

The background of the slide features a low-angle, upward-looking shot of a modern glass skyscraper. The building's facade is composed of numerous rectangular glass panels, reflecting the sky and surrounding environment. The perspective creates a sense of height and architectural grandeur. A large, solid blue circle is overlaid on the left side of the image, partially obscuring the building's facade.

Impact investing and the rise of innovative funding models for health

Prepared for BCHIMPS
October 25, 2019

Today's agenda

- 1 Introduction to impact investing
- 2 Impact investing and the public sector – challenge or opportunity?
- 3 A solution? Introducing an innovative financial instrument
- 4 Q&A

What is impact investing



Impact investment are investments made by a variety of investors, both individual and institutional, with the intention to generate **positive, measurable social and environmental impact alongside a financial return.**"

Impact investments differ from traditional investments by having two additional characteristics

Unlike most traditional investments, impact investments are also evaluated against **intentionality** and **measurable impact**.

Financial performance

- ☐ Is the investment expected to **generate a financial return**?



Intentionality

- ☐ Is the investee's core business activities aligned to seek both **financial and social value**?
- ☐ Is the investor's intention to seek both a **financial and social return**?



Measurable impact

- ☐ Are investors and investees able to **quantify and measure their intended and achieved social impact**?

Why does impact investing matter?

1

Addressing capital needs

"While there is not enough money in foundation and government coffers to meet the defining tests of our time, there is enough money. **It's just locked up in private investments.**"

- Judith Rodin, Former President, Rockefeller Foundation

\$2.5T annual funding gap to achieve UN's SDGs¹

2

Mobilizing cross-sector collaboration

Impact investing **increasingly enables the private sector** to work alongside the public and social sectors in the process of solving important issues

90% of HNWIs are at least somewhat interested²

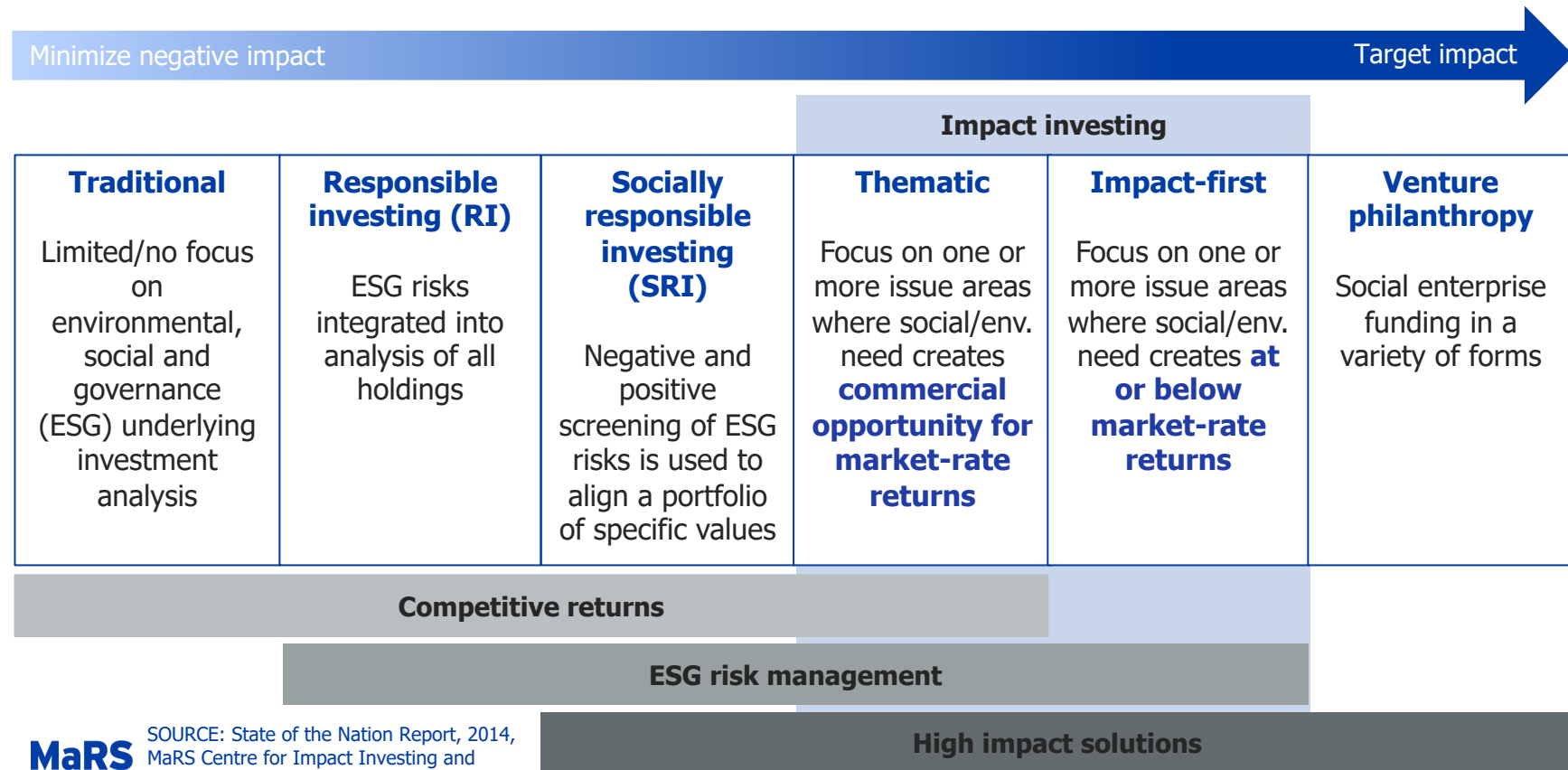
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Transferring risk

