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Report Brief: Is Offering Renewable Energy Investments Viable for Kindred Credit Union?

Recommendation:

To acquire new clients, expand cross-selling, build enduring client relationships, and become a leader in the impact investing space, Kindred Credit Union should offer 1-3 renewable energy investment options to retail and accredited investors. The decision should gain board approval and approved investment advisors should communicate these investment options to their clients.

Summary Findings:

- Offering renewable energy investments is a viable strategy for Kindred to attract new clients and become their first choice for all banking needs in the long-term.
- To implement this offering, Kindred will first need to fulfill trustee and internal compliance requirements, which is achievable if led by a key manager.
- There is sufficient supply of renewable investment options with competitive risk-return profiles to meet growing individual client demand, particularly with millennials and baby boomers.
- Both the co-operatives and the for-profit companies that were interviewed are excited about this new opportunity and would advertise any new partnerships on their websites and through other mediums
- Given CWCF was the first-mover in enabling retail investors to invest within registered accounts, CWCF is eager to partner with credit unions to maintain this business line
- Alternative investments for both retail and accredited investors is growing, the financial institutions that are first movers to this space will be rewarded with the early branding of impact investing and receive industry recognition

Methodology:

During July and August 2017, researchers conducted 7 phone interviews with various actors in the renewable energy investment space including investment co-operatives, financial intermediaries, financial advisors, not for profits, and trust organizations. Below is a summary of the market statistics, showcasing the investment within the sector and a summary of the researcher’s interviews, providing support to the above recommendation to Kindred.

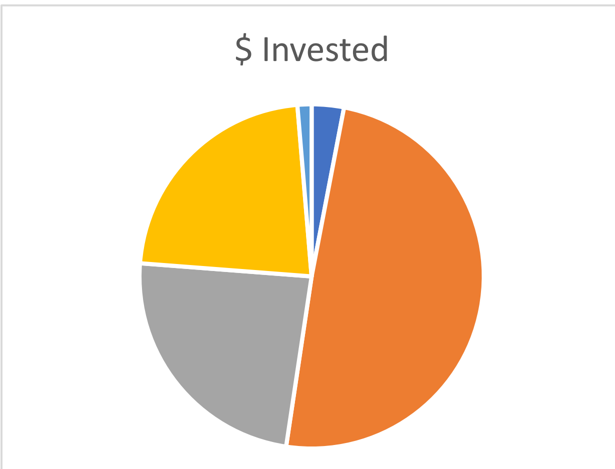
Market & Company Snapshots

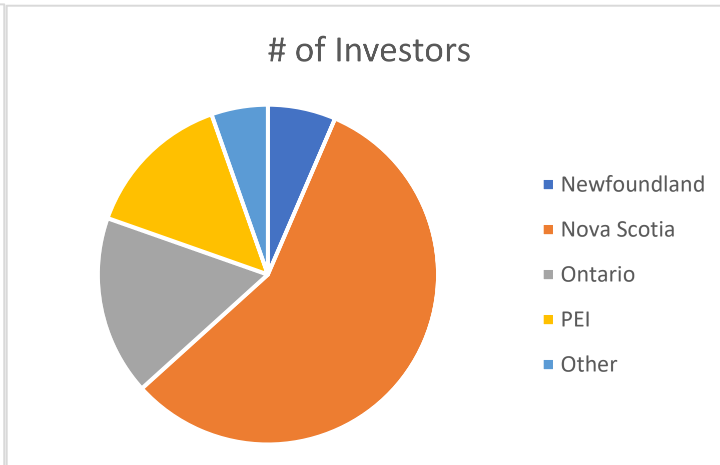
Market Snapshot: An Industry Pulse from CWCF

CWCF provides a proxy for the market size of assets in registered accounts for renewable energy investments of co-operatives in Canada. The reason that these statistics are considered a market proxy is because although other financial institutions do hold these assets in registered accounts for people, it is infrequent. To note, any non-co-operative, such as CoPower, is not considered within this market.

