

Theory of Change

INTRODUCTION

The dawn of the digital era has amplified our collective awareness of social challenges and environmental concerns, highlighting opportunities to enhance our financial and economic systems for the benefit of all. Too often, these systems reward short-term gains at the cost of long-term societal well-being and environmental sustainability. However, we now find ourselves at a pivotal moment where Capitalism 2.0 is emerging. This financial evolution harmonizes financial performance with positive social and environmental impacts. It responds to the needs of a growing and diverse number of organizations, providing innovative, high-impact solutions to Canada's most pressing challenges. This new approach recognizes the significant capital gap that no single party can fill, underscoring the need for public and private collaboration.

These challenges are urgent, globally interconnected and personally resonant. While change within our financial systems has been slow, we recognize the strides being made both globally and in Canada to better serve society's needs. Overcoming traditional mindsets and practices, the growing movement towards impact investing is responding to the demands of a world in crisis, with efforts within Canada contributing significantly to forging pathways towards a more sustainable future.

The evolution of our financial approach is not only timely but imperative. Realize Fund I is committed to demonstrating that investments addressing Canada's key societal and environmental needs aren't just about making a positive difference; they can and do yield market-rate returns. This commitment is more than a reaction; it's a vital part of the global effort to align finance with our shared values. **The moment to act is now, and Realize Fund I stands ready, not as a singular solution, but as a vital part of a collective effort for systems change.**

CURRENT STATE

The Canadian social finance market finds itself at a crossroads, brimming with potential yet obstructed by misconceptions and practical challenges. Within the investing community, myths and impediments cast shadows over the landscape of impact investing.

The myth that market-rate returns and impact investing are incompatible has led some to mistakenly conclude that only concessionary returns are possible. Though there are legitimate concerns regarding the lack of investable opportunities and the predominance of smaller investments, these challenges are not insurmountable. **The market is showing signs of growth and diversification, but a thoughtful blend of market-building and additional investment activities is needed to accelerate this progress.**

The concern over the authenticity and measurability of impact has made prospective investors hesitate, keeping their capital on the sidelines. The perception that impact isn't real or can't be accurately measured has stifled the momentum

of the impact investing field even though many investors are drawn to its promise. Coupled with the belief that impact investment strategies cannot be diversified across asset classes, this combination of misconceptions forms a challenging barrier to capital flow.

On the other side of the equation, those seeking capital find their path riddled with obstacles. Impact fund managers and product issuers, both established and emerging, struggle to attract large-scale capital, primarily due to the challenges related to having limited track records and capital absorption capacities. These factors lead to smaller funds, which often result in less favorable economics. Community lenders, driven by mission and armed with a deep understanding of local needs, are often starved of capital and internal organizational support.

Challenges persist that affect various communities, hindering their ability to contribute positively. By addressing these challenges, we can create opportunities for all to succeed. Some of the many barriers include a lack of access to capital and struggles to demonstrate past success due to restrictive opportunities and intersectional barriers. Meanwhile, social purpose organizations and Social Finance Intermediaries operating in underserved sectors and regions across Canada face the challenge of significant financing gaps, thereby limiting their ability to realize their impact potential.

Beyond these immediate challenges, the social purpose sector is hindered by a deficiency in infrastructure. There is a pressing need for consistent and enabling tools for impact measurement and management, along with capacity-building support.

Despite these challenges, there's reason for optimism. The Government of Canada has demonstrated a clear commitment to building on the existing momentum in the landscape, fostering a more inclusive and sustainable social finance market. The time to confront these challenges, to dispel the myths, and to forge a path forward has come. Making the Canadian social finance market robust and thriving is not only attainable but necessary.

INVESTOR CHALLENGES

Investors may believe:

- Impact investing yields only concessionary returns
- There is a lack of investable opportunities
- They are unable to invest in meaningful size
- Impact is not authentic or measurable
- Impact investing can't be diversified across asset classes

INVESTEES CHALLENGES

- For established impact product issuers, an inability to attract large-scale capital, hindered by risk perceptions, investor demand for sizable funds and high fixed costs
- For emerging impact product issuers, an inability to secure capital due to the absence of track records
- Mission-driven community lenders lack capital and support, impeding their ability to foster thriving local economies
- The above challenges are compounded for equity-deserving groups who face impediments in accessing capital, hindering their ability to address community challenges
- Social purpose organizations and social finance intermediaries in underserved areas face financing gaps, limiting their impact potential

SECTOR CHALLENGES

- A deficiency in consistent tools for impact measurement and management, along with capacity-building support, hampers effective assessment of social and environmental impact

THE VISION

Canada is home to a vibrant social finance market, inclusive in its reach across diverse sectors, regions and populations. This market generates demonstrable positive, lasting social and environmental impacts, addressing the scale and complexity of our nation's challenges. Social purpose organizations and social finance intermediaries are flourishing, forging connections with mainstream markets by offering diverse, robust sustainable investment opportunities, thereby contributing to systemic change in the broader financial sector. Capital is allocated in a sustainable and equitable way, creating a landscape of widespread prosperity and justice, accessible to all, through which we all benefit.

