

# BRIEFING DOCUMENT



**TOPIC:** YWCA COMMUNITY BOND OFFERING

## IN BRIEF

---

In late 2010, the YWCA connected with the team at the SVX to discuss potential opportunities for supporting financing efforts for the Elm Centre project. Over the past few months, representatives of YWCA and the SVX have developed potential parameters for a financing project that could be listed on the SVX, as part of a two-phase social finance strategy for YWCA. The aim of the first phase of the project is to create a small-scale debt product (~\$1M community bond) with an annual and total cost that is at least competitive, and ideally, less costly than capital acquired through Infrastructure Ontario (IO) in order to support financing for YWCA's Elm Centre project. The second phase of the project will involve the advancement of a more complex, collaborative model whereby YWCA would be an anchor component of a larger debt instrument (some form of a hybrid community bond mutual fund). This briefing document provides background on the partners on the first phase bond offering, basic financing parameters, the features of support provided, the benefits, and some preliminary cost models for the proposed community bond. This document has been prepared for the YWCA's Finance Committee and Board of Directors.

## ABOUT

---

### The SVX

The Social Venture Exchange (SVX) will be a local, impact first market connecting social ventures, impact funds, and impact investors in order to catalyze new investment capital geared towards improved social and environmental outcomes. The project is an initiative of Social Innovation Generation (SiG) at MaRS, supported by Causeway Social Finance, the TMX Group Inc., the Government of Ontario and many other partners. The SVX provides an online platform with venture listings, fund listings, a resource centre, an investor collaboration tool, and financial service provider listing to facilitate effective impact investments. The platform allows investors to share due diligence, collaborate on deals, identify high quality investment opportunities, and access screened investment opportunities and ventures with detailed information reducing the burden of due diligence. The SVX provides ventures with increased access to capital and increased financial expertise.

The SVX would provide coordinating support for the bond offering, research support, investor outreach efforts upon product completion, and financing for the legal services required, which would be provided by SkyLaw Professional Corporation. The YWCA would engage SkyLaw and have a solicitor-client relationship directly with the lawyers engaged on the transaction, but SVX would agree to pay all of the fees of SkyLaw.

### MaRS

MaRS is a large scale, mission based, innovation centre focused on supporting science, technology, and social entrepreneurs moving important ideas to implementation and building strong businesses. The MaRS Centre opened in late 2005, and brought social innovation into its core mandate in 2007. Today, the MaRS social innovation practice includes advisory services and education for promising social ventures, convening activities for a broad range of stakeholders, and accelerating social innovation, with a particular focus on social finance. MaRS is a partner in Social Innovation Generation

(SiG), a national collaboration addressing Canada’s social and ecological challenges by creating a culture of continuous social innovation, serving as one of four nodes across the country.

**SkyLaw Professional Corporation**

SkyLaw Professional Corporation was founded by Kevin West, a corporate lawyer with over ten years of experience. After clerking for the Supreme Court of Canada, Kevin practised with Sullivan & Cromwell in New York and Australia before becoming a partner with Davies in Toronto. Kevin has led numerous corporate transactions, including public and private mergers and acquisitions, initial public offerings and joint ventures. He also has significant experience advising companies on corporate governance, disclosure and compliance issues.

Listed below are some of Kevin's more recent transactions:

- Acted for Codexis, Inc. on its equity investment in CO2 Solution Inc. and their collaboration in carbon capture technology.
- Acted for ING Groep N.V. on its €7.5 billion rights issue.
- Acted for Amcor Limited on its acquisition of Alcan packaging assets from Rio Tinto and its A\$1.2 billion institutional rights offer.
- Acted for the U.K. Administrator of Nortel's European, Middle Eastern and Asian subsidiaries on Canadian law matters.
- Acted for the underwriters of the \$133 million initial public offering of Gluskin Sheff + Associates.
- Acted for Tim Hortons Inc. on the establishment of its first \$200 million normal course issuer bid on the TSX and the NYSE.

Kevin is a Partner with Social Venture Partners and a member of the board of directors for the charitable organization Skills for Change. Kevin also serves on the Governance Committee of Project Canoe and is involved with the Social Venture Exchange and Toronto Homecoming.