Governments, foundations, and social organizations can focus on **achieving social outcomes** while **transferring financial risk to investors**

\$800M+ Social Finance Fund commitment by Canada³

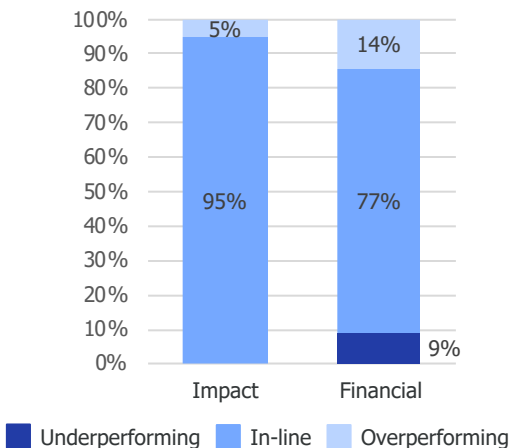
Impact investing fits within a continuum of social finance approaches



Impact investments have been proven to be successful in generating social and financial returns

Performance vs. expectations¹

Among mixed geography, mixed asset class, market-rate seeking impact investors²



- Set aside 100M USD from endowment to launch “Mission Driven Investments” (MDI)
- Studied MDI’s investments in six for-profit ventures
 - Two exits at **46% and 64% IRR**; funded products and services delivery to **50,000+ underserved children**³



- Made **8.4B EUR in impact investments** across various sectors (as of 2018): renewable energy, real estate, etc.
- 110M EUR investment into two European wind farms, producing enough **electricity for ~385,000 homes**⁴



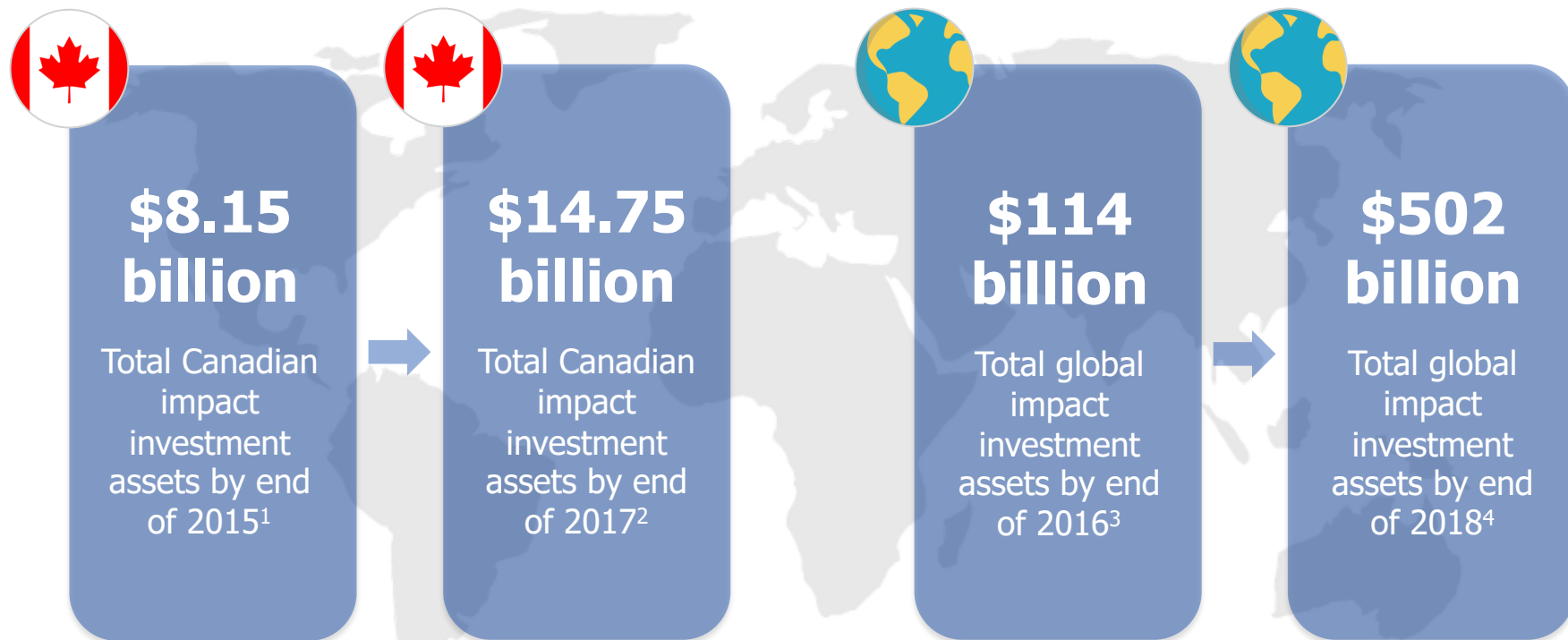
(1) Adapted from Global Impact Investing Network [2019 Annual Impact Investor Survey](#). June 2019.

(2) Sub-section of full results from GIIN’s 2019 Annual Impact Investor Survey, based on assumption of organizations OMERS would likely be categorized with

(3) Stanford Social Innovation Review [Mission-Driven Returns](#). June 2014.

(4) Aegon Asset Management [2018 Responsible Investment Report](#). 2018.

As a result, impact investing has grown rapidly in Canada and around the world



Impact investing and the public sector: opportunity or challenge?

There are several causes holding governments back

Top line diagnostic:

Government spending and programs are producing insufficient progress in addressing complex social problems

Causes

1

*Activity-based,
not outcome-
based funding
decisions*

2

*Silo'd budgeting
mandates
overlook the
end beneficiary*

3

*Limited
experience with
cross-sectoral
collaborations*

4

*Risk aversion
leads to slow
adoption of new
methodologies,
technologies
and approaches*

5

*Challenges in
shutting down
programs that
under-perform*

6

*Inconsistent
measurement
of program
outcomes and
impact*

Challenge 1: Activities-based approach to funding

	Activities-based	Outcomes-based
Pay...	At the start of the program	During the program and at the end of the program
Payments contingent on...	The number of activities or outputs the program reports	The degree to which the program met its outcome targets
Agreement emphasizes...	Accountability for activities and outputs	Flexibility to adjust the program to meet outcome targets
Financial risk falls on...	Government alone	A combination of government and investors

Challenge 2: Silo'ed mandates and budgeting



SIB Main Players

A SIB involves a new partnership agreement between three key actors:

1. **Outcomes funders** - that pay upon pre-determined outcomes (e.g., government).
2. **Investors** - that provide the upfront capital to fund the program delivery for the services and agree to how performance will be managed and evaluated.
3. **Service providers** - that enter into a contract to deliver the services and agree to pre-determined outcome targets.

