



Social Investment Board

Date: THURSDAY, 20 JUNE 2013
Time: 1.45pm
Venue: COMMITTEE ROOMS, 2ND FLOOR, WEST WING, GUILDHALL

Members: Deputy Ken Ayers
Ray Catt
Roger Chadwick
Revd Dr Martin Dudley
Deputy Robert Howard
Alderman Peter Hewitt
Edward Lord

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Lunch will be served for Members in the Guildhall Club at 1pm.

John Barradell
Town Clerk and Chief Executive

AGENDA

Part 1 - Public Agenda

1. **APOLOGIES**
2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**
3. **APPOINTMENT OF THE SOCIAL INVESTMENT BOARD: -**
 - a) Resolution of the Investment Committee of 14 May 2013;
 - b) Note of the Town Clerk setting out the composition, quorum and terms of reference of the Board; and
 - c) Membership of the Social Investment Board 2013/14.

For Information
4. **ELECTION OF CHAIRMAN**

To elect a Chairman pursuant to Standing Order No. 29.

For Information
(Pages 1 - 6)
5. **ELECTION OF DEPUTY CHAIRMAN**

To elect a Deputy Chairman pursuant to Standing order No. 30.

For Decision
6. **MINUTES**

To agree the public minutes and summary of the meeting held on Tuesday, 23 April 2013.

For Decision
(Pages 7 - 12)
7. **MEETINGS ATTENDED**

Report of the Chief Grants Officer.

For Decision
(Pages 13 - 14)
8. **PROGRESS REPORT**

Report of the Chief Grants Officer.

For Decision
(Pages 15 - 26)

9. **PRESENTATION FROM SYMBIOTICS AND OXFAM**
Presentation relating to your investment in the Small Enterprise Impact Investment Fund (SEIIF) – to follow.
- For Information**
10. **UPDATE ON THE WORK OF THE SOCIAL INVESTMENT ADVISOR**
Report of the Director of Economic Development.
- For Decision**
(Pages 27 - 30)
11. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**
12. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
13. **EXCLUSION OF THE PUBLIC**
MOTION – That under Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A of the Local Government Act.

Item No.	Exempt Paragraphs
14	3
15	3
16	3

Part 2 - Non-Public Agenda

14. **NON-PUBLIC MINUTES**
To agree the non-public minutes of the meeting held on Tuesday, 23 April 2013.
- For Decision**
(Pages 31 - 34)
15. **PORTFOLIO UPDATE**
Report of the Chief Grants Officer.
- For Information**
(Pages 35 - 44)
16. **SOCIAL JUSTICE AND HUMAN RIGHTS CENTRE**
Report of the Chief Grants Officer.
- For Decision**
(Pages 45 - 48)
17. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**

18. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE BOARD AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

Agenda Item 3

TO: **Social Investment Board**

Thursday 20 June 2013

FROM: **Investment Committee**

Tuesday 14 May 2013

4. **APPOINTMENT OF BOARDS AND FREQUENCY OF MEETINGS**

The Town Clerk sought Members' approval the composition and terms of reference of the Social Investment Board.

RESOLVED – That the following composition for the Social Investment Board be agreed and its terms of reference be approved.

Social Investment Board

Chairman to be determined by the Board

The Chairman of the Policy & Resources Committee for the time being or his/her nominee;

The Chairman of the Finance Committee for the time being or his/her nominee;

The Chairman of the City Bridge Trust Committee for the time being or his/her nominee;

The Chairman of the Financial Investment Board for the time being or his/her nominee;

One Member of the Financial Investment Board;

Two Members elected by the Court of Common Council, one of whom shall have fewer than five years' service on the Court at the time of their appointment.

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Social Investment Board Terms of Reference

All nominees must be Members of the Court of Common Council.

Quorum

The quorum consists of any 3 Members.

Terms of Reference

The terms of reference for the Social Investment Board shall be as follows:-

- a) to approve criteria for social investments and to authorise social investments in accordance with such criteria
- b) to approve the appointment of and monitor the performance of independent advisors tasked with undertaking due diligence of investment proposals; and
- c) all of the above to be consistent with the strategic investment policies determined by the Policy and Resources Committee and the Investment Committee.

There is provision within Standing Orders to enable the Chairman of the Social Investment Board to report on and speak to their activities and responsibilities in the Court of Common Council and to ensure that any decisions are taken without undue delay.

***Note on the Chairmanship**

The Social Investment Board shall elect annually a Chairman and a Deputy Chairman from amongst all of its Members (including ex-officio Members who shall also have the power to vote in such elections) with the exception of any co-opted people.

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Social Investment Board Membership 2013/2014

Alderman Peter Hewitt	Nominee of the Chairman of the Policy & Resources Committee
Roger Chadwick	Chairman of the Finance Committee
Deputy Ken Ayers	Nominee of the Chairman of City Bridge Trust
Ray Catt	Chairman of the Financial Investment Board
Edward Lord	One Member of the Financial Investment Board
Revd. Dr Martin Dudley Deputy Robert Howard*	Two Members elected by Court of Common Council on 16 May 2013

** One of whom shall have fewer than five years' service on the Court at the time of their appointment.*

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SOCIAL INVESTMENT BOARD

Tuesday, 23 April 2013

Minutes of the meeting of the Social Investment Board held at the Guildhall
EC2 on TUESDAY 23 APRIL at 11.00am

Present

Members:

Alderman Peter Hewitt (Chairman)	Roger Chadwick
Deputy Edward Lord (Deputy Chairman)	Deputy Robert Howard
Deputy Ken Ayers	Deputy Richard Regan
Ray Catt	

Officers:

Simon Murrells	- Assistant Town Clerk
Natasha Dogra	- Town Clerk's Department
Xanthe Couture	- Town Clerk's Department
Tim Wilson	- City Bridge Trust
Martin Hall	- City Bridge Trust
Paul Mathews	- Corporate Treasurer
Deborah Cluett	- Comptroller and City Solicitor's Department
Liz Skelcher	- Economic Development Office
Katie Hill	- Social Investment Adviser, Economic Development Office

In Attendance:

John Kingston	- Social Finance Ltd.
Richard Todd	- Social Finance Ltd.