**BASIC FINANCING PARAMETERS**

The basic parameters for the YWCA product are as follows:

<b>Deal Size</b>	\$1 million
<b>Product Type</b>	Debt, Bond Issue
<b>Annual Cost of Capital Target</b>	Below \$58,0000
<b>Term</b>	Between 10 and 40 years
<b>Capital Raise Purpose</b>	Financing Elm Centre
<b>Minimum Investment</b>	TBD (Recommendation: greater than \$25,000 to minimize number of investors and associated management.)
<b>Rate of Return</b>	TBD (Based on the figures in the appendix, it is possible to offer a investment return of between 3 – 3.5 per cent.)

Potential financing models based on the parameters above have been developed, and are summarized in the appendix below.

## FEATURES

---

The features of the bond issue for the YWCA are as follows:

- **Investor network access.** YWCA would have access to the SVX impact investor network, which has a demonstrated interest in investment opportunities with a positive social and/or environmental impact alongside financial return. This network would be interested in the bond investment opportunity, which would be presented via the SVX platform, investor breakfasts, and via investor webinars. All investors in the network are accredited investors, including foundations, wealth managers, fund managers, high net worth individuals (HNWIs), endowments, and asset managers.
- **Platform access.** YWCA would have platform access to the SVX site, which is an online network of social ventures, impact investors, impact funds, and service providers. This will allow YWCA to interact with potential investors on a regular basis.
- **Legal fees covered.** The cost of legal fees to construct the bond instrument and close the transaction will be covered by the SVX. These legal fees have been quoted at \$7,500. The only fee associated with the offer is the listing fee on the SVX, which is a nominal \$500 amount.
- **Reputable, high quality legal services.** The legal services provided for this offer are highest quality in terms of expertise and reputation.
- **Low risk.** Given the relative size of the investment, the capital that YWCA has already acquired for Elm Centre, and the ability for YWCA to select investors, this has been determined to be a low risk financing project. It should also be noted that there are similar bond models that have been successfully advanced in Ontario, including the Centre for Social Innovation (CSI) in Toronto and the Skydragon Community Centre in Hamilton.
- **Pitch and research support.** The SVX would provide pitch and research support to YWCA in order to minimize the resource requirements for the debt offering and its development, and maximize the potential to attract capital from impact investors.

### Legal Services

The legal services provided by SkyLaw for this bond issue would include:

- Attending meetings to discuss the goals of the YWCA, the structure of the product and the steps involved;
- Project managing the process and preparation of a document checklist and timetable covering all of the steps involved;
- Consulting with a lawyer with experience in charity law to confirm that the proposed transaction will not adversely affect the YWCA's charitable status;
- Drafting the required documents;
- Assisting the YWCA in the preparation of a term sheet or information memorandum for potential investors; and
- Supervising the closing of the transaction.

Based on the above parameters, the legal fees for this project (\$7,500 fixed based on the assumptions and parameters above) are much lower than the actual cost of legal services, as a portion of this work will be provided by SkyLaw on a pro bono basis. The agreed upon legal services will be outlined in an engagement letter, signed by the relevant parties.

## BENEFITS

The following represent benefits of the bond issue for the YWCA:

- **Total cost savings.** As outlined in the models below, this bond issue could save YWCA tens of thousands, and potentially hundreds of thousands of dollars, in total interest payments when compared to financing through IO.
- **Potential annual cost savings.** The community bond could also be structured to reduce the annual servicing costs (principal and interest combined) for financing the Elm Centre debt, when compared to financing through IO.
- **Demonstration of leadership in social finance (Pioneer/Innovator opportunity).** The bond issue by YWCA would be a tremendous demonstration of leadership in social finance that could be promoted as another innovative first in social housing and the broader social sector for YWCA.
- **Launch participation.** If YWCA decides to move forward with the bond offering, the organization will have an opportunity to participate as one of the first ten ventures to list on the SVX as a founding venture.
- **Model bond issue.** The development of this bond could provide a model or template for future offerings by YWCA and other nonprofits in Ontario, providing significant future value for YWCA, the SVX, and the nonprofit sector.

