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| <b>Committee:</b>   | <b>Date:</b>                |
| Social Investment Board   | 23 <sup>rd</sup> April 2013 |
| <b>Subject:</b><br>Progress Report  | <b>Public</b>               |
| <b>Report of:</b><br>Chief Grants Officer   | <b>For Decision</b>         |
| <p><b><u>Summary</u></b></p> <p>This paper summarises activities your officers have undertaken since your first meeting on 14<sup>th</sup> December 2012.</p> <p>It updates you on progress in developing a 'pool' of social investment advisors and on the recruitment of co-opted Board members.</p> <p>It proposes a policy in relation to the issue of 'naming rights', for your consideration.</p> <p><b>Recommendation:</b></p> <p>That naming rights are not pursued at this time, but that the option to consider these remains open, should there be a compelling reason for reconsidering this.</p> |                             |

### **Main Report**

#### **Advisors to the Social Investment Board**

1. Currently, you have only approved Social Finance Ltd as your independent social investment advisor. Members agreed at the 14<sup>th</sup> December 2012 Board meeting to approve 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.
2. 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 5<sup>th</sup> April 2013, six of these had responded, and the details of their specifications were drawn up in a matrix. The list covers 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.
3. The Chairman and Deputy Chairman will be meeting representatives from the three organisations which most closely measure up to the specification; who, if approved, will be included in a 'pool' of advisors. Their services will be spot purchased, and matched according to the suitability of their expertise to the proposal in question. The 'pool' will be reviewed from time to time and may be enlarged occasionally, should additional expertise be required.

#### **Co-options to the Social Investment Board**

4. At your 14<sup>th</sup> December 2012 meeting, it was agreed to enhance the skills base of the Social Investment Board by the inclusion of up to three co-opted, independent

members with specialist expertise in social investment; who would also increase the diversity of the Board. Your officers have drafted a brief which outlines the responsibilities, expertise and competencies required for co-opted membership. We will be seeking individuals with relevant experience which might comprise:

- *Extensive knowledge/experience of leadership in the social investment field;*
- *Board experience*

and whose competencies should include, for example:

- *The ability to scrutinise and challenge;*
- *Commitment to and understanding of the diversity agenda.*
- *Sound judgement.*

5. It was agreed that suitably qualified and interested individuals would be interviewed by a panel comprising the Chairman and Deputy Chairman of the Board and the Chairman of the Investment Committee. A short-list of potential co-opted members has been drawn up.
6. However, following an informal meeting with the Chairmen of the Social Investment Board and the Investment Committee, Town Clerk, Comptroller & City Solicitor and your officers, it was decided to defer the search until later in the year, by which time Members would be better positioned to assess which areas of expertise were needed on the Board.

### **Members' Seminar – 14<sup>th</sup> February 2013**

7. As requested by a Member at the December Board meeting, your officers organised an informal seminar on the development of social investment. The Chairman of Policy & Resources Committee provided an overview of the development of the City of London Corporation Social Investment Fund (the Fund). He explained that the Fund was established to be an 'impact first' fund with a financial floor.
8. External presenters shared their experience of social investment and the development of the social investment market. John Kingston from Social Finance Ltd emphasised that it was a nascent market, and social investments new asset class and it was important to balance the investment portfolio to allow for a majority of safe returns, whilst also making a minority of investments where the social benefit might be much higher, but which were higher risk or lower financial return.
9. Dawn Austwick and Lord Chandos from the Esmée Fairbairn Foundation (CEO and Chairman of the Investment Committee, respectively) gave a helpful and frank account of their Foundation's approach and social investment strategy. Your officers are working on proposals which emerged from the discussions for your formal consideration at later meetings. A copy of the notes from the Seminar has been sent to you for information.

### **Social investment fees**

10. 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 have examined the reasons for this and whether there is potential for fees to reduce in the near future. The social investment market

remains nascent market and does not yet benefit from standardisation of investment deals. In addition, investees incur the costs of additional monitoring and reporting of social benefit which is not commonly required in mainstream investments. It is worth noting that funds of funds, in which investors place capital into a pool from which onward investments are made into organisations, have helped to tackle both social and mainstream investors' requirements for scale, risk mitigation and size of investment. The approach allows for sector or geographic specific focus and provides investors with larger investment opportunities. The effect of this is increase the reach of the finance to more organisations. It is expected, however, that over time as more deals are done and replication can follow, fee rates should drop to nearer the mainstream levels of 1.5 % - 2%. Your 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.

### **The Role of a Social Investment Trustee**

11. Following a discussion at the Members' Seminar on 14<sup>th</sup> February 2013, further clarification is set out below on the role of a social investment trustee.
12. The Social Investment Board, being an investment sub-committee of the Court of Common Council, has responsibility for the prudent financial, investment of assets under the control of City Corporation acting as Trustee of Bridge House Estates. Trustees have overall responsibility for the investment of the charity's funds to achieve a financial return on the capital so that its value is not eroded and so that it generates funds to further the objects/purposes of the charity. This means that Trustees have a crucial role to play in making strategic decisions about how to use a charity's assets to achieve its aims. Trustees may choose to delegate day to day decisions about investments.
13. Trustees must:
  - use their skills and knowledge in a way that is reasonable in the circumstances ('the duty of care'). For example, a trustee with investment experience should draw on his or her skills and knowledge of investments when making decisions;
  - consider how suitable any investment is for their charity. Trustees must be satisfied that:
    - (a) an investment type or class is appropriate for the charity (for example, shares),
    - (b) the investment within that type or class is appropriate for the charity (for example, shares in a specific bank);
  - consider the need to diversify investments (for example, owning shares in a number of different companies, or investing in different asset classes);
  - take advice from someone experienced in investment matters where they consider they need it; and
  - review investments (and their investment manager) from time to time, changing them if necessary.
14. A more detailed summary of Trustee's duties is available from the office of the Town Clerk.

### **Naming Rights**

15. At the 14<sup>th</sup> December 2012 Board meeting, following a discussion on an outline proposal, the Deputy Chairman asked that a draft policy statement in respect of the issue of 'naming rights' be prepared for Members to consider.
16. Your officers have considered the benefits and drawbacks. We advise that attaching the City of London Corporation's name to a social investment fund is not likely at this stage to prove a necessary or beneficial approach. The City of London Corporation is currently managing the reputation of its own Social Investment Fund directly. There appears to be no great advantage in being associated with a further fund and it may serve to confuse; also to 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 has considerable personnel and resource implications. Furthermore, whilst investment propositions are not yet so plentiful, there is the likelihood of repetition of investments and City of London might be exposed to risk on two counts.

### **Recommendations:**

That you:

- a) note the contents of the report,
- b) do not pursue naming rights at this time, but that the option to consider these remains open, should there be a compelling reason to do so

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