Challenge 3: Cross-sectoral partnerships



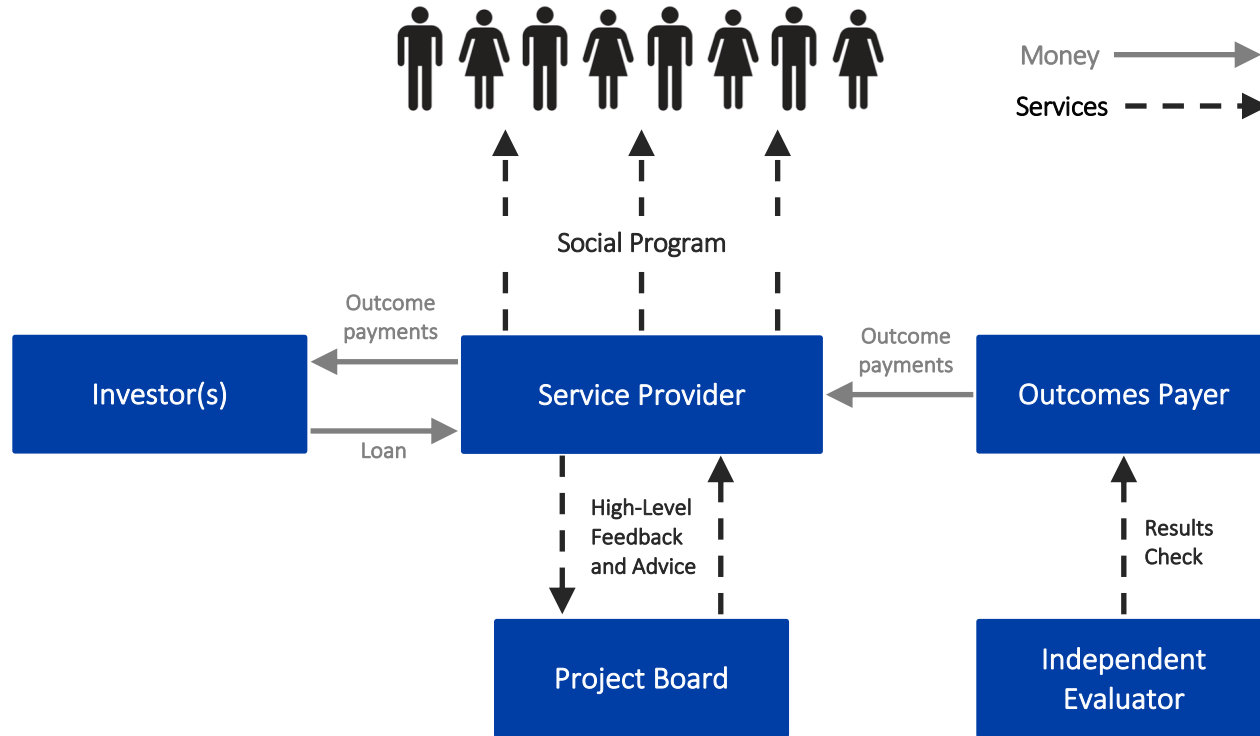
A solution?

SIB Main Players

A SIB is a new partnership agreement between three key actors:

1. **Outcomes funders** - that pay upon pre-determined outcomes using a performance-based contract (e.g., government).
2. **Investors** - that provide the upfront capital to fund the program delivery for the services and agree to how performance will be managed and evaluated.
3. **Service providers** - that enter into the performance-based contract to deliver the services and agree to pre-determined outcome targets.