ACTIVITIES

Leveraging the investment capital provided by the Government of Canada, we will engage in market-building and investment activities aimed at fostering systemic, sector-wide transformations in order to achieve our vision.

Investment Activities: Our focus will be to maximize the social and environmental impact of our investees and achieve market-rate returns. This includes the strategic structuring and allocation of capital to projects, initiatives, and organizations with a high potential for positive impact.

Applying an intersectional lens that emphasizes social equity and gender equality to investment decisions to address complex inequalities, confront systemic biases proactively, and support SPOs that actively contribute to restructuring financial landscapes and uplift historically marginalized groups.

Utilizing our distinctive Realize Fund I structure to attract private capital by providing a diversified, market-rate, fund-of-funds vehicle at sufficient scale for institutional investment.

Implementing a robust four-pillar investment strategy, to support 1) established Canadian private impact product issuers aiming to scale, 2) emerging fund managers and product issuers lacking a track record, 3) local community lenders constrained by resources, and 4) high-potential social purpose organizations raising capital to bridge crucial gaps within the social purpose sector.

Supporting SFIs through a patient and inclusive investment process that facilitates learning and builds capacity before and after investment.

Supporting and investing in initiatives that empower local community members to make investment decisions that are aimed at addressing their unique community challenges and needs.

Market-Building Activities: These activities will enhance the resilience, integration, inclusiveness, and sustainability of the social finance market, driving transformative change across the sector.

Implementing robust Impact Measurement and Management (IMM) capacity-building initiatives to empower fund managers and social purpose organizations to integrate, measure, and manage their social and environmental impacts.

Partnering in the implementation and adaptation of the Common Approach to Impact Measurement's data standards to drive sector-wide adoption, enabling a uniform yet adaptable representation of impact data across the sector.

Establishment of partnerships with local community financial institutions to expand their lending capabilities to empower & scale community-driven approaches to investment decision-making.

Enabling the development of new social finance intermediaries in regions or sectors with identified gaps to strengthen the market infrastructure necessary for a sufficient supply of capital Social Purpose Organizations can access across the country.

MEASURING SUCCESS

The effectiveness of our market-building and investment activities will be gauged by the **outcomes** we hope to deliver:

- Canada's social finance participants are more diverse and capital allocation occurs in a more inclusive manner*
- Communities have greater capital and decision-making control to address their own distinct and local challenges
- New impact investment funds enrich the social finance landscape, diversifying intermediaries and extending capital to underrepresented areas and populations
- Under-capitalized SPOs are accessing the capital needed to unleash their full potential
- Emerging social finance intermediaries are empowered with the technical skills, market knowledge and abilities necessary to successfully launch and manage impact investment funds
- Established social finance intermediaries leverage Realize Fund I's catalytic investments to attract additional private sector investment
- A robust track record of market-rate returns across a diverse portfolio of investable opportunities has been substantiated, leading to sustainable private investment in Canada's social finance market
- Increased private investment in Canada's social finance market
- Social Finance Fund participants possess the essential skills, knowledge, and capabilities to measure and manage social and environmental impacts
- Social Finance Fund participants have adopted impact data standards, enabling the sharing, aggregation, and management of the social and environmental impacts of their investments while maintaining the flexibility to represent their unique impact models

Our commitment to these outcomes includes a rigorous, data-driven impact measurement and management approach to provide measurable, accountable and transparent progress, aligning our efforts with the urgent social and environmental challenges that both Canada and the world face.

* A Social Equity and Gender Equality Coding system is under development by Employment and Social Development Canada, which may lead to refinements to outcome definitions and measurement tools.

Realize Capital Partners is one of three fund-of-fund managers selected by the Government of Canada for its Social Finance Fund (SFF). Realize Capital Partners is a joint venture between Rally Assets and Relay Ventures. The SFF is a Government of Canada initiative to strengthen social purpose organizations and accelerate the growth of Canada's social finance market. We're building a fund, Realize Fund I, to invest in positively impactful initiatives that accelerate social equity in Canada.