Total AUM: ~$50 M.

Breakdown of number of investors and capital raised by province





As shown above, 17% of clients of CWCF live in Ontario and 24% of the total assets under management for CWCF are from the Ontario clients, amounting to just under $12 million.

Company Snapshots: CoPower, SolarShare, LIFE & OREC

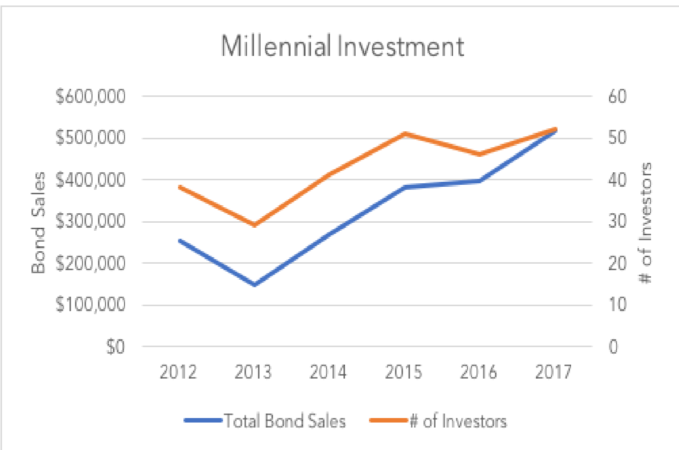
CoPower, SolarShare, LIFE and Ontario Renewable Energy Co-operative provided the total dollars raised through bond or shares issuances that offer a rate of return. As displayed in the table below, the value of bonds or shares raised through individuals verses corporate institutions vary. CoPower has raised ~25% from individuals whereas SolarShare has raised ~90%. Further details can be found in the interview notes.

	CoPower	***SolarShare***	**LIFE**	**OREC**
Total $ Raised (Bonds/Shares)	~$12 M	~$31 M*	$610 K	~$23 M
Total Bonds/Shares Raised by Individuals	~$4 M	~$28 M	$510,000	N/A
# of Bond/Share Individual Investors (not corporations)	220	1207	Approx. 70	N/A
Total $ in Registered Accounts	~$900K (25%)	~$7.7M (27%)	0	~7M (30%)

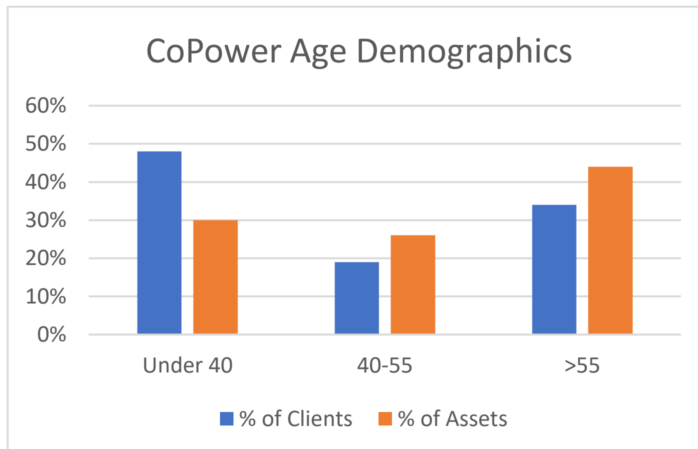
*Does not include total value of membership shares.

To explain the demographic of the bond investors, SolarShare and CoPower provided age and geographic information of their investors. As displayed below, SolarShare has seen an uptake of millennial investment. Both the bond sales and the number of investors have increased from 2012 to 2017. CoPower's largest investor base is the millennial generation at ~48% (people under 40), where these investors hold ~30% of the total assets sold to individuals. Currently, only SolarShare has sold to investors in Ontario, but is looking at registering the co-operative in different provinces. CoPower has sold to individuals across the country, most notably in Ontario, Alberta, British Colombia, and Nova Scotia. 128 Ontarians invested ~$2.48million.