1. APOLOGIES

There were no apologies.

2. MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA

There were no declarations of interest.

3. MINUTES

The minutes of the meeting held on 14 December 2012 were agreed as an accurate record.

Matters arising:

Members discussed whether it would be sensible to set up two additional meetings of the Social Investment Board to ensure the Board met regularly to discuss proposals. A decision could be taken nearer the date as to whether the meeting was needed and ensure decisions were being taken. It was agreed the

Town Clerk would liaise with the Chairman to arrange suitable dates accordingly.

In response to a query concerning possible partnership involvement between the Kuwait Investment Authority and the British Red Cross a Member clarified that no further action was required.

RESOLVED: That the minutes be agreed as an accurate record.

4. MEETINGS ATTENDED

The Chief Grants Officer reported meetings which officers had attended since December 2012. In response to a query from Members, the Chief Grants Officer stated that a meeting had been held with Triodos Bank and Bristol Together Community Interest Company. Officers had discussed a possible housing-based social investment product in the Midlands, and this was now being investigated.

Officers reported that a meeting had been held with Social Finance Ltd to discuss a possible product in the field of health and social care. The Chairman and officers had also met with Berenberg Bank and discussed the Impact Venture UK Fund. Berenberg gave an interesting presentation and overview of their history and activities.

RECEIVED: Members noted the report.

5. CHIEF GRANTS OFFICER'S REPORT

The Board received a report summarising the activities officers had undertaken since the Social Investment Board's first meeting held in December 2012. Members were provided with an update on progress in developing a 'pool' of social investment advisors. This action was taken forward and a call to submit an expression of interest was sent to thirteen appropriately qualified organisations. By the deadline of 5th April 2013, six of these had responded. The list covered a range of both mainstream and social investment organisations, fund managers, advisors and intermediaries, offering a wide range of sector expertise and including experts in both financial risk and risk assessment, with an understanding of impact measurement and who are FSA registered.

The Chairman and Deputy Chairman were due to meet representatives from the three organisations which most closely measure up to the specification; who, if approved, would be included in a 'pool' of advisors. Their services would be spot purchased, and matched according as to the suitability of their expertise to the proposal in question. The 'pool' would be reviewed from time to time and may be enlarged occasionally, should additional expertise be required.

Members were also provided with an update on the recruitment of co-opted Board Members. Members were informed that following an informal meeting with the Chairmen of the Social Investment Board and the Investment

Committee, Town Clerk, Comptroller & City Solicitor and officers, it was decided to defer the search for co-opted members until later in the year, by which time Members would be better positioned to assess which areas of expertise were needed on the Board.

Officers informed the Board that following a Member's concern that the costs of placing a social investment appear high relative to mainstream market norms (especially for funds of funds where fees are typically 2% - 2.5%) officers had examined the reasons for this and whether there was potential for fees to reduce in the near future. Officers clarified that the social investment market remained a nascent market and did not yet benefit from standardisation of investment deals. In addition, investees incurred the costs of additional monitoring and reporting of social benefit which was not commonly required in mainstream investments, and this could result in higher fees.

Members noted that funds of funds, in which investors placed capital into a pool from which onward investments were made into organisations, had helped to tackle both social and mainstream investors' requirements for scale, risk mitigation and size of investment. The approach allowed for sector or geographic specific focus and provided investors with larger investment opportunities. The effect of this was to increase the reach of social investment to more organisations.

In response to a query from Members, it was stated that over time as more deals were done and replication could follow, fee rates should drop to nearer the mainstream levels of 1.5% - 2%. The City of London Corporation's participation in the market, and willingness to accept (at this stage) relatively higher fee levels should help in the longer term to lower benchmark fees.

Members were satisfied with the further clarification set out on the role of the Social Investment Trustee.

In response to a query regarding naming rights the Chief Grants Officer reported that there appeared to be no great advantage in being associated with a further fund and it may serve to confuse and be a reputational risk, should this fund take investment decisions contrary to the Corporation's own best judgement. Whilst this risk could be mitigated by direct engagement with such a fund, this had considerable personnel and resource implications. Furthermore, whilst investment propositions were not yet so plentiful, there was the likelihood of repetition of investments and City of London might be exposed to risk on two counts.

RESOLVED - That the option to consider naming rights be not agreed but remain open, should there be a compelling reason for reconsidering this.

6. **INVESTMENT CRITERIA**

The Board received a report on the investment criteria which were approved by the Court of Common Council at its meeting on 25 October 2012, and which were supplemented at the first meeting of the Social Investment Board on 14 December 2012.

Officers reported that the two main objectives of the Board were to provide loan finance, quasi-equity and equity that provided development and risk capital to organisations working towards charitable ends or with social purpose; and to help develop the social investment market.

In response to a query from Members it was reported that Officers would continue to present the criteria to Social Investment Board meetings as a standing item and would propose amendments or updates where appropriate. The criteria were available online so that prospective investees had a better understanding of what the Fund would and would not invest in.

RECEIVED.

7. **FINANCIAL RETURN - PROPOSED TARGETS**

The Board were informed that in October 2012 Common Council agreed that the Fund should achieve an overall financial return: “at a rate of not less than the average interest earned on the City’s cash holdings”. Members were informed that given that the Fund would consider a number of investment proposals where individual investments are expected to return a lower financial return than the CPI inflation rate they would only be considered if there was a significant case that the social outcomes compensate for the loss of income.

