



# Assessing the Climate Action Investment Practices of Canadian Community Foundations

IISD REPORT



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### Assessing the Climate Action Investment Practices of Canadian Community Foundations

April 2022

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## Acknowledgements

The author would like to thank Safa Rahim and David Uzsoki, who contributed to this project.

The author of this report would also like to thank the following individuals and institutions for the valuable comments and recommendations:

- Dana Decent, Community Foundations of Canada
- Flavie Desgagné-Éthier, Trottier Family Foundation
- Catherine Jackson, Mosaic Governance Advisors
- Karel Mayrand, Foundation of Greater Montréal
- Alison Sidney, Community Foundations of Canada
- Beth Timmers, Agriculture and Agri-Food Canada
- Brian Toller, Ottawa Community Foundation
- Jean-Patrick Toussaint, Trottier Family Foundation

This report was funded by the Trottier Family Foundation, and we are thankful for this support.

The opinions expressed and the arguments employed in this paper do not necessarily reflect those of the people and organizations mentioned above, nor should they be attributed to them.

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## Executive Summary

Canada's community foundations are integral to filling gaps in social goods and services that are overlooked or underfunded by public and most private actors. Their grantmaking and advocacy allow interested individuals to efficiently channel their own funds into the betterment of their surrounding communities. Recent annual increases in donor contributions to community foundations and granting by community foundations highlight the value that foundations serve in times of normalcy and in times of crisis.

What allows most foundations to conduct this important work are their sizable endowments. Endowments allow foundations to avoid the impacts of contribution volatility and allow for multi-year planning for their grantmaking. However, endowments can do more. The assets they hold allow foundations to multiply some of the same impacts created through their grantmaking.

This process of rethinking endowment management is underway among the community foundation network, as evidenced by increases in allocations to impact investments and a general acceptance that environmental, social, and governance (ESG) considerations should be included in the investment mandates of endowments. However, Canadian community foundations have lacked ambition in using their endowments to address the threat that faces every member of their communities: climate change. Some of the very issues that are addressed by community foundations are exacerbated by climate change: access to essential services such as health care and education, affordable and adequate housing, and food insecurity. Climate change is a threat multiplier.

Aside from the importance of addressing climate change because of the impacts it will have on their communities, foundations have legal and economic reasons to do so. From a legal perspective, the boards of directors of community foundations have a fiduciary duty to assess the material impacts that climate change will have on their endowment portfolios. To not do so would arguably constitute a breach of duty. Moreover, significant data points to younger investors wanting their investments to impact climate change and other social issues; foundations that ignore this point do so to the detriment of growing their donor base. Moving from laggards to leaders on climate change is crucial to the proper governance of community foundations and makes good economic sense.

Recognizing the challenges facing community foundations and different levels of capacity across the 191 foundations in Canada, we propose the following recommendations that acknowledge these capacity constraints and reconcile these constraints with needed urgency. These recommendations offer ways in which community foundations can act now and work toward initiatives, such as the Canadian Philanthropy Commitment on Climate Change, that will guide them toward a more sustainable, climate-resilient future.



## Recommendations

- Move toward positive screening investment strategies and climate investing.
- Make all governance documents public.
- Make the reporting of endowment holdings and returns transparent.
- Streamline endowment management.
- Join the Canadian Philanthropy Commitment on Climate Change.
- Set targets for diversity, equality, and inclusion on investment committees.
- Ensure one investment committee member has recent, relevant ESG experience.
- Work with smaller foundations to allow access to enhanced endowment management strategies.



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## Abbreviations and Acronyms

<b>CCF</b>	Canadian community foundation
<b>CFC</b>	Community Foundations of Canada
<b>CRA</b>	Canada Revenue Agency
<b>ESG</b>	environmental, social, and governance
<b>FGM</b>	Foundation of Greater Montréal
<b>IPS</b>	investment policy statement
<b>LC3</b>	Low Carbon Cities Canada
<b>OCF</b>	Ottawa Community Foundation
<b>RAAI</b>	Responsible Asset Allocators Initiative
<b>UNPRI</b>	United Nations Principles of Responsible Investing





## 1.0 Introduction

Community foundations meet people where they are. In many cases, people who access organizations and services in their communities are unaware that these are supported by a local community foundation. Whether through grantmaking or advocacy and community leadership, community foundations fill many gaps in the provision of social goods and services that are often overlooked or underfunded by public and most private actors. In response, the non-profit sector—and community foundations more specifically—allow private actors to channel their wealth to address some of these gaps. Community foundations are efficient conduits for those willing to fund more resilient futures in specific communities.

For decades, Canadian community foundations (CCFs) have served these roles in many communities. The impacts that CCFs have in their communities have heightened since the onset of the COVID-19 pandemic and its resulting socio-economic impacts. They have met a global problem with local solutions and have helped countless individuals meet the challenges that have been thrust upon them.

For context, according to self-reporting to the Canada Revenue Agency (CRA)<sup>1</sup>, CCFs awarded almost CAD 730 million in grants in 2020, up from CAD 503 million in 2019—a 45% percent increase year-over-year.<sup>2</sup> While we know that CCFs' financial resources have been growing over the past decade, we also note that the year-over-year increase in grantmaking from 2018 to 2019, the year previous, was 14%. When individuals needed CCFs most, CCFs and their donors stepped up.

For larger CCFs, endowments serve as the backbone of their grantmaking. Foundations invest these endowments and use the returns on investments to fund their grantmaking and operations. Endowments allow foundations to avoid the ebbs and flows of annual donor contributions by providing core capital on which they can draw. This allows foundations to make longer-term grant commitments and to set strategic directions for their organizations.

Like grantmaking, the size of endowments has increased over recent years. According to CCFs' reported long-term investments and other assets, our best estimate of their endowment size was almost CAD 7 billion in 2020, up from CAD 3.75 billion in 2013.<sup>3</sup> These figures do not take into account CCFs that do not report long-term investments and who might keep mostly cash and short-term investments.

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<sup>1</sup> All CCF financial data in this report was sourced from the Canada Revenue Agency (CRA) upon request. CRA provided T3010 data (Registered Charity Information Return) for all charities from 2010 to 2020.

<sup>2</sup> The increase in grants was supported by the Emergency Community Support Fund, a program funded by the federal government and administered by Community Foundations of Canada, United Way/Centraide and Red Cross.

<sup>3</sup> Long-term investments and other assets are reported to CRA as two separate entries, but CCF reporting of endowments across these entries is inconsistent. As a result, we aggregated these two entries.



The key takeaway from these figures is that, while grantmaking is a crucial method for CCFs to impact the lives of individuals, it accounts for about one tenth of the financial capacity that CCFs can leverage to positively influence their communities and wider societies.

CCFs' responses to the COVID-19 pandemic indicate that foundations are willing and able to use their financial resources to address global issues facing their communities. Unfortunately, in the long term, there is an issue that communities across Canada and the world are facing that is far graver than the COVID-19 pandemic: climate change. On this front, CCFs have acted with less urgency and less ambition. While there have been strides made with some grantmaking initiatives, CCFs, for the most part, have left their most valuable asset—their endowments—outside of the fight against climate change.

This report has two main purposes. The first is to provide CCFs and stakeholders with an overview of how CCFs have been managing their endowments and how this management has evolved over time to address climate change. To this end, the report outlines key metrics on CCFs' endowment and total asset growth, donor contributions, and investment income. It also looks at how investment policy statements (IPSs) and investment operations for larger CCFs have evolved over time.

The second purpose is to be forward-looking and provide recommendations on how CCFs can make a leap from laggards to leaders by heightening their ambition in addressing climate change. To do so, we highlight best practices and principles regarding the integration of climate action into the investment practices of CCFs. While acknowledging that capacity across the 191 CCFs to implement these recommendations varies significantly, we hope that CCFs and their stakeholders can see themselves in these recommendations and find some that best fit their organization.



## 2.0 Review of Relevant Literature

To inform our analytical work, it was important to understand what had been written about CCFs in the past, what community foundations globally are doing to respond to climate change, and the international best practices of other investors.

### 2.1 CCF Literature

Analysis of the CCF sector as a whole is quite limited. As a point of departure, we researched how CCFs were discussing climate investments in their endowments. To do this, we looked at publicly available materials that Community Foundations of Canada (CFC), the national leadership organization for Canada's 191 local community foundations, had been providing its members. While CFC does not have a publicly available analysis of the endowment practices of its members, it does provide multiple webinars that touch upon how foundations may want to consider investment committee selection, asset allocation decisions, impact investing, environmental, social, and governance (ESG) investments, and how these considerations may have changed during the volatility associated with financial markets during the COVID-19 pandemic.

Resources provided by CFC and its partners supporting CFC's Learning Institute<sup>4</sup> highlighted the importance of diversity, equity, and inclusion when considering investment committee members, how asset allocation patterns may impact liquidity, and the importance of longer-term investment mandates during volatile markets. Of particular note for this report, the resources contained discussions on how ESG should be considered in an endowment investment portfolio and whether ESG investments should be viewed as a tranche of the portfolio or as an overlay consideration on all investments. Moreover, linkages were made between ESG investments and the mitigation of rising global temperatures with little discussion of the types of investments that may help reverse the trajectory of global temperatures.

#### Box 1. Terms to note

Terms such as "ESG investing," "responsible investing," and "sustainable investing" are used interchangeably in many reports. For the purposes of this report, we refer to ESG investing or investing with ESG considerations despite a more accurate term being "sustainable investing."