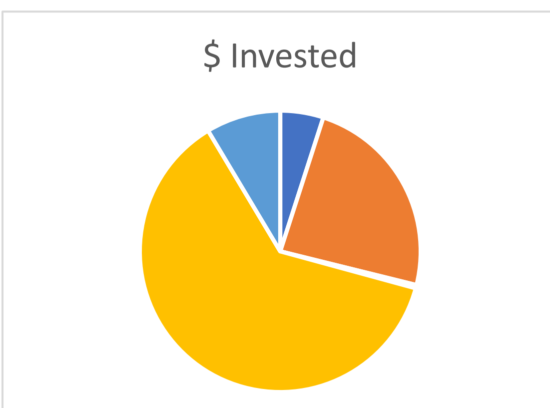
<u>SolarShare Demographics</u>

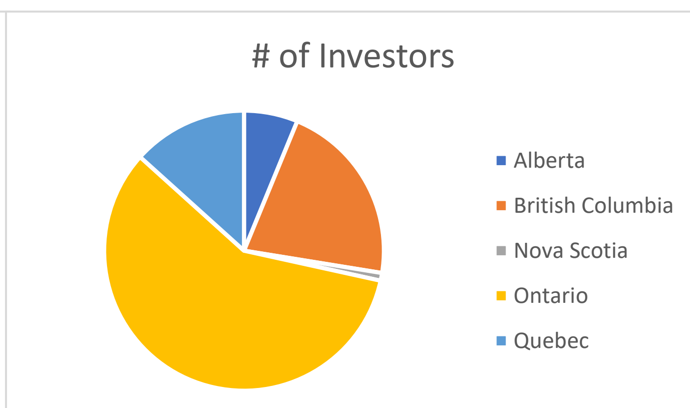


<u>CoPower Age Demographics</u>



<u>CoPower's Investor Geographic Breakdown</u>





Key Research Findings

<u>Solarshare, Jennifer Bryan, Community Investment & Marketing Manager</u>

- As one of the most successful and growing renewable energy investment co-operatives in Ontario, Solarshare sells bonds backed by diversified solar projects to retail investors, of which one third are millennials.
- As of May 2017, Solarshare intends to sell 12.5 million bonds in the next 12 months.
- About 25% of Solarshare's 30 million bonds outstanding are held in registered accounts. Investors have the option to process their RRSP/TFSA investments through CWCF and Concentra Trust, or select brokerages including Caldwell Securities and Questrade. The former requires greater administrative time for Solarshare but represents the majority of their clients' registered accounts, likely due to Solarshare's longstanding relationship with CWCF since 2014. The fee structures differ, with CWCF charging $55/year, while brokerages do not charge additional aside from their standard annual and transaction fees, if applicable (e.g. Caldwell has a $65 annual fee).
- Despite failed attempts to partner with Alterna and Meridian, Solarshare is very interested in partnering with credit unions. Solarshare would welcome credit unions to sell multiple renewable energy investments alongside their own offering.

<u>Caldwell Securities, Tuck Leong, Investment Advisor and SRI specialist</u>

- For the last decade, Caldwell has served as a custodian of share purchases (and soon to be bonds) for a local ethanol producer co-operative, IGPC Ethanol Inc. Although this service does not directly contribute to Caldwell's bottom line, Tuck Leong, one of Caldwell's independent advisors, found it to be a powerful way to attract new clients and build close relationships, which has led many clients to move all their financial assets to Caldwell.
- Building upon this work, Tuck now offers Solarshare and CoPower bonds in registered accounts, and continues to expand his product offering. He consistently sees an uptake in new clients and assets under management as a result of these offerings. Tuck is Caldwell's sole advisor for private renewable investments.
- To implement these changes at Caldwell, Tuck took the initiative to address the necessary trustee and internal compliance requirements, which involve in-depth analysis of the investment's projects, balance sheets and cash flow, funding sources and risks. He says no to companies more than yes in uptaking their products and doesn't charge any additional fees for these products, other than the $65 for the trust account.
- For credit unions interested in entering renewables, Tuck recommends nominating a driven investment advisor to lead the initiative, ensuring they have deep knowledge of asset allocation and renewable energy, as well as a commitment to putting the client first, before compensation.
- Tuck remarked on an interesting pattern that is emerging: baby boomers (60+ group) and millennials (say 40 below) are the predominant groups interested in these options.