## APPENDIX ONE: FINANCING MODELS FOR YWCA'S BOND OFFERING

**TABLE: ANNUAL COST OF MODEL BOND OFFERING PARAMETERS COMPARED TO CURRENT FINANCING REGIME**

	Annual Principal Payment	Annual Interest	Interest Rate	Annual Cost
IO Mortgage (40Y)	Variable	Variable	5.05%	\$58,450.74
40Y Bond (w/o PI)	\$25,000.00	\$33,500.00	3.35%	\$58,500.00
30Y Bond (w/o PI)	\$33,333.33	\$25,000.00	2.50%	\$58,333.33
25Y Bond (w/o PI)	\$40,000.00	\$18,000.00	1.80%	\$58,000.00
30Y Bond (w/PI)*	\$26,500.00	\$32,500.00	3.25%	\$59,000.00
<b>35Y Bond (w/PI)*</b>	<b>\$22,000.00</b>	<b>\$32,500.00</b>	<b>3.25%**</b>	<b>\$54,500.00</b>
<b>25Y Bond A (w/PI)*</b>	<b>\$22,000.00</b>	<b>\$15,000.00</b>	<b>3.00%</b>	<b>\$54,500.00</b>
<b>35Y Bond B (w/PI)*</b>		<b>\$17,500.00</b>	<b>3.50%</b>	

\* **PI: Principal Investment.** Unlike a mortgage or a loan, the principal for a bond is not paid down an annual basis. Therefore, if the annual principal allocation is invested with a modest rate of return (estimated at a conservative 1.5 per cent annually based on Table Three below) in a low risk investment with compounding interest, the principal allocation can be used as a means of increasing the rate at which the bond can be paid and/or the level of interest offered to investors. Ultimately, this can save the YWCA money and make the YWCA bond issue more attractive for potential investors. In addition, YWCA may also choose to buy out investors during the investment period, thereby saving additional funds. Accordingly, it could be possible for the YWCA to offer multiple Series (A & B; or A, B, and C) for the bond offering with different interest rates to attract different investors. A model has been proposed above. However, it should be noted that this could have some effect on the cost of legal fees for the SVX.

\*\* **Estimated target interest rate.** The target interest rate has been established at approximately 3.25 per cent given that this would allow a foundation (one large target investor constituency group) to hit their target minimum investment return.

**TABLE: POTENTIAL TOTAL SAVINGS FOR DIFFERENT BOND MODELS COMPARED TO CURRENT FINANCING REGIME**

	<b>Total Interest Cost</b>	<b>Total Principal</b>	<b>Total Savings</b>
IO Mortgage (40Y)	\$1,338,030.22	\$1,000,000.00	X
40Y Bond	\$1,340,000.00	\$1,000,000.00	X
30Y Bond (w/o PI)	\$750,000.00	\$1,000,000.00	\$588,030.22
25Y Bond (w/o PI)	\$450,000.00	\$1,000,000.00	\$888,030.22
30Y Bond (w/PI)*	\$975,000.00	\$1,000,000.00	\$363,030.22
<b>35Y Bond (w/PI)*</b>	<b>\$1,137,500.00</b>	<b>\$1,000,000.00</b>	<b>\$200,530.22</b>
<b>25Y Bond A (w/PI)*</b>	<b>\$375,000.00</b>	<b>\$500,000.00</b>	
<b>35Y Bond B (w/PI)*</b>	<b>\$612,500.00</b>	<b>\$500,000.00</b>	<b>\$350,530.22</b>

NB. Even in the event that YWCA was able to receive a marginally lower interest rate (~4.9%) for a 40-year mortgage, the savings achieved would only decline slightly. (ie. The total interest paid on a 40-year mortgage at 4.9% would be \$1,318,380.27; a difference of \$19,649.95 from the current IO quote.)

**TABLE THREE: INTEREST RATES FOR GUARANTEED INVESTMENTS & HIGH INTEREST SAVINGS ACCOUNTS IN CANADA**

	<b>INTEREST RATE</b>		
	<b>1 YR GIC</b>	<b>3 YR GIC</b>	<b>5 YR GIC</b>
<b>Low: January 2001 to April 2011 (Bank of Canada)</b>	0.28	1.33	1.78
<b>Average: January 2001 to April 2011 (Bank of Canada)</b>	1.74	2.46	2.99
<b>High: January 2001 to April 2011 (Bank of Canada)</b>	4.28	4.63	4.73
<b>Current Term Deposit Rate Average, Canada (G&amp;M, April 2011)</b>	1.26	2.12	2.71
	<b>HIGH INTEREST SAVINGS</b>		
<b>ING Direct: 3 Yr Avg (2008-2011)</b>	2.11		
<b>PC Financial: 3 Yr Avg (2008-2011)</b>	2.29		
<b>ICICI Bank: 4 Yr Avg (2007 - 2011)</b>	2.52		
<b>CIBC High Interest Savings (April 28, 2011)</b>	2		
<b>Bank of Montreal High Interest Savings (April 28, 2011)</b>	1.35		