Sustainable investments refer to any investment approach integrating ESG factors into the selection and management of investments (Swiss Sustainable Finance, 2017). We use these other terms in this report as they reflect terms that are used in foundation investment policy statements.

<sup>4</sup> These partners include Rally Assets, Mawer Investment Management, Manulife Investment Management, and the Equality Fund.



What was also evident from the materials was the dichotomized view between what this report will refer to as “traditional investments” and “impact investments.” Discussions of asset allocations, volatile markets, and ESG considerations were tied to discussions of traditional investments in asset classes such as equity and fixed income. Impact investments were discussed as an asset class apart from these others. This difference could be due to the direct nature of impact investments, but it also seemed indicative of a larger view that traditional investments are to deliver financial returns within certain risk parameters while avoiding ESG harms, whereas impact investments can deliver direct social goods with financial returns being a secondary consideration.

On the utility of impact investments to CCFs, Rally Assets authored an impact investing guidebook for Canadian foundations (Glencross & Bogglid, 2019). This impact investing guidebook, while not specifically focusing on ESG and climate investing, highlighted the opportunities and challenges that leaders within community foundations meet when they seek to change endowment management practices. Many of the lessons drawn in the Rally Assets report and the step-by-step roadmap to implementing an impact strategy are directly applicable to the steps required to enhance climate investment considerations in the endowment management practices of CCFs. However, none of the interviewed CCFs referenced the report or roadmap when discussing their impact investments.

## 2.2 Community Foundation Literature

To place CCF endowment management practices in a global context, we looked south of the border. Despite community foundations being found throughout the world, the United States is home to the largest number. Similar to the Canadian context, American community foundations vary in size and mandate. For this reason, we identified recent research by the Council on Foundations and Commonfund Institute (2021) on the investment practices of private and community foundations as the most informative piece of research pointing toward where foundation endowment management is trending.

Our primary takeaway from the report is that the adoption of responsible investing practices by American community foundation endowments remains in its nascent stages. Of the 83 American community foundations that participated in the study, the report indicates that only 20% of responding foundations seek to include investments ranking high on ESG criteria and only 12% screen out investments that are inconsistent with the responding institution’s mission (Council on Foundations & Commonfund Institute, 2021). The report also notes that 29% of responding community foundations considered adding ESG to their IPSs in the next 12 months. Similarly, 30% of respondents said that a new manager’s commitment to ESG integration in their investment process was either important or very important; of those respondents, 45% were from foundations holding more than USD 500 million in their endowment (Council on Foundations and Commonfund, 2021). The report did not mention if the survey asked specifically about climate change investments, nor did it provide any results to that effect.



This report provided evidence on how a larger sample of community foundations operating in a similar context is transitioning to enhanced ESG integration but are laggards with respect to confronting climate change. The report also indicated that larger foundations are leading this transition and raised questions for further inquiry relating to the required internal capacity of foundations to undertake these changes.

## 2.3 International Best Practices Literature

While we reviewed many global investing standards, there was a handful that we felt most pertinent to our research and in choosing recommendations. Part of determining whether these standards were relevant to our research was assessing whether similar institutions to CCFs had adopted them. Throughout this step, we remained aware that while some of these standards may have some principles and practices that may be applicable, not all may be a fit for all CCFs.

### Box 2. UN Principles of Responsible Investing

**Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.

**Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.

**Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.

**Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.

**Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.

**Principle 6:** We will each report on our activities and progress towards implementing the Principles.

*Source: Quoted directly from United Nations Principles for Responsible Investment (UNPRI), n.d.*

One set of standards that was mentioned in our initial interviews with CCFs was the United Nations Principles of Responsible Investing (UNPRI). The UNPRI (n.d.) are comprised of six high-level principles that seek to better align investor actions with broader objectives of society. Being a signatory to the UNPRI means that investors pledge their commitment to adhere to the principles and file annual reports detailing their adherence. While the UNPRI offer numerous publications and knowledge products on how to incorporate ESG considerations into investment decision making, the principles themselves are quite vague (see Box 2). The UNPRI offer possible actions to meet these principles, but these actions and principles are voluntary. When assessing



existing or new managers, CCFs should fully understand how investment managers are delivering on their commitments to the UNPRI and review their annual filings.

Another set of principles and criteria that community foundations could access to analyze their endowment management procedures are those prescribed by New America's (n.d.) Responsible Asset Allocators Initiative (RAAI). Although these 10 principles and 20 criteria are targeted at sovereign wealth funds and pension funds, they include many of the recommendations offered by various interested parties<sup>5</sup> and forward many principles and criteria that are applicable to community foundations (New America, n.d.). Some of the principles are undoubtedly more relevant than others, but RAAI's focus on ESG disclosure is particularly pertinent as this is missing in reporting by many community foundations.

Noting the capacity differences between large global asset managers, pension funds, and community foundations, we used the rankings of the Asset Owner's Discussion Project (Asset Owner's Discussion, n.d.) and the Dutch Association of Investors for Sustainable Development (VBDO<sup>6</sup>) (n.d.). In both rankings, asset managers much larger than CCFs are judged on how they are responding to ESG concerns, environmental risks, and climate investment demands. Despite their differences in size and capacity, many of these same questions can apply to community foundations. For example, the Asset Owner's Discussion Project asks pension fund respondents: "Do you measure investments that support the transition to a low-carbon economy, such as low-carbon assets, climate impact assets, green finance, etc.?" (Asset Owner's Discussion, n.d.). One can expect that larger asset managers and pension funds may have sophisticated measurement procedures to respond to this question, but CCFs could respond as well. Thus, these rankings informed our thinking on how to recommend deeper engagement with stakeholders wanting community foundations to be more active on ESG and climate issues in their endowment management procedures.

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<sup>5</sup> According to the RAAI, "The 10 core principles and 20 associated criteria were selected based on discussions with asset allocators and from guidelines by multilateral institutions and agreements across the field of ESG and sustainability, including, but not limited to, the Principles for Responsible Investing (PRI), the United Nations Global Compact (UNGC), the OECD Principles of Corporate Governance, regional and global sustainable investment forums (Eurosif, RIAA, GSIA), the Investor Network on Climate Risk (INCR/CERES), the UN Sustainable Development Goals and the International Forum on Sovereign Wealth Funds (IFSWF)" (New America, n.d.).

<sup>6</sup> VBDO = Vereniging van Beleggers voor Duurzame Ontwikkeling



## 3.0 Methods of Data Collection

To properly analyze the endowments of CCFs and garner insights on how CCFs are integrating climate change considerations into their endowment management practices, we conducted three types of research concurrently.

Our first type of research was a quantitative analysis of the financial information that CCFs provide to the Canadian government. To do this, we contacted the CRA and had it send us Registered Charity Information Returns (T3010s) for every Canadian charity for the 2013 to 2020 tax years. Having this data was important for two reasons. First, it allowed us to analyze the financial information of the CCF sector as a whole and garner insights into how the finances of the sector have evolved over the time period. Second, the information provided us with a method to narrow our scope for the qualitative elements of our analysis. Knowing that we wanted to conduct interviews and further research on the larger CCFs, the tax returns allowed us to identify which CCFs were the largest in Canada. For the qualitative elements of our research, we narrowed our focus to the 15 CCFs that reported the most total assets in 2020 (see Table 1).<sup>7</sup>

The second part of our research was to review the publicly available documents of the CCFs listed in Table 1. Specifically, we were interested in reviewing their investment policies and annual reports. Our focus during these reviews was two-fold: first, how does the CCF communicate its governance structures and investing processes to stakeholders, and second, to what depth does the CCF address climate change in these documents. The review of these documents was crucial to informing our interviews.

The third part of our research was to conduct interviews. Of the 15 largest CCFs, we conducted interviews with eight of them; these eight foundations account for almost 60% of the total assets held by all CCFs.<sup>8</sup> These interviews were particularly insightful, as they allowed representatives of the CCFs to walk us through the history of their organizations, how their endowment management policies have developed, where these policies may be going and plans to integrate climate into these policies. We had assured interviewees prior to commencing the interviews that their comments would not be directly attributable, but in most cases, interviewees said that this assurance was not necessary.

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<sup>7</sup> For the 2020 tax year, these 15 CCFs accounted for 86.6% of the total assets held by all CCFs.

<sup>8</sup> A listing of interviewed organizations can be found in Appendix A.

**Table 1.** Total assets of the 15 largest CCFs based on 2020 CRA filings

<b>Foundation</b>	<b>Total Assets</b> in \$ million (2020)
Vancouver Foundation	1,419.1
The Winnipeg Foundation	1,412.9
The Calgary Foundation	886.8
Toronto Foundation	706.6
Edmonton Community Foundation	625.9
Victoria Foundation	351.1
Foundation of Greater Montréal	249.9
Ottawa Community Foundation	215.6
Hamilton Community Foundation	201.4
Oakville Community Foundation	115.1
London Community Foundation	108.8
Kitchener Waterloo Community Foundation	95.7
South Saskatchewan Community Foundation Inc.	92.4
Saskatoon Community Foundation	81.9
Fondation Québec Philanthrope	68.8

Additionally, as we worked through our interviews with the CCFs, we noticed that many of the same firms mentioned were involved in the investment and endowment management of CCFs. For this reason, we contacted and interviewed two of these organizations to better understand where they believe CCF endowment management is headed.