Canadian Workers Co-operative Federation (CWCF), Hazel Corcoran, Executive Director

- CWCF has played a first-mover role in the market, building a role in enabling retail investors to invest within registered accounts (including CEDIFs). Processing RRSP/TFSAs represents half of CWCF's business. Thus, CWCF is anxious to maintain this business including through partnerships with credit unions.
- Currently CWCF has $50 million in AUM, which represents $350,000 of annual revenue, with two full-time staff in Kentville, Nova Scotia processing the investments (hard copy certificates are sent).
- CWCF offers the same platform as Caldwell but differs in that they do not screen the investment co-operatives or provide investment advice to any of the investors, they solely process the request.
- CWCF thinks of the investment co-operatives as their clients, not the individual investors as they deal directly with these companies and as such, advertise this service to investment co-operatives on their website.
- Currently CWCF cannot offer RRIFs, they are eager to find a partner for this.
- CWCF charges individuals $55-65/year, and slightly more to CEDIFs. Desjardins provides this service in Quebec but charges slightly more.
- If a financial institution were to move into this space CWCF would be scared as this could put them out of business. On the positive side, they see this as a win-win as a partnership could provide great growth in this space.
- Hazel will be in the Toronto area 3-4 times by the end of October and would be happy to meet with any credit unions that are thinking about getting into this space. She believes that a fruitful partnership could emerge.

CoPower, Trish Nixon, Chief Impact Investing Officer & Jennifer MacDonald, Manager, Impact Investing

- CoPower is a for profit financial intermediary that partners with clean energy developers and finances renewable energy and efficiency projects across Canada.
- CoPower is similar to investment co-operatives because they sell bonds with similar rate of return that fuel the growth of renewable energy sector.
- The company sees limited barriers for investment managers to offer renewable energy bonds, except for the buy in of investment management and packaging of the risk.
- If clients ask to be set up in an RRSP/TFSA account they provide them with their options: Questrade, Caldwell, and Olympia Trust. They also work with MD Management, CIBC Wood Gundy, and RBC. They find institutions want a tax letter, which costs CoPower around $1,000 to issue.
- Currently only 25% of green bond clients hold their investments in registered accounts, although CoPower remarked that the demand is around 50%. Lowering the barriers for clients to invest in registered accounts would satisfy this demand.
- They are currently working on establishing a partnership with VanCity. They believe this partnership will have clear mission alignment. Their investment will be on their wealth management platform but will be an unsolicited investment. In parallel, getting the portfolio management team approval, so advisors can actively sell this investment to their VanCity

clients. Currently, VanCity is a lender to the credit facility, look at doing co-investments with CoPower and invests in CoPower's fund of funds (green bonds) as a corporate entity.

- From a business model perspective, they never thought about being anything but a for profit business; the projects they are investing in are profitable and have strong returns, they are building a viable profitable business. They believe co-ops to be geographically limited and most co-ops own the physical assets.

