



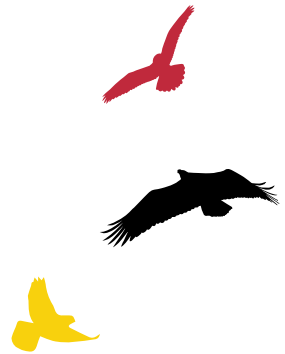
# Indigenous Investment Commission Scoping Study

# Glossary

Terms	Definitions
<b>AEDC</b>	AEDC refers to Aboriginal Economic Development Corporations, which serve as the economic and business development entities of First Nations, Métis, or Inuit governments. They play a significant role in driving the economic growth of Indigenous communities.
<b>AIMCo</b>	AIMCo refers to the Alberta Investment Management Corporation.
<b>AUM</b>	AUM refers to the Assets Under Management. It is a financial term used to indicate the total market value of the assets (such as investments, funds, or portfolios) that a financial institution or asset manager oversees or manages on behalf of clients.
<b>BCI</b>	BCI refers to the British Columbia Investment Management Corporation.
<b>CDPQ</b>	CDPQ, or "Caisse" refers to the Caisse de dépôt et placement du Québec.
<b>CIRNAC</b>	CIRNAC refers to the federal Department of Crown-Indigenous Relations and Northern Affairs.
<b>CPP</b>	CPP refers to CPP Investments, the business name of the Canada Pension Plan Investment Board.
<b>ESG</b>	ESG refers to Environment, Social and Governance.
<b>FMB</b>	FMB refers to First Nations Financial Management Board.
<b>GoC</b>	GoC refers to the Government of Canada.
<b>IMCO</b>	IMCO refers to the Investment Management Corporation of Ontario.
<b>IFI</b>	IFI refers to Indigenous Financial Institutions. IFI include three types of Canadian Indigenous-controlled financial institutions: Aboriginal Capital Corporations; Aboriginal Community Futures Development Corporations; and Aboriginal Developmental Lenders.
<b>ISC</b>	ISC refers to the federal Department of Indigenous Services.
<b>OTPP</b>	OTPP refers to the Ontario Teachers' Pension Plan.
<b>PSP</b>	PSP refers to PSP Investments, the business name of the Public Sector Pension Investment Board.
<b>SWF</b>	SWF refers to Sovereign Wealth Fund.
<b>UPP</b>	UPP refers to the University Pension Plan.

# Report Structure

<b>Section 1:</b> Executive Summary	4
<b>Section 2:</b> Introduction	7
<b>Section 3:</b> IIC's proposed foundational vision	11
<b>Section 4:</b> Value proposition	15
<b>Section 5:</b> Key pillars	20
<b>Section 6:</b> Success factors	30
<b>Section 7:</b> Conclusion	35
<b>Appendix</b>	37



# 01 Executive Summary



First Nations  
**FINANCIAL  
MANAGEMENT  
BOARD**

**CONSEIL  
DE GESTION  
FINANCIÈRE** des  
Premières Nations



# The Indigenous Investment Commission's blueprint

## Interest in the IIC

Most Indigenous leaders consulted say there is a need for an Indigenous asset manager. Desired features are lower management fees, financial capacity-building opportunities, and investment in Indigenous-led projects.

## Need for the IIC

The relative small size of most Indigenous trusts inhibits long-term investment returns due to high fees, reduced diversification and lack of access to less liquid asset classes. **Pooling assets would address these issues, and allow for the creation of an impact fund to invest in Indigenous-led projects and financial capacity building for Indigenous communities.**

Why create the IIC

A right to self-determination embedded in UNDRIP<sup>1</sup>

## Indigenous right to development

UNDRIP stipulates that “Indigenous peoples have the right to determine and develop priorities and strategies for exercising their right to development”. The IIC will support Indigenous self-determination and cultural appropriateness of investments, and, as such, is aligned with GoC strategic priorities.

## By Indigenous people, for Indigenous people

The IIC will be an Indigenous-led and owned asset manager. A majority of the Indigenous leaders consulted have shown interest to support a dual mandate: **seeking optimal return, while contributing to Indigenous economic development.**

<sup>1</sup> The UNDRIP refers to the United Nations Declaration on the Rights of Indigenous Peoples, which was incorporated into federal law in 2021 through the UNDRIP Act.



# The Indigenous Investment Commission's blueprint

## Benefits of pooling assets

- Improved long-term risk-adjusted returns
- Reduced investment costs through enhanced ability to
  - negotiate with external managers
  - invest in people and systems (e.g. risk management)
  - manage some assets in-house
  - spread fixed costs
- Better control over investments with greater choice
- Access to better investment options and external managers

## Key building blocks

- Comprehensive consultations with rights-holders to reach critical mass of support
- Strong governance with a clear definition of responsibilities (Assembly of Participants, Board of Directors and Management)
- OCIO+ (hire trusted Indigenous professionals, adopt long term strategic asset allocation reflecting asset owners' objectives and risk tolerance)
- Partnerships with Indigenous (NATOA, etc.) and non-Indigenous entities (Maple 8, etc.)
- Sustainable investments along Indigenous values

## IIC value added

- Responds to a need for a unique institution offering diverse financial services, lower fees and more diverse investment opportunities, including in Indigenous communities and businesses
- Asset management and advisory to be available to participating Indigenous Nations
- Internally managed impact fund for Indigenous economic, social and environmental development
- Financial literacy opportunities for trustees and capacity building for Indigenous asset managers
- Sovereignty and self-determination
- Economic reconciliation, cultural appropriateness and social return within Indigenous communities

## IIC phased implementation<sup>1</sup>

Creating the IIC is a journey that requires an implementation plan that fits Indigenous values and unique circumstances. Early milestones include:

- 1) Confirming GoC support for the consultation process and the creation of the IIC.
- 2) Setting up the relevant committees to support IIC implementation, starting with the consultations.
- 3) Securing high profile endorsements and funds to reach \$5B of AuM.

<sup>1</sup> Other milestones to be refined through the consultation process. This report's implementation options and considerations are included for planning purposes.

# 02 Introduction



# Context and objectives of the mandate

## First Nations Fiscal Management Act (FMA)

Adopted in 2005, the FMA provides First Nations with support and tools to strengthen their communities and facilitate economic development. Participation in the framework is purely optional. Close to 350 First Nations are scheduled to the FMA and thus have access to the services provided by the four FMA institutions:

- **FMB** - First Nations Financial Management Board
- **FNFA** - First Nations Finance Authority
- **FNTC** - First Nations Tax Commission
- **FNII** - First Nations Infrastructure Institute

## The FMB

The FMB's mission is to enhance governance and financial management practices in communities through formal systems and certifications, enabling access to affordable long-term financing. The FMB has allowed Canadian First Nations to achieve the following milestones:

- **\$2B** in secured financing
- **> 17,000** jobs created

## Indigenous Investment Commission's (IIC) Objectives

Despite FMB's positive impact on participating First Nations, systemic barriers still hinder Indigenous communities' engagement with financial markets.

To close this gap, and to facilitate Indigenous economic reconciliation consistent with the United Nations Declaration of the Rights of Indigenous Peoples (UNDRIP), the **FMB completed a scoping study for the creation of an IIC, which would:**

- **Provide** asset management services and capacities to Indigenous governments, organizations and trusts
- **Achieve** higher returns and lower management fees
- **Invest** back into Indigenous communities and businesses



# A two-phase methodology for the scoping study

This executive report outlines the project's key aspects and presents the business case for the Indigenous Investment Commission. The document also includes a preliminary cost structure and resource requirements in the Appendix.

## Phases



**Engage Blakes** to explore legal considerations, including the regulatory environment for public sector pension plans, and provide legal options for a governance framework.



**Analyze the current landscape** for Indigenous investment services based on available literature.



**Identify and conduct interviews with 29 Indigenous governments and institutions, public sector pension funds, and GoC representatives** to document interests, concerns and funds that could be managed by the IIC, and to identify potential partners and champions.



**Undertake a working session** with the FMB to discuss the findings from the previous phases and lay out the foundations for the implementation plan.



