

Committee	Dated:
Social Investment Board	15/02/2017
Subject: Progress Report	Public
Report of: Chief Grants Officer	For Decision

Summary

The report:

- Introduces the three firms (Triodos NV, Bates Wells Braithwaite, and iforchange) who we recommend join your pool of advisors providing independent investment reviews for Board meetings;
- Presents an illustrative portfolio model to show how investment across a range of social finance categories could generate the Fund's target financial and social returns whilst also helping to develop the market; and
- Provides updates on Big Society Capital's approach to social impact measurement, City Bridge Trust's strategic review and the Stepping Stones programme (a collaboration between City Bridge Trust and UBS to develop the social investment pipeline).

Recommendations:

Members are asked to:

- note the report;
- agree the appointment of Bates Wells Braithwaite and iforchange (and to note the appointment of Triodos NV) as advisors to your Fund; and
- provide feedback and guidance on the proposed portfolio approach.

Main Report

Advisors

1. When the Social Investment Fund was established Court of Common Council mandated that all investment proposals coming to Board be accompanied by an independent review prepared by an FCA authorised agency. Current advisors were appointed in 2012-13 and, in some cases, now have less capacity to support the Fund's work than they once did. The Trust conducted a review of prospective new providers in the second half of 2016, approaching 12 organisations with a known interest in the social investment market. Three were selected as most suitable for the Fund's purposes – Triodos NV, Bates Wells Braithwaite, and iforchange – and these firms met the Chairman, Deputy Chairman and Principal Grants & Social Investment Officer in mid-January.

2. Triodos NV is a Dutch registered, FCA authorised bank with €12bn under management and a UK branch that is a significant actor in the social investment market. In the UK, Triodos has taken a number of charitable bonds to the retail market, including Golden Lane Housing 2013 (part of your Fund's portfolio). The bank has a commitment to transparency, publishing details of its lending online in an easily navigable interactive map. Triodos' Corporate Finance team will lead social investment reviews. This is a team of six based in Bristol and London, mostly chartered accountants with career experience of working for large commercial firms including KPMG and Grant Thornton. Quality assurance would be provided by their head of team or by their Senior Investor Relations Manager who is ex- JP Morgan.
3. In order to allow Triodos to undertake a review in time for today's meeting, the Chairman and Deputy Chairman approved their appointment under urgency but they will attend today's Board to present further detail of their social investment activities.
4. Bates Wells Braithwaite is a City-based law firm with significant charity and social enterprise experience. It has a longstanding interest in social finance, having acted for the Bishop of Oxford in the 1991 case which established the right of charities to engage in socially responsible investment and subsequently having advised on the creation of Charity Bank as well as CAF Venturesome. It advises Big Society Capital on an ongoing basis and a BWB partner, Luke Fletcher, spoke at your strategy away day last summer. BWB has an Impact Advisory function led by a team of corporate finance experts formerly of Baker Tilley. This advisory function supports charities and social enterprises to develop new services, restructure, undertake mergers, plan, deliver and monitor impact. The team is well-regarded in the social investment market and will be invited to speak to a future meeting of this Board about their services.
5. Iforchange is, by contrast, a much smaller firm and already known to Members because its Director (Russ Bublely) attends meetings in his role as Fund analyst. Iforchange was appointed by the City Of London Corporation to assist with an increasing volume of formative proposals where there was evidently some merit in the request but where further research was needed to clarify investment terms. Iforchange provide many, but not all, of the reports reviewed by Chairman and Deputy Chairman at pipeline meetings where prospective investments are screened between Boards. In addition to its work for the City, the iforchange team supports charities and statutory agencies to engage with the social investment market. Russ Bublely has significant commercial finance expertise and is well regarded in the wider social investment market. To avoid any conflict of interest, any investment tabled to Board that had been subject to an early stage investment review by iforchange would then be reviewed by another advisor.
6. We are not proposing to terminate our relationships with existing advisors (Social Finance Ltd; Albion Ventures; The FSE Group; Social Investment Business working with Investing for Good) since all are engaged on a spot-

purchase basis rather than retainer, and we benefit from the flexibility of matching the right advisor to the right prospective investment.

Portfolio

7. The portfolio has established a solid foundation with a financial return >4% against targets of 2.7% across the Fund and a minimum return per investment of 2%. This performance has been a consequence of the Fund's preference to date for asset- or proven revenue-backed opportunities with, as far as possible, limited risk of capital loss. Over £12m committed since December 2012, which is in line with target but your strategy away-day in summer 2016 heard that this sort of opportunity is not abundant in the social investment market and where such opportunities do exist there is often a lot of competition between prospective investors.
8. Your handbook notes that "Members are not expected 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". Members have discussed how to achieve the right balance of financial and social returns across the Fund.
9. With just over half the Fund's capital committed, and with the social investment market now further developed than it was in 2012 it is a good time to review what else the Fund could achieve such as how it might accelerate the deployment rate, increase social return, and do more to help develop the social investment market whilst safeguarding the financial return.
10. The diagram below is a first working model only and for Member feedback. It shows an approach to full deployment across a diversified portfolio where social investments are placed across a range of categories with varying degrees of social and financial return. The approach assumes that the portfolio financial target is met, but there is greater focus on market building and social impact. Some of the investment categories do involve more risk, but it is important to note that the diagram is based on the assumption that any losses in the high risk categories (small loans and patient finance) are offset by returns in lower risk strands (secured lending and treasury). Unlike mainstream investment, higher risk in the social investment market does not usually correlate with higher potential financial return but with high potential social return. Notwithstanding different risk levels shown in the model below the *total* return is designed to achieve the Fund's required objectives.

Small loans (£1m)*	Exchange listed investments (£5m) >4% Low risk Low social return Low market building potential Liquid
Patient finance** (£4m) >2.7% Medium risk High social return High market building potential	
Unsecured lending (£4m) >5%, medium risk Medium social return & market building potential	
Secured lending (£6m) >3% Low risk Medium social return Low market building potential	

*Small loans: >2%; high risk; high social return; high market building potential

**Patient finance: 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).

11. Initial modelling shows that a >2.7% return would be achievable on such a portfolio after potential losses have been accounted for the investment categories with higher degrees of risk. If the Board would like to explore this model further then officers would seek peer input from other social investors as well as feedback from the wholesaler, Big Society Capital, for where the market need lies. The model would also be subject to assessment of the likely impact that fees and trading costs would have on portfolio return before a full paper comes to Board for approval.

Social Impact

12. Your December meeting received a new social impact measurement framework and this has been applied to the Fund's current investments (see your Portfolio Update in today's papers). The framework follows the principles recommended by Big Society Capital, and Members asked for further detail of BSC's approach.
13. Big Society Capital's Outcomes Matrix was developed in partnership with social investