



Report – Social Investment Board

Progress Report

To be presented on Thursday, 15th October 2015

*To the Right Honourable The Lord Mayor, Aldermen and Commons
of the City of London in Common Council assembled.*

SUMMARY

This paper outlines the progress on the work of your Social Investment Fund since it was established in 2012. The Fund is a key component of the City of London Corporation's strategy to develop London as a global centre for social investment (investments that produce both a financial return and demonstrable social benefit).

This paper details the investment portfolio to date, provides details of the geographic spread of investments, and asks the Court of Common Council to permit the City of London Corporation's Social Investment Fund to combine its UK and London ring-fences until October 2016, after which a further progress report will be made.

RECOMMENDATION

It is recommended that:

- approval be given to permit the City of London Corporation's Social Investment Fund to combine its UK and London ring-fences until October 2016; and
- the progress made on the work of the Fund since it was established be noted.

MAIN REPORT

Background

1. The City of London Corporation Social Investment Fund (the Fund) is a £20m allocation within the charitable assets of Bridge House Estates. The Fund was approved by the Court of Common Council on 24 May 2012 and was established in order to help the Corporation achieve 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.
2. For the purposes of the Fund, social investment is defined as “*the provision and use of finance to generate social and financial returns. The range of expected financial returns can be from capital returned through to capital with interest. Usually there is a cap placed on returns (typically up to 20% on interest or dividends).*”
 3. The Fund is overseen by your Social Investment Board, appointed annually by the Investment Committee and meeting four times a year. Following a recent skills audit, the Board is looking to co-opt additional Members who can bring expertise in welfare policy, social impact reporting, statutory commissioning and legal matters. A role description has been circulated to Members of Court and the opportunities are also being advertised externally.
 4. The Court approved the Fund’s investment criteria on 25th October 2012, and the Social Investment Board approved additional criteria at its meeting on 14th December 2012. The Fund currently seeks a total return equivalent to the consumer price index (CPI) inflation rate (2.7%) on the day when the investment criteria were set, and a target return on individual investments which at least matches the average cash rate achievable on that date (2%).
 5. Over the past twelve months the Social Investment Board has held discussions with a number of other market participants including Big Society Capital, the FSE Group, JPMorgan and, most recently, the Mercers’ Company. The Social Investment Board and the Mercers’ Company are in discussion about future collaboration given their respective interests in this space.

Portfolio Summary

6. As of October 2015, the Fund had committed over £8.9m of which £6.6m (74%) had been drawn down by investees with the remainder subject to satisfactory contracts.
7. The £8.9m investment commitments can be summarised as:
 - £5.3m (59.5%) Corporate bonds
 - £3.3m (37.1%) Property (£3m residential, £0.3m commercial)
 - £0.3m (3.4%) Emerging markets

Investment	Geography	Commitment	Drawn (%)	Drawn (£)	Distributions payable	Distributions received	Original planned IRR	Expected exit
Columbia Threadneedle UK Social Bond Fund	UK	£1,500,000	100%	£1,500,000	No	-	3.10%	Indefinite
Rathbone Ethical Bond Fund	UK/Intl	£1,000,000	100%	£1,000,000	Yes	£9,895	5.00 - 7.00%	Indefinite
Real Lettings Property Fund (round 1)	London	£500,000	100%	£500,000	No	-	5.30%	2020 - 22
Real Lettings Property Fund (round 2)	London	£500,000	100%	£500,000	No	-	6.35%	2020 - 22
Golden Lane Housing	UK	£500,000	100%	£500,000	Yes	£24,986	4.00%	Sep-18
Greenwich Leisure Limited	London	£500,000	100%	£500,000	Yes	£21,575	5.00%	Dec-18
Framework Housing	UK	£500,000	0%	£0	Yes	£7,336	3.96%	tbc
Commonweal - Praxis Housing Project	London	£500,000	43%	£216,500	Yes	£3,101	3.66%	Oct-21
Affordable Homes Rental Fund	UK	£500,000	100%	£500,000	Yes	£1,054	3.00%	Aug-22
Y:Cube Housing	London	£500,000	100%	£500,000	Yes	£6,120	6.00%	Mar-22
Small Enterprise Impact Investing Fund	International	£318,513	100%	£318,513	No	-	5.00%	Jul-17
Midlands Together	UK	£300,000	100%	£300,000	Yes	£17,951	4.00%	Oct-18
The Foundry	London	£300,000	100%	£300,000	Yes	£11,281	6.59%	Aug-18
		£7,418,513		£6,635,013		£103,299		