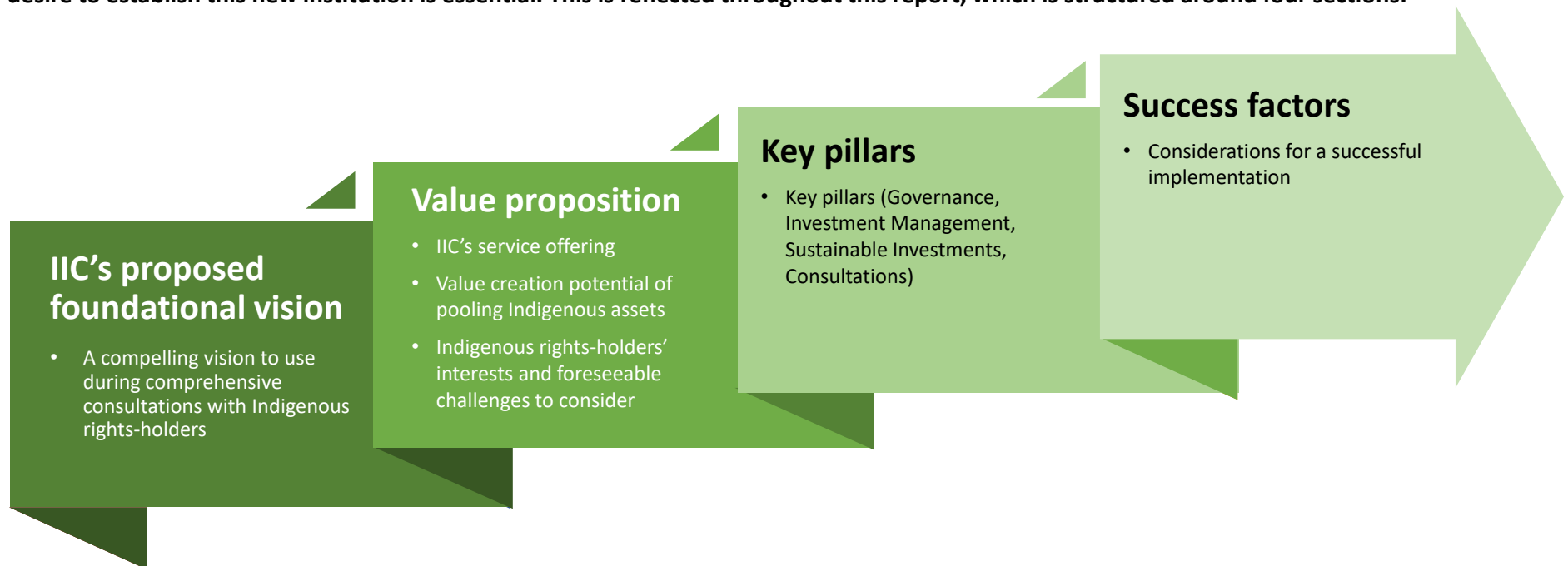
**Propose options for an implementation plan:** legal and governance structure; services and functions to be delivered; Indigenous impact fund considerations; role of the GoC; partnership options with public sector pension plans; human resources requirements; technological and capital requirements; operational plan, model and relating processes; budgets and financial models.



**Produce a final scoping study report** comprising of insights and results from all previous phases.

# A four-step proposal for the creation of the IIC

While there is no one-size-fits-all approach to the creation of the IIC, adopting a vision that fits the unique circumstances that led to the desire to establish this new institution is essential. This is reflected throughout this report, which is structured around four sections:



The conclusion outlines the various stages of the implementation plan, and the appendix provides a projected cost structure and resource requirements for establishing an Indigenous Fund Manager.

# 03

## IIIC's proposed foundational vision



## A vision to guide action



- Indigenous peoples form an alliance **to create their own fund manager to invest their wealth according to their own priorities, for the benefit of the present and seven generations** to come.



- The IIC, acting in a **prudent and sustainable manner, generates optimal returns** and **supports the economic, social and environmental development** of Indigenous communities.



- The IIC **makes Indigenous people proud** of their strong financial institution with its expertise, integrity, and respect of Indigenous values.



- The IIC fosters Indigenous peoples' **sovereignty and self-determination** over their financial affairs and investment decisions.



# A new Indigenous Investment Commission rooted in the UNDRIP concepts of sovereignty and self-determination



Participation in the IIC will be *optional*, providing rights-holders and trustees with an Indigenous alternative to manage the wealth of their community.



## By Indigenous people, for Indigenous people

This *non-profit organization* will offer expert investment management services entirely devoted to Indigenous interests and values. The IIC will work closely with existing organizations to improve the wealth, economic development and well-being of communities.



## Lower fees for more revenues

By pooling their funds, Indigenous governments and trusts could likely benefit from lower management fees, generating more revenues for their community.



## Better risk adjusted returns

Pooling capital allows for a more optimal diversification of investments, including real estate, infrastructure and private equity, that would reduce volatility and improve returns.



## Impactful investor

Backed by more capital and in partnership with likeminded investors, the IIC will be able to use its influence with corporate boards and management as well as securities regulators to support the implementation of an Economic Reconciliation agenda.



## Better social and economic outcomes

By investing some of the pooled capital in Indigenous communities and businesses through a rigorously managed impact fund, the IIC will generate better social and economic outcomes, and attract non-Indigenous impact investors.



## Building Indigenous literacy and capacity

The IIC will hire and train Indigenous financial analysts and portfolio managers, while increasing the financial literacy of community leaders.



## Partnerships with Indigenous organizations

The IIC will work closely with existing organizations to improve the wealth, economic development and well-being of communities.



## Foster sovereignty and self-determination

A strong Indigenous fund manager will provide Indigenous governments with the same tools that non-Indigenous governments enjoy, fostering sovereignty over financial management.



First Nations  
FINANCIAL  
MANAGEMENT  
BOARD

CONSEIL  
DE GESTION  
FINANCIÈRE des  
Premières Nations

# The IIC's do's and don'ts



1

The **decision to entrust** funds to the IIC will be **voluntary and optional**. No Indigenous government or trust will be compelled to use the IIC to manage its funds.

2

**Trustees will remain the fiduciaries of their community's assets**. If they wish, they can delegate some of their tasks to the IIC, as they do with their current fund managers.

3

The IIC will be a new **Indigenous owned and Indigenous led organization**, with its own governance structure, **independent from the GoC**.

4

**Funds** will be pooled with a limited number of managers, but **ownership will remain separate** (like a bank account).

5

Funds will be **invested in a diversified and prudent manner**, but they will not be guaranteed (unlike a bank account, but as with current fund managers).

6

The IIC will **manage funds for the long term**; it is **not a "get rich quickly" scheme**.

7

The IIC **will not be a pension fund**, but it could **manage the assets of existing and future Indigenous pension funds**.

8

The IIC **will not offer direct services to retail clients**; thus it will not compete with existing Indigenous retail financial institutions.

9

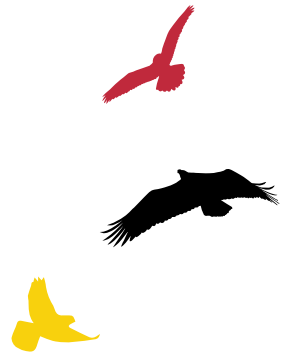
The IIC will **cooperate with existing Indigenous and non-Indigenous financial institutions**.

10

The IIC will have **strong ethical rules to manage potential conflicts of interest**.



# 04 Value proposition



First Nations  
**FINANCIAL  
MANAGEMENT  
BOARD**

**CONSEIL  
DE GESTION  
FINANCIÈRE** des  
Premières Nations



# The IIC will provide four types of services currently lacking

A unique institution offering diverse financial services, featuring lower fees, more diverse investment opportunities, including in Indigenous communities and businesses, and promoting financial skills among Indigenous people.

## Investment Management

Current non-Indigenous asset managers provide often costly trust management services for Indigenous communities. Pooling Indigenous assets could result in lower fees and greater diversification, and pave the way for Indigenous control over Indigenous fund management.