Federation of Community Power Co-ops (FCPC), David Cork, Board of Directors

- FCPC is a member-based organization that researches, develops, and advocates for policy changes that will benefit the community power co-op sector.
- David is the managing director of TREC, an organization that services the bond raises for SolarShare, ZooShare, WindShare and other community bond issuers. David is also on the board of directors for OREC.
- The are 17 member organizations in the FCPC with $130 million dollars in assets, this includes financing from other sources then just the retail market.
- David sees a major gap between the growing number of small mission orientated companies looking for money and the large philanthropic organizations, wealth management firms, etc. that are wanting to invest for impact: the amount of money that these large firms want to invest is much greater than what the organizations are fundraising for. The companies are just not up to scale. He doesn't see this problem going away anytime soon.
- He sees an opportunity for financial institutions, particularly credit unions, to offer secured loans to these community issuers, to match their bond and share offering efforts. These community organizations are finding it difficult to receive secured financing from financial institutions. Desjardins is starting to support this effort. This is where he sees credit unions really adding value and helping these community organizations.
- Two main reasons why community bond issuers can issue bond/shares and individuals are apt to buy them are: 1) Co-ops do not go through the Securities Commission for offering statements, they go through FSCO, which is much cheaper. Not-for-profit co-ops are not required to go through FSCO but do so to legitimize their offering statements 2) Once an offering become eligible for registered accounts, the offering gains broader participation because it goes through the vetting steps to be considered reliable. Often times individuals have the money but just do not have access to it since it is placed in a registered account. Therefore, it is just a reallocation of investments if the offering is RRSP/TFSA eligible. Individuals see this as secure even if they are not the first call on the collateral.
- To become RRSP/TFSA eligible you need an opinion letter from either an accounting or legal firm. OREC is a for-profit co-op that issues shares and SolarShare is a not-for-profit co-op that issues bonds, that are both eligible.

The Deetken Group, Alexa Blain, Principal

- Specializing in management consulting and asset management. The investment team focuses on impact investing in the Americas, with a greater focus in Latin America.

- Currently, there is $20 million in commitments and they are targeting $50 million in total. Half of the funds are from accredited investors; the other half is from institutions.
- Their two main partners to help with the fundraising efforts are: Co-operativa Avico (they provided capital to the fund and assisted in pipleline development and due diligence) and Frontfundr (raised about $500,000, and helped make the application process more streamlined).
- The company is thinking about opening their fund up to the retail market, specifically through their Deetken Impact Bond offerings, but the main barrier is that the company will need to issue offering memorandums for each investment. There is concern that this might not result in more capital raised.
- The investments are RRSP eligible, but to date Deetken has been working primarily with Western Pacific and ComputerShare since other financial institutions will not hold their assets for their clients. These institutions are afraid the funds will de-register.
- Main partners to help with the fundraising efforts are: Co-operativa Avico and Frontfundr.
- Deetken hears from a lot of individuals and financial advisors that there is demand to invest in these types of products, it is our duty to make these products more available to Canadians.

LIFE Co-operative, Shane Mulligan, General Manager

- Shane Mulligan has been working at LIFE since 2010 and has been and continues to be involved in the financing portion of the co-operative.
- Canadian Worker Co-operative Federation previously offers their services to LIFE, putting investors shares in registered accounts, until CWCF's paperwork changed. Per the Income Tax Account, any one person cannot be invested in 10% of the total registered shares. This made LIFE ineligible.
- Under the Ontario Corporations Co-operative Act, one should issue patronage dividends, but the members of investment co-operatives are only investors, who provide capital to leverage our business, they are not business partners. Therefore, we issue a percent return based on the amount invested not the percent we do business with them.
- Registered accounts are great marketing options but have hoops that LIFE does not feel comfortable going through again.
- They have previously spoken to credit unions for financing options, but the credit unions did not provide financing as they were unwilling to use the solar equipment as collateral as the resale value is not easily determined. The FIT contracts are with the co-op and the community partner, and therefore, could not be used as collateral but should be a solid guarantee to any financial institution.
- One of LIFEs core ideologies is to build new renewable energy projects, rather than investing in current ones. Since the FIT program is basically shut down and the net metering in communities is in limbo, he cannot determine the future steps of their business past 2021. In 2021, LIFE releases the interest and pays off the debt for 13 of 18 renewable projects that they finance and the financing partners want to take the project back.

We welcome any comments or questions to the above interviews conducted. We will gladly make any connections that Kindred sees fit and all interview participants consented to information sharing.