In response to a comment by Members, officers were tasked with altering the wording of the criteria to read as follows: “*The Social Investment Board should seek a **total** return equivalent to the CPI inflation rate (2.7%) on the day when the £20m allocation was made (25 October 2012) and that the individual investments should seek a return which at least matches the average cash rate achievable on that date (2%).*”

Officers informed Members that targets would be reviewed and revised on their 3rd anniversary (25 October 2015) in line with the usual investment term for assessing the performance of other City traditional investments. The Board would receive updates from the Corporate Treasurer on the average interest earned on the City’s cash holdings at each meeting.

Officers would submit a report to Members outlining the opportunities and risks presented by housing association bond options as a source of potential Fund investment opportunities. As well as potential housing association bond option Fund investment opportunities that may exist.

In addition, officers would submit a report to Members advising on ring-fencing funds for high impact, earlier stage and potentially higher risk social investments that were potentially not secured by assets. Officers would research what high impact and high risk projects could be potential investment opportunities and details of what these projects may involve.

– RESOLVED – That,

a) the proposed targets and review date be agreed; and

b) the investment criteria be updated and republished in its amended form

8. **UPDATE ON THE WORK OF THE CITY OF LONDON SOCIAL INVESTMENT ADVISOR**

The Chief Grants Officer informed the Board that since the last meeting on 14th December 2012, the Social Investment Advisor (SIA) had continued to build up external relationships with public and private sector bodies involved in social investment both in the UK and internationally.

Policy highlights since December included a budget commitment to introduce a social investment tax relief, a significant role for the City of London Corporation in the formation of the G8 agenda, which featured social impact investment for the first time.

Members were informed that the conclusion from the Cabinet Office's Red Tape Challenge was a commitment to examine the key barriers to the take up of social investment, as identified in the City of London Corporation's submission. The social investment agenda was also well reflected in the amendments to the Financial Services Bill. A range of other initiatives had attracted further interest to social investment from financial advisors and asset managers.

RESOLVED - That the Advisor's report be a standing item which included updates on investments approved by Big Society Capital.

9. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**

There were no questions raised on matters relating to the work of the Board.

10. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

There was no business that the Chairman considered urgent.

11. **EXCLUSION OF THE PUBLIC**

RESOLVED: - That under Section 100 A (4) of the Local Government Act 1972,

the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A of the Local Government Act as follows:-

Item Nos.	Exempt Paragraphs
12 - 16	3

12. **NON-PUBLIC MINUTES**

RESOLVED – That the non-public minutes be agreed as an accurate record.

13. **PORTFOLIO UPDATE**

The Board received the report of the Chief Grants Officer.

14. **INVESTMENT PROPOSAL**

The Board received the report of the Chief Grants Officer.

15. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**

There were no questions on matters relating to the work of the Board.

16. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE BOARD AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

There was no business that the Chairman considered urgent.

The meeting closed at 12.10pm

Chairman

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SOCIAL INVESTMENT BOARD

Events and Meetings Attended 12th April to 6th June 2013

Date	Organisation	Type of Event	City of London's Representative	Location/ Borough	Summary Comments
10 April	Total Impact Advisors	Informal meeting	Katie Hill	Guildhall	Meeting to discussion the development of international investment products aimed at supporting the Millennium Development Goals.
17 April	Social Finance Ltd	Meeting	Clare Thomas, Tim Wilson, Katie Hill	Guildhall	Discussion on ways social investment might resource healthcare activity.
25 April	Real Lettings Property Fund	Reception	Chairman and Tim Wilson	House of Lords	An event marking the commencement of the Real Lettings Property Fund's operations. Hosted by Lord O'Donnell, the event brought investors together with representatives of the agencies involved in delivering RLPF.
29 April	Investing For Good	Informal meeting	Katie Hill	City of London	A meeting to discuss EU initiatives around social investment as well as social investment in arts and culture activities.
30 April	Small Change	Informal meeting	Anne Pietsch, Karen McHugh, Tim Wilson, Katie Hill	Guildhall	General discussion with an expert consultant on Programme Related Investments for trusts and foundations.
30 April	Carbon Leapfrog and PURE	Informal meeting	Katie Hill	Guildhall	An initial introduction to each other's organisations and plans.
8 May	ClearlySo	Informal Meeting	Katie Hill	City of London	A discussion around investment deal flow for social enterprises.

9 May	Shell Foundation	Round table	Katie Hill	Waterloo	A round table to discuss new research into international investment for social enterprises in developing and emerging countries.
13 May	Engaged X	Informal Meeting	Katie Hill	Guildhall	Update on plans for next stage of Engaged X
14 May	Social Finance Ltd	Informal meeting	Katie Hill	Central London	Update on products in pipeline, investor appetite and the international marketplace.
15 May	Young Foundation	Informal meeting	Tim Wilson, Noa Burger, Katie Hill	Guildhall	Update on Young Foundation's work to support social ventures and an opportunity to introduce the Young Foundation to the City's social investment fund and City Action project.
21 May	London Rebuilding Society	Informal meeting	Tim Wilson, Katie Hill	City of London	Discussion of London Rebuilding Society's work and possible collaboration with the City Corporation on social investment.
23 May	Nexters Event hosted by Bates Wells Braithwaite	Round Table / seminar	Katie Hill	City of London	A presentation of the City Corporation's social investment activity to the Nexter entrepreneurs.
28 May	Big Lottery Fund	Meeting	Chairman	London	An initial meeting between the Chairman and the Head of Funding for Big Lottery's England Directorate which included a discussion about BIG's work on social investment.
3 June	Esmee Fairbairn Foundation	Seminar	Tim Wilson	Kings Cross	One of a series of regular pitching days where investors have the opportunity to hear from organisations seeking social investment.
5 June	Standard Chartered	Round Table	Katie Hill	City of London	Information gathering event on the progression towards Development Impact bonds.

Agenda Item 8

Committee:	Date:
Social Investment Board	20 th June 2013
Subject: Progress Report	Public
Report of: Chief Grants Officer	For Decision

Summary

This paper introduces today's presentation from the agencies involved with the City of London Corporation's first social investment, the Small Enterprise Impact Investment Fund.