## Capacity Development

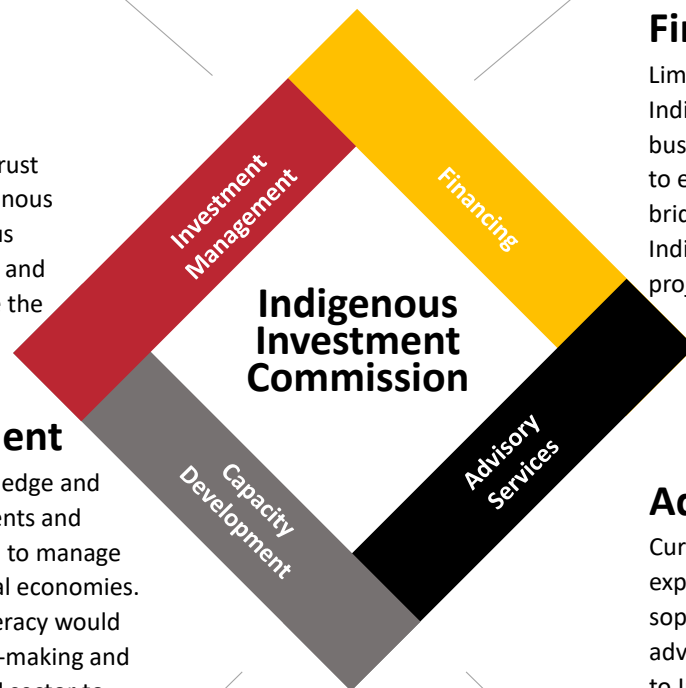
Lack of advanced financial knowledge and capacity in Indigenous governments and communities limits their abilities to manage wealth and participate in regional economies. Boosting Indigenous financial literacy would support better financial decision-making and inspire youth to join the financial sector to support the management of their community's assets.

## Financing

Limited access to capital for Indigenous communities and businesses remains a major obstacle to economic growth. The IIC will bridge some of that gap by investing Indigenous wealth in Indigenous-led projects.

## Advisory Services

Current advisory services are expensive and more suited to sophisticated Indigenous trusts. Few advisory firms offer services tailored to Indigenous governments and communities, a gap that the IIC will address.



## IIC's conditions for success

- Optional and voluntary
- Find early committed founder funds
- Indigenous control with strong governance
- Professional management
- A long-term growth plan
- "Seven-generation" patient capital
- Financial support from the Government of Canada
- Building Indigenous capacity over time
- Work with other Indigenous organizations and financial institutions

Looking for a better financial deal, better adapted to Indigenous needs.



First Nations  
FINANCIAL  
MANAGEMENT  
BOARD

CONSEIL  
DE GESTION  
FINANCIÈRE des  
Premières Nations

# The value creation potential of pooling Indigenous assets

The creation of the IIC and the subsequent pooling of Indigenous assets could cut average management fees in half and generate billions of dollars in savings over the long term.

## The power of scale

By participating in the IIC, Indigenous Nations would have the opportunity to pool their investments together and benefit from a larger negotiating power with external asset managers.

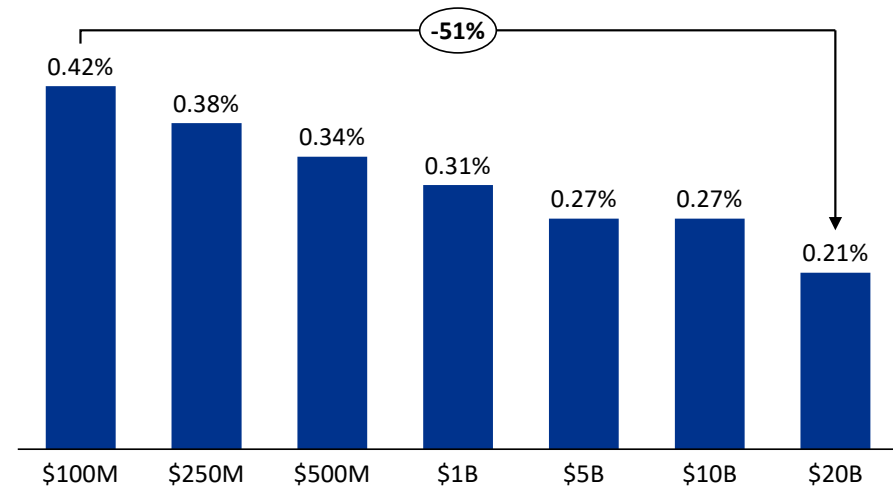
For example, in a \$100M balanced portfolio composed of 30% Canadian equities, 30% international equities and 40% Canadian fixed income, the average management fees would represent 0.42% of AuM. This number could be lowered to 0.27% (-36%) if the IIC were to meet its goal of attracting \$5B in AuM or even to 0.21% (-51%) when AuM reach \$20B.

While seemingly small when expressed in %, these cost differences applied to billions in AuM for many years could generate tremendous savings for Indigenous nations. These savings would reach approx. \$2.4B over 50 years, assuming an initial IIC AuM of \$5B, average trust value of \$50M and no annual withdrawals.

A portion of these savings could be used by the IIC to diversify away from liquid assets, partly in the impact fund, and achieve greater long term expected returns.

### Average management fees by AuM level

*In %, for a portfolio composed of 30% Canadian equities, 30% international equities and 40% Canadian fixed income, based on available industry data*



Note: Average fees are presented for AuM levels up to \$20B. This amount is aligned with RBC's estimate of existing Indigenous investment value in Canada.

Sources: Mercer; RBC; Morgan Stanley; JP Morgan

# Indigenous communities and leaders gave **positive feedback on the IIC**



## Lower fees and generating returns for Indigenous peoples

- Informal discussions on pooling assets to generate increased returns are already happening between some Nations
- Lower management fees is of key interest.
- Willingness to use a new Indigenous-led structure to manage funds
- Generating returns for Indigenous investors instead of for external asset managers



## Better control over investments with greater choice

- All three groups of Indigenous peoples (First Nations, Métis and Inuit) should have access to the IIC
- Clear need for a pension plan and a health benefits plan for Indigenous government employees, but using already existing options should be preferred



## Investments aligned with Indigenous values and in Indigenous communities and businesses

- Impact investing in Indigenous communities and businesses could be the distinguishing feature that entices voluntary participation
- The younger generation will expect an overall investment strategy aligned with ESGI values
- An interviewee counted 5-10 nations that have shown interest in impact investing
- Cultural training should be mandatory for all staff (Indigenous and non-Indigenous)



## Building Indigenous financial capacities and literacy

- Increasing financial literacy and talent development is of key interest
- Expectation that the IIC will offer training and internship opportunities for Indigenous youth



## Potential partnerships

- Organizations are interested in follow-up conversations (ex. Raven, RBA, NATOA, NACCA). Some could be interested in partnering with the IIC

# Indigenous communities and leaders also noted potential challenges to consider



## Consultation and Governance

- A transparent and comprehensive consultation process detailing the rationale for the IIC and showcasing all available options will be necessary to reach critical mass in terms of support among Indigenous people
- Start consulting regional organizations, and then NIOs
- Storytelling and pitch will be key
- The GoC cannot be involved in the management of the IIC once constituted
- It may be challenging for the IIC's governance model to account to the three distinctions (First Nations, Inuit and Métis)



## Better control over investments with greater choice

- Some nations prefer to maintain a conservative approach to investment
- Building trust is crucial: trusted financial Indigenous experts will be needed



First Nations  
**FINANCIAL  
MANAGEMENT  
BOARD**

**CONSEIL  
DE GESTION  
FINANCIÈRE** des  
Premières Nations



## Investments aligned with Indigenous values and in Indigenous communities and businesses

- Half of trusts have restrictions on types of allowed investments; assistance required for participating nations to amend trust and settlement agreements to authorize impact investing
- Impact investing has to be available at the outset to entice participation
- Impact investment will require a decision matrix and benefit impact reporting
- A national fund allowing impact investing will need to be attuned to different nations' values and priorities
- IIC services have to be provided in the main Indigenous languages
- Environmental values may be key to attract Eastern Nations and youth



