

City of London's Social Investment Board

Members' Handbook



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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
Andrew McMurtie	Chairman of the Financial Investment Board
Jeremy Mayhew	Chairman of the Finance Committee
Alderman Alison Gowman	Chairman of the City Bridge Trust Committee
Nicholas Bensted-Smith	One member of the Financial Investment Board
Henry Colthurst (Deputy Chairman) and Wendy Hyde (Both Members elected 21 April 2016 for a one year term expiring in April 2017)	Two Members elected by Court of Common Council
Non-voting Co-opted Members	
Master of the Mercers' Company, Tim Haywood (Co-opted at December 2015 SIB)	A senior representative of the Mercers' Company
Elizabeth Corrado and Laura Tumbridge (Co-opted at March 2016 SIB)	

The Role of a Social Investment Board Member

Summary

1. This summary provides further clarification on the role of the Members of the Social Investment Board in relation to the Social Investment Fund.
 2. The following should be noted:
 - (a) Members of the Social Investment Board have a duty to support the City of London (as trustee) in the exercise of its duties as trustee;
 - (b) The primary charitable purpose of Bridge House Estates is the maintenance and support of the five bridges, with the assets of the charity being invested with a view to generating a financial return which in turn is used to further those purposes;
 - (c) As a risk mitigation strategy, the City of London, as trustee, has limited the allocation of £20 million from the charity's assets to the Social Investment Fund and has considered financial investments in the social investment market in accordance with the minimum target financial returns set for the Fund to be suitable investments;
 - (d) The principal financial aims of the Fund are to seek to achieve a financial return target of not less than 2% on individual investments and not less than 2.7% across the portfolio of the Fund as a whole.
 - (e) Investments of the Social Investment Board are financial investments (generating a financial return consistent with the minimum target financial returns set for the Fund) in the social investment market (having resulting social impacts);
 - (f) Members are not expected to seek to insulate the Fund from all risk of capital loss but, subject to the minimum target financial returns set for the Fund, the Social Investment Board may at its discretion develop and maintain a diversified portfolio of investments, adopt a spread of risk and invest into higher performing and lower performing investments acting reasonably, prudently and in good faith;
 - (g) The experience of other social investors (who may have different charitable objects and governance criteria) should not be used as the benchmark for investment decisions, which should meet the minimum target financial returns set for the Fund;
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The City of London as Sole Corporate Trustee

3. The Mayor and Commonalty and Citizens of the City of London ('the City of London'), acting by the Court of Common Council, is the sole corporate Trustee of the Bridge House Estates charity. Individual elected Members of the Court sitting as Members of its Social Investment Board sub-committee, are not Trustees of Bridge House Estates; however, by virtue of their membership of the sub-committee they have a duty to support the City of London in the exercise of its duties as trustee by faithfully acting in accordance with the terms of reference of the Social Investment Board and the City Corporation's corporate governance framework.
4. The principal charitable purposes of Bridge House Estates are to maintain and support five bridges crossing the River Thames in central London (Tower Bridge, London Bridge, Southwark Bridge, Millennium Bridge and Blackfriars Bridge). Income which cannot be usefully applied to those purposes may be applied both towards the provision of, and access to, transport for elderly or disabled people in the Greater London area and for other charitable purposes for the general benefit of the inhabitants of Greater London provided that that 'surplus income' is applied in accordance with a policy which the Trustee has agreed following appropriate consultation. The 'surplus income' of Bridge House Estates is currently applied by way of grants by the City Bridge Trust Committee in accordance with the City Bridge Trust's current policy for grant-making, 'Investing in Londoners'.
5. The City of London, as sole corporate trustee, must:
 - (a) use its skill 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 its skills and knowledge of investments when making decisions;
 - (b) consider how suitable any investment is for Bridge House Estates. The trustee must be satisfied that:
 - i. an investment type or class is appropriate for the charity (for example, shares),
 - ii. the investment within that type or class is appropriate for the charity (for example, shares in a specific bank);
 - (c) consider the need to diversify investments (for example, owning shares in a number of different companies, or investing in different asset classes);
 - (d) take advice from someone experienced in investment matters where they consider they need it; and
 - (e) review investments (and their investment manager) from time to time, changing them if necessary.
6. The Social Investment Board is concerned with the investment of an allocation of £20m from Bridge House Estates assets, referred to as the Social

Investment Fund ('the Fund'), in accordance with criteria set by the City of London as Trustee.

7. By allocating £20m of Bridge House Estates assets to the Fund, the City of London, as the sole corporate trustee of Bridge House Estates, has ensured that the Fund is a relatively small part of a large and diversified investment portfolio. In the circumstances, and given the size of the endowment and the value of the charity's assets as a whole, limiting the allocation to £20m is considered to be the most important risk mitigation strategy deployed by the City of London, as trustee.
8. The City of London, as sole corporate trustee, has also considered diversification of the charity's investment portfolio when allocating monies for the purposes of the Fund and has considered social investments meeting the Social Investment Criteria of the Fund (which provide for a minimum target return, see paras 15-27 below) to be suitable investments for Bridge House Estates.
9. The principal duty of Members of the Social Investment Board is to seek to ensure that investments meet the Social Investment Criteria and by so doing to support the City of London Corporation in fulfilling its duties as Trustee.

Management of Risk

10. All investment activity carries risk and, ultimately, the risk of capital loss. Members of the Social Investment Board are not expected to seek to insulate the Fund from all risk of capital loss or only to invest in investments which are perceived to be safe or defensive.
11. The Social Investment Board may at its discretion develop and maintain a diversified portfolio of investments, adopting a spread of risk and invest into higher performing and lower performing investments provided the investments of the Fund are otherwise expected to meet the Social Investment Criteria.
12. The social investment market is young and developing and investments tend on the whole not to be on deep, liquid or public markets, which means that there is relatively little data or experience to determine the level of risk involved in different forms of social investment. It is likely therefore to be difficult or impossible for the Members of the Social Investment Board to determine with certainty the level of risk involved when investing in specific investments.

