

Report – Social Investment Board

2016 Progress Report

To be presented on Thursday, 13th October 2016

*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 2019, after which a further progress report will be made.

The Court's attention is drawn to the results of the first annual valuation report received in July 2016, which showed that your Social Investment Fund had achieved a gross return of 4.92% and a net return of 4.30%.

RECOMMENDATION

It is recommended that:

- (a) approval be given to permit the City of London Corporation's Social Investment Fund to combine its UK and London ring-fences until October 2019; and
- (b) 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 24th 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. The Board has three co-opted Members, recruited following a skills audit.
4. The Board holds regular discussions with other organisations interested in the social investment market and has built strong relations with both the Mercers' and Clothworkers' Companies.
5. The Court approved the Fund's investment criteria on 25th October 2012, and the Social Investment Board approved additional criteria at its meetings on 14th December 2012 and 23rd April 2013. 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%).
6. The Board received its first annual valuation report in July 2016 which showed that the Social Investment Fund had achieved a gross return of 4.92% and a net return of 4.30%.

Portfolio Summary

7. As of October 2016, the Fund had committed over £11.7m of which £8.2m (70%) had been drawn down by investees with the remainder subject to satisfactory contracts.

The £11.7m investment commitments can be summarised as:

£6.1m (52%) UK bonds / corporate debt
£5.0m (43%) Property (£3m residential, £2m commercial)
£0.6m (5%) international markets

8. The balance of the £20m allocated for social investments is part of the City of London Corporation's cash balances that are invested in the money market or otherwise committed through the Treasury function.

Investment	Geography	Commitment	Drawn (£)	Expected IRR	Expected exit
City YMCA	London	£1,750,000	£0	5.82% - 6.32%	Jul-18
Columbia Threadneedle UK Social Bond Fund	UK	£1,500,000	£1,500,000	3.10%	Ongoing
Rathbone Ethical Bond Fund	UK/Intl	£1,000,000	£1,000,000	5.00 - 7.00%	Ongoing
Golden Lane Housing 2013 Bond	UK	£500,000	£500,000	4.00%	Sep-18
Golden Lane Housing 2014 Bond	UK	£500,000	£375,000	4.00%	Sep-18
Real Lettings Property Fund (round 1)	London	£500,000	£500,000	5.30%	2020 - 22
Real Lettings Property Fund (round 2)	London	£500,000	£500,000	6.35%	2020 - 22
Greenwich Leisure Limited	London	£500,000	£500,000	5.00%	Dec-18
Framework Housing	UK	£500,000	£0	3.96%	tbc
Commonweal - Praxis Housing Project	London	£500,000	£447,715	3.66%	Oct-21
Affordable Homes Rental Fund	UK	£500,000	£500,000	3.00%	Aug-24
HCT Group	UK	£500,000	£500,000	4.75%	Apr-20
Y:Cube Housing	London	£500,000	£500,000	6.00%	Mar-22
Glasgow Together	UK	£405,000	£405,000	4.00%	Aug-20
CAF 2026 Bond	UK	£500,000	£0	3.04% - 5.00%	Apr-26
Small Enterprise Impact Investing Fund	International	£318,513	£318,513	5.00%	Jul-17
Midlands Together	UK	£300,000	£300,000	4.00%	Oct-18
The Foundry	London	£300,000	£300,000	6.59%	Aug-18
Thera Trust	UK	£100,000	£100,000	5.50%	Dec-20
		£11,173,513	£8,246,228	4.76%	

The table excludes £0.5m of investment offers which are still conditional on completion of satisfactory contracts.

Income of £353,542 has been received on the investments placed to date

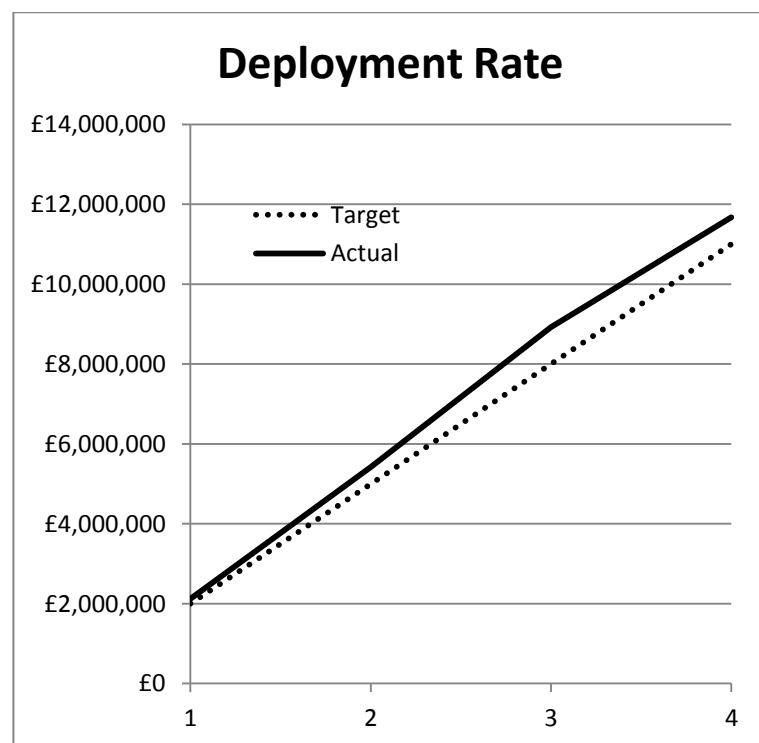
There is a potential loss of up to £150,000 arising from one of the active investments as a result of an anticipated event of default. If this was to occur the impact on the Fund's overall return is expected to be a reduction of approximately 0.1%