## Building Indigenous financial capacities and literacy

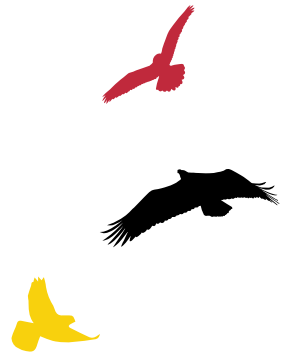
- Attracting youth to form the next generation of investment managers will be key
- Limited Indigenous financial expertise; some distrust the "use of money"



## Lower fees and increased returns

- Requires independent management
- Expectation to have input in the investment strategy
- The mandate overlaps with some Indigenous financial institutions looking to expand
- Challenges in attracting non-Indigenous investors to the impact fund
- Conflicts between nations may complicate pooling of funds

# 05 Key Pillars



First Nations  
**FINANCIAL  
MANAGEMENT  
BOARD**

**CONSEIL  
DE GESTION  
FINANCIÈRE** des  
Premières Nations





# The recipe for a successful Indigenous Investment Commission



## Key pillars



**A strong,  
independent  
governance  
structure**



**Start with an OCIO+  
model and build  
capacity over time,  
including through  
partnerships**



**Sustainable  
investment  
strategy and  
impact  
investment in  
Indigenous-  
led projects**

## How to get there?



**Consultation: Engage First, Deploy Second**



# A strong, independent governance: the primary success factor



The Maple 8 governance model provides a blueprint. It combines independence from political interference and promotion of strong leadership.

## Independence

Independence is the ability to make decisions based on one's mission, without political interference. The model shields board members and management from pressures to prioritize the specific interests of stakeholders or to pursue goals that conflict with the fund's mission. The enablers of independence include:

- **Legislation:** Dedicated legislation that entrenches the fund's autonomy from governments.
- **Board appointment process:** A rigorous board appointment process supported by a nominating committee to select qualified members with relevant and complementary experience and expertise.

## Leadership

The selection of the chairperson greatly impacts the success of an investment fund. A strong chairperson guards the fund's independence, sets the tone for sound governance, and leads the efforts to build robust board and management team.

To maintain the public's trust, public pension fund managers adhere to stringent codes of conduct. Their leaders must demonstrate integrity. A history of honesty and ethical decision-making can be as crucial as the leader's track record of professional competence and achievements.

Board oversees management, but delegate clear decision making authority to implement the strategic plan.

## Accountability and transparency

Critical to earn the trust of both internal and external stakeholders. Governance structures include :

- **Robust public reporting** with detailed regular reports, and regular communication with investors.
- **Codes of conduct** to create an environment of ethical behavior.

Sources: World Bank Group; Keith Ambachtsheer; Blakes

These essential elements foster professional investment decision-making.



# Governance models to consider

The IIC could adapt the best features of the Maple 8 governance to design an Indigenous model.

## Maple 8 fall in two categories

### Institutional fund managers (CPPIB, CDPQ, PSP, AIMCo, BCI)

- They solely manage assets for participating institutional beneficiaries or depositors. The latter remain responsible for their own pension plan's liabilities and to administer the pension's regime for their individual beneficiaries.
- Board members of the five institutional fund managers are appointed by the creating government, following independent nomination committee or governance committee recommendations.

### Large pension funds (Teachers', OMERS, HOOPP)

- They manage assets, liabilities, and administer pension plans for individual beneficiaries.
- They have two governing entities. The first, less visible, consists of plan sponsors representatives (employers, unions) who appoint the members of the second entity (board of directors). This typically involves a nominating committee and a skills matrix. This is effective with few sponsors and goodwill.
- Plan sponsors collectively define contribution and benefit levels.
- Issues arise when plan sponsors self-appoint to the board, instead of external professionals, as they rarely have investment expertise, lack background diversity and could prioritize particular interests over collective ones.

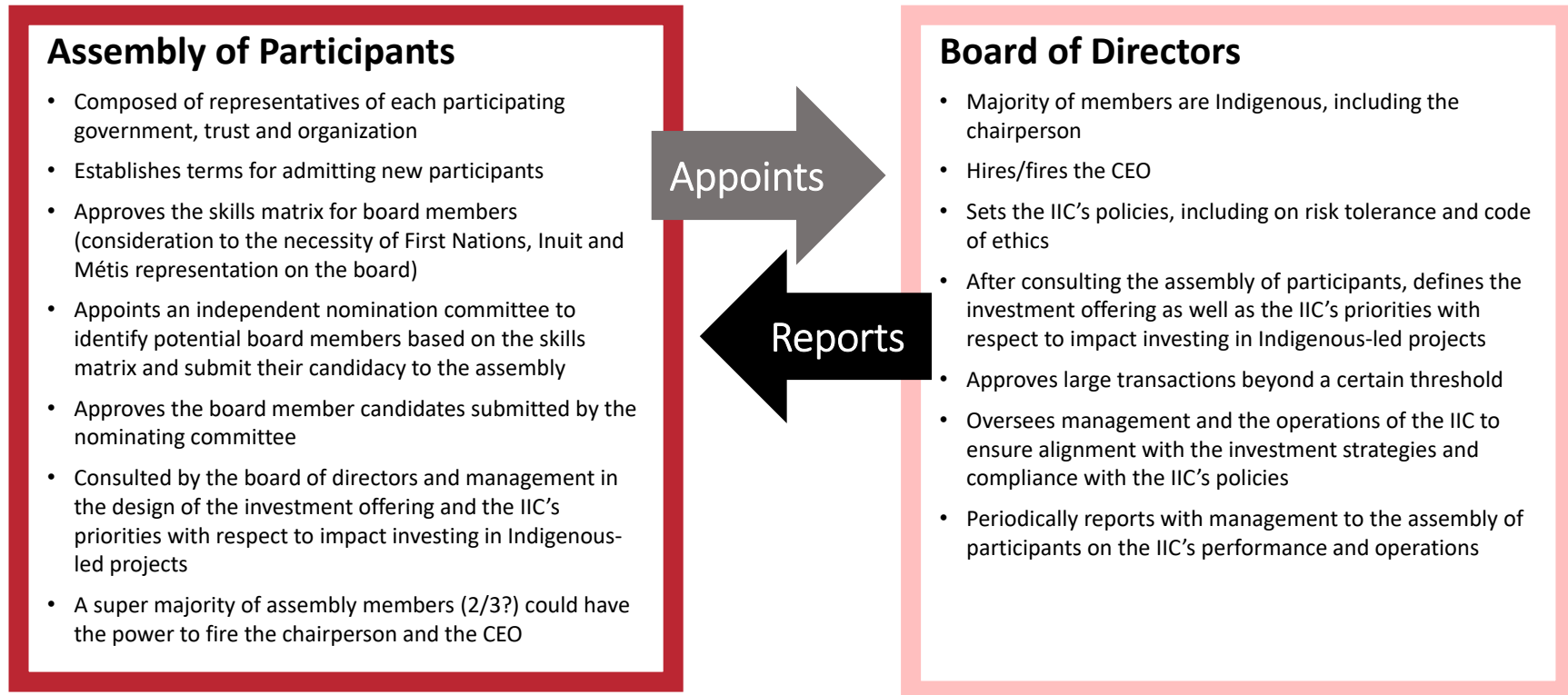
- The board of directors typically consists of professionals with strong backgrounds in finance, business, law, HR, governance, IT, etc., chosen through a diverse skills matrix and to maintain gender balance.
- The board of directors is responsible for key decisions: hiring/firing the CEO, investment strategy, setting policies, approving large transactions, risk oversight, etc.
- Board members have a fiduciary duty to act in the best interest of the fund's beneficiaries.



## A two-level governance structure for the IIC



The IIC will eventually have a large number of Indigenous owners. How would they be represented in the decision-making process, including in the appointment of an independent board of directors? Some ideas to consider based on Maple 8 governance best practices, but adapted to Indigenous reality.





