

City of London's Social Investment Board

Members' Handbook



Contents

Terms of Reference.....	4
Composition	5
Social Investment Board Members.....	5
The Role of a Social Investment Trustee	6
Social Investment Criteria	7
Assessment Process.....	10
Staff List	11
External Advisors	11
Glossary of Terms.....	13

Terms of Reference

The following was approved by the Court of Common Council on 25th October 2012.

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.

The Board meets four to six times a year.

***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.

Composition

The Social Investment Board will be appointed annually by the Investment Committee. However, in view of the very specialist nature of this type of investment activity, it is suggested that the membership of the Board should comprise a mix of ex-officio and directly elected Members. In this way, the ex-officio Chairmen are able to serve or, should they so wish, nominate individual Members of the Court of Common Council who may have experience or expertise in this field to serve in their stead. The Investment Committee will be represented and the Court is able to directly elect two Members to serve. The proposed composition is as follows:-

- 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.

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

In addition, the Social Investment Board shall have the power to co-opt people with relevant expertise or experience, including non-Members of the Court, in the same way as the other two Boards.

Quorum

The quorum consists of any 3 Members.

Social Investment Board Members

Alderman Peter Hewitt (Chairman)	Nominee of the Chairman of the Policy & Resources Committee
Deputy Robert Howard (Deputy Chairman)	Chairman of the Financial Investment Board
Roger Chadwick	Chairman of the Finance Committee
Jeremy Mayhew	Nominee of the Chairman of City Bridge Trust
Andrew McMurtie	One member of the Financial Investment Board
The Revd Dr Martin Raymond Dudley (elected 16 May 2013)	Two Members elected by Court of Common Council
Wendy Hyde (elected 12 June 2014)	

The Role of a Social Investment Trustee

1. Following a discussion at the Members' Seminar on 14th February 2013, further clarification is set out below on the role of a social investment trustee.
2. 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.
3. 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.
4. A more detailed summary of Trustee's duties is available from the office of the Town Clerk.

Social Investment Criteria

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.

The Social Investment Board approved additional criteria at its meeting on 14th December 2012.

Criteria have been developed following consultation with several other social investors, and with advice from Social Finance Limited and Big Society Capital.

Fund aims

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

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

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

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%).

Investment portfolio

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

Social benefit

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

Direct investments

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

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.

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.

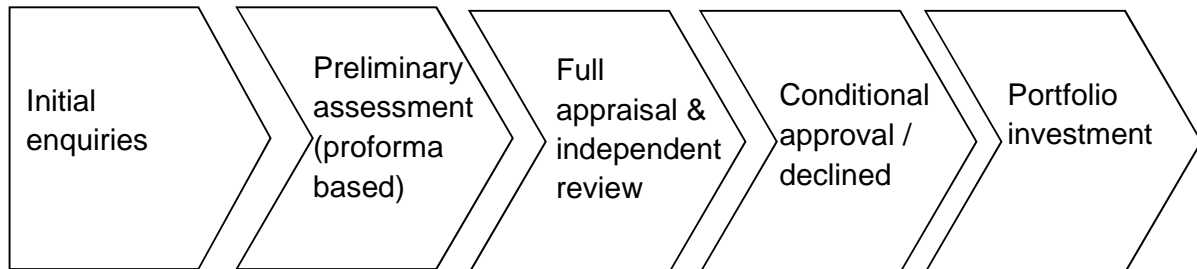
Indirect investments

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

Assessment Process

The Fund's investment appraisal process is as follows:



The first stage of the process is initial enquiry, and officers record details of all organisations which make contact with the Fund or which they find through other channels. Some contacts relate to products under development, others have been for products which are investment ready, but for which detailed investment proposals are not yet available. All prospective investees are asked to complete the proforma application on the Fund website as this allows officers to gather information on investment proposals in a systematic way by asking standard questions about financial return and social benefit.

Once more detailed information is received, officers from Chamberlain's Department and the City Bridge Trust section of the Town Clerk's Department meet to review the investment's suitability for Fund support.

If judged suitable by officers, a full appraisal and independent external review follows the preliminary assessment stage. At this point, and in line with guidelines set by the Court of Common Council, an independent FCA-regulated agency is commissioned to provide a report appraising the investee's underlying business model, capital requirements, projected financial return, investment commitments, and to examine the risks to the investment. Chamberlain's officers examine this independent report, and City Bridge Trust officers assess the likely social benefit of the investment.