It seeks your authority to bring indirect investments to future meetings.

It provides an introduction to a possible high-risk, high impact ring-fenced allocation within your Fund.

It recommends that you do not consider investment in existing housing association bonds.

It recommends that you appoint two new advisors to your Fund.

Recommendation:

That you note the contents of the report

That you authorise officers to bring indirect investments to your Board for consideration

That you do not consider investment in existing housing association bonds.

That you appoint FSE Group and Social Investment Business / Investing for Good as advisors to your Fund on the same basis as your current advisors, Social Finance.

Main Report

Presentation

1. At your request, today's meeting includes an opportunity to hear from representatives of organisations involved with the City of London's first social investment. The Small Enterprise Impact Investment Fund (SEIIF) emerged from work led by the international charity Oxfam, with support from the City of London Corporation, to strengthen economic development in low income countries. Focused on the provision of affordable credit to small and medium sized private enterprises in the global south, the SEIIF is intended to generate positive social returns as well as a 5% IRR for its investors.

2. SEIIF is managed by Symbiotics, a Swiss microfinance specialist currently managing over \$200m through more than 20 microfinance funds. Both Oxfam and Symbiotics have invested their own funds in SEIIF and the City Corporation (through its Policy and Resources Committee) took to the decision to invest \$500,000 in July 2012.
3. Vincent Dufresne, Head of Asset Management and Fabio Sofia, Head of Investor Relations will join today's meeting from Symbiotics. Oxfam will be represented by Nicholas Colloff, its Director of Innovation.
4. The following summary is based on SEIIF's investor prospectus and is intended for reference for today's presentation:

Fund size

- Target size of 100m USD raised over 3 years with 25m USD raised by the end of 2012, and 50m USD by end 2013

Term and liquidity

- 5 year investment period
- Early redemption charged at 1.5% per remaining annum (paid to the Fund)

Return to investors

- Capital preservation with a target return equal to or above 5% pa in USD terms
- Return subject to performance across a blend of debt and equity investments made by the Fund to a range of for-profit small enterprise financing intermediaries based in low to middle income countries which in turn invest in domestic businesses with 10 – 100 employees

Social benefit

- Economic growth in low to middle income countries, with a particular focus on women's empowerment and food security
- The Fund will address the unmet demand by SMEs for access to capital (Oxfam estimate that of SMEs in target regions without access to capital, rates are: up to 20% in East Asia; up to 25% in South Asia and up to 40% in Africa)
- The Fund aims to invest the first USD 25m in 12 target SEFIs spread across 5 regions and 9 emerging economies. The Fund estimates that subsequent financing will help over 1,000 small enterprises employing over 12,000 people, two thirds of which will be women

Investment Committee

- Vincent Dufresne, Chair (Symbiotics SA)
- Alan Doran, Vice-Chair (Oxfam GB)
- Geetha Tharmaratnam, Independent Member (Investment & ESG Principal, Aureos Capital)
- Gavin Stewart, Independent Member (CEO - Scottish Widows Pension Fund)
- Stephen Acheson, Independent Member (Head of Fixed Income, Standard Life Investments)

Investment Manager

Symbiotics SA, Switzerland

Investment Structure

Specialized Investment Fund (SICAV-SIF) (an on-shore Luxembourg investment

fund) with quarterly valuations

Total Expense Ratio and fees

- 2% pa as follows:
 - Fund Manager (Symbiotics) 1.25% pa
 - Impact Adviser (Oxfam GB) 0.25% pa
 - Agent Bank (CACEIS) 0.4% pa
 - Other (audit, legal, tax) 0.1% pa
- No entry, exit or performance fees

6. Latest quarterly financial and social performance reports on the SEIIF are appended to this paper for further reference.

Investment Pipeline

7. Whilst officers are examining a direct investment opportunity in the UK, it has not been possible to complete due diligence in time to bring this proposal to today's meeting.
8. The portfolio update presented in non-public papers to your meeting shows the pipeline of investment opportunities, and notes that many of these are for investment funds. Social investment funds are typically designed to allow investors to place capital into a pool from which onward investments are made in social organisations, and are normally focused on a particular geography or social theme. Social investment funds present investors with a wider range of investment opportunities, as well as greater opportunities to diversify and reduce risk.
9. At your meeting on 23rd April 2013 you discussed the growing number of social investment fund opportunities, and the Chief Grants Officer's paper to that meeting included a discussion on fees. As noted, the costs of placing a social investment, especially through investment funds, are often higher than mainstream market benchmarks (normally 2 – 2.5%). These fees are associated with the emergent nature of the social investment market where there is not yet standardisation of investment deals, and where investees are required to incur additional costs for monitoring and reporting social benefit.
10. Whilst you have expressed a preference for direct investment, officers encourage you to consider indirect investments (notwithstanding their relatively high fees) where these are in line with your investment criteria. This will allow you to invest more of your Fund and support the development of the social investment market which in turn should help in the longer term to lower benchmark fees.

High Risk Allocation

11. At your meeting on 23rd April 2013 you asked officers to examine options for ring-fencing part of your £20m allocation for high impact, earlier stage, and potentially high risk investments that may not be secured by assets.
12. As highlighted at your seminar on 14th February 2013, the majority of social investment issued so far is in the form of secured lending. Social investors typically prefer to back organisations that can provide evidence of reliable revenue streams and a track record of high performance.

13. Many social purpose organisations lack a strong asset base on which to secure lending, and these organisations often have legal structures that place a limit on the distribution of returns to investors. This can make it particularly difficult for organisations to secure early stage investment, particularly when this is sought for innovative work. The combined effect is to create a funding gap, and recent research from the Big Lottery Fund and Big Society Capital estimates that there will be demands for approximately £1bn social investment over the next five years, largely in the form of unsecured debt.
14. Big Lottery research indicates the majority of early stage social business activity seeks finance within the £10,000 to £100,000 range, usually as working capital. Whilst there are a growing number of programmes that seek to identify and support high potential social businesses, the limited number of investors prepared to take on high-risk social financing restricts the potential of this section of the market.
15. One of the objectives of your Fund is to develop the social investment market, and you could play a valuable role by allocating a small amount of capital to high risk, high impact social investment propositions. Preliminary analysis indicates that it may be possible to ring fence between £250,000 and £450,000 for high risk investments with write off rates between 50-100% without negative impact on your Fund's target total return. Officers will present a paper on options for a high risk allocation at a later meeting.

Housing Association Bonds

16. At your meeting on 23rd April 2013 you asked officers to research opportunities for your Fund to invest in housing association bonds.
17. Housing associations are private, not-for-profit organisations (the majority have charitable status) and exist to provide low cost social housing at sub-market rent levels. Collective turnover was £13.8bn as of March 2012. Operating surpluses are often used to provide community or neighbourhood services such as childcare support or social welfare programmes.
18. Whilst housing associations have delivered a collective operating surplus over the past five years, they have also sought external finance to develop affordable homes and bring existing stock up to required standards. As of December 2012 housing associations had total reported borrowing of £67.9bn of which 94% was secured. It is estimated that 70% of the debt is issued at fixed interest rates.
19. Housing associations are authorised to access private finance through bank lending (which currently accounts for 90% of external finance) and bonds. Over the past three years the sector has sought to raise £5bn p.a., and is likely to increase its borrowings in the future as government grants are scaled back.
20. £4bn of housing association bonds were issued in 2012 and the total outstanding issuance is £12bn. The majority is secured and has a fixed coupon of, typically, 5%. Larger associations are able to issue own name bonds with medium-high credit ratings whilst smaller associations raise finance via intermediaries such as GB Social Housing and The Housing Finance Corporation.

21. There is currently very little liquidity in secondary markets for housing association bonds and this prevents active bond managers from investing in social housing bonds. As such, the majority of investors invest on a 'hold to maturity' basis, with maturities ranging between 20 – 30 years. One study indicates that 90% of all social housing bonds issued since 2008 have been purchased by only 13 investors.
22. Some housing associations do access capital through private placements, and these have included placements with charitable trusts. Since 2006 over £1bn has been raised through private placements, and is unlisted, lacks liquidity on secondary markets and is usually held to maturity. Transaction sizes for private placements have averaged £20m for 10 year plus durations.
23. One housing association currently offers retail bonds that are quoted and traded on the London Stock Exchange. Places for People has £140m bonds in circulation, although it would be hard to deem these investments with identifiable social impact as the housing association has already received the bond proceeds.
24. Whilst housing associations generate a number of positive social benefits through offering affordable and secure tenancy to low-income households and by investing in community and neighbourhood regeneration, it is difficult to attribute existing bond issuance (whether retail, private placement or other bonds) to measurable social impacts.
25. Despite the relatively high annual return, officers recommend that you do not consider existing housing association bonds as suitable for your Fund given the difficulty relating these investments to specific social impact and the generally long maturity on these products. In addition, officers also highlight that housing association bond risk may grow as central government grants to the sector decline, welfare reform is rolled out and regulation is reviewed. Members should note that Moody's has stated the sector may be subject to multiple-notch downgrades in the near future.
26. Existing housing association bonds are not deemed suitable given your investment criteria, but officers will examine new products as issued for suitability. Members may wish to consider the possibility of engaging an appropriately qualified organisation to examine whether a dedicated social investment property fund could be created.

Advisors to the Social Investment Board

27. Currently, you have only one independent advisor appointed to your Fund, Social Finance Ltd. You agreed at your 14th December 2012 Board meeting that you wish to appoint a 'pool' of social investment advisors and to delegate authority to the Town Clerk, in consultation with the Chairman and Deputy Chairman, to draw up a list of other suitable organisations for approval at this meeting.
28. This action was taken forward, and a call to submit an expression of interest was sent to thirteen appropriately qualified organisations. By the deadline of 5th April 2013, six of these had responded, and the details of their specifications were drawn up in a matrix. Three of the most suitable agencies were selected for interview and met the Chairman and Tim Wilson of City Bridge Trust on 8th May to discuss how they might support your work.

29. Two of the agencies, The FSE Group and The Social Investment Business Group / Investing for Good / The Good Analyst would be useful advisors to your Board and are recommended for appointment.
30. The FSE Group (hereafter 'FSE') is a non-profit Community Interest Company established in 2002 to provide fund management, consultancy, and business angel support to socially-oriented small and medium enterprises. FSE's small staff team has substantial commercial experience, and the organisation currently has £32m funds under management. FSE has been involved in several high-profile, pioneering social investment initiatives, including the first Social Impact Venture Capital Trust, a new fund for renewable energy initiatives with social impact, and advisory services on social investment readiness to social enterprises. FSE has social investment due diligence and appraisal expertise that would be a useful asset to your Fund.
31. The Social Investment Business Group / Investing for Good / The Good Analyst (hereafter 'SIB') is a partnership of organisations led by one of the largest social investment intermediary organisations in the UK. To date SIB has arranged over £160m loan finance to social enterprises and charities and a further £200m in grant funding. This support has been targeted to social sector organisations working in a broad range of disciplines including offender management, employment support, environmental services, and social care. SIB is widely recognised as a leading organisation concerned with developing the UK social investment market. SIB proposes to work in partnership with Investing for Good and The Good Analyst Ltd. The first is an FCA regulated agency which is recognised as a leader in the arrangement of charitable bonds. The Good Analyst Ltd is a company that has developed a proprietary social impact tool which is regarded as close to an industry standard.
32. Both The FSE Group and The Social Investment Business Group / Investing for Good / The Good Analyst would be useful additions to your pool of advisors. Officers will continue to work with the Chairman and Deputy Chairman to identify suitable advisors to your Fund.