## Starting with an “OCIO+” model

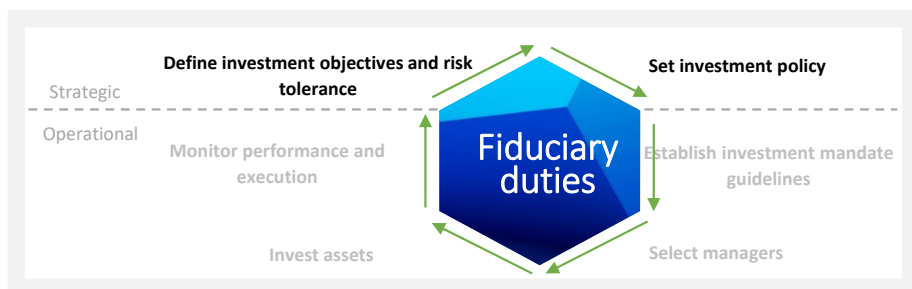


**The IIC will take years to build full internal fund management capacity. Starting with an organization focused on core investment services at lower cost, it will develop wider expertise overtime.**

An Outsourced Chief Investment Officer (OCIO) is a specialized firm that handles the selection and monitoring of fund managers on behalf of a large number pension funds or trusts. The OCIO model is popular with organizations with limited resources or expertise. It has gained popularity as an alternative to the traditional model, where the board members or trustees assume those functions themselves.

The IIC will begin as a dedicated OCIO+ for Indigenous trustees, managing all their investments. Trustees currently choose their fund managers themselves or hire non-Indigenous consultants or large financial institutions as OCIOs.

The IIC will select and monitor common external fund managers following a rigorous process. It will manage risks, rebalance portfolios and report to participating entities.



### OCIO+, a proposed model for the IIC

The IIC could start its operations as an OCIO+, retained by Indigenous governments, trusts and other organizations to handle the selection and monitoring of external fund managers. It would also offer extra services, hence the “+” :

1. Pool funds into a small number of larger mandates to lower fees and generate higher returns
2. Invest some of the pooled capital in Indigenous-led projects through its own impact fund
3. Run a shareholder engagement program toward targeted corporations to promote Indigenous rights and priorities
4. Advise Indigenous governments, trusts and organizations on optimal asset allocation and disbursement strategies
5. Support continuing education programs for trustees
6. Train the next generation of Indigenous financial experts through internships and employment opportunities

With larger AuM, the IIC will gradually develop its internal management capacities and evolve toward a full-fledged fund manager.

Sources: RBC Global Asset Management



First Nations  
FINANCIAL  
MANAGEMENT  
BOARD

CONSEIL  
DE GESTION  
FINANCIÈRE des  
Premières Nations



# Potential partnerships

The IIC would benefit from sharing knowledge with fund managers and pension plans

## Partnerships can take many forms

- Formal or informal, they will evolve overtime, and partly depend on personal relationships.
- Maple 8 cooperate (and compete) with each other, without any formal agreement.
- The IIC could explore avenues to collaborate with the Maple 8:
  - Learn their best practices in risk management and sustainable investment
  - Develop internship programs for young Indigenous professionals who would then come to work with the IIC
  - Have them co-invest with the IIC in Indigenous-led projects
  - Cooperate in shareholder engagement efforts to promote Indigenous rights and priorities as well as other sustainable practices

## A formal mandate for private assets

- Private assets – real estate, infrastructure and private equity (see Appendix 6.11) – have been the strongest source of returns for Maple 8 for a decade. Many have built global platforms to source deals and to buy and manage assets for the long run, either alone or in partnership with other large investors.
- Those capabilities take time to build and are expensive to operate. It would be highly advantageous for the IIC to partner a Maple 8 to manage those asset classes on its behalf. The IIC would thus quickly access a global platform at a much lower cost than using commercially available funds for small institutional investors.
- In the long term, the IIC could opt to manage global private assets internally.
- The best prospect for such a partnership is PSP, the manager of the federal employees' pension funds assets. Early discussions show an interest on their part.
- The other Maple 8 are less suited because either they manage both liabilities and assets of a single pension fund and are therefore not set up to accept outside clients (OMERS, Teachers, HOOPP), they are provincial government entities that cannot accept out-of-province clients (AIMCo, BCI, CDPQ) or, in the case of CPPIB, which manages the assets of the Canada Pension Plan, it is a joint federal-provincial undertaking and would therefore require the latter's involvement.





# The range of sustainable investment opportunities



The IIC could favor an investment zone, from mitigating risks up to targeting positive social and environmental impact.

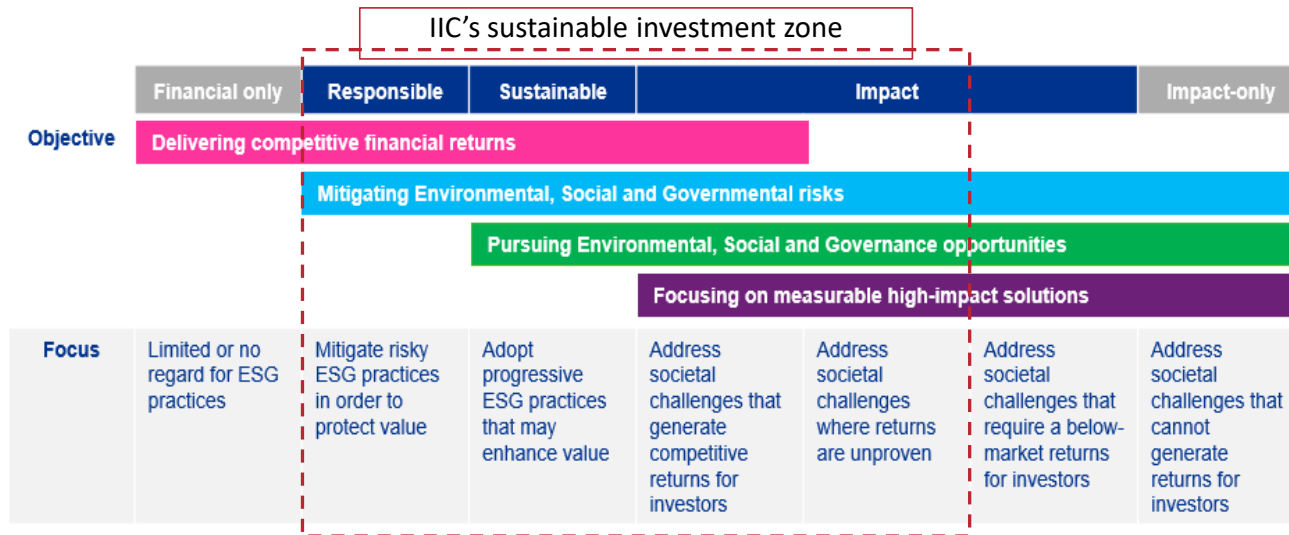
Under the wide umbrella of ‘sustainable finance’, many labels have been used to describe various styles of investment: exclusion of “sin stocks” like alcohol and tobacco, Socially Responsible Investment (SRI), ESG investing, green investing, ethical investing, etc.

The evolution of practices in the field of sustainable finance (depicted in the table, from left to right) shows **increasing levels of commitment by investors** in integrating Environmental, Social and Governance – plus Indigenous – factors into their decisions, along with traditional financial factors such as profitability, debt, price, etc.

Investors are thus increasingly trying to optimize risk and return while ensuring that their decisions have a positive impact on the environment and society.

## Impact Investing

Impact investors seek investments that generate *measurable positive social or environmental impact* alongside risk adjusted financial returns. They target specific social or environmental outcomes, such as affordable housing, clean energy, or access to healthcare, and actively track the progress of their investments. They can invest in businesses, infrastructures or social projects. There is a broad range of sustainable investment opportunities that the IIC could pursue, in line with its mission to generate returns and deliver better outcomes for Indigenous people.



Sources: Bridges Fund Management; TBRC Business Research



First Nations  
FINANCIAL  
MANAGEMENT  
BOARD

CONSEIL  
DE GESTION  
FINANCIÈRE des  
Premières Nations



# Impact investment for better outcomes for Indigenous people



The IIC impact investment fund will bring much needed capital to support Indigenous-led projects, encouraging non-Indigenous investors to tag along and bridge the current investment gap.

## Insufficient capital

To this day, Indigenous economic development largely relies on government programs. **For example, First Nation businesses hold less than 0.2% of available credit in Canada, while First Nations account for 2.8% the country's population. Access to market-based capital is 11 times lower than that of their non-Indigenous peers.**

The \$20B in AuM held by Indigenous settlement trusts, an amount that could soon reach \$100B, constitutes a pool of Indigenous wealth that could be tapped into to meet some unmet needs. It would be the role of the IIC's impact investment fund.

