

Vancouver Island Community Investment Cooperative (“VICIC”)

2nd Annual General Meeting

President’s Message

Dear Vancouver Island Community Investment Co-op (VICIC) Members,

I take pleasure in providing you with an annual letter update outlining the key successes and challenges your cooperative has had over the past year, since our inaugural general meeting held in September 2014.

This time last year we were a newly formed volunteer organization (incorporated in June 2014) embarking upon an ambitious social finance agenda intended to enable our membership to provide financing directly for new affordable rental housing projects and job creating social enterprises based on Vancouver Island and the Gulf Islands: in short, to “invest in our own backyards for social good”. A generous gift (\$20,000) from one of our sponsoring organizations (Greater Victoria Community Social Planning Council “CSPC”) last autumn meant that we were able to hire a part time community investment manager for six months. The hire of Kara Flanagan (an experienced consultant and financial-investment analyst) was directed toward researching and developing mechanisms that would achieve our goals and comply with all BC Securities regulations.

By November 2014 it was clear that we would not be able to proceed with our original intentions of making a public (through our co-op membership) offering of units in a new community investment fund by the end of 2014. The accounting, legal and administrative costs of launching such a fund are prohibitive (several \$100’s thousand) in order to comply with all of the regulations currently in place in the Province of B.C. (eg. prospectus offering, audit costs and licensed fund manager staffing requirements). As such, your Board set about investigating other more efficient mechanisms or models that would meet these specific criteria:

1. comply with all government **regulations**;
2. meet the **co-op’s mandate**;
3. have a **local market demand**;
4. provide an **attractive social finance product** (that would fill a gap in the financing continuum for project developers in the affordable rental housing sector and both equity and debt financing possibilities for social enterprises in the region); and
5. become **financially self sustainable** within 3-5 years of initial launch.

Early in the New Year the Board considered a potentially viable model in the form of a Community Loan Fund (“CLF”). This would work via VICIC Co-op members and sponsors (potentially including both government and corporate) making loans to VICIC (at some rate of interest likely between 1-3% using an unsecured promissory note); those funds would be pooled into a financial sponsors’ equity linked GIC

(or equivalent); those pooled funds would then be used as collateral against loans made to developers of new affordable rental housing and social enterprises who may not otherwise qualify for a conventional loan. An arms-length investment committee of VICIC would be established to pre-screen lending opportunities which would have to meet very strictly defined criteria. Successful applicants would then make a formal loan application to the CLF's financial sponsor (likely a local credit union) and the deal would be referred to the underwriting department of the sponsor and processed normally. Loan terms would likely be 3-8 years in length although shorter terms could also be considered.

Subject to approval of VICIC legal counsel, this type of offering would meet all of the criteria listed above and could be a WIN – WIN - WIN. Provided there are no loan defaults, missed interest payments or bankruptcies, it is a WIN for the affordable rental housing project (or social enterprise) who may not otherwise qualify for the loan, thereby enabling the project to be fully financed and completed; it's a WIN for VICIC and its members and partners as this product helps us meet our mandate (and provides a financial return to holders of its investment shares); and it's a WIN for the financial sponsor who makes a risk free profit (the "spread" – or difference between the rate at which it lends out money (higher) and the rate it pays out on the GIC instrument (lower)) and receives collateral benefits including local positive reputational advantages over its competitors.

The one thing still missing at the time of writing is the financial sponsor. Your Board has had a significant number of discussions with three of the best known local credit unions over the past year and explorations are continuing with one of them. We hope to have something concrete to announce to you in this regard prior to the end of the calendar year.

It should also be noted that the Board has commenced a number of discussions with other future potentially interested stakeholders in the CLF including: most of the local Greater Victoria Mayors, the CRD, the Municipal Finance Authority (MFA), the Cowichan Valley Regional District (CVRD) and several Foundations. Many of these remain ongoing. During the year we also identified a number of potential affordable market rental housing projects and locally owned businesses that contribute to social and environmental impacts, as investment candidates. Finally, we have just learned that a grant application for \$15,000 to Canadian Alternative Investment Foundation by CSPC on our behalf has been successful so we will be starting our next year with some operating funds!

The Board has met 10 times since the last AGM and significant time and effort has been invested by all Directors in between those meetings and so I would like to thank everyone on the Board for their hard work, patience and continued commitment to what must surely be one of the most worthy causes in the field of social finance on the Island. I also thank you, our membership, for your support over the past year, your roles as VICIC "early Ambassadors" and I look forward to reporting on more concrete developments for your Co-op in the medium term and building our membership in 2016.

With very best wishes,



C. Justin Stephenson MBA, CMC, President, VICIC (2014-2015)

29/09/2015

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