

<b>Committee</b>	<b>Dated:</b>
Social Investment Board	18 September 2015
<b>Subject:</b> Progress Report	<b>Public</b>
<b>Report of:</b> Chief Grants Officer	<b>For Decision</b>

### Summary

The report:

- introduces guests from Mercers' Company;
- introduces speakers from JP Morgan at today's meeting;
- provides an update on research by PwC on the development of a global financial centre for social investment;
- provides an update on City Bridge Trust's Stepping Stones grants programme for London charities exploring the social investment market;
- describes a series of regular meetings to help manage the investment pipeline;
- updates Members on the East London Bond, the City Bridge Trust's first social investment (entered into in 2010);
- introduces the investment proposals included in today's papers;
- recommends three investment targets for 2015-16; and
- provides an update on the co-option of new Members to the Social Investment Board.

### Recommendations

- a. That you maintain a target minimum return (per investment) of 2% and target total return of 2.7% across the portfolio for December 2015 – November 2016 as outlined at paragraph 17;
- b. That you approve a minimum target deployment rate of £3m for December 2015 – November 2016 as outlined at paragraph 18; and
- c. That officers prepare a paper for the October Court of Common Council updating Members on progress of the Fund and recommending that the London and UK investment allocations be combined as outlined at paragraphs 19 and 20.

## **Main Report**

### **Mercers' Company**

1. Members will need no introduction to Mercers' Company, an institution rivalling the City Corporation itself for longevity. Already well-regarded for its grant-making, Mercers' recently made its first social investment (in Charity Bank) and has had initial discussions with the Corporation about our approach to investment appraisal. Tim Haywood (Master) and Trevor Sykes (Head of Finance) from Mercers' Company will attend today's full meeting as observers.

### **JP Morgan**

2. Yasemin Saltuk and Kristoffer Jonsson from JP Morgan will join your meeting and introduce the bank's social finance work. Since 2010 JP Morgan has worked with the Global Impact Investing Network (of which City Bridge Trust is a member) to produce an annual report on the state of the social investment market. Based on a global survey of social investors, the most recent report was published in May 2015 and covers a range of topics including market size, priority social themes, attitudes to loss, provision of technical assistance, approaches to impact measurement and exit arrangements. The 2015 study is based on a sample of 146 organisations with USD60bn of social investment commitments. Charitable foundations represented 18% of the sample but only 6% of the assets under management. Across the whole sample, some key findings are of particular interest to the City's Social Investment Board:
  - 55% of the sample sought market-rate returns, 27% slightly sub-market returns and 18% capital preservation alone;
  - 74% of the assets under management were held in direct investments and 20% as indirect investments;
  - investments were divided equally between emerging and developed markets;
  - the single largest social welfare theme was housing, representing 27% of assets under management; and,
  - significant market development barriers included the shortage of high-quality investment opportunities and the difficulty exiting social investments.
3. JP Morgan's Social Finance team has also published a study of how 21 leading social investors approach impact measurement. This report "Impact Assessment in Practice" includes the Big Society Capital framework which is currently used by City Bridge Trust to categorise the intended impact of each portfolio holding.

### **City of London Corporation and PwC**

4. Commissioned by the City of London Corporation, PwC published its research report, "Developing a global financial centre for social impact investment" on

24<sup>th</sup> June 2015. This report explores what measures leading financial centres might take to support and enable the global growth of the social investment market. The research considered what the current social investment market looks like and the direction of travel for its globalisation. It outlines a three-stage model of development for a global financial centre, with particular consideration of London's current position, though the model can be used as an assessment tool and 'route map' for any financial centre looking to act as a 'hub' for the global social impact investment market.

5. The research identified three progressive stages of development for financial centres: stage 1 – a mature national financial centre; stage 2 – an emerging global financial centre; and stage 3 – a mature global financial centre for social impact investment with inward and outbound flows of international social capital. Considering London's current position against this model, PwC drew the following conclusions:
  - London is seen as a mature national financial centre for social impact investment with a strong basis and potential to become a global financial centre for the market, performing particularly well in terms of the maturity and attractiveness of its financial markets, and in providing a favourable legal, regulatory and business environment.
  - London performs less well in terms of its knowledge and expertise resource. There is scope to do more to combine financial acumen and social sector knowledge to develop a pipeline of talent for the sector; and London is seen to be lagging behind product innovation comparative to other markets, particularly in relation to stimulating retail investment.
  - A major area for development for London but also overall for the market's globalisation, is in social impact standards and reporting, and linked to this, accreditation and certification models. The research suggests that although a good deal of work has been done in the UK on developing standards, there is more to be done jointly on a global scale for enabling market growth. London bodies could play a key role in leading such developments.
6. The report presents a number of recommendations for the development of the global market. These include reforming the regulatory environment, such as through the financial promotion regime, to enable greater retail investment, as well as the development of new routes and pathways to accessing retail investment for social enterprises; developing targeted initiatives and tools for greater cross-fertilisation of knowledge and expertise between the financial, corporate and social sectors; greater technical assistance provision for social enterprises seeking funding to enable 'scale up'; and the development of an accreditation/certification standard for the market.
7. Officers are reviewing how City of London social investment work might build on the research findings and are meeting a number of external stakeholders to this end. In addition, as PwC are major sponsors of the forthcoming Good Deals conference, there will be a session focusing on the internationalisation of social investment.