Staff List

Name	Role	E-mail	Telephone
David Farnsworth	Chief Grants Officer, City Bridge Trust	David.Farnsworth@cityoflondon.gov.uk	X3713
Tim Wilson	Principal Grants Officer, City Bridge Trust	Tim.Wilson@cityoflondon.gov.uk	X3716
Katie Hill	Social Investment Advisor, Town Clerk's Dept.	Katie.Hill@cityoflondon.gov.uk	X3524
Martin Hall	Grants Assistant, City Bridge Trust	Martin.Hall@cityoflondon.gov.uk	X3705
Kate Limn	Group Accountant, Chamberlain's Department	Kate.Limna@cityoflondon.gov.uk	X3952
Liz Skeltcher	Assistant Director of Economic Development	Liz.Skeltcher@cityoflondon.gov.uk	X2606
Philippa Sewell	Committee & Member Services Officer, Town Clerk's Dept.	Philippa.Sewell@cityoflondon.gov.uk	X1426
Deborah Cluett	Assistant City Solicitor, Comptroller & City Solicitor's Department	Deborah.Cluett@cityoflondon.gov.uk	X1677
Anne Pietsch	Chief Legal Assistant, Comptroller & City Solicitor's Department	Anne.Pietsch@cityoflondon.gov.uk	X1633
Karen McHugh	Principal Legal Assistant, Comptroller & City Solicitor's Department	Karen.McHugh@cityoflondon.gov.uk	X3698

NB: To contact officers from an external line, extensions should be prefixed with 020 7332 XXXX

External Advisors

Albion Ventures: www.albion-ventures.co.uk (appointed December 2013)

The FSE Group: www.thefsegroupp.com (appointed June 2013)

Social Finance Ltd: www.socialfinance.org.uk (appointed December 2012)

Social Investment Business (www.sibgroup.org.uk) working with Investing for Good (www.investingforgood.co.uk) and The Good Analyst (www.goodanalyst.com) (appointed June 2013)

Glossary of Terms

Blended finance	The provision of finance through a combination of grants and/or equity/quasi-equity finance and/or debt finance.
Blended return (to investors)	The combination of receiving financial return as well as social returns from an investment. There is often assumed to be a trade-off between these two factors.
CC14	CC14-Charities and Investment Matters: A guide for trustees. Charity Commission guidance for trustees on how to make decisions about investing charity funds.
Charitable bond	Finance mechanism whereby investors provide capital to a not-for-profit organisation to fund a project through an unsecured bond, often with a lower than market-rate return.
Community asset building	Activity that builds the assets of community service organisations for long-term financial sustainability.
Community asset transfer	The transfer of land and buildings from public bodies to voluntary, community and social enterprise organisations.
Community Banks	For-profit, insured banks or savings institutions that target low-income people or others who lack adequate access to financial services. Given the typically low to moderate-income customer base of development banks, they often depend on additional deposits from outside of the community to fund their lending activity.
Community finance	Finance provided to community organisations, especially those that have difficulty accessing mainstream finance.
Community Interest Company (CIC)	(UK) limited company operated for community benefit and with a requirement that all assets and profits remain within the company and are used solely for community benefit.
Community investing	Investment programmes, which support development initiatives in economically challenged communities through community-based financial institutions such as development banks, loan funds, and community credit unions.
Community Investment Tax Relief (CITR)	(UK) tax relief available to individuals and organisations to incentivise investment in enterprises in disadvantaged areas.
Crowd funding	Crowdfunding is a way businesses, organisations and individuals can raise money. Generally, it involves a number of people pooling money through a website, often called a platform. The regulations around crowd funding are not fully clarified, and depend on the investment opportunity being offered.

Development capital	Enables organisations to invest to build capacity, for example by purchasing property or other assets, or developing new products and services.
Endowment	The property of a charity (including land, buildings, cash or investments) which is required to be invested or kept and used for the charity's purposes. Whether it can be spent or disposed of depends on the conditions under which the endowment was originally given.
Exclusionary (negative) screen	Ethical criteria that may disqualify companies for consideration of investment.
Finance mutual organisation	Third sector financial organisation that allows distribution of assets to its members if the organisation is taken over or wound up; includes credit unions, certain building societies and mutual insurers.
Fund of funds	An investment strategy of holding a portfolio of other investment funds rather than investing directly in stocks, bonds or other securities (this is a form of indirect investment).
Growth capital	Capital for funding significant growth, innovation, service or product development or building the capacity of the organisation or its human resources to enhance the organisation's social impact. See soft development capital.
Impact	The changes an investment or organisation achieves; the difference it makes through its outputs and the outcomes they generate.
Impact investment	Investment made with the expectation of delivering measurable social and/or environmental impact as well as financial return.
Impact-first investment	Investment that prioritises a social or environmental impact above a financial return; this may be through accepting a lower than market-rate return to achieve more difficult social or environmental outcomes not seen as achievable through traditional philanthropy or mainstream investment.
Microcredit	Small, low interest loans to low-income entrepreneurs who have little or no collateral.
Microfinance institutions	Organisations that provide small amounts of capital, often as little as \$50 in developing countries, to people with little or no collateral so they can avoid usurious rates. Also gaining recognition in U.S. communities as well, although micro-loan amounts are considerably higher there.
Mission-Related Investment	The use of expendable resources by a charity in a way which may generate a financial return but is principally for the furtherance of the charitable purpose or purposes of the charity. Examples of this include the provision of loans, loan