Recommendations:

That you:

- a) note the contents of the report,
- b) authorise officers to bring indirect investments to your Board for consideration
- c) do not consider investment in existing housing association bonds at this stage
- d) appoint The FSE Group and The Social Investment Business Group / Investing for Good / The Good Analyst as advisors to your Board. Their services to be engaged on the same spot purchase basis as your current advisors (Social Finance).

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Report written: 5th June 2013

THE SMALL ENTERPRISE IMPACT INVESTING FUND (SEIIF)

A Joint Initiative of the City of London, Oxfam GB and Sympiotics

FUND FACTS

Net Asset Value (NAV)	USD 2,721,192
Investment Portfolio	USD 2,033,734
Cash & Liquidities	USD 744,002
Number of Countries	2
Number of Investees	2
Number of Investments	2
Average Investment	USD 1,000,000
Weighted Asset Maturity	30.2 months

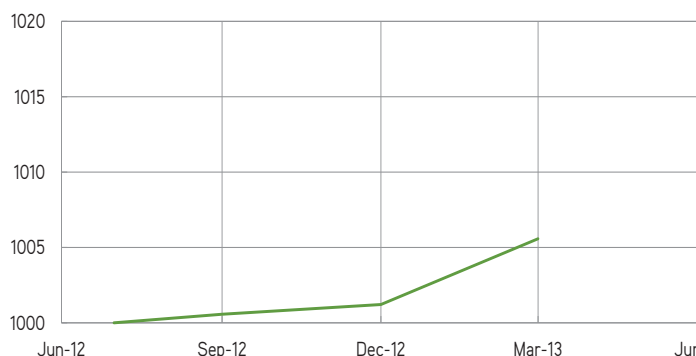
SHARE CLASS PERFORMANCE

USD ACCUMUL.

Share Value	USD 1,005.58
Quarterly Return	0.436%
Year-To-Date	0.436%
12 Months	-
Since Inception	0.558%
Best Quarter	0.436%
Worst Quarter	0.057%
Volatility (Std. Dev.)	0.217%

HISTORICAL RETURN (%)

	Mar.	Jun.	Sep.	Dec.	YTD
2013	0.44				0.44
2012	--	--	0.06	0.06	0.12



INVESTMENT STRATEGY

The fund's core mission is to address the 'missing middle' gap through the financing of small businesses (10 to 100 employees) in low and middle income economies. Small enterprises have different financing needs at different stages of their life cycle (working capital, fixed assets, leasing, mezzanine, equity), which they access through various financing intermediaries. In order to achieve its mission, the fund invests indirectly through these local intermediaries. To date, the fund provided USD 2 million debt funding to two local intermediaries, in Mongolia and Kyrgyzstan, and contributed to finance directly 150+ small enterprises and 1500+ jobs.

10 KEY END CLIENT IMPACT INDICATORS

Number of Enterprises Financed	168
Average Financing Size	USD 12,118
Number of Jobs Created (Estimation)	1,510
% Women/Men/Legal entities	27 / 50 / 23
% Rural/Urban	46 / 54
% in Agriculture	27
% in Trade	17
% in Production	13
% in Other Activities	43

LARGEST OUTSTANDING INVESTMENTS

Fund Name	Fund Name	Volume (USD)	% NAV
Xac Leasing	Mongolia	1,000,000	36.7%
BTFF MCC	Kyrgyzstan	1,000,000	36.7%

Legal Disclaimer: The fund has not been approved for public distribution in or from Switzerland by the Swiss Financial Market Supervisory Authority (FINMA) pursuant to the Swiss Collective Investment Schemes Act of 23 June 2006 (the "CISA") and its implementing regulations. Accordingly, units of the fund offered hereby may only be offered and this document may only be distributed in or from Switzerland to qualified investors (as such term is defined in the CISA and its implementing regulations). This document and any other materials relating to units of the fund are strictly confidential and do not constitute an offer to any other person or entity than Swiss qualified investors and may only be used by those qualified investors to whom it has been handed out in connection with the offer described herein. It may not be used in connection with any other offer and may neither be copied, used by, distributed or made available to any other person.

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THE SMALL ENTERPRISE IMPACT INVESTING FUND (SEIIF)

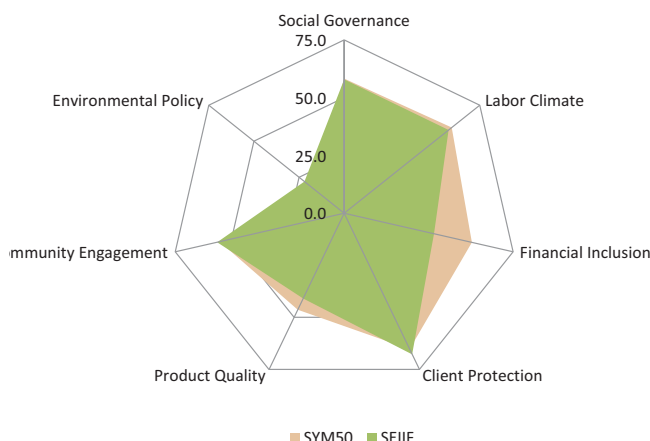
A Joint Initiative of the City of London, Oxfam GB and Symbiotics

INVESTMENT MANAGER'S COMMENT

The Small Enterprise Impact Investing Fund aims at becoming a reference product in the impact investing space. Thanks to Oxfam GB's solid experience in impact measurement and certification, the fund will be able to measure its impact on job creation and enterprise growth through a range of metrics and evaluations. As small enterprise financing is essentially geared to job creation, the fund will provide indicators on employment and wages by gender, quality (part or full time) and location (urban/rural). It will also track the growth of small businesses through output, revenues and financing. As of now, the fund has provided financing to two local intermediaries, one in Mongolia to a leasing finance company, and one in Kyrgyzstan to a rural financing company. These investments contributed to directly financing 300+ small enterprises.