SIB General Structure



Case Study: PHAC / Heart and Stroke Foundation (HSF) SIB



PHAC/HSF SIB | Social Issue and Target Population

- Cardiovascular diseases (CVD) is a pervasive health issue in Canada that affects **1.8M Canadians** and accounts for **27% of all deaths**.
- Hypertension, more commonly known as high blood pressure (BP), is an important and modifiable risk factor for CVD.
- Canada spends over **22 billion dollars** on treating hypertension related illness but a very limited amount of money is spent on prevention.
- Lifestyle modifications (e.g., exercise, limiting salt) have shown to prevent hypertension as well as help lower BP for hypertensive patients.

Target Population: individuals classified as pre-hypertensive at intake screening that are over the age of 40 and are not on blood pressure medication

PHAC/HSF SIB | Target Intervention

The Community Hypertension Prevention Initiative (CHPI) is a community prevention approach that leverages pharmacy, local partnerships and digital technology to support healthier lifestyles in order to reduce the onset and prevalence of hypertension.

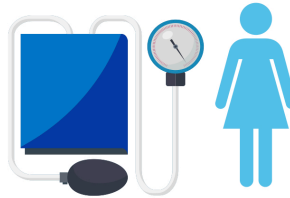


Shira,
62 years old,
134 mmHg



**Shira learns
of the program**

Shira finds out
through her doctor,
by HSF outreach or
in her community.



**Shira heads to
the pharmacy**

An HSF volunteer
discusses Shira's
risk factors and
explains the online
platform.



**Shira spends six months
forming healthy habits**

She logs in to
record her goals,
track her progress
and connect to her
community.

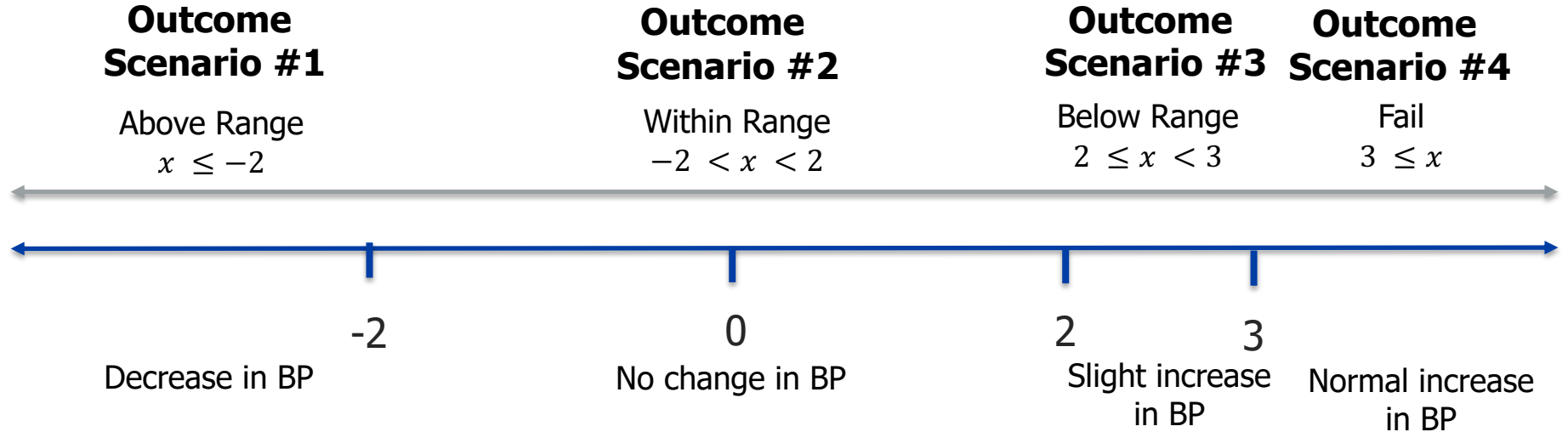


**Shira returns to
the pharmacy**

An HSF volunteer
suggests ways for
Shira to maintain
her healthy habits.