8. The research is available to download from the City's website:  
<http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/Developing-a-global-financial-centre-for-social-investment.aspx>

### **Stepping Stones Fund**

9. I have shared updates on the City Bridge Trust's social investment grants' programme (Stepping Stones Fund) at previous Board meetings. Stepping Stones, which launched in November 2014, is designed to help charities and social enterprises in Greater London to engage with the social investment market. Applicants can seek funding to develop their business models, engage consultancy support, and test the suitability of their ideas for a wider market. The first 17 grants have now been made through this programme and I have appended details to this report (please see appendix A). The organisations were selected from a strong field of candidates, and decisions were made based not only on the quality of the proposals received, but also the case each applicant made for its future commitment to social investment.
10. Throughout the first round of Stepping Stones Fund the Trust worked closely with UBS and I am delighted to say that the bank has stated its continued commitment to the programme. Members will have received email invitations to an event in the Livery Hall on 23<sup>rd</sup> September where City Bridge Trust, UBS and one of the grantees will speak about our respective plans for the future. I hope that you will be able to attend as we announce details of the second round of funding, which is part of our efforts to develop the social investment market.

### **Managing Pipeline**

11. Your June meeting noted that regular meetings between officers and the Chairman and Deputy Chairman would begin, between Social Investment Board meetings, to discuss the investment pipeline. The first meeting took place on 24<sup>th</sup> July and considered five short investment reviews prepared by the Social Investment Analyst. Three opportunities were judged unsuitable and the remaining two will be subject to further due diligence (neither is ready for inclusion in today's papers). Further pipeline reviews are scheduled between Social Investment Board meetings and it is hoped that this will help reduce the Fund's due diligence costs.

### **East London Bond**

12. One of the first social investments the City was involved in was in the East London Bond. In July 2010, with funding from the main grants' budget, Members of the City Bridge Trust Committee invested £100,000 in this five year instrument. Principal was loaned to Places for People Homes, a registered social housing provider. City Bridge Trust chose to forgo interest payments on the bond, with accruals distributed in the form of unrestricted funding for two well-regarded East London charities, Bromley by Bow Centre

and Community Links. The East London Bond matured on 29<sup>th</sup> July 2015 and the principal was returned to the Trust. City Bridge Trust Committee will meet on 23<sup>rd</sup> September to consider proposals for use of £100,000 and to review a progress report on the work delivered with funding from the East London Bond.

### **Investment Proposals**

13. Today's papers include investment proposals from Glasgow Together and Golden Lane Housing. The first follows a very similar model to Midlands Together, in which you invested £300,000 in October 2013. Golden Lane Housing is an existing portfolio holding (you invested £500,000 in July 2013) which now has bonds listed on the London Stock Exchange. The latter is a particularly positive development for social investment finance since it provides Golden Lane Housing with exposure to a wider cross-section of retail and institutional investors.

### **Investment Criteria**

14. The May 2012 Court of Common Council designated £20m from Bridge House Estates for social investment, and the October 2012 Court approved the investment criteria for that capital, including the following:
  - the target return (across the portfolio) would be at least equal to the interest earned on the City's cash holdings;
  - the target dispersal rate in the first 12 months would be £2m with higher dispersal rates in subsequent years; and
  - £12m would be used to benefit Londoners, £6m to benefit the wider UK, and £2m for international benefit;
15. The April 2013 Social Investment Board clarified the financial target for the Fund 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%).”*
16. In line with the usual term for assessing the performance of other City investments it was agreed that the financial target would be reviewed and (if necessary) revised on its third anniversary, late 2015.
17. Members will be aware that interest rates have not risen since the Fund was established, and that the CPI rate has fallen (it was 0.1% in July 2015). Officers recommend that the Board maintains the April 2013 financial targets (2.7% total return and a minimum return, per investment, of 2%) for a further year. These targets should be reviewed and, if necessary revised, in late 2016.

