from existing fixed income investments to the $1M community-based bond, potential investors would be able to achieve not only similar financial returns but also create social impact.

KWCF played a key role in rallying support from Waterloo Region-based investors. KWCF hosted a breakfast event for potential investors, where KWCF, House of Friendship, and SVX members presented on the $1M community-based bond offering. KWCF commented that "one person at the presentation said now you hit my heart, now you hit my wallet." Even if not all attendees would later invest in the deal, the breakfast event provided an opportunity for catalyzing discussion and raising awareness among community-minded investors about new ways of providing financial support to community-based organizations. According to one KWCF Board Member, "even if folks aren't going to invest in the deal, you get them there and talking about it, make others aware of it…part of this is educating the community, other foundations."

Finalizing and getting investors to sign subscription agreements took place over the last two weeks of the project.

c. Lessons Learned

Aim to do legal documentation concurrently:
Timing the creation of legal documents only after pitching to investors and securing verbal commitments totaling $1M meant additional time needed to complete this phase. For future community-based bond offerings, House of Friendship will likely request legal documents to be prepared in advance of or in tandem with pitching to potential investors.

Provide upfront checklists/orientation for SVX onboarding and required background checks:
Onboarding onto the SVX platform to ensure compliance and conduct regulatory checks took some more time and effort than anticipated for House of Friendship and its investors. Given the complexity of compliance and regulatory documentation and checks required, and not all investors and investees may be familiar with the volume and rigour of the onboarding process, it may be useful to provide upfront checklists of what documents / meetings are needed from which entities and when as soon as the project begins implementation mode (i.e. from the “Structuring the Bond” phase). These checklists should be provided for all legal documents required, including the timing and expected closing dates of each. Providing templates and checklists to the House of Friendship Board may have expedited the process of conducting background checks. Some investors found the compliance and regulatory process arduous; one investor ultimately decided to not proceed due to the complicated process involved. Simplifying the process involved as much as possible and providing clear communication upfront may help expedite the process of onboarding investors.

Advocacy/involvement of partners and reputation of the bond issuing organization matters:
Waterloo Region-based investors provided overwhelming moral and investment support for House of Friendship’s pilot $1M community-based bond offering. This was heightened by the involvement and advocacy of the Barnraisers group and KWCF, along with House of Friendship’s strong reputation and brand in the community. As House of Friendship commented, “[partnering] with a community champion that was making phone calls on House of Friendship’s behalf, saying this is a project we’re supporting,” was very important to raising capital and garnering support from community-investors. It is difficult to determine if such significant support can be expected from all communities across Canada; this phase may or may not take longer time depending on the base of investors available in different communities.

V. Conclusion

The overall process took 11 months. The process to structure and raise capital for a community-based bond may take shorter or longer time, depending on variables such as:

- Is this a pilot project in the respective community?
- Is there a lead investor in place that can help rally support from the respective community?
- Is there an entity willing to catalyze and fund the work necessary?
- Is there buy-in from the community-based organization's leadership and Board?
- What types of investors will the community-based bond be open to?
- Are the necessary impact investment and legal expertise readily available?
- Are there other strategic benefits accruing to the charity beyond just the access to investment capital?

Community-based bonds may not be the right fit for every community-based organization. They take time to understand and structure, and require the issuing organization to be able to take debt on their balance sheets and to be able to repay investors. Community-based organizations that are considering issuing a community-based bond should ensure that a robust feasibility analysis is first undertaken.

As other community-based organizations consider using impact investment models like community-based bonds, it is important to recognize that the financing mechanism must be tailored to the specific organization's needs and circumstances. House of Friendship's pilot is intended to demonstrate the types of processes and questions that must be considered in developing a community-bond model; the same processes and questions for a different organization may readily lead to a community-bond that is conceptually similar but different in parameters such as investment size, term, and rate.

Let’s continue the conversation...

As we continue to learn, we will continue to share that knowledge with others.

This case study was created to illustrate one example of how community-based organizations can diversify sources of financing beyond traditional approaches like bank loans and grant making. By sharing information about a successful pilot initiative, using a community- based bond, we hope it sparks your interest to consider impact investments when needing to raise social purpose capital.

If you want to learn more about partnering with KWCF to make impact investments, contact Elizabeth Heald at **elizabeth@kwcf.ca** or 519-725-1806 x 201.

Let’s make it easy for people to do more good, forever, together!

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