## 4.0 Key Findings

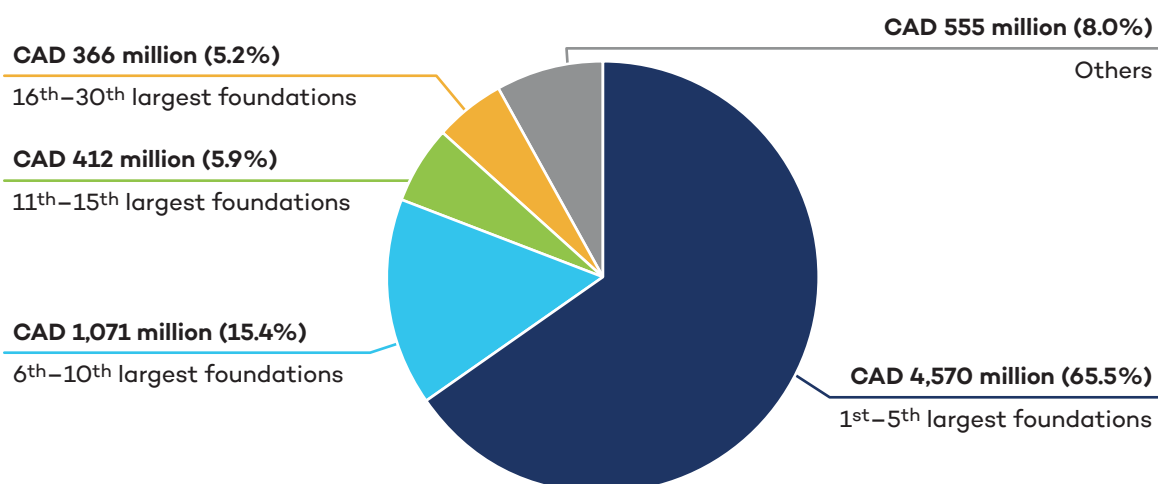
### 4.1 Descriptive Analysis of CCF Endowments

Among the 191 CCFs, there are quite significant differences in the size of and mandates placed upon foundation endowments. With this in mind, much of the quantitative analysis was focused on the endowments of the largest 15 CCFs. However, as seen in Table 1, there is variance even among the largest 15 CCFs. To deal with this variance, as well as to draw inferences regarding size and endowment management capacity, we split the 15 CCFs into three groups based on their asset size: the five largest (denoted 1–5), the next five largest (6–10), and the next five largest (11–15). Also, to provide context in some of our analyses, we included CCFs that ranked from 16 to 30 in their asset size (16–30) and all other CCFs combined.

#### 4.1.1 Size of Endowments

Given our reliance on data that CCFs provided to the CRA, it is important to note that the data we show in Figure 1 are the sum of long-term investments and of other assets<sup>9</sup> as reported by CCFs. We aggregated these two asset classes because different CCFs reported their endowments in different lines of their tax returns. The data in Figure 1 are likely a conservative estimate of endowment sizes because foundations would have some endowment capital that would be listed as cash or short-term investments in individual foundation returns.

**Figure 1.** Aggregated figures of reported long-term investments and other assets, 2020 tax year, in CAD millions



Source: Author’s calculations based on CRA data.

<sup>9</sup> The terminology “long-term assets” and “other assets” is used in the CRA filings.



With these caveats noted, we calculated that the total amount held by CCFs as long-term investments and other assets is almost CAD 7 billion. Figure 1 illustrates that **almost 66% of this capital is held by the five largest foundations and that over 85% is held by the 15 largest CCFs**. For this reason, we focused our efforts on understanding how these CCFs are addressing climate change; they are the CCFs that have the financial capacity to have the most impact.

This relative breakdown of the total endowments held by CCFs has been consistent over our data period. For reference, in 2013, the five largest CCFs held 64.8% of total long-term investments and other assets and the 15 largest CCFs held 86.9%. This consistency is confirmed by the annual growth data of endowments. From 2013 to 2020, the 15 largest CCFs saw their endowments grow at 9.3% annually; all other CCFs saw their endowments grow at 9.6%, which kept the relative balance.

### 4.1.2 Endowment Growth

To understand the growth of endowments, we attempted to estimate returns on investment that the CCFs have posted over the 2013 to 2020 period (see Figure 2). This estimate is based on taking the investment income and interest reported by CCFs and dividing it by the long-term investments and other assets.<sup>10</sup> While we acknowledge these figures are a crude estimate for returns, they are indicative, and we are able to draw inferences from them.<sup>11</sup>

Across the subgroups, our estimates show quite a bit of variation. **Smaller CCFs almost matched or outperformed larger CCFs, but their returns were more volatile than CCFs that ranked among the 10 largest in Canada.** While an increased variance in returns usually indicates a higher risk tolerance among these investors, we have no evidence to substantiate such a claim in this case. Reasons for better performance by these smaller investors could include differences in asset mixes, investment managers suggesting better performing investments and/or sheer luck. However, as investment return attribution is not reported to the CRA, there is no way to know with certainty why smaller CCFs may have outperformed larger ones.

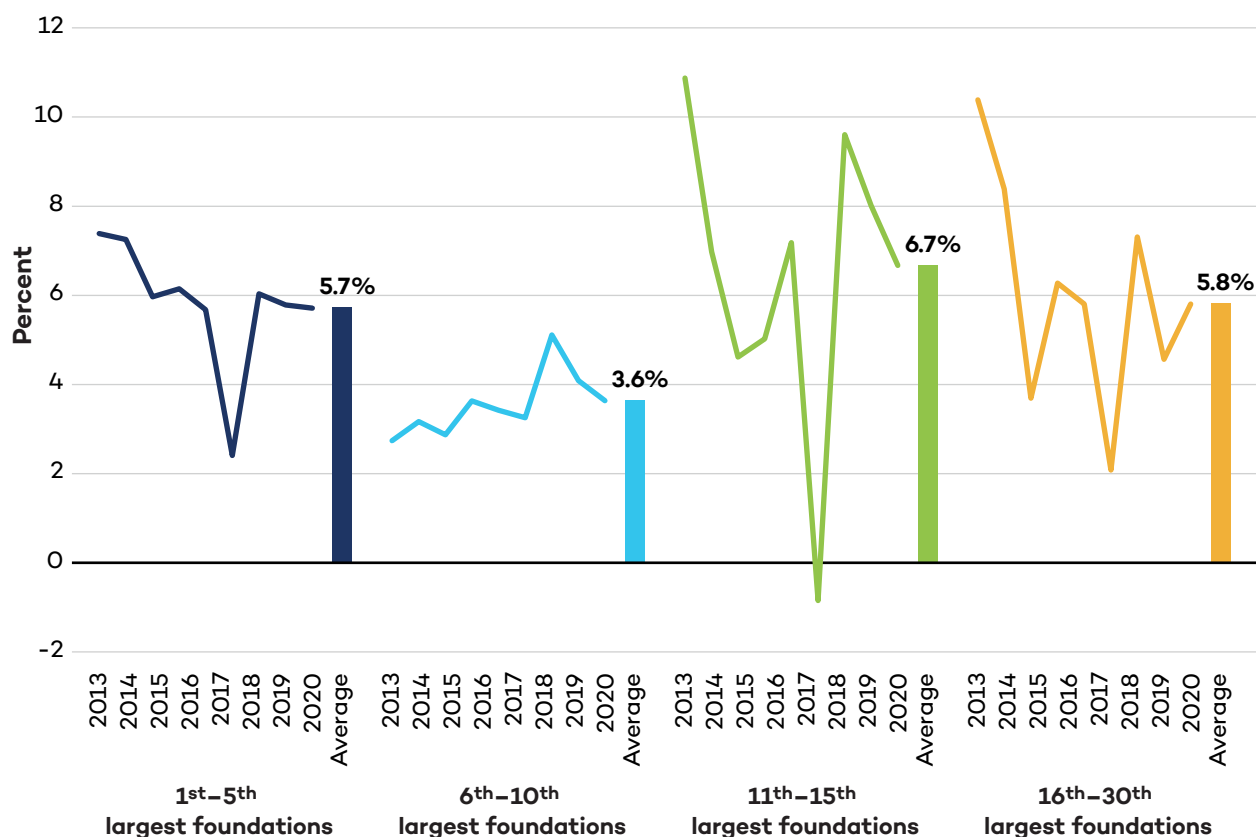
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<sup>10</sup> As reported to CRA.

<sup>11</sup> As noted, this is a crude estimate due to a lack of data. Preferably, we would have had access to investment return data and the average size of the endowment to calculate a more accurate return on investment across the sector.



**Figure 2.** Estimated annual returns on long-term investments and other assets, 2013–2020 tax years



Source: Author’s calculations based on CRA data.