Yet, even assuming that a large proportion of those funds is eventually entrusted to the IIC, prudent investment principles mean that **only a fraction of the available AuM should be invested through the impact fund**. CDPQ has “only” 20% of its assets in Québec, a large and diversified economy. The IIC should start with a smaller proportion and grow with experience.

This leaves a gap that can be filled by attracting other impact investors.

## How the IIC could help fill the gap

A portion of the assets entrusted to the IIC by Indigenous governments, trusts and organizations will be pooled into an impact fund that will target Indigenous-led projects.

This will incite non-Indigenous investors who have an interest in financing such projects, but lack the relationships, expertise or confidence to do, to co-invest alongside the IIC, based on the latter's unique positioning, credibility and understanding of the Indigenous community, cultural and political landscape.

The IIC could act as the lead investor, identifying opportunities and negotiating the terms and conditions of each investment, according to the highest standards of impact investment.

Conversely, having established funds invest alongside the IIC would bring credibility to both the newly formed institution and the projects in which it invests, unlocking further capital from like-minded investors and thereby increasing the pool of money available for Indigenous-led projects.

Potential non-Indigenous co-investors include Canadian impact funds (relatively small at \$6.8B in AuM, but growing rapidly), as well as other large pension plans and foreign impact funds.

Sources: RBC



# Consultation: Engage First, Deploy Second



Comprehensive consultation is needed to build consensus, set the right governance model, clarify social and cultural priorities and mobilize voluntary participation.

## They said...

Nearly all Indigenous interviewees stressed the need for a comprehensive consultation process to reach critical mass supportive of the creation of the IIC and its governance structure.

GoC officials also indicated that such consultation must precede legislative and funding commitments.

Consultation must allow for the participation of all interested nations, regional and national Indigenous organizations, elders and Indigenous financial institutions.

## What this means for the IIC

### Indigenous rights-holders

- Consider a steering committee composed of a few well respected Indigenous leaders of the three distinctions, with French and English speaking co-chairs, supported by the FMB
- The steering committee leads a Canada-wide consultation process on the IIC proposal and governance structure
- Ensures the IIC's independence from the GoC while allowing other Indigenous institutions to actively participate in the process
- Have a group of respected elders involved early on the process to consider and advise on cultural and spiritual aspects of the initiative

### Government of Canada

- Engage GoC officials to include language on a pathway to the establishment of the IIC in the next Fall Economic Statement (including a financial commitment to cover the costs of the consultation process), and then a stronger commitment in Budget 2024
- Secure GoC commitment for legislation setting up the IIC and funding in Budget 2025

## What is needed?

- Define the format of Canada-wide consultations
- Prepare a value proposition, project synopsis and Q&A to guide discussions
- Publish consultation outcomes

Sources: OSLER

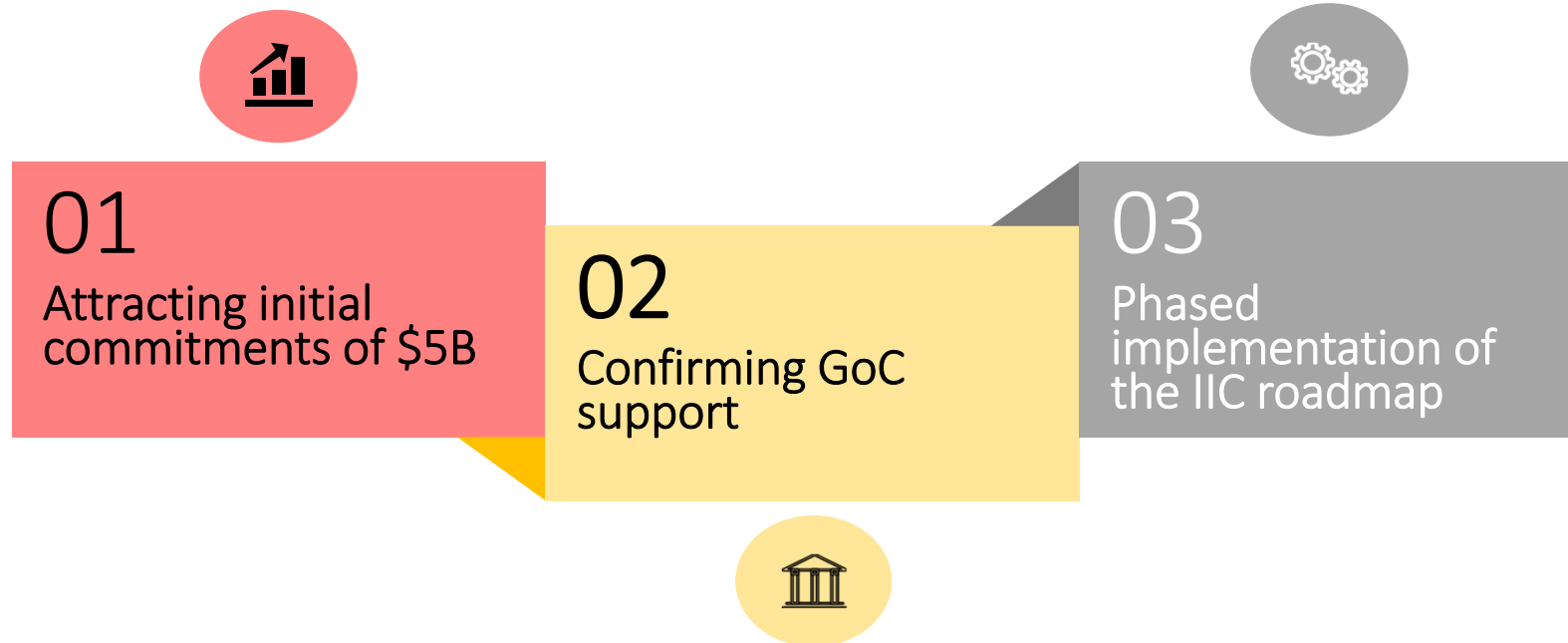
# 06 Success factors



# Keys to the successful implementation of the IIC



To realize the implementation of these pillars and establish an IIC, three key elements must be addressed.



Each one of these will be covered in the following pages.

Sources: RBC Global Asset Management



First Nations  
**FINANCIAL  
MANAGEMENT  
BOARD**

**CONSEIL  
DE GESTION  
FINANCIÈRE** des  
Premières Nations



# Attracting initial commitments of \$5B will be critical



To realize the implementation of these pillars and establish an IIC, three key elements must be addressed.



## The Goal

Experts in pension fund management highlight the importance for the IIC of reaching a minimum AuM of \$5B.

Although insufficient for most internal asset management, this scale would justify starting the IIC as an OCIO+, allow for portfolio diversification in private markets and setting up an impact fund.

Lower AuM would reduce investment options and severely limit the IIC's ability to support Indigenous-led projects.

Capacity will grow gradually with AuM and could lead to significant internal management when reaching the \$50B mark.

These numbers are ball-park figures.



## The Challenge

Attracting the initial \$5B will be difficult due to large dispersion of Indigenous assets and the possibly slow legal process of amending existing trust agreements that exclude some types of investments.

According to 2016 audited First Nation governments financial statements, only 5 nations exceeded \$100M in trust assets at that time. The 457 other First Nation governments held an average of approximately \$2.3M.

(These figures exclude self-governing nations, First Nation trusts whose direct beneficiaries are their community members, the \$634M held by the GoC as Indian moneys, and funds held by Inuit and Métis peoples. Note that there is no comprehensive, up to date database of Indigenous financial assets. Many communities are reluctant to share this information to non-Indigenous stakeholders)

Sources: Interviews; Shawn Blankinship

GoC financing of start-up and operating costs, as well as a potential co-investment, will be key to reach the \$5B mark.





# Confirming GoC commitment to support the IIC is key



To realize the implementation of these pillars and establish an IIC, three key elements must be addressed.

01

## GoC support for the FMB Roadmap

The FMB Roadmap was influential in unlocking a \$5M commitment to support the co-development of an Economic Reconciliation Framework with Indigenous partners.