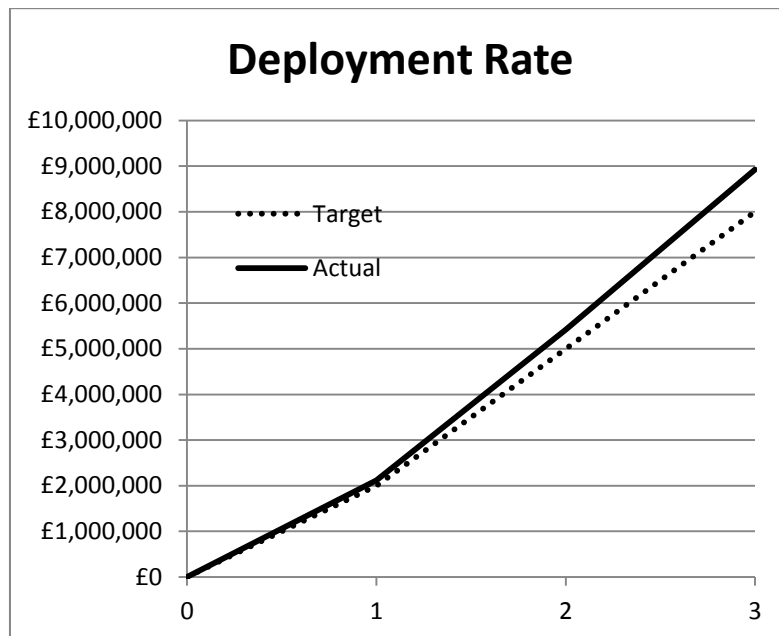
The table excludes £1.5m of investment offers which are still conditional on completion of satisfactory contracts.

Social benefit

8. The Fund's social investments support projects addressing a wide range of social issues. These include:
 - a. supported accommodation for adults with learning disabilities;
 - b. employment training for ex-offenders;
 - c. move-on accommodation for people who were formerly homeless;
 - d. the provision of leisure services in areas of low-income;
 - e. accommodation for otherwise destitute migrants;
 - f. Small and medium-sized enterprises (SME) financing in low-income countries; and
 - g. affordable office space for social sector organisations in London.
9. Each investment opportunity is assessed both in terms of depth (how profound a change the work will generate) and scale (how many people will benefit).

Deployment

10. Recognising that social investment is a new and relatively small market, a target dispersal rate of £2m pa was agreed when the Fund was established. After the first year, the Board revised this to a minimum of £3m pa.



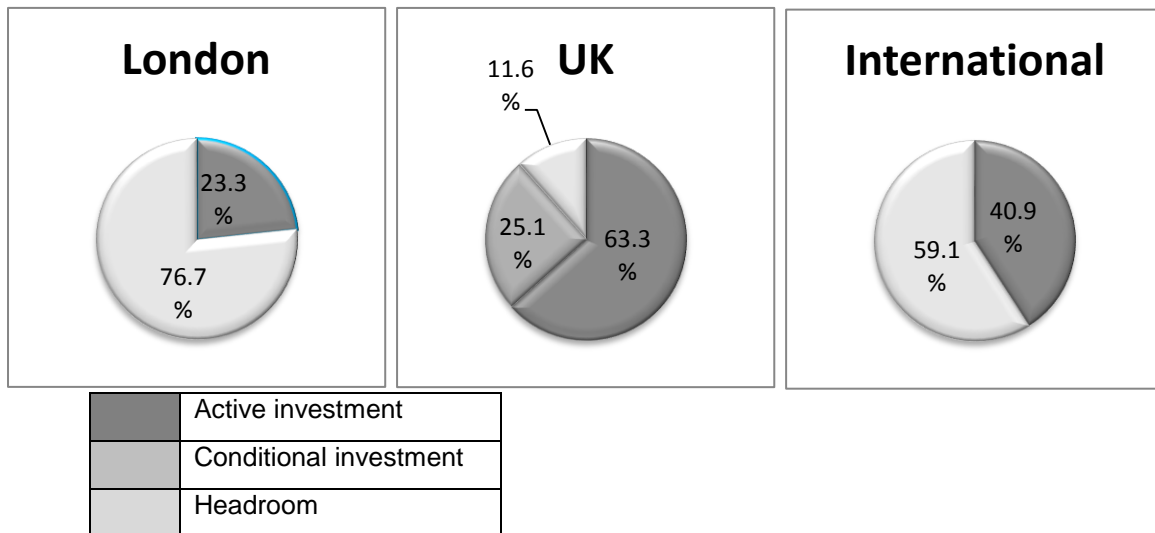
11. The City Bridge Trust works to build the social investment market, most recently through a £1m grants programme (the Stepping Stones Fund) for London charities wishing to explore the suitability of repayable finance. Notwithstanding these efforts (and the work of other organisations such as Big Society Capital, the Big Lottery Fund and the Access Foundation) the social investment market is developing slowly, and the pipeline of opportunities suitable for the Fund remains relatively weak. The greatest obstacle to

deployment remains the limited supply of good quality investment opportunities within the risk tolerance of the Fund.