Social benefit

10. 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.
11. 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

12. 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.



13. The City Bridge Trust works to build the social investment market through its grants programme with UBS, 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.

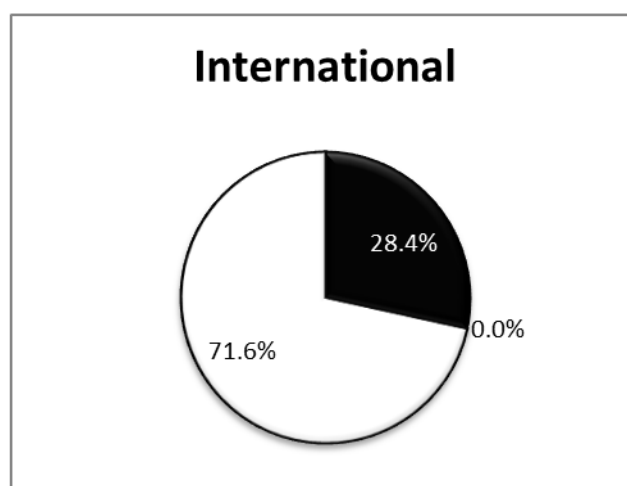
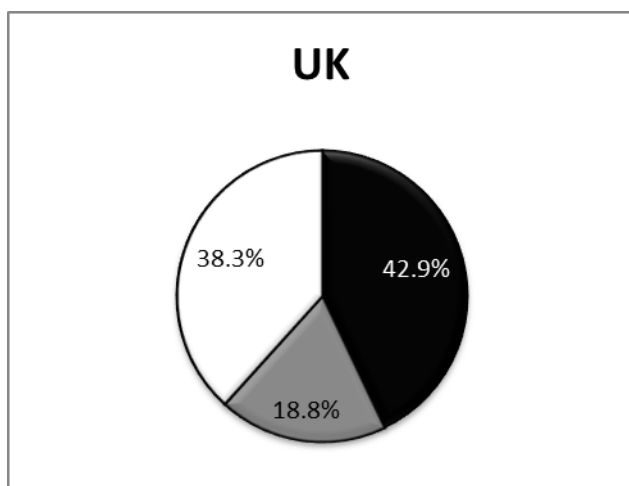
Geographical Allocation

14. 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. The market continues to develop slowly, and notwithstanding initiatives like the City Bridge Trust – UBS Stepping Stones Fund, good quality London-focused opportunities within the Social Investment Board's risk tolerance remain thin. By contrast, UK-focused opportunities have been more plentiful and by September 2015 the Fund had only £0.7m remaining on its original UK ring-fence.

15. To avoid slowing the deployment rate, this Court approved a recommendation to amend the original geographical ring-fences for the period ending October 2016 so that UK and London allocations could be combined. This paper recommends that this be extended for a further three years.

16. The current allocation is as follows:

Geography	Ring-fence	Commitments to date	Headroom
UK	£18.0m	£11.1m	£6.9m
<i>Of which, London</i>		<i>£5.1m</i>	
International	£2m	£0.6m	£1.2m



	Active investment
	Conditional investment
	Headroom

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



18. Each new investment changes the proportionate split across the three geographies. Whilst it was not assumed that the Fund would have a 90:10 split at all times, the current investment chart reinforces the argument that the Fund has scope to find more international opportunities.

19. 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 until October 2019.

Proposal

20. 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 2019, 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

21. Although further work is still needed to develop the social investment market, the City of London Corporation's Social Investment Fund has committed almost £12m 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 until October 2019.

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

DATED this 27th day of September 2016.

SIGNED on behalf of the Committee.

Alderman Peter Hewitt
Chairman, Social Investment Board