Confirming the IIC as one of Indigenous Services Canada's Economic Reconciliation Framework priorities will be key.

02

## Time is of the essence to secure the support of the GoC

At this time in the government's mandate, and given current and expected fiscal constraints, the focus is on fulfilling existing mandate commitments.

A reasonable short-term goal is to incorporate IIC language in the next Fall Economic Statement.

This could facilitate a future budget (Budget 2025) and/or electoral commitment for the IIC's creation.

03

## GoC legislative support for the IIC's creation

In addition to obtaining funding for consultations and establishing the IIC, it will be crucial to ensure backing for IIC legislation from both the GoC and all federal parties.

The best case scenario would be to secure funding for the establishment of the IIC in Budget 2025 and have legislation enacted by the summer of 2025.

Sources: Interviews; Shawn Blankinship



# GoC financial support required for the project



Financial support by the GoC will be critical to the success of the IIC, from the consultation process to its initial years of operation, including the implementation phase.

## Consultation costs

Although the scoping study has demonstrated initial interest in the IIC from Indigenous leaders, a comprehensive consultation process is now necessary to validate key elements of the proposed model. As per UNDRIP Article 39, the GoC has a duty to provide assistance to Indigenous people in the pursuit of development initiatives. Federal funding for the consultation process is therefore aligned with the GoC's commitment to implement UNDRIP.

## Implementation costs

The creation of the IIC will require a significant initial investment.

During the implementation phase, the IIC will incur significant costs, including the legal and brokerage fees to create the necessary legal entities, amend existing trust agreements and transfer assets to the IIC's underlying funds.

Without GoC support, the IIC early participants will bear the burden of these set-up costs, thereby reducing the returns on their investments. This would create a near impossible hurdle to overcome in attracting capital.

## Operating costs

By pooling their wealth in the IIC, Indigenous participants will benefit from lower external asset management fees. However, it may take a few years before the IIC attracts enough capital to generate significant economies of scale from an operational perspective.

The situation will be exacerbated by the inclusion of labour-intensive yet necessary mandates (e.g. impact investing, training and education) early on in the IIC's operating model.

While external management fees will be passed on to participants, other operating expenses would need to be covered by the GoC.

## Capital participation

The GoC could also join the fund as an investor, for example by matching dollar-for-dollar the assets invested by Indigenous participants.

Not only would this allow the IIC to reach the \$5B threshold faster, but it would demonstrate the GoC's commitment to, and confidence in the IIC, thus reassuring both potential Indigenous participants and financial markets about the seriousness of the initiative.

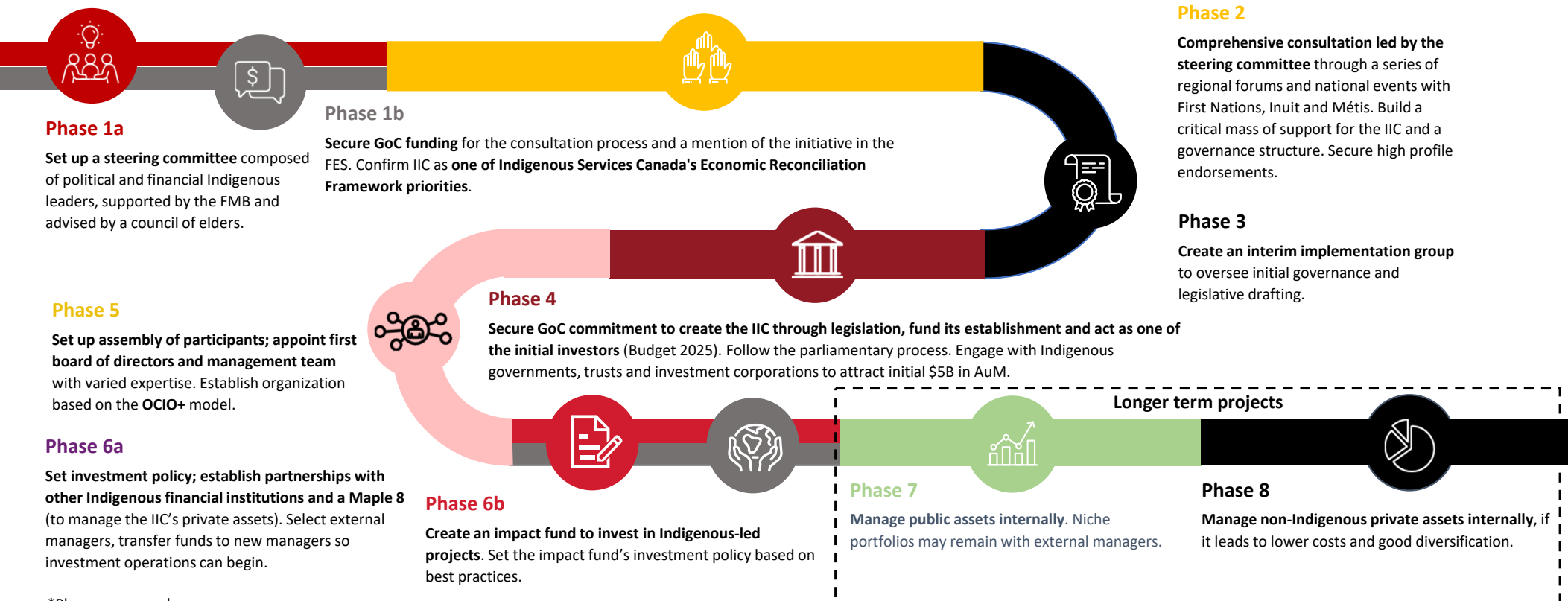
Sources: Interviews

# 07 Conclusion



# Phased implementation of the IIC roadmap\*

Wider consultations needed to build a critical mass of support and secure a GoC commitment. A preliminary costing model for these phases is detailed in Appendix 6.1.



\*Phases may overlap.



First Nations  
FINANCIAL  
MANAGEMENT  
BOARD

CONSEIL  
DE GESTION  
FINANCIÈRE des  
Premières Nations

# Appendix. Forecasted Cost Structure and Resource Requirements



# Results of the preliminary costing estimates

## Comprehensive Indigenous consultation costs

Categories	Costs
Governance	0.3
Communication and Strategy	0.4
Consulting Indigenous people	3.1
Large Conferences	1.3
Half-Day Workshops	0.6
Meetings with regional political leaders	0.6
Virtual townhall on legislative proposal	0.0
One-on-One Discussions	0.3
<b>Total Consultation Costs</b>	<b>3.7</b>

## IIC implementation costs

Categories	Costs
Internal Resources	2.2
Implementation group	0.5
Hiring and Training	1.3
External Resources (Professional fees)	6.8
<b>Total Implementation Costs</b>	<b>9.0</b>

## IIC operating costs

Categories	\$0B	\$5B	\$10B
<b>Investment Expenses</b>	<b>2.8</b>	<b>26.9</b>	<b>49.3</b>
External Management Fees	0.0	22.3	42.7
CIO Office Expenses	2.5	2.8	3.1
Impact Investment (FTEs only)	0.3	0.6	1.0
Other Expenses	0.4	1.9	3.6
<b>Investment Operations Expenses</b>	<b>0.4</b>	<b>0.5</b>	<b>0.6</b>
<b>Business Operations Expenses</b>	<b>6.4</b>	<b>7.3</b>	<b>8.6</b>
CEO Office and Board of Directors	3.6	3.8	3.8
Client Relationship Management	0.9	0.9	1.6
Other Operating expenses	1.9	2.6	3.3
<b>Total Operating Costs</b>	<b>9.6</b>	<b>34.7</b>	<b>58.6</b>

These preliminary costing estimates suggest total operating expenses of 69.4 and 58.6 bps at AuM levels of \$5B and \$10B respectively. This is relatively in line with industry standards, as the operating expenses of large Canadian pension funds generally fall between 50 bps 80 bps.

Note: All costs are in \$M and the model tentatively assumes that all costs except external management fees would be supported by GoC. Impact Investment costs only include FTEs dedicated to the impact fund and exclude any investment and business operations expenses.

