BayTrust

CASE STUDY

BayTrust's brave odyssey beyond granting

STRATEGIC INSIGHT

With impact investment you get an impact, a financial return and your money back

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WHAT IS IMPACT INVESTMENT?

Simply put, 'Impact investments have a measurable social and/ or environmental impact alongside a financial return.' Terri Eggleton, BayTrust

ABOUT THE TRUST

BayTrust was established in 1988, following the sale of the Bay of Plenty Trust Bank. It is part of the community trust family. The Trust currently has $220 million in assets, grants $7 million per annum and exists for the benefit of Bay of Plenty communities. The region is diverse, culturally rich and faces complex social challenges. Housing 'is a big issue' right across the region. Following the global financial crisis (GFC) when returns were reduced and community need was 'higher than ever', BayTrust looked to impact investment (II)as another tool for social change.

'After the GFC our returns were impacted, therefore our grants budget was lower, but our community needs were higher than ever. That is when we started to look at how we could use our investments to contribute to targeted outcomes, particularly in the housing space. We wanted to use all the tools in the toolbox and when you look through that lens, we had at that time over $150 million in investments. Our view is utilising some of these investments to create social impact is something every trust like ours should seriously explore.' Alastair Rhodes, BayTrust

APPROACH AND TOOLS

BayTrust believes that by freeing a portion of the balance sheet for purpose-focused investment, outcomes in the Bay of Plenty community can be strengthened. Plus you can recycle the capital.

Impact tools include

- Thinking long-term, having focus and drawing on a suite of tools such as II
- Focusing investments strategically on environment, housing and economic development
- Investing for five-plus years at a time (while maintaining flex)
- Building the pipeline for investable propositions via a toolbox fund (for capability building and research)
- Advocating for II and influencing other foundations and investors to join the movement
- Utilising a proven tool to measure impact

ACHIEVEMENTS AND MILESTONES

An impact investment approach has enabled BayTrust to find solutions for social housing and support economic development. Loans to community housing provider Tauranga Community Housing Trust (TCHT) has enabled 17 social housing units to be developed; and the purchase of pensioner flats from a Council - reducing the rental cost new tenants are paying. Further milestones include creation of more than 60 jobs through investment into a bond with Ruapehu Alpine Lifts. The bond (similar to a loan) provides a minimum return with opportunity for a higher return if the venture is successful in attracting additional tourist visitors.

Other milestones are introducing investment-experienced staff to the team; building II into Trust strategy (allocating up to 10% of the portfolio); developing due diligence processes and policies; and implementing an impact measurement tool. The Impact Management Project tool is one of the industry standards for assessing impact, this takes 'a feeling about an investment and puts a numerical figure around it.' Investments are assessed on impact, financial return and risk.

'In the future for-profit organisations in the commercial world will need a stronger social license to operate and not for profit organisations will become more commercially sophisticated. Social enterprise and impact investments are going to start merging those worlds. It is system change.' Alastair Rhodes, BayTrust

LEARNINGS AND ADVICE

Learnings along the way include the importance of having investment experienced staff; starting with lower risk 'deals' while developing confidence and policies; in time including some risk in the portfolio; the importance of being proactive and not 'sitting on your haunches'; completing deals takes time; being flexible and not limiting investments by organisation structure (charity, Māori land trust, LLC and others); and when you put in a grant it's 100% financial loss – with II, 'you get an impact, a return and your money back'. Also, now there are II products/funds in the market (such as Purpose Capital) it's easier to get started.

Advice to others included

- Be brave and 'dip your toe in the water' - start with something simple such as investment in housing
- Be pragmatic about financial returns
- Have clear policy, outline the level of investment relative to total portfolio and what you hope to achieve
- Do due diligence on the business side and the impact side
- Talk to others who have done it
- Ask yourself if there are needs not being serviced through granting and how could they be met utilising II
- Invest in the eco system, including supporting organisations to become investment ready

'If you want to do this, you really need to make a commitment to the eco system. New Zealand is at least ten years behind other key countries in relation to impact investment, however if we all start working on this together we can catch up fast and become a leader, particularly if you think about opportunities to invest alongside iwi.' Terry Eggleton, BayTrust

WHAT'S NEXT FOR BAYTRUST

BayTrust has various deals in the pipeline and plans to extend their investments in the housing space. The goal is to invest $12 million within two years into II and in time grow the allocated percentage of the balance sheet. And encourage others to dip their toe in the water.

'To me the system change is if we could get all the other trusts in New Zealand to invest a portion of their funds in impact investment that would have a huge change in the impact investment and social enterprise eco system. It's one step at a time.' Terri Eggleton, BayTrust

www.baytrust.org.nz

BayTrust investment in Ruapehu Alpine Lifts has supported economic development in the region.