	guarantees or the subscription or purchase of shares or through the letting of land and buildings by the charity.
Mixed motive investment	An investment that cannot be justified as wholly furthering a charity's aims or seeking the best possible financial return. Trustees may be able to invest in this way if they are satisfied that it would be in the interests of their charity.
Mixed portfolio of funding	A range of income streams which may include grants, donations, earned and investment income.
Negative screening	Screening out of an investment portfolio organisations that are known to have harmful social or environmental outcomes.
Non-trading co-operative	Membership organisation, established by producers to collectively promote or market their product, which cannot distribute profit to members.
Not-for-profit organisation / non-profit organisation	Organisation that conducts activities to further its purpose, and not for the gain of individual members or owners; not-for-profits are not allowed to distribute assets to members or owners when wound up.
Outcome Based Agreement (OBA)	Agreement, usually between a service provider and government, which defines an outcome or set of outcomes that must be achieved, in some cases to trigger payment for the delivery of the service.
Output	Work generated by a project.
Outcomes	Changes that take place as a result of a project.
Patient capital	Loans or equity investments offered on a long-term basis (typically 5 years or longer) and on soft terms (e.g. capital/interest repayment holidays and at zero or sub-market interest rates).
Payment by results	A type of public policy instrument where payments are based on independent evaluation of results.
Peer-to-peer lending	The practice of lending money to unrelated individuals, or "peers", without going through a traditional financial intermediary such as a bank or other traditional financial institutions.
Philanthropy	The giving of funds, capital items, time or other assets in the form of a donation.
Programme-related investment	The use of expendable resources by a charity in a way which may generate a financial return but is principally for the furtherance of a charitable purpose; examples of this include the provision of loans, loan guarantees or the subscription or purchase of shares or through the letting of land and buildings by the charity.
Quasi-equity	A hybrid of equity and debt investment. Equity investment

investment	may not be possible if an organisation is not structured to issue shares. A quasi-equity investment allows an investor to benefit from the future revenues of an organisation through a royalty payment which is a fixed percentage of revenue. This is similar to a conventional equity investment, but does not require an organisation to issue shares.
Revenue funding	Income received to pay for an organisation's running costs
Revolving loan fund	Within a group of microentrepreneurs, a loan is made and must be paid back in full before a second loan is granted to another member of the group. In some cases group members will provide the funds rather than an outside funding source.
Risk capital	Equity or quasi-equity investment which is most at risk in recovering an investment if the project or organisation fails.
Screening	The inclusion or exclusion of corporate securities in investment portfolios.
Social bond	Debt finance mechanism whereby investors provide capital to a not-for-profit organisation and receive a lower than market-rate return alongside social returns.
Social economy	Comprises co-operatives, mutuals, associations, charities, trusts and foundations.
Social enterprise	A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.
Social investing	The act of making investment decisions to achieve social as well as a financial return.
Social Investment Finance Intermediary (SIFI)	An organisation that provides, facilitates or structures financial investments for social sector organisations and/or provides investment-focussed business support to social sector organisations.
Social investment wholesaler	An investor which makes larger investments in funds or financial organisations (social investment finance intermediaries) that will themselves invest smaller amounts in a number of frontline social sector organisations.
Social sector organisation	An organisation that exists primarily to deliver social impact; that reinvests the majority of surpluses to further its social mission; and that is independent of government. The social sector includes voluntary and community organisations, charities, social enterprises, cooperatives and mutuals.

Social venture capital	Funds raised to support economic ventures with a focus or mission involving the improvement of society.
Social venture intermediary	Organisation that provides either social finance or expertise to help establish or capacity-build social enterprises.
Socially Responsible Investment (SRI)	Investment method using positive screening or, more commonly, negative screening, or investment in companies with poor social or environmental records to provide opportunity for shareholder advocacy or activism to promote corporate responsibility.
Soft development capital	Capital for funding significant growth, innovation, service or product development or build the capacity of the staff/organisation to enhance the organisation's social impact. See growth capital.
Strategic philanthropy	Form of philanthropy using focused research, creative planning, proven strategies, careful execution and thorough follow-up to achieve the intended results; ideally reflects and is driven by the philanthropist's core values and concerns.
Third sector	Sector comprising a wide range of social purpose organisations, including charities, religious organisations, not-for-profits, co-operatives, mutuals, trade unions, chambers of commerce, social enterprises, advocacy groups, community organisations and welfare organisations.
Trading co-operative	Membership organisation with share capital, established by producers to collectively promote or market their product, which can distribute profit to members.
Triple bottom line	Refers to a balance between a company's social, environmental, and financial return.
Working capital	The cash available for day-to-day operations of an organisation, including that used to manage the timing differences between income and expenditure.