18. Members receive updates on the Fund's deployment rate through the Portfolio Report, a standing item at your meetings. The social investment market is developing slowly, and the pipeline of suitable opportunities remains relatively weak. A number of steps have been taken to improve the situation including the City Bridge Trust's investment-readiness grants' programme (the Stepping Stones Fund) and the engagement of a Social Investment Analyst to work with formative proposals. However, the greatest obstacle remains the limited supply of good quality proposals within the risk tolerance of this board who remain vigilant about possible capital loss. Officers recommend that Members approve a minimum target deployment rate of £3m for the coming year (December 2015 – November 2016). Based on our own market intelligence from other charitable investors, the relatively slow rate of deployment is a common experience for many providers of social investment capital.
19. The geographical allocation of investments is also presented in the regular Portfolio Report. Since the Fund was established (and not including the investments presented to today's meeting) £4.3m of the £6m set aside for UK-benefit has been allocated. If today's investments are approved and placed then only £0.7m will remain on the UK allocation of your Fund. By comparison, it has been harder to find suitable London-focused opportunities and £9.2m of headroom remains on this allocation. The situation is summarised in the table below:

<b>Geography</b>	<b>Ring-fence</b>	<b>Commitment to date</b>	<b>Headroom</b>
London	£12m	£2.8m	£9.2m
UK	£6m	£4.3m	£1.7m
International	£2m	£0.8m	£1.2m

20. The London-focused market has not developed as rapidly as hoped since 2012. In response, City Bridge Trust has launched the Stepping Stones Fund and awarded its first grants to organisations who may, in time, seek social investment finance from your Fund. Until then, and to avoid slowing the deployment rate, officers recommend that a short paper go to Court of Common Council on 15<sup>th</sup> October on behalf of the Chairman, providing an end year report on the Fund, and asking permission to combine the London and UK allocations. This would give the Fund a total allocation of £18m for the UK. Officers would continue to monitor London-focused investment, and detail this as part of the Portfolio Report submitted to your meetings.

### **Co-opted Members**

21. Following your skills audit and subsequent approval for the recruitment of co-opted Board Members, vacancies will be advertised in September via Big Society Capital, City Bridge Trust and a number of its partner networks. The opportunity will also be promoted to Members of the Court and I can provide a verbal update at your meeting.

## Appendices

Appendix 1: City Bridge Trust's Stepping Stones Fund: details of first round grantees are set out for your information (you will recall, as grants, these are governed by the City Bridge Trust Committee).

### David Farnsworth

Chief Grants Officer, City Bridge Trust

T: 020 7332 3713 | E: [david.farnsworth@cityoflondon.gov.uk](mailto:david.farnsworth@cityoflondon.gov.uk)

## Appendix 1: City Bridge Trust's Stepping Stones Fund Round 1 Grantees

### Strand 1: Capacity Building

Organisation	Award	Purpose
Action Tutoring	£50,000	To help the organisation develop its investment proposal to expand its work in London schools
Age Concern Havering	£46,000	To support the organisation to improve its monitoring and measurement of impact and to develop a social investment model.
Cardboard Citizens	£49,700	To fund business modelling which will help the organisation expand its training services.
Camden Town Unlimited Community Project	£50,000	To help Camden Town Unlimited Community Project develop a social investment business plan.
Communities into Training and Employment	£49,500	Funding to help CITE implement improvements to its information management systems
Deptford Reach	£50,000	To fund intermediary support from Social Finance, helping Deptford Reach raise social investment for a capital development scheme.
Forest Farm Peace Garden	£12,600	Funding for a business plan to help the charity expand its organic growing scheme.
Investing for Good CIC	£45,000	Support for the development of a charity bond platform to help smaller charities raise social investment.
Meanwhile Space CIC	£49,500	To fund the development of incubator accommodation for small enterprises.
Media Trust	£50,000	To fund a business development programme to help Media Trust explore social investment.
Pure Leapfrog	£20,000	To support the cost of implementing loan-fund procedures and documentation for the organisation's new community energy fund.
Women's Resource Centre	£25,000	To support the preparation of a business case for a third sector Women's Building.
<b>Sub total</b>	<b>£497,300</b>	

## Strand 2: Piloting Outcomes

<b>Organisation</b>	<b>Award</b>	<b>Purpose</b>
Enabling Enterprise	£40,000	To support the organisation to measure and report the outcomes of its work with schools.
Federation of London Youth Clubs	£50,000	To help the charity develop social investment plans for its construction trades programme.
Providence Row	£48,200	To cover the costs of work to develop the charity's bakery and room hire businesses
Tower Hamlets Community Transport	£49,200	To fund an online marketplace pilot for community transport
<b>Sub total</b>	<b>£187,400</b>	

## Strands 1 & 2: Capacity Building & Piloting Outcomes

<b>Organisation</b>	<b>Award</b>	<b>Purpose</b>
National Zakat Foundation	£16,900	To help the organisation develop its investment model.

**Grand total = £701,600**