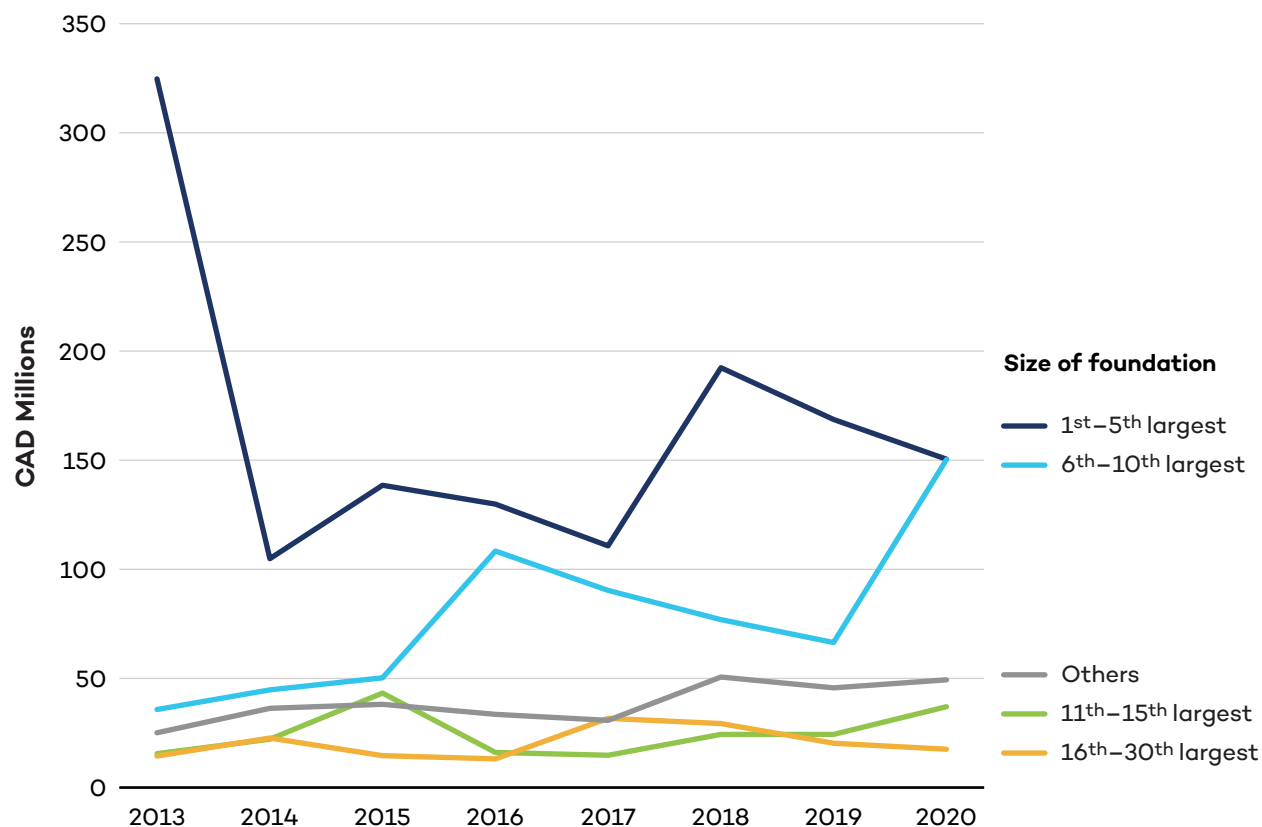
### 4.1.3 Donor Contributions and Gifts

As mentioned in the introduction, donor contributions fund both endowments and grantmaking. While their importance to the growth of specific CCFs may vary based on the current size of endowments, Figure 3 shows that **gifting to CCFs can be quite volatile from year to year**. The volatility of these figures is not surprising when considering that large donors can make a significant impact in the annual data. For example, the CAD 325 million in gifts to the largest five CCFs was largely driven by a CAD 117 million gift by the estate of Daryl K. “Doc” Seaman to the Calgary Foundation—the largest of its kind at the time (CFC, 2013).

Aside from the volatility, Figure 3 shows that while the largest foundations still receive the largest share of gifts, the share is smaller than their endowments or assets would have predicted. For context, from 2013 to 2020, the five largest CCFs held 65% of total endowment funds but received 51% of gifts.



**Figure 3.** Aggregated gifts (issued and non-issued receipts), 2013–2020 tax years



Source: Author's calculations based on CRA data.

This analysis of the gifting received is also important when considered in the context of the foundation granting. In the case of the largest five CCFs, over the 2013 to 2020 period, they gifted, on average, CAD 1.02 for every dollar they received from donors. For the next largest five, they gifted 66 cents; the cohort of the 11th–15th largest CCFs gifted 75 cents. What is particularly interesting about these figures is that they indicate that some CCFs are more conservative in their own gifting and that this conservatism may be linked to the size of the endowment. Larger CCFs may be more willing to gift a larger proportion of contributions if they have a large enough endowment that endowment returns will cover operational expenses and grow the endowment; smaller CCFs may not have that luxury.

Before turning to some of the insights gleaned from the document review and the interviews, we point out that much of the above analysis was to contextualize the operations of CCFs. Obviously, among 191 different CCFs, there are differences in endowment management, grantmaking, and other operations; our process to aggregate the data does not allow for this nuance. Moreover, data reported to the CRA does not capture the allocation of long-term investments, nor does it include any disaggregation of CCF grantmaking. This lack of nuanced information means that while the above data provides insight on CCFs as a whole and the funds at their disposal, it does not allow



for a deeper understanding of what CCFs are doing to address climate change through their grantmaking or, more importantly to this report, their endowment practices.

## 4.2 Observations on Endowment Management From Public Documents

The point of departure to deepen our analysis of CCFs was to review their publicly available documents. Most of the community foundations identified in Table 1 published their endowment IPSs online, along with their annual reports, impact reports, and other pertinent documents.

### 4.2.1 Governance

From a governance perspective, it is difficult to differentiate among the largest 15 foundations. While six of these 15 CCFs are accredited under Imagine Canada's Standards Program for demonstrating excellence in five areas of operation—including board governance, financial accountability and transparency, fundraising, staff management, and volunteer involvement—it should not be assumed that they have superior governance procedures (Imagine Canada, 2018). Rather, it reflects that these six organizations have deemed it worthwhile to go through Imagine Canada's certification process. It is also important to note that the only points of certification relevant to this analysis is that the standards program requires an IPS for organizations that have investable assets of more than CAD 100,000 and requires that organizations provide an orientation to new board members that highlights their fiduciary duties.

#### **Box 3. Fiduciary duties of directors of not-for-profit organizations**

The duties and responsibilities of directors of CCFs may vary based upon the structure of the CCF and the province in which the CCF operates. Nevertheless, in a general sense, directors of CCFs have a fiduciary duty to act in the best interests of the organization they serve at all times. As a fiduciary, directors have a duty of care. In some provinces, this duty of care is higher for directors of charitable organizations and requires directors to be proactive in their protection of charitable property. To this end, any loss of charitable assets due to the inactivity or failure to act of the directors could make the directors liable for a breach of their fiduciary duties (Burke-Robertson, 2009).

How these fiduciary responsibilities will apply to climate change remains to be seen. Canada's Expert Panel on Sustainable Finance (2019) published in its final report that it submitted to Canada's Minister of Environment and Climate Change and Minister of Finance a recommendation that the Minister of Finance issue a public statement articulating that the consideration of climate factors is firmly within the remit of fiduciary duty. This recommendation points to leaders in Canada's finance community recognizing that reacting to climate change is aligned with a director's fiduciary duty; a recognition that CCFs and their directors will have to monitor to ensure their adherence to any new regulations.



Delving further into this point, the **CCFs provided very little on their websites regarding their governance procedures.** Answers to questions on the frequency of board of directors' meetings, the requirements/competencies to sit on the board or various committees, and efforts to make board and committees more inclusive were broadly absent. While these issues were answered in fruitful discussions with CCFs, this information is not publicly accessible to stakeholders.

## 4.2.2 Transparency

Focusing more on the investment operations of CCFs, it is apparent that foundations are transparent with regard to the members of their investment committees, and some CCFs are quite explicit in the role of the investment committee in the governance structure of the foundation. What is less clear across the CCFs is how investment committee members are chosen or the qualifications necessary to become a member of an investment committee. Of the foundations providing profiles of their investment committee members, it is clear that many members are experienced financial professionals. However, interviewees indicated that a lack of diversity<sup>12</sup> among investment committees can be an impediment to changing elements of a foundation's investment strategy. Finding the right mix of members with previous experience and a vision for the future of investment is crucial to any long-term investor, and, in this respect, CCFs are no different. A transparent, publicly disclosed method to ensure that investment committees are populated as such would be beneficial.

Looking deeper into the transparency of CCFs, foundations have prioritized making pertinent documents available on their websites. However, **many details that could assist interested stakeholders are missing.** For example, in-depth details of endowment management are not prevalent in many of the annual reports that CCFs release. Annual reports, while presenting financial figures, are stylized to highlight granting activities. While understanding that granting is perceived as a community foundation's "core business," CCFs have an opportunity to have more impact on their communities through endowment management.<sup>13</sup> Most CCFs tend to present the annual return of investments, but fewer present the allocation of investments by asset class, and no foundations attribute how the returns were earned across these allocations. For instance, if an interested stakeholder wanted to know how much a foundation was investing in Canada to better understand whether endowment management practices were helping Canadian communities, **this type of reporting does not exist.** Stakeholders are left to guess what proportion of investments in asset classes labelled "fixed income," "real estate," and "infrastructure" are in Canada and how this may be aggregated with Canadian equity allocation to infer local impact. This lack of reporting is a missed opportunity for CCFs to convey to donors and other stakeholders that even

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<sup>12</sup> Types of diversity mentioned were age, gender, race, and Indigenous representation.