PHAC/HSF SIB | Outcome Metrics (2)

Possible Blood Pressure (BP in Mm/mg) Outcomes:



Good Outcome

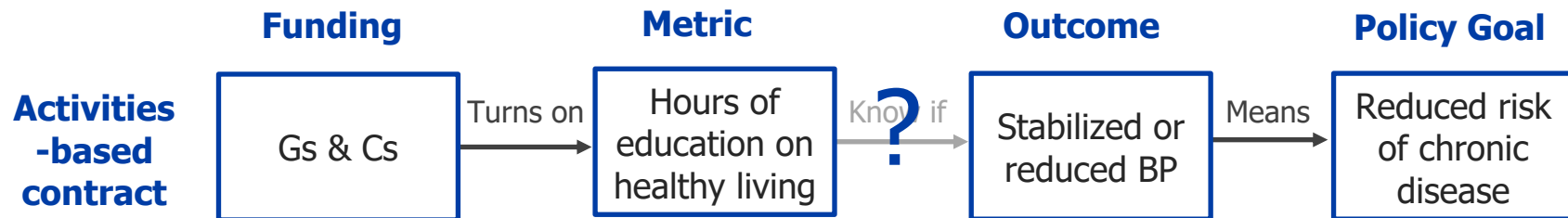
Bad Outcome

MaRS

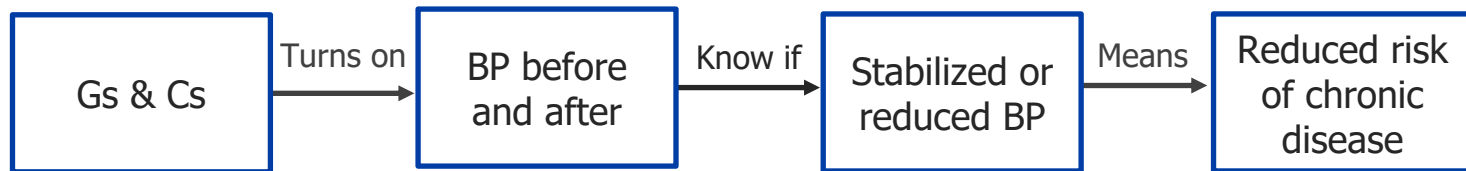
PHAC will pay investors based primarily on HSF success in shifting the blood pressure trajectory of the target population.

PHAC/HSF SIB | Outcomes Metrics

PHAC decision to pay on outcomes:



Outcomes-based contract



PHAC/HSF SIB | Financial Modelling

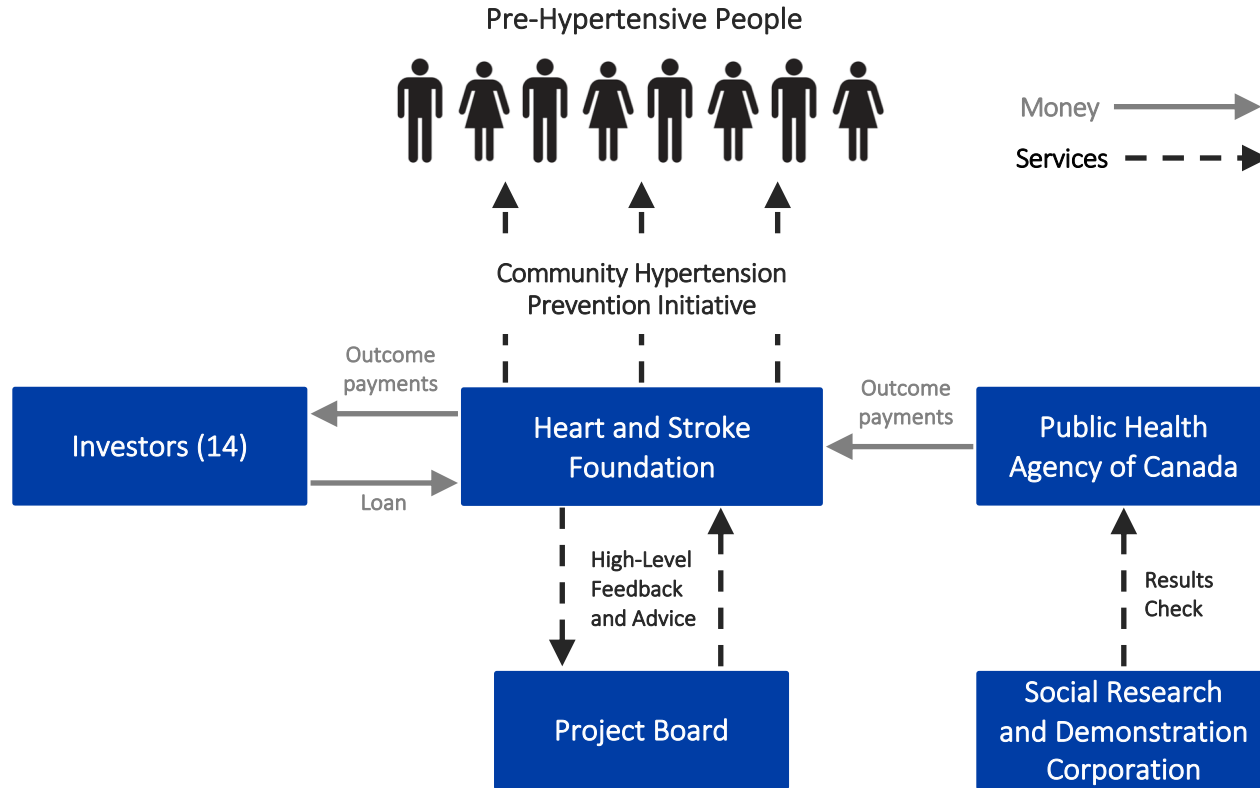
Government Conditions:

- ✓ Total payments will not exceed \$4 M
- ✓ Intake volume (the output metric) will account for no more than about 40% of total payments in a successful scenario
- ✓ Investor return will not exceed 10%

An Investor's Internal Rate of Return

		Blood Pressure			
		Fail	Below Range	Within Range	Above Range
Participants	7,000	-44%	-0.8%	6.7%	8.8%
	6,000	-50%	-3.5%	4.4%	6.6%
	5,000	-58%	-6.8%	1.4%	3.7%
	4,000	-	-9.4%	-0.9%	1.5%
	3,000	-	-13.1%	-4.3%	-1.9%

PHAC/HSF SIB | Structuring



PHAC/HSF SIB | Procurement and Contracting

Investment Contract: Amount, schedule and repayment terms. Contract between service provider and investors.

Outcome Contract: Metrics, targets and payment. Contract between service provider and government.



Benefits of using a SIB

Shifts Focus to
Outcomes

Allows the provider to concentrate on
meaningful and measurable outcomes

Lets Delivery
Learn and Adapt

Opens flexibility for the provider to
manage performance based on results

Builds Evidence

Builds evidence behind the provider's
solutions

Lengthens
Contracts

Funds the duration of the project under a
single contract (as long as six or seven
years)