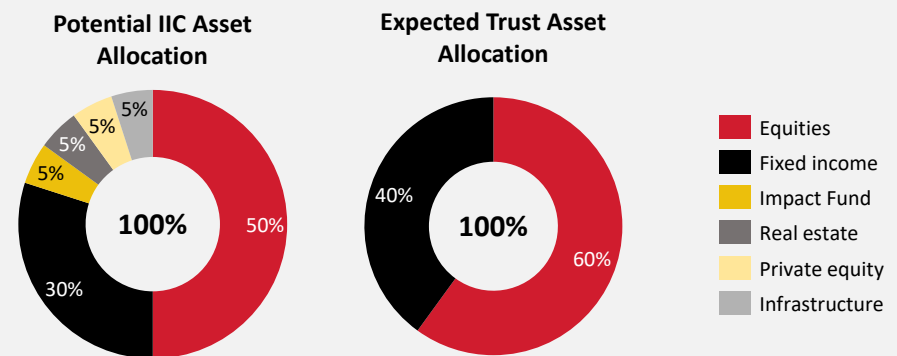
# Cost assumptions – General

## Investment size

1. Three scenarios are used to assess the operating costs of the IIC at different phases of its growth cycle:
  - a) In the first scenario, the IIC does not manage any money yet, but has acquired the resources necessary to its operations. In other words, the IIC is ready to start investing the next day.
  - b) The second scenario presents the operating costs for a typical year when the IIC has \$5B in AuM.
  - c) The third scenario presents the IIC's forecasted annual operating costs, but with total AuM of \$10B.
2. The preliminary costing analysis performed assumes 0, 40 and 80 participants respectively for each scenario. These numbers are expected to evolve as the IIC gains more insight on the level of interest around the project throughout the consultation process.

## Asset allocation

The IIC is assumed to have a diversified asset allocation, while Indigenous trusts are assumed to be too small for private investments. Below are the expected asset allocations that are used for both to estimate IIC costs and project benefits for Indigenous Nations.



Note: This asset allocation may not perfectly reflect the reality. The IIC's asset allocation will be defined by the management team and board of directors once the entity is created. Also, Indigenous trusts vary in size and investment complexity. The Indigenous consultation process should help clarify the actual asset allocation mix that is currently used by Indigenous Nations.

# Cost assumptions – Indigenous comprehensive consultation

## Governance

1. The broader Indigenous consultation process is expected to be overseen by a steering committee and by a council of elders each composed of 10 members.
2. The steering committee and the council of elders will be supported by a project manager (i.e. the FMB) throughout the consultation process.

## Communication and Strategy

1. The consultation process will require the development of a robust marketing plan and public relations strategy to ensure uniformity, strength and clarity of the message communicated to nations across the country.
2. A social media presence will be key to build brand recognition.
3. IIC representatives will speak at multiple national Indigenous events.

Note: The exact consultation process has not been defined yet and the preliminary costing estimates are in part based on FMB's experience in managing similar initiatives. These expenses include translation costs which could vary significantly based on the number of languages for which the IIC will require such services.

## Types of consultation

The IIC will engage with Indigenous people through various types of events:

1. **Large-scale conferences:** The IIC could organize 6 conferences in different Canadian provinces and territories (ON, BC, AB & SK, MB, NWT and Québec/Atlantic). These would be large two-day events and would allow the IIC to present the project to many different nations simultaneously and assess overall interest for the project.
2. **Meeting with assemblies of regional political leaders:** These meetings would allow IIC to further talk about the project and gain political support among Indigenous communities.
3. **Half-day workshops:** IIC representatives could meet with a limited number of nations (5-6) to address their questions and concerns more in depth.
4. **One-on-one discussions with individual Nations:** IIC representatives could meet individual nations to discuss their specific concerns and interests. Ideally, the largest and wealthiest nations would be prioritized to maximize IIC's chances of reaching a viable AuM level.
5. **Virtual townhall:** This virtual townhall would allow IIC to gather feedback from Indigenous nations across Canada on the proposed legislative changes.



# Cost assumptions – Implementation

## Internal resources

1. Given the importance of senior management positions for the IIC's success and the highly political nature of the project, the hiring process to fill these positions will need to be strict and well structured. The model therefore assumes the use of headhunting services, which could be very expensive (i.e., 50% of annual base salary for the first year).
2. IT equipment and office furniture costs per FTE is assumed to be comparable to that of the IIC.

## External resources

1. The bulk of IIC's implementation costs will take the form of legal and advisory fees for the creation of the legal entities (both the IIC and its underlying funds) and to amend existing trust agreements. Although the preliminary costing analysis uses an assumption for the average cost per participant, actual costs will significantly vary from one participant to the next based on the existing agreement's level of flexibility.
2. The IIC will also incur brokerage fees related to the transfer of assets from existing to new investment managers. Again, it is important to note that the assumption used for the average cost per participant represents a high-level estimate and will significantly vary from one participant to the next based on portfolio complexity (e.g. inclusion of illiquid assets) and on the level of overlap between existing and new investment portfolios.
3. This preliminary costing analysis assumes that all implementation costs would be incurred by the IIC rather than by the participants in the fund.

Note: The IIC will likely not have all the human resources internally to be fully autonomous when it starts operations. As the organization works towards attracting and hiring the right people internally, it will likely rely, to some extent, on external consultants. These would act as temporary staff and their level of involvement would gradually diminish as the IIC develops its internal resources. These external resources are typically more expensive than an organization's own employees, but they also offer a level of expertise that would be very valuable for the IIC. Given that the pace at which the IIC becomes fully autonomous will depend on a variety of factors (number and size of participating trusts, executive team's vision, etc.), staff expansion (through external resources) costs were combined with internal resources costs.

# Cost assumptions – Operating costs

## Investment expenses

1. The IIC is expected to require a total of 9 to 13 FTEs to conduct research, analysis & due diligence, shareholder engagement and impact investment activities (combination of internal and external resources).
2. Preliminary costing estimates are based on an average annual compensation of \$144k, which is aligned with recent market data.
3. They also account for recurring consulting fees to support the IIC in operational due diligence and responsible investment activities.

## Investment operations expenses

1. Given the initial size of the IIC and the extent of externalized functions, investment operations activities are expected to only require between 2 and 7 FTEs.
2. The analysis considers an average annual compensation of \$144k, which is aligned with recent market data.

Note: This preliminary analysis assumes that the IIC will follow a similar executive compensation plan as UPP. All compensation figures are subject to change based on the location of the IIC's activities and on the level of expertise targeted. It is also important to note that the IIC's actual operating model is not defined yet and is subject to change based on the Indigenous consultation process and on the vision of the management team and board of directors. Finally, annual compensation includes benefits equivalent to 20% base salary.

## Business operations expenses

1. The number of clients per client-relationship manager is assumed to be comparable to that of the FMB (i.e. 20 for investor relations and 15 for trustee education). The actual ratio will largely depend on the IIC's targeted level of service.
2. The analysis assumes that the IIC will have a board of directors composed of 12 members, and an senior executive team composed of a CEO, COO, CIO and CLO. The exact titles may be different.
3. Accounting & auditing, legal & compliance, HR management, and IT management activities are assumed to require a total of 4 to 8 FTEs depending on AuM.
4. Real estate costs are assumed to be comparable to that of the FMB (i.e., approximately \$40/sqft). Of course, this cost could vary based on the location of the IIC's activities and on its level of decentralization.

## Limits of the costing model

The results of the costing analysis should be considered as high level estimates. Calculations are based on a large number of assumptions, many of which are likely to evolve following the broader consultation process and based on decisions made by the IIC's future management team and board of directors.

An important limit of the analysis is the exclusion of any timing consideration. Indeed, the growth in assets under management will be largely dependent on the overall interest of Indigenous governments, trusts and organizations for the project.

Unfortunately, FMB have very little visibility on how well the project will be received by Indigenous communities at-large and, as a consequence, on the time it will take the IIC to reach the \$5B and \$10B in AuM levels. All costs are therefore based on current dollars and no inflation assumptions have been integrated in the model to forecast operating costs for AuM of \$5B and \$10B.

The assumptions used were defined to the best of our knowledge and experience, as well as on a series of interviews and discussions with industry experts. As the IIC enters its implementation phase, it will be important to perform a more detailed costing analysis founded on a more definitive operating model.