<sup>13</sup> The inference that CCFs can deliver more impact with their endowment management is based on the 2020 CRA data from which we estimate that CCFs reported long-term investments and other assets of almost CAD 7 billion in 2020 and granting of CAD 570 million.



a foundation's more passive operation of endowment management can have an impact similar to that of grantmaking operations.

Focusing more specifically on the IPSs of CCF endowments, for most foundations, these documents are relatively **silent on using endowments to tackle climate change** (see Appendix C). While CCFs *may* be considering climate change, for many foundations, this consideration exists in discussions of ESG influences on their investment practices. As seen in Appendix C, most IPSs for the 15 largest CCFs mention ESG and indicate that ESG issues are considered in investment practices, which are predominantly implemented by investment managers.

Some foundations go further by outlining the process by which they ensure consistency between their IPS and investment manager implementation. For example, in the Responsible Investing Policy section of its Asset Management Plan, the Edmonton Community Foundation describes a clear process by which the foundation evaluates its third-party managers' processes for considering ESG issues in their investment processes. The policy outlines how the foundation will assess managers during the due diligence process, how managers will be assessed once engaged, the frequency and details of the assessment, and how managers may be terminated for non-compliance. This level of transparency offers donors a clear understanding of the seriousness with which the Edmonton Community Foundation is implementing its ESG beliefs; it is a level of transparency and clarity that is not common across all 15 of the CCFs we analyzed.

#### **Box 4. Foundation of Greater Montréal: Further ahead on the journey**

In many discussions with CCFs on their endowment practices, the inclusion of ESG was described as journey in which some CCFs were further along than others. One foundation that has shown recent leadership is Foundation of Greater Montréal (FGM).

In its most recent update to its IPS, released in October 2021, FGM (2021) goes beyond acknowledging ESG integration in its investment strategy. It indicates that it is heightening its expectations of external investment managers to assess climate change risks and opportunities within FGM's portfolio and incorporating this knowledge when constructing portfolios or proposing investment scenarios. Moreover, FGM will be requiring investment managers to report on their approach to climate change in accordance with the recommendations of the Task Force on Climate-related Financial Disclosure.

These new expectations are outlined so FGM can meet new commitments set out in its IPS. FGM has committed to evolving its governance, oversight, and periodic reporting on its climate transition plans and its progress toward its carbon emissions goals. Specifically, FGM intends to implement a climate transition plan to achieve its goal of net-zero carbon emissions by 2050 and its interim goal of reducing portfolio carbon emissions by 45% by 2030.



Despite CCFs making ESG considerations standard, it is important to highlight that **ESG investing, as discussed by most CCFs, does not lead to climate-positive investments.** Rather, in most cases, discussions of ESG investing are coupled with the mention of fiduciary responsibility and risk mitigation. While these sentiments are true, ESG investing in this light means that CCFs are focused on minimizing their own downside risk and ignoring the upside opportunity of using their endowments to drive more financing to future-proof investments that may also have climate benefits for their communities.

### 4.3 Insights From Interviews

Interviews with officers from the CCFs as well as other stakeholders provided a number of interesting insights. At a high level, the most striking observation was the way in which foundations **took particular pride in their grantmaking operations but were less animated when discussing their endowment management.** We note this difference because it mirrors how grantmaking and endowment operations are presented in annual reports: that grantmaking is exciting while endowments facilitate this important work. This framing undermines the import that endowments could have in delivering similar impacts to what grantmaking affords were they focused on these pursuits.

From the interviews, it was clear that the **interest in ESG—and climate more specifically—is dependent on personal interest and expertise,** not systematic consideration. Representatives from CCFs that have boards of directors, investment committees, and senior leadership that have an interest in ESG investing and climate change were more detailed in explaining the linkage between ESG in the IPS and investment manager implementation. For others, the responsibility of implementing ESG considerations was described as more arm’s-length and resided almost solely with the investment manager.

In most cases, the **reporting of the implementation of ESG considerations was done by the investment manager.** One interviewee mentioned that its foundation hired a consulting firm to assess how investing managers were investing the endowment assets and voting proxies. The foundation then consulted with the investment manager afterwards to discuss areas of improvement; however, the interviewee was quick to point out that these discussions were collaborative and not used to formally judge whether the investment manager is adhering to the ESG or climate considerations highlighted in the investment policy statement. This point was particularly striking, as it demonstrated that adherence to the ESG or climate change elements of an IPS policy might not elicit the same kind of reaction from the foundation as if an investment manager underperformed for financial targets.

Community foundations recognize that there are certain principles, practices, and standards to which they want their investment managers to adhere, but some are less knowledgeable about the details of these standards. For example, we were told by one stakeholder that investment managers need to be signatories to the United Nations Principles for Responsible Investment





(UNPRI), but what that actually means for the investment manager's capacity on ESG and climate issues was unclear to the community endowment.

Another key point flagged by interviewees was that **the history of the community foundation matters**. Generally, older community foundations have larger endowments. With these larger endowments, the boards of directors of these community foundations are willing to consider investment practices that may be more mainstream in other sectors but new to community foundations. For example, there has been a proliferation of impact investment carve-outs in community foundation endowments. These impact investments allow for the endowment to be invested directly in investment vehicles that deliver suitable financial returns with beneficial social outcomes. The most popular sectors targeted by these impact investment carve-outs seem to be lending to affordable housing projects; however, there are instances in which foundations have invested in green projects. For example, the Hamilton Foundation invested in the Cootes to Escarpment EcoPark System to conserve 54.1 acres of biologically diverse land in Ontario's Greenbelt (Cootes to Escarpment EcoPark System, n.d.).

## 4.4 Challenges to Climate Investment Practices of Canadian Community Foundation Endowments

The interviews also highlighted the issues facing foundations that acknowledge the threat of climate change but are challenged to incorporate this knowledge into their endowment practices. Below, we group these challenges into the themes of pressure, people, and perception.

### 4.4.1 Pressure

During the interviews, many representatives from the CCFs were eager to share the ways in which their foundations stepped up during the COVID-19 crisis and went over and above their regular operations during this time period. These foundations should be proud of this work, as they helped those in their communities that needed them the most when it mattered. These discussions spoke to the local nature of community foundations: issues of affordable housing, local health and education, or supporting the arts were very much seen as the “core business” of a foundation's work.

An issue such as climate change does not have that same local resonance as these other issues, despite the fact that one need only look at the natural disasters of the past few years to note that climate change is a threat multiplier. **The impression given was that climate change is viewed as an issue that is of the same as or of lesser importance than the issues the foundations face** in their communities and that endowment resources, especially through impact carve-outs, are more likely to be invested in these other sectors.



### Box 5. Ottawa Climate Action Fund

The Ottawa Community Foundation (OCF) has put ESG front and centre in its IPS and has a direct impact investment in an environmental learning and charitable retreat centre that promotes sustainable living. However, OCF's greatest work on climate has been the incubation of the Ottawa Climate Action Fund (OCAF). The OCAF is Ottawa's Low Carbon Cities Canada (LC3) centre and exists to catalyze and scale low-carbon solutions in Ottawa (Ottawa Climate Action Fund, 2022).

The OCF led Ottawa's participation in the development of the LC3 network and holds a unique place as the only community foundation to be linked to the LC3 initiative across the seven cities in the LC3 network. The OCF manages the CAD 20 million endowed to the OCAF by the Government of Canada.

Another topic that arose during the interviews that spoke to the “localness” of CCFs was how to manage foundation endowments in communities in which the local economy is tied to industries slow to adapt to climate change. For example, Suncor Energy, headquartered in Calgary, is among the largest 20 companies in Canada according to market capitalization and employs 12,600 staff (Suncor, 2021). Should the foundations in which these Suncor employees' investments reside divest from or exclude investments in Suncor because Suncor is considered an ESG laggard on carbon emissions?<sup>14</sup> While a decision to divest from or exclude these types of investments may not actually lead to job loss, it could signal to some local stakeholders that the divesting or excluding foundation cares more about global environmental health than their local economy. The point is that, among the 191 CCFs, no one optimal strategy for endowment management will meet the desires of all stakeholders.

#### 4.4.2 People

One of the main reasons that we wanted to limit the analysis of CCF endowments to the largest 15 was based on pre-research discussions that indicated varying levels of capacity among the 191 community foundations across the country. What we uncovered, even among the largest 15 CCFs, was that there were significant capacity disparities. Among the largest 15 CCFs, some senior representatives were not full-time employees; in addition, some admitted to being dependent on investment committees as they themselves had very little knowledge of investing. This finding was quite surprising, given our previous assumptions that CCFs with endowments of more than CAD 50 million were likely to have specialized, full-time staff. These findings spoke to the importance that investment committees have over the endowment management practices and the way these resources are allocated across different asset classes.

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<sup>14</sup> As rated by MSCI (n.d.), a global rating agency. It is important to note that there are multiple firms conducting ESG ratings that have different methodologies, which may mean they have different views on the same company. Users of ESG ratings should understand these differences if they are to rely upon them to make investment decisions.



Delving further into the influence held by investment committees, many interviewees cited that members of investment committees for CCFs are conservative in their views on investing and have similar professional and personal backgrounds. It was suggested that the composition of investment committees tend to be experienced, sometimes retired, financial professionals who focus tightly on what they view as their fiduciary duty to ensure that endowments meet their return goals. The lack of diversity among members of investment committees may be constraining the types of investment options considered and may be undermining long-term returns when members are too focused on the traditional investments that have allowed them to meet annual return targets.