FINANCIAL INTERMEDIARY SOCIAL RESPONSIBILITY

	SEIIF	SYM50
Rating	★★★	★★★
Score	52.1%	55.0%
Social Governance	57.9%	58.3%
Labor Climate	57.8%	59.5%
Financial Inclusion	39.9%	56.7%
Client Protection	67.8%	65.3%
Product Quality	40.9%	46.3%
Community Engagement	56.4%	55.3%
Environmental Policy	22.0%	17.7%



PORTFOLIO OUTREACH

		Rating
Overall		-
Breadth		-
Depth		★★★
Macro Level	Countries	Value
Breadth	Number of countries	2
Depth	GDP per Capita	2,934
Meso Level	Intermediaries	
Breadth	Number of SEFIs*	2
Depth	Average SEFI portfolio	39,718,583
Micro Level	End Client	
Breadth	Number of clients	168
Depth	Average financing	12,118

* Small Enterprise Financing Intermediaries

SMALL ENTERPRISE IMPACT MEASUREMENT

Small Enterprise Development

Number of Enterprises Financed	168
Average Financing (USD)	USD 12,118
Average Additional Finance Mobilized (USD)	NA
Average Growth (output)	NA
Average Revenue (USD)	NA
Average Wage (USD)	NA

Job Creation

Number of Employees	NA
Number of Jobs Created	NA

Food Security

% Activities Financed in Agriculture	27%
% Activities Financed in Rural Areas	54%

Women Empowerment

% of Women's Business Ownership	27%
Number of Women Employed	NA



VALUE CHAIN ILLUSTRATION



MONGOLIA

With three million inhabitants, Mongolia is one of the most scarcely populated countries in Asia. Besides traditional agriculture and herding, the country has significant potential in mining, including one of the world’s largest copper deposits. Over the past few years, the country has recorded significant GDP growth which has had a positive impact on the SME sector seeing its financing needs increase substantially. However, this growth has also been accompanied by increasing inflation. The microfinance sector is relatively well developed and marked by a high outreach, occurring mainly through bank branches and ATMs. The sector is dominated by two commercial banks, Khan Bank and XacBank. In 2012, Mongolia was ranked the 25th best microfinance business environment by the U.K. Economist Intelligence Unit’s: “Global microscope on the microfinance business environment”.

	2012
Population	3.1 million
Population living in poverty	39.20%
Human dev. rank	110/187
GDP per capita	USD 4,800
Real GDP growth	17.5%
Inflation rate	9.5%
Fx hedging costs (12m)	11.5%
Private credit	51.6%/GDP
Foreign aid	USD 301 million
Remittances	USD 279 million

XAC LEASING

XAC Leasing was created in May 2007 by Tenger Financial Group (TFG), XAC Bank’s sole shareholder. With the exception of another operator that is mostly active in the mining sector, XAC Leasing is Mongolia’s only leasing company and aims to diversify its offering through a comprehensive range of products dedicated to SMEs. The company became profitable in 2008 with growth slowing down in 2009 as a result of the economic crisis which hit the Mongolian economy severely. However, already in 2010 and 2011, the company recorded triple digit growth and concentrated on institutional development in 2012. Its current lease portfolio is mostly invested in commercial vehicles such as trucks and passenger cars used in different economic sectors such as transportation, manufacturing, construction and mining. In the upcoming years, Xac Leasing intends to fund growth through debt helping it to maximize its focus on widening its leasing offer to include various types of assets such as health or educational equipment.

	December 2012
Total assets	USD 18 million
Portfolio size	USD 15 million
Nb of active borrowers	325
Average loan	USD 39,055
Portfolio yield	23.2%
Op. self-sufficiency	152.7%
Op. expense ratio	3.9%
Return on equity	19.2%
Debt/Equity	2.6
PAR>30	7.8%

MR. BAYARSAIKHAN DASHPUNTSAG

Mr. Bayarsaikhan Dashpuntsag is 38 years old and lives in a suburb of Ulaanbaatar, the capital of Mongolia, where he runs a taxi business. His first occupation was trading, used cars. Shortly afterwards, he decided to become an entrepreneur as job opportunities were almost inexistent in Mongolia at that time. He gradually grew his business and also started to import cars and rent them out to taxi drivers on a daily and weekly basis. At the same time, he accessed financing from Xac Bank which allowed him to further expand his business. Mr. Dashpuntsag decided to only borrow with this institution since Xac Bank was the only one to support him during the 2008 economic crisis. In 2011, Mr. Dashpuntsag leased about 30 cars as this was more interesting financially than directly purchasing cars. Currently, his company operates 90 taxis of which 52 are leased. In addition, he founded a professional association which protects the interests of taxi drivers and works to implement the necessary safety and insurance policies for its members.





OXFAM



VALUE CHAIN ILLUSTRATION



KYRGYZ REPUBLIC

The Kyrgyz Republic is a Central Asian state, with a population of 5.5 million people. Its major sectors of activity are in services (51%), industry (29%) and agriculture (20%). After two revolutions in five years, the microfinance sector is funded mainly by International Financial Institutions and commercial microfinance funds. There are a few leading MFIs that have recorded excellent performances so far, with ROE at over 12% and very low PAR. Additionally, around 100 small institutions are registered as MFIs. Efforts are increasing to modify the microfinance legal framework in order to allow MFIs to collect deposits and transform eventually into banks. Reportedly 31% of MFI clients have a parallel loan which provokes a growing concern about the ability of the sector to grow healthily in the coming years.