Geographical Allocation

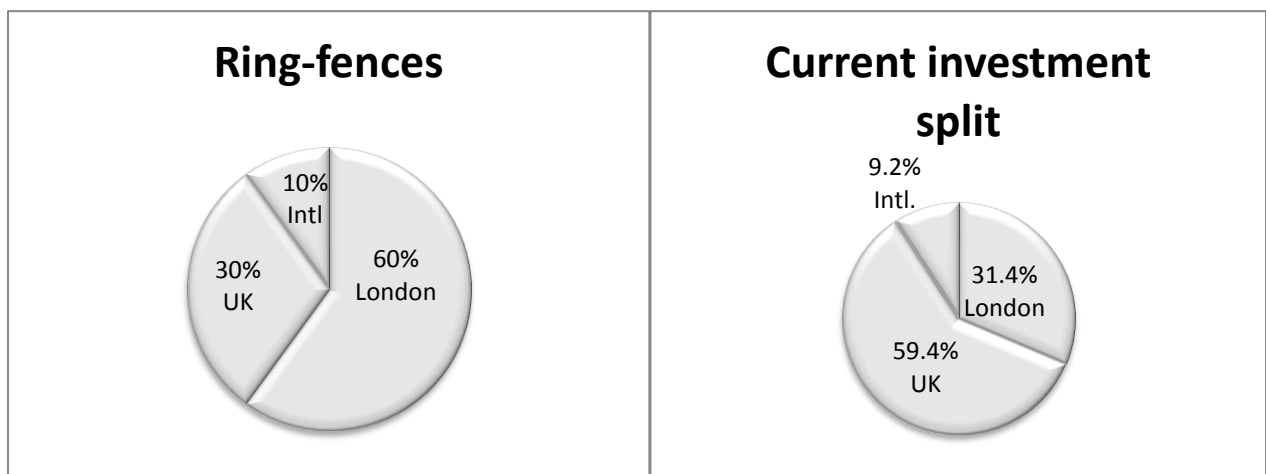
12. When the £20m was set aside for the Fund, £12m was ring-fenced by the Court of Common Council for London benefit, £6m for wider UK benefit, and £2m for international benefit.

Geography	Ring-fence	Commitments to date	Headroom
London	£12m	£2.8m	£9.2m
UK	£6m	£5.3m	£0.7m
International	£2m	£0.8m	£1.2m



13. Since the Fund was established it has been more difficult to find suitable London-focused opportunities and this is reflected in the headroom remaining on that portion of the Fund. The City Bridge Trust is working to generate more London-focused investment through the Stepping Stones grant programme but this will take time and, without adjustment to the current ring-fences, your Social Investment Board is mindful of the risk that the Fund's deployment rate could slow.

14. The geographic ring-fences compared to current commitments are as follows:



15. Each new investment changes the proportionate split across the three geographies. Whilst it was not assumed that the Fund would have a 60:30:10 split at all times, the current investment chart reinforces the argument that the Fund needs to find more London opportunities.
16. Your Social Investment Board is keen to emphasise that London investments will continue to be prioritised when they arise. However, to maintain the deployment rate, the Court of Common Council is asked to give permission for the Fund to combine the UK and London ring-fences during 2015-16.

Proposal

17. Members are asked to note the progress made on the work of the Fund since it was established, and to permit the City of London Corporation's Social Investment Fund to combine its UK and London ring-fences until October 2016, at which point a further progress report will be made on the development on London-focused social investment opportunities. This is on the basis that London investments will be prioritised where they arise and fit the criteria.

Conclusion

18. Although further work is still needed to develop the social investment market, the City of London Corporation's Social Investment Fund has committed almost £9m since it was established. Investments support a broad range of social projects, largely across the UK. To maintain this work and the deployment rate, we ask the Court for permission for the Fund to combine the UK and London ring-fences during 2015-16.

All of which we submit to the judgement of this Honourable Court.

DATED this 24th of September 2015.

SIGNED on behalf of the Committee.

Peter Hewitt, Alderman
Chairman, Social Investment Board