

Committee:	Date:
Social Investment Board	23 rd April 2013
Subject: Investment Criteria	Public
Report of: Chief Grants Officer	For Information
<u>Summary</u>	
<p>Court of Common Council approved investment criteria for the City of London Corporation Social Investment Fund (the Fund) at its meeting on 25th October 2012, and the Social Investment Board supplemented these criteria at its meeting on 14th December 2012. This paper restates those criteria. A separate proposal providing options for the target financial return is included in the papers for today's meeting.</p> <p>Recommendation:</p> <p>That you receive this report and note its contents.</p>	

Introduction

1. This paper presents the investment criteria which were approved by the Court of Common Council at its meeting on 25th October 2012 and which were supplemented at the first meeting of the Social Investment Board on 14th December 2012. A separate proposal providing options for the target financial return is included in the papers for today's meeting.

Fund aims

2. The Fund aims to achieve a financial return at a rate not less than the average interest earned on the City's cash holdings and a demonstrable social benefit. It will help position the City of London as a leader in social investment, develop London as a global centre for social investment and by so doing, help to grow the market.

Fund objectives

3. The Fund has two objectives:
 - To provide loan finance, quasi-equity and equity that provides development and risk capital to organisations working towards charitable ends or with social purpose; and
 - To help develop the social investment market

Eligibility for investment

4. The Fund will consider both direct investments (providing returnable funds to organisations which pursue charitable, community or social objectives) and indirect investments (into funds managed by others in order to reach a greater number of charities and social enterprises).

Financial return

5. Each investment should offer a financial return at a rate equal to or above the average interest rate earned on the City's cash holdings. Where individual investments are expected to produce a lower financial return than the Consumer Price Index (CPI) inflation rate, they will only be considered if there is a significant case that the social outcomes achieved compensate for the loss of income.

Social benefit

6. Each investment must offer a well-defined and measurable social benefit which can be achieved within the term of the investment. Investees must be capable and willing to provide regular updates on the social benefit achieved throughout the term of the investment.

Investment portfolio

7. In line with the Corporation's commitment to build the UK social investment market, most investments made from the Fund will be allocated towards work that benefits communities in the UK. Over the £20m, the Fund will seek to allocate
 - 60% of its total value to benefit London beneficiaries
 - 30% of its total value to benefit UK-based beneficiaries
 - 10% of its total value to benefit international beneficiaries

Direct investments

8. Eligibility for direct investment will be restricted to those organisations that:
 - Have a financially viable business plan which shows how revenue will be generated to repay the investment; it will also have clearly articulated social impact
 - Have strong management and governance
 - Have a clear exit strategy / end term for the investment to be repaid
9. Direct investments will normally be made for purposes of either: service expansion; organisational development; purchase of property or other capital items that support service delivery.
10. In addition to making direct investments in organisations that are registered with the Charity Commission or Community Interest Company Regulator, direct investments can also be made in for-profit social sector organisations where the organisation's governance embodies and protects its social mission by:
 - Setting out objects in its constitutional documents that are primarily concerned with the provision of benefits to society
 - Having a policy in relation to the distribution of profit after tax that ensures surpluses are principally used to achieve social objectives. Practically this means that the payout of cumulative profit after tax to shareholders will be capped at 50% over time, and therefore ensures that any surpluses generated over time will be mainly
 - i. reinvested in the business
 - ii. applied in advancement of the organisation's social objects or
 - iii. distributed or donated to other social sector organisations

- Having a constitutional or contractual lock on its social objects, dividend and surplus distribution policy and ensuring the disposal of assets is compatible with the social objects embedded in its constitutional documents
- Demonstrating that the remuneration of its officers and employees, including salaries, benefits and all forms of distribution or other participation is disclosed in a manner consistent with the Statement of Recommended Practice for accounting by charities
- Making best efforts to preserve the social purpose or social mission of the organisation in the event of a change of ownership or control.

Indirect investments

15. Investment can be made in funds managed by others where those funds
 - Have charitable, community or social benefit and clearly articulated social returns
 - Show that the distribution of profits generated by the funds are capped to investors
 - Make available to investors on a regular basis, an assessment of the fund's performance in social and financial terms

Conclusions

16. Notwithstanding basic key criteria as proposed above, the Court of Common Council agreed that eligibility should be kept sufficiently wide-ranging as to incorporate the most suitable opportunities arising in this nascent field.
17. Given that social investment is still a relatively new discipline, it is likely that the investment criteria for the Fund will continue to develop over time. Officers will continue to present the criteria to your meetings as a standing item and will propose amendments or updates where appropriate. The criteria are available online so that prospective investees have a better understanding of what the Fund will and will not invest in.