	2012
Population	5.5 million
Population living in poverty	33.70%
Human dev. rank	126/187
GDP per capita	USD 2,400
Real GDP growth	5.7%
Inflation rate	8%
Fx hedging costs (12m)	14%
Private credit	15.1%/GDP
Foreign aid	USD 380 million
Remittances	USD 1.2 billion

BTFF MCC

In 1996, Acdi/Voca and Caritas in Switzerland launched two microfinance programs in the towns of Osh and Jalalabad. In 2000, both programs were merged into a new MFI named Bai Tushum Financial Fund (BTFF), which was registered as a foundation and in 2009, it was transformed into a Joint Stock Company. In July 2011, it became the first MFI to receive a deposit-taking license and received its banking license at the end of 2012. Currently, BTFF has 63 service points spread across the country, and offers mainly individual loans (85% of the portfolio) in local currency. Its clients are mainly rural based and involved in agriculture and trade activities. Unlike other major Kyrgyz MFIs, BTFF focuses on the upper segment of the country's microfinance market, where it faces only limited competition from up-scaling and downscaling banks. and plans to offer payment services for SMEs in 2013. They anticipate that future portfolio growth will be made through deposits and equity.

	December 2012
Total assets	USD 101 million
Portfolio size	USD 63 million
Nb of active borrowers	26,500
Average loan	USD 2,206
Portfolio yield	32.1%
Op. self-sufficiency	104.8%
Op. expense ratio	14.5%
Return on equity	4.8%
Debt/Equity	4.8
PAR>30	1.8%

MRS. MARIA VASILYEVNA SAITOVA

Maria Vasilyevna Saitova was born and raised in Bishkek. After she got married, and gave birth to two daughters, she sought to get a job in order to provide her children with an education. As she did not succeed in finding one, she decided to develop her own sewing business. Maria obtained her first loan from "Bai-Tushum & Partners" company in 2006 for the amount of KGS 250 thousand (USD 6,000). Maria decided to sew infant clothing by herself, and have her husband sell them at the market. Subsequently, Maria obtained four other loans for a total amount of 1,800,000 som (USD 43,000). All loans were destined to expanding her business. For the obtained loans, Maria opened a full-scale sewing shop, which was equipped for 10 job posts and created all the necessary good working conditions for her employees. At this time, Maria has a successful sewing shop with ten employees and two of her own multi-usage metal containers at the "Dordoi" market.



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Committee:	Date:
Social Investment Board	20 June 2013
Subject: Update on work of the City of London Corporation's Social Investment Advisor	Public
Report of: Director of Economic Development	For Information

Summary

This report covers the major areas of activity of the Social investment Adviser (SIA) in developing the social investment strategy, in addition to her work for the Social Investment Board.

Since your last meeting on 23rd April, key work has included:-

- participating as part of a small group advising the Treasury on the remit of the consultation on the tax relief, to be opened shortly

- involvement in the planning of the content of the G8 Symposium to be held on June 6th. Themes emerging from this will be picked up in further conferences to be hosted by the City of London Corporation in the summer and late Autumn

- work also continues in partnership with other leading organisations on the market challenges around access to appropriate forms of capital, to markets, to contracts and to supply chains for social sector organisations, both within the UK and in EU.

Main Report

The City of London Corporation's Social Investment Strategy

1. The work of the Social Investment Advisor (SIA) supports the City of London Corporation's Social Investment Strategy, under the leadership of the Chairman of Policy & Resources Committee. The post is co-funded by Policy & Resources and City Bridge Trust Committees. The SIA advises the Chief Grants Officer on matters relating to the City Bridge Trust and the Social

Investment Fund as well as the Director of Economic Development on delivery of the Strategy. The Strategy has the following aims:

- a) Increasing the supply of appropriate capital to social investment (including establishing and developing the Corporation's own Social Investment Fund)
- b) Supporting social organisations to generate income and to become investment-ready
- c) Working towards an enabling legal, regulatory and financial environment for social investment.

The overall aim is to work towards establishing London as a recognised global hub for social investment.

Events

2. Since your last meeting on 23rd April, the Social Investment Adviser (SIA) has worked as part of a small group advising the Treasury on the remit of the consultation on the tax relief for social investment, to be opened shortly.
3. The G8 Symposium is to be held on June 6th and SIA has been involved in planning the content of this event.
4. The SIA is preparing for two international events on impact investment which the City of London is hosting at the Guildhall. These are the International Impact Investing Policy Collaborative in July and the Global Impact Investors Network in October. The themes arising from the G8 Symposium will be carried through into these agendas.
5. Big Society Capital hosted a reception for its first year of operation, attended by Minister Nick Hurd, and members of the Houses of Commons and Lords. The CEO of Big Society Capital outlined the progress already made in terms of investments committed, and identified key areas going forward – including the better provision of unsecured loans, improved access to regional funds, and the development of retail products. The SIA facilitated a Panel Session at this event; speakers included Sir Ronald Cohen, Hazel Blears MP and Nick Hurd MP.

Research

6. The City of London is co-commissioning research into the economic impact of social investment; this is reaching the final stages of preparation. The report will be used to indicate the extent to which there is growth in the social investment marketplace in the UK, and the economic impact of that investment. The co-commissioners of this work include Cabinet Office, Department for Work and Pensions and Big Society Capital, and the findings will help inform future policy on access to finance.

Relationships with EU and Government

7. The approval of the European Union Social Entrepreneurship Fund allows fund managers seeking social investment from other countries to ‘passport’ their fund within the EU, as long as the Fund meets certain criteria relating to the social impact to be generated by the Fund. There is early interest in this as cross-border collaborations are beginning to develop; these are enhanced by the international conferences in train, including those to be held in London over the following five months.

Red Tape Challenge follow-up

8. The SIA continues to keep watch on the commitments that were arising from the Red Tape Challenge to ensure that these are forthcoming in the near future. In particular, the Law Commission is beginning its work around the fiduciary duties of the trustees of charitable trusts and pension funds.
9. Additionally, the SIA has fed in to the consultation processes undertaken by HM Treasury and Financial Conduct Authority (FCA) on consumer protection. The City of London Corporation’s responses to these consultations drew attention to the need to consider the impact on social investment of any review of the Financial Promotions Order. This review has come about as a result of the transfer of responsibilities on consumer credit from the Office of Fair Trading to the FCA.

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Agenda Item 14

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Agenda Item 15

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Agenda Item 16

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