Given the newness of discussions of ESG and climate change's impact on long-term portfolio performance, it was mentioned that current investment committee members may not fully consider the financial materiality of ESG factors and may not be incorporating these factors into investment decision making. As mentioned in the above discussion on the changing interpretation of fiduciary duty, such a stance could lead to legal issues for directors. Moreover, even if the interpretation of fiduciary duties remains unchanged, investment committees deemed unresponsive to climate change could be deemed in breach of their duties if there is a loss of charitable assets due to the inactivity or failure to act.

### 4.4.3 Perception

While the majority of respondents volunteered that they believed that ESG investing did not lead to lower returns than traditional asset allocations, some did indicate that this was not the case throughout their investment committees. Some interviewees indicated that their foundations had investment committee members who **believed that investing in ESG could undermine the endowment's ability to meet its investment return goals**. Even though the interviewees noted that this perception is waning, it is notable that it still exists.

In answering questions regarding why their foundations do not invest more in climate-positive investments rather than relying simply on an ESG investing strategy, many of the respondents pointed to their impact investments as a possible area for growth. Impact investments were viewed as offering foundations an excellent opportunity to invest locally and multiply their efforts to enhance local quality of life. However, for many foundations, the allocation of their endowment portfolio to impact investments has remained quite limited (under 10%). A lack of capacity to undertake the required due diligence of direct impact investing and the belief that these types of investments are less liquid were cited as impediments to growing impact portfolios. Despite these perceived impediments, foundations remained excited about completing more impact investments.



## 5.0 Recommendations for Foundations

### 1. Move toward positive screening for investment strategies and climate investing

As documented in Appendix C, much of the language on how the largest CCFs are thinking about ESG—and climate change more specifically—is left to descriptions of “ESG integration” or “ESG consideration” when these issues are addressed. These descriptions leave readers wondering about the form of ESG strategy and the party ultimately responsible for its implementation. An ESG strategy that employs a negative screen that includes exclusionary criteria is different from an ESG strategy that uses positive screens and allocates funds to the investments rated as top performers on ESG metrics. CCFs should be clearer with their stakeholders about what their IPS actually means for ESG-conscious donors.

With this clarity, foundations can consider how to move forward and be more ambitious with their ESG and climate investing. Foundations that are solely using negative screening can enhance their ambitions by adding ESG-positive screening. Foundations that are already using ESG-positive screening can alter their stated allocations to more thematic investing that directly tackles climate change, such as clean energy exchange-traded funds (ETFs) or low-carbon transition ETFs.

#### **Box 6. Climate investing to entice donors**

The interviews shone a light on the differentiated ways that endowments grow due to contributions. One point of discussion was how to continue to grow contributions and welcome new donors. In some interviews, respondents mentioned wanting to diversify their donor base and attract younger donors.

Clear climate investing strategies—and sustainable investment strategies more broadly—may be one way forward. A 2021 report from Morgan Stanley’s Institute for Sustainable Investing (2021) indicated that 79% of surveyed investors remained focused on sustainable investing during the COVID-19 pandemic and 99% of surveyed millennials were interested in sustainable investing. More specifically, 88% of millennials expressed interest in climate-themed investments.

The 2021 report is the latest iteration of a series of work by Morgan Stanley that captures this increasing interest in climate investing strategies. Forward-looking CCFs can capitalize on this trend by attracting donors who want to support the work that their foundations do in their communities but who would like their contribution to be held in an endowment that reflects their investment preferences. In this sense, there are clear economic incentives for CCFs to be more focused on climate investments.



To go even further, CCFs that have already established impact investing operations should consider expanding these operations and increasing their allocation to climate impact funds. In this regard, the Hamilton Community Foundation has been a leader. The majority of its impact investments have been allocated to investments that benefit the environment, with most of these being placed in investments that have national or global reach. It is also instructive to note that, by investing in impact funds, the Hamilton Community Foundation has diversified its impact investment risk across numerous projects and companies—an answer to criticism that impact investing can be too concentrated in its risk profile. As impact investing continues to grow and mature, more and different investment opportunities will become available to CCFs, which should alleviate other concerns with regard to lower returns and liquidity issues.

## 2. Make all governance documents public

While acknowledging the capacity differences among the 191 CCFs, most have public websites through which they engage with stakeholders. Having all governance documents, including processes for board of directors' selection, committee selections, and IPSs, would allow stakeholders to better understand their local foundation. It would also allow CCFs to highlight any ongoing or upcoming efforts to address issues regarding a lack of diversity among their volunteer leadership. By making these documents available online, CCFs can mitigate one issue that may be impacting stakeholder involvement.

On IPSs, CCFs should consider if they can be used as a marketing tool. As noted above, it is striking the efforts to which foundations will go to highlight their grantmaking in annual reports and the relative silence on endowment management. Potential donors should be viewed as potential investors, and it is likely that they are not solely concerned with how their contribution will be pledged to their communities but also how it will be managed in the period between the time of contribution and fund deployment. In some cases, even large CCFs are not providing an easily accessible view of their endowment management through an online IPS. As donor contributions are fungible, it would be in the interest of CCFs to be more explicit about the ways in which they invest and how these methods may align with donor values. One way to directly tackle this issue of alignment would be for CCFs to conduct donor investment preference surveys.

## 3. Make the reporting of endowment holdings and returns transparent

The reporting of endowment holdings and returns is uneven. Admittedly, for smaller CCFs, their holdings may be the deposits they hold in their bank account and guaranteed investment certificates. However, for CCFs with more complex endowment investing practices, it is surprising that the majority of annual reports either show a blended return on investment of the entire endowment or report year-over-year asset class balances. If a stakeholder or potential donor wanted to know why one foundation's endowment was achieving better returns than others, there is no data available for them to reach a conclusion. While current reporting may reach an acceptable level of transparency, it does miss an opportunity for CCFs to be clear with



stakeholders and potential contributors regarding the performance of foundation endowments, and their investment managers, and explain better or worse performance than others in the field.

#### 4. Streamline endowment management

In the review of foundation IPSs and discussions with foundation representatives, it was striking to see the sheer complication of endowment management structures. In most cases, foundations rely on volunteer investment committees to work on endowment management with very few full-time staff to manage multi-million dollar endowments that are invested by several different investment managers. With the disparity between full-time staff and the number of investment managers, it seems unlikely that foundations are able to verify and validate the work of investment managers; this is perhaps even more pointed for issues such as ESG investing, which may be considered subordinate to total returns.

Foundations, when possible, should consider simplifying their endowment management processes and limiting the number of investment managers. Simply put, having to monitor more managers requires more time and requires more mutual understanding between the foundation and the investment manager, which is not to mention the effort to ensure that all investment managers are satisfactorily implementing foundation investment mandates. Managing the managers is an important task that, in some cases, could be simplified by reducing the number of managers involved.

#### 5. Join the Canadian Philanthropy Commitment on Climate Change

A joint initiative of the CFC, Environment Funders Canada, Philanthropic Foundations Canada, and The Circle on Philanthropy and Aboriginal Peoples in Canada, the Canadian Philanthropy Commitment on Climate Change calls on all foundations and other funders to signal their commitment to act on climate change regardless of their respective missions. This initiative allows Canadian foundations to join a global community of over 350 foundations and other funders under the #PhilanthropyForClimate movement of philanthropic actors committing to act on climate.

Signatories commit to action on seven pillars: education and learning, commitment of resources, integration, endowments and assets, operations, influencing and advocacy, and transparency. The pillars are outlined in the commitment's implementation guide, and different levels of action are suggested, depending on where funders are in their climate action journey (Canadian Philanthropy Commitment on Climate Change, 2021). Table 2 captures these suggestions for commitments to endowment management.



**Table 2.** Summary of commitments and suggested actions for endowments and assets under Canadian Philanthropy Commitment on Climate Change

Pillar and level	Commitment and suggested action
<b>Pillar 4: Endowment and Assets Pillar with Canadian Context</b>	<p>“We will consider climate change in relation to the source and management of our operational and any endowed funds. We will seek to align our investment strategy and its implementation with a rapid and just transition to a net zero economy.</p> <p>In Canada, we will take action embedded in science and use our voice as holders of capital to help shift corporate and regulatory behavior. We will work to align more of our investments to United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) and reconciliation investment screens that help us reach our climate goals.”</p> <p>(Canadian Philanthropy Commitment on Climate Change, 2021, p. 2)</p>
<b>Level 1: Getting Started</b>	<ul style="list-style-type: none"> <li>• “Consider climate change across your portfolio in all your funds. Identify any barriers to change (investment committee, etc.), and create a plan to remove barriers.”</li> <li>• “Consider using the Justice Funders’ Resonance Framework as a tool to evaluate the stage you are at.”</li> <li>• “Review your investment policy statement and seek advice on how to embed climate change and a reconciliation screen.”</li> </ul> <p>(Canadian Philanthropy Commitment on Climate Change, 2021, p. 3)</p>
<b>Level 2: Building Momentum</b>	<ul style="list-style-type: none"> <li>• “Measure the climate impact of your portfolio and consider whether permanent endowments remain strategic and optimal in respect of goals and urgency.”</li> <li>• “Set a science-based carbon reduction target for your portfolio.”</li> <li>• “Define your climate action investment strategy and commit to investing in climate solutions that respect human and Indigenous rights.”</li> </ul> <p>(Canadian Philanthropy Commitment on Climate Change, 2021, p. 4)</p>
<b>Level 3: Demonstrating Climate Leadership</b>	<ul style="list-style-type: none"> <li>• “Set a public science-based carbon reduction target that acknowledges Indigenous rights and commit to shifting the majority of your investments to be low carbon or carbon neutral.”</li> <li>• “Ensure your existing asset manager understands climate justice and has a climate risk and opportunity strategy. If not, integrate these considerations into future hiring.”</li> <li>• “Participate in efforts to engage constructively with companies about their climate action plans.”</li> <li>• “Identify opportunities to invest in and drive the transition to a low-carbon economy (e.g., green energy, technology to reduce energy consumption)”</li> <li>• “Consider spending down funds to achieve a larger financial impact now. We have an estimated 10 years to significantly reduce carbon emissions, otherwise we greatly increase the likelihood of impacts being locked in.”</li> </ul> <p>(Canadian Philanthropy Commitment on Climate Change, 2021, p. 5)</p>