Challenges of using a SIB

Government

Shifting budgets
Limited capacity to build new partnerships

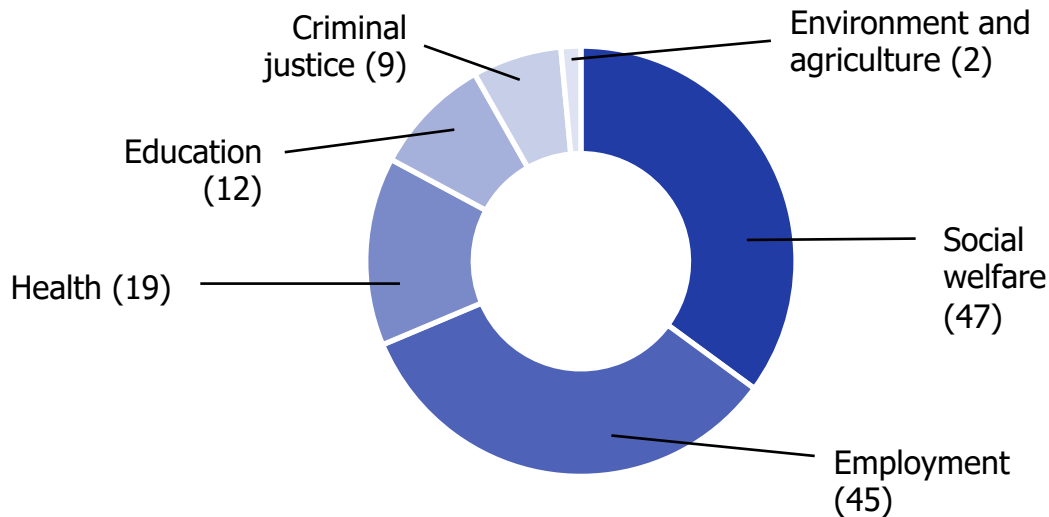
Service
Providers

Limited technical expertise

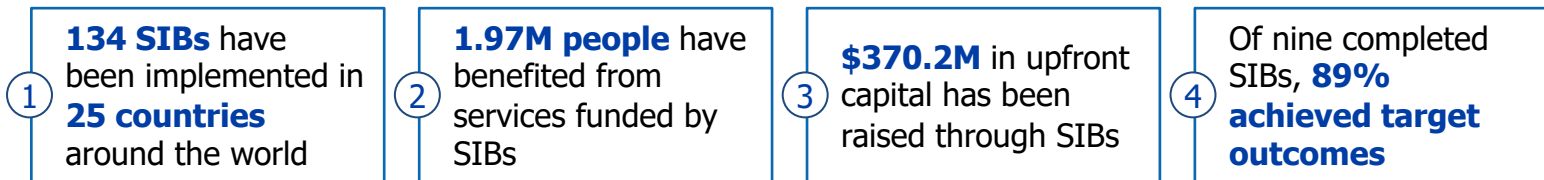
Model

Sustainability of funding

Total number and categorization of active SIBs globally



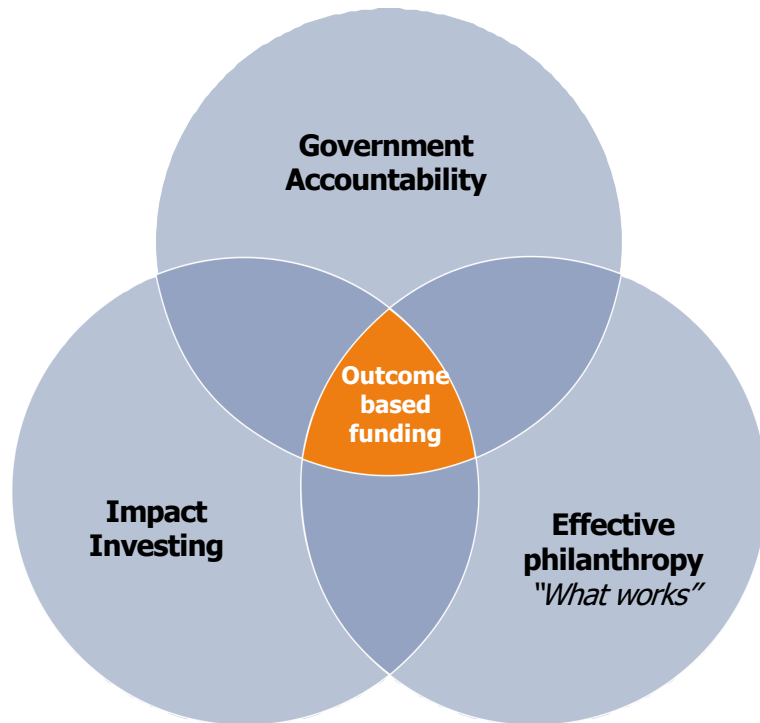
SIB fast facts





"My question is: Are we making an impact?"

Paying-for-outcomes aligns with three powerful movements





Thank you!

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