Decision-Making

13. Members of the Social Investment Board are not able to make decisions with the benefit of hindsight. Instead, Members should seek to act reasonably, and prudently and make decisions in good faith based on the information reasonably available at the time of the relevant investment decision. In practice, Members of the Social Investment Board will need to exercise judgement on behalf of the City of London about whether an investment is a good investment and is reasonably likely to meet the Social Investment Criteria.

14. It is expected that the Social Investment Board will learn from its investment of the Fund and that the lessons learnt will inform its strategy over time. Inevitably, lessons will be learned about what has worked well and what has not worked so well and the experience and data which investment of the Fund creates with respect to different social investments should lead to more informed and confident decision-making over time, as the social investment market develops.

Social Investment Criteria

15. The Court of Common Council approved investment criteria for the City of London Social Investment Fund (the Fund) at its meeting on 25th October 2012 (refer paragraphs 20 and 21 below).
16. Consistent with its terms of reference and the investment criteria set by the City of London as Trustee, the Social Investment Board approved additional criteria at its meetings on 14th December 2012 and 18th September 2015.
17. Criteria have been developed following consultation with several other social investors, and with advice from Social Finance Limited and Big Society Capital. It should be noted that other social investors in this market operate pursuant to their own often very different charitable objects and governance criteria to those of the Social Investment Board, and although helpful in assisting Members to understand and operate in the social investment market, Members should be guided by the Social Investment Criteria established for the Fund and not by the practice of other investors who operate under different parameters..

Fund aims

18. The Fund aims to achieve an overall financial return across the Fund 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

19. The Fund has two objectives:
 - (a) 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,
 - (b) To help develop the social investment market

Eligibility for investment

20. 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

21. 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%). The Social Investment Board may at its discretion develop and maintain a diversified portfolio of investments, adopt a spread of risk and invest into higher performing and lower performing investments bearing in mind the aim to achieve returns of not less than 2% on individual investments and not less than 2.7% across the portfolio of the Fund as a whole.

Investment portfolio

22. In line with the City of London'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:
- (a) 90% of its total value to benefit UK-based beneficiaries, with the aim that up to 60% will be for London beneficiaries
 - (b) 10% of its total value to benefit international beneficiaries

Social benefit

23. Subject to meeting the investment criteria established by the Court of Common Council for the Fund, including the target financial returns set for the Fund, 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

24. Eligibility for direct investment will be restricted to those organisations that:
- (a) 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;
 - (b) Have strong management and governance;
 - (c) Have a clear exit strategy / end term for the investment to be repaid.

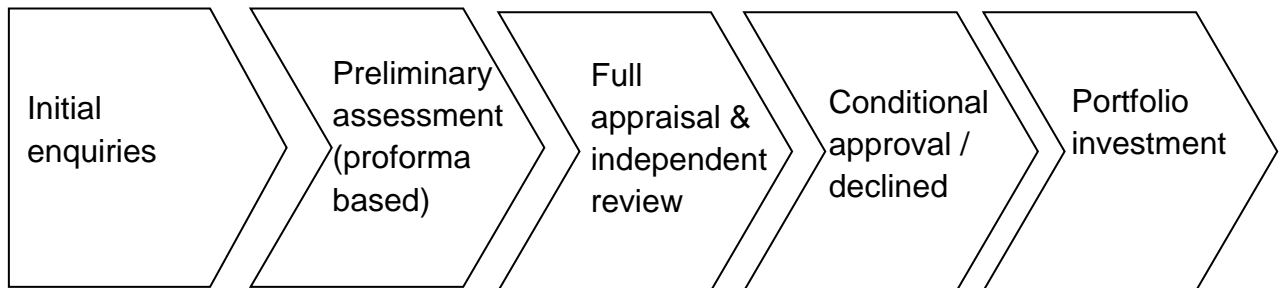
25. Direct investments will normally be made for purposes of either: service expansion; organisational development; purchase of property or other capital items that support service delivery.
26. In addition to making direct investments in organisations that are registered with the Charity Commission 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:
- (a) Setting out objects in its constitutional documents that are primarily concerned with the provision of benefits to society;
 - (b) 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;
 - (c) 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;
 - (d) 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.
 - (e) 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

27. Investment can be made in funds managed by others where those funds:
- (a) Have charitable, community or social benefit and clearly articulated social returns;
 - (b) Show that the distribution of profits generated by the funds are capped to investors;
 - (c) 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
Martin Hall	Grants Assistant, City Bridge Trust	Martin.Hall@cityoflondon.gov.uk	X3705
Kate Limna	Corporate Treasurer, Chamberlain's Department	Kate.Limna@cityoflondon.gov.uk	X3952
Liz Skelcher	Assistant Director of Economic Development	Liz.Skelcher@cityoflondon.gov.uk	X3606
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.thefsegroup.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. Please note that social investors do not use this term to mean <i>blended interest rate</i> .
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 or borrow money. Generally, it involves a number of people pooling money through a website, often called a platform. The rules now encompass how loan-based and investment-based crowd funding activities are presented to potential investors and will

	include an appropriateness test.
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 investment	A form of debt investment. Social enterprise organisations may not be structured to issue shares (i.e. equity). A quasi-

	equity investment allows an investor to benefit from the future revenues of an organisation through a payment which is a fixed percentage of revenue. This type of investment is normally offered without security.
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.