At the time of writing, only eight CCFs and the CFC are among the 46 signatories in Canada; however, the initiative holds great promise on a number of fronts. First, it can guide large and small CCFs in the initial and next steps to be more active on climate change issues. Second, it allows CCFs to connect with other signatories to find areas of collaboration. For example, could signatories dedicate enough capital from their respective endowments to create their own climate change impact fund? An initiative such as this could percolate these types of ideas. Lastly, it creates another forum to share resources and best practices. As outlined above, ESG investing has taken hold, but real consideration of climate change has not. This initiative may allow CCFs to share with and learn from others to expedite their journey to more climate-positive investments.

## 6. Set targets for diversity, equality, and inclusion on investment committees

Making governance documents public is one action that all CCFs can undertake; however, larger CCFs in larger Canadian communities with diverse populations should be setting and disclosing targets for board and committee membership. The leadership of CCFs should reflect the demographics in the communities in which they work. As highlighted above, many interviewees mentioned that there is a much-needed effort to make investment committees more diverse, as existing committee compositions, perceived as too conservative, make changing investment policies more difficult. Whether this perceived conservatism is valid does not undermine observations from stakeholders that many investment committees do not reflect the broader community—an issue that can be ameliorated with targets.

## 7. Ensure at least one investment committee member has recent, relevant ESG experience

Discussions with CCF representatives that had investment committee members with ESG experience highlighted the value that this experience brings to a foundation's endowment management practice. Having committee members familiar with terminology and practices such as “negative screening” and “positive screening” as well as a clear understanding of how the current ESG elements of an IPS are being implemented is beneficial to endowment management. Moreover, while continuing to underline that ESG investing is not the same as climate-positive investing, it is crucial that large CCFs have investment committee members that can draw that distinction for other leaders in the foundation.

## 8. Work with smaller foundations to allow access to enhanced endowment management strategies

As mentioned at the beginning of this report, there are vast differences across the 191 CCFs. We urge larger foundations to reach out to smaller foundations to help them manage their endowments. There is good evidence of successful partnerships among foundations in Manitoba





and Alberta, where larger foundations invested the endowments of smaller foundations alongside their own funds.

There are two significant challenges to these types of arrangements. First, the larger foundation invests smaller foundation funds alongside their own, which means that the smaller foundation's funds are invested according to the larger one's IPS. For some small foundations, this may be an issue if larger foundations have investment policies that do not align with their own values. As well, small foundations tend not to have influence over changes to an IPS.

A second challenge relates to smaller foundations having less control over their endowment management and relinquishing their ability to use their endowment management to create community relationships. Respondents indicated that one of the reasons that smaller foundations may be hesitant to work with larger foundations is that it would require smaller CCFs to change or end relationships with local investment managers and banks. This decision to lessen support to local businesses may be viewed as antithetical to a CCF's community-building efforts.

While these challenges are real, the opportunities from partnering are attractive and should be considered. Larger CCFs have endowments that are well diversified by product, sector, and geography, and they have professional investment managers that are likely to have greater capacity to report portfolio metrics than the managers of smaller endowments. Also, it would allow smaller CCFs to delve into important investment trends such as climate investing or other impact investing themes without having to take on all of the associated risks. A smaller CCF could have 5% or 10% of its portfolio in impact investments while leaving the due diligence to the larger partner endowment.



## 6.0 Concluding Remarks

To this point, most CCFs have not operationalized their endowments to meet the challenge of climate change, despite the fact that climate change is a significant threat multiplier to their communities' well-being. From our readings of their IPSs, CCFs view ESG integration and ESG consideration in their endowment management practices as a sufficient answer to the climate change crisis facing all communities. These mentions of integration and consideration lack detail and follow-up reporting to inform stakeholders what these statements actually mean for the types of investments made by CCFs.

This lack of transparency on ESG and climate-themed investing also misses an opportunity to use these issues as a comparative advantage when foundations attempt to attract contributions. As demonstrated above, there is increasing interest in sustainable and climate investing among the general public and, more specifically, millennials. Embracing clear reporting on endowment operations and the impacts of endowment investments could attract donors who want their contributions to accomplish more than the impact generated from granting.

It is clear that CCFs are undergoing transitions on numerous fronts; however, some of these transitions must be accelerated. It is important that efforts to increase transparency and diversity throughout a foundation's day-to-day operations are met with similar efforts in their governance procedures. Greater transparency and diversity at the board and committee levels will catalyze a change in how endowments are managed to meet the challenges facing all communities. A few leading CCFs have demonstrated the ability to move quickly on the issue of climate change; other CCFs must follow or imperil their credibility within their communities, as well as their financial futures.



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## Appendix A. Interviewed Organizations

Hamilton Community Foundation

Kitchener Waterloo Community Foundation

Foundation of Greater Montréal

Mercer Investments

Oakville Community Foundation

Ottawa Community Foundation

RockCreek

Toronto Foundation

The Winnipeg Foundation

Vancouver Foundation



## Appendix B. Questions Sent to Interviewed CCFs

### Governance

The foundation must abide by federal tax laws (Article 149 of the Income Tax Act); are there provincial laws by which the foundation must also abide?

How is adherence to these laws managed (i.e., is there independent verification)?

How often does the board of directors meet?

Is the board of directors remunerated?

How often does the investment committee meet?

How often does the investment committee report to the board?

Are there requirements/competencies to sit on the investment committee?

Do you know if there are individuals with ESG/climate investing experience on the investment committee?

How is the investment policy communicated to the investment manager (i.e., how often do investment managers meet/report to an investment committee and/or senior managers)?

### Policy

When was the investment policy last updated?

Can you describe the process of updating the investment policy?

Is the investment manager involved in developing the policy?

Your investment policy does (or does not) mention ESG; can you explain the process of how that was included?

Your investment policy does (or does not) mention climate change and/or the environment; can you explain the process of how that was included?

If your current investment policy does not include ESG/climate change/environmental considerations, will the next investment policy?



How does the foundation measure policy implementation (i.e., how does the foundation know that the investment manager is following the policy)?

## Disclosure

Does the investment manager disclose investment returns to the foundation disaggregated by asset class?

Does the foundation disclose disaggregated investment returns to donors?

## Operations

How are granting opportunities assessed?

Would you have an estimate on how much of the foundation's granting operations are climate change/environment focused?

How does the foundation think about climate change/environment in its other granting (for example, work on food insecurity?)





## Appendix C. Summary of Environmental, Social, and Corporate Governance and Climate Mentions in Investment Policy Statements

Foundation	Updated	Key passage on ESG and climate	Exclusionary Criteria
Vancouver Foundation (2019a, 2019b)	<p>April 2019 (<a href="#">Consolidated Trust Fund-CTF</a>)</p> <p>December 2019 (<a href="#">Socially Responsible Investment-SRI</a>)</p>	<p>“Vancouver Foundation believes that environmental, social and corporate governance (ESG) factors play an important role in the investment process in mitigating risk. Investment manager(s) are encouraged to establish an ESG integration and proxy voting policy that is aligned with the mission of Vancouver Foundation of creating healthy, vibrant and livable communities. Furthermore, ESG factors are considered by the Investment Committee in the evaluation of existing investment managers and the selection of potential investment managers” (Vancouver Foundation, 2019a, p. 7).</p> <p>“The SRI Fund will also focus on areas where social or environmental need creates commercial growth opportunities and aim to limit or exclude investments in companies that have a detrimental impact on the environment such as large CO<sub>2</sub> emitter. The Fund will have a preference for low carbon, fossil free investments” (Vancouver Foundation, 2019b, p. 7).</p> <p>No mention of climate.</p>	<p>No for CTF Investment Policy</p> <p>Yes, for SRI Investment Policy</p> <ul style="list-style-type: none"> <li>• Tobacco</li> <li>• Weapons and military services</li> <li>• Nuclear power utilities and uranium mining companies</li> </ul>



Foundation	Updated	Key passage on ESG and climate	Exclusionary Criteria
The Winnipeg Foundation (2021)	<a href="#">January 2021</a>	<p>“Given that Environmental, Social and Governance (ESG) factors are to generate higher and more consistent returns, we expect Responsible investment managers to integrate ESG factors into their decision-making process (Revised September 21, 2021)” (Winnipeg Foundation, 2021, p. 21).</p> <p>“The broad intention of The Foundation’s investment policy and corresponding investment managers is to consider Environment, Social and Governance (ESG) factors for the purpose of generating higher and more consistent returns” (Winnipeg Foundation, 2021, p. 25).</p> <p>No mention of climate.</p>	No
The Calgary Foundation (2020)	<a href="#">March 2020</a>	No mention of ESG/climate.	No
Toronto Foundation (2020)	<a href="#">January 2021</a>	<p>“Factors related to socially responsible investing are considered and are to be taken into account in investment decisions, but an investment will neither be selected nor rejected solely on this basis. The Foundation believes that investments that incorporate positive environmental, social and governance considerations (ESG investments) should be actively sought and included in the Foundation's portfolio. ESG investments should be structured for inclusion in the portfolio consistent with overall portfolio objectives. ESG investments should meet the overall investment return objectives for an acceptable level of risk. ESG investment vehicles should be identified according to the best screening practices and methods” (Toronto Foundation, 2021, p. 6).</p> <p>No mention of climate.</p>	No



Foundation	Updated	Key passage on ESG and climate	Exclusionary Criteria
Edmonton Community Foundation (2021)	<a href="#">June 2021</a>	<p>“The Edmonton Community Foundation (the Foundation) believes that environmental, social, and governance (ESG) issues can impact both the Foundation’s reputation and the performance of its investment portfolio. Thus, ESG issues are potential risk factors for the Foundation and its portfolio if untoward events lead to public approbation or compromise corporate earnings. On the positive side, corporate leadership on ESG issues can suggest congruence with the Foundation’s mission and positively affect company value. As all investment decisions relate to balancing potential returns with risk, the Foundation believes that ESG issues must be considered in investment decision making” (Edmonton Community Foundation, 2021, p. 10).</p> <p>“All Investment Managers will be asked to complete the Foundation’s ESG questionnaire every 2nd year” (Edmonton Community Foundation, 2021, p. 11).</p> <p>“Climate change presents a systemic risk – both physical damage risks and regulatory and technological transition risks to a low-carbon economy. It can also bring opportunities. We will encourage our Managers to assess and report on how they manage climate-related investment risks and opportunities” (Edmonton Community Foundation, 2021, p. 6).</p>	No
Victoria Foundation (2021)	<a href="#">August 2021</a>	<p>“Investing responsibly is investing well. The Foundation believes that achieving strong, sustainable investment returns and investing responsibly are not mutually exclusive. In fact, taking into account environmental, social and governance (ESG) matters is foundational to achieving long-term value. To further align our investment objectives with our granting initiatives, we exclude investments associated with (or are directly involved in) activities in the following sectors: tobacco, alcohol, weaponry, predatory lending and gambling” (Victoria Foundation, 2021, p. 6).</p> <p>No mention of climate.</p>	<ul style="list-style-type: none"> <li>• Tobacco</li> <li>• Alcohol</li> <li>• Weaponry</li> <li>• Predatory lending</li> <li>• Gambling</li> </ul>



Foundation	Updated	Key passage on ESG and climate	Exclusionary Criteria
<p>Foundation of Greater Montréal (FGM) (2021)</p>	<p><a href="#">October 2021</a></p>	<p>“The FGM’s financial assets and their management have a direct impact on the organization’s ability to achieve its goals. The inclusion of a responsible investment approach complements the global and traditional investment risk management approach, aligning the organization’s values with the positive impact it seeks to have on the Montreal community, while recognizing the importance of environmental, social and governance (ESG) factors</p> <p>The FGM recognizes that ESG issues present both risks and opportunities that need to be addressed in a practical way, by considering whether and how to invest differently. To this end, the FGM has updated its investment policy to incorporate its responsible investment beliefs and to clarify its environmental, social and governance ambitions, as well as its disclosure commitments.</p> <p>The FGM recognizes that ESG issues can have a significant impact on portfolio risk-return ratios. The FGM intends to manage these issues more actively to preserve the value of its investments over the long term, thereby protecting the FGM’s ability to increase its contributions to the community” (FGM, 2021, p. 3).</p> <p>“2.2 Integration of ESG factors</p> <p>We believe that managing environmental, social and governance issues requires the integration of ESG factors at all stages of the investment process and active stewardship. We will strive to stay current with and implement best practices. We will encourage ESG integration to be applied across all asset classes including public equities, fixed income and private markets. We acknowledge that the degree of relevance, or materiality, varies, as does the current state of ESG integration by strategies and asset classes. We will also encourage managers to adopt best practices in ESG integration, as recommended by the Principles for Responsible Investment (PRI) initiative.</p>	<p>“Exclude, in the selection of our active asset managers, any economic activity that is contrary to the FGM’s values, including the arms and adult content sectors, and commit to reducing, within a reasonable timeframe, our investments in companies directly involved in the coal, gambling and tobacco sectors” (FGM, 2021, p. 4).</p>



Foundation	Updated	Key passage on ESG and climate	Exclusionary Criteria
		<p>Provided that the investment objectives for risk and return are met, our goals for ESG integration are as follows:</p> <ul style="list-style-type: none"> <li>• Integrate ESG criteria into the identification and selection of investments for the FGM's entire portfolio by 2024.</li> <li>• Establish a portfolio of investments with high quality managers in terms of ESG ratings” (FGM, 2021, p. 4).</li> </ul> <p>“4.4 Risks Related to Climate Change</p> <p>The FGM recognizes the scientific consensus on global warming and the material, physical, and transitional risks associated with it, and acknowledges that these risks may influence the FGM's investments. To better manage these risks, we are committed to:</p> <ul style="list-style-type: none"> <li>• Identifying and assessing climate change risks within the portfolio on a periodic basis, with the goal of managing risk and enhancing returns based on long-term risk. This includes implementing a climate transition plan to achieve our goal of net-zero carbon emissions by 2050 and our interim goal of reducing portfolio carbon emissions by 45% by 2030.</li> <li>• Evaluate and monitor external managers on their strategies and practices for managing climate change risks and opportunities.</li> <li>• Encourage managers to adopt best practices as recommended by the Task Force on Climate-related Financial Disclosure (TCFD), and specifically encourage disclosure and transparency of climate plans and metrics (such as carbon footprints).</li> <li>• Evolve our own governance, oversight, and periodic reporting on our climate transition plans and progress towards our net-zero carbon emissions goal” (FGM, 2021, p. 9).</li> </ul>	



Foundation	Updated	Key passage on ESG and climate	Exclusionary Criteria
Ottawa Community Foundation (OCF) (2021)	<a href="#">September 2021</a>	<p>“As long-term investors, the OCF believes that responsible corporate behaviour with respect to environmental, social and governance (ESG) factors can generally have a positive influence on long term financial performance, and that investment analysis should incorporate ESG factors, to the extent possible, in the analysis of risk and return.</p> <p>In this context, OCF aspires to integrate ESG factors into investment management processes across the portfolio and as such endorses the United Nations Principles for Responsible Investing (UNPRI) which are as follows:</p> <ol style="list-style-type: none"> <li>1. Incorporate ESG issues into investment analysis and decision-making processes.</li> <li>2. Be active owners and incorporate ESG issues into our ownership policies and practices.</li> <li>3. Seek appropriate disclosure on ESG issues by the entities in which we invest.</li> <li>4. Promote acceptance and implementation of the UNPRI within the investment industry.</li> <li>5. Work together to enhance our effectiveness in implementing the UNPRI.</li> <li>6. Report on our activities and progress towards implementing the UNPRI” (OCF, 2021, p. 2).</li> </ol> <p>No mention of climate.</p>	No



Foundation	Updated	Key passage on ESG and climate	Exclusionary Criteria
Hamilton Community Foundation (2019)	<a href="#">April 2019</a>	<p>“This Investment Policy Statement outlines how we will achieve our goal of providing stable financing for our granting and operations while accelerating the achievement of our vision and mission. These goals will be achieved through the alignment of all our assets with our vision, mission and values using responsible investing (RI) and direct impact investing. This policy seeks to fully integrate RI and impact investing approaches into how we select and manage our assets” (Hamilton Community Foundation, 2019, p. 2).</p> <p>“Responsible Investments integrate environmental, social and governance factors (ESG) into their selection and management” (Hamilton Community Foundation, 2019, p. 4).</p>	<ul style="list-style-type: none"> <li>• Tobacco</li> <li>• Illegal weapons</li> <li>• Predatory lending</li> </ul>
Oakville Community Foundation		Investment Policy Statement not publicly available, but provided upon request.	
London Community Foundation (2018)	<a href="#">October 2018</a>	No mention of ESG/climate.	No
Kitchener Waterloo Community Foundation		Investment Policy Statement not publicly available, but provided upon request.	
South Saskatchewan Community Foundation Inc.		Investment Policy Statement not publicly available, but available upon request.	



Foundation	Updated	Key passage on ESG and climate	Exclusionary Criteria
Saskatoon Community Foundation (2021a, 2021b)	<p><a href="#">Statement of Investment Policy</a> December 2021</p> <p><a href="#">Statement of Investment Beliefs</a> December 2021</p>	<p>“Environmental, Social and Governance (the “ESG”) factors can impact corporate sustainability and profitability and are therefore relevant considerations for the Fund and the Outsourced Chief Investment Officer’s (OCIO’s) investment process” (Saskatoon Community Foundation, 2021b, p. 1).</p> <p>No mention of climate.</p>	No
Fondation Québec Philanthrope		Investment Policy Statement not publicly available.	



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Published by the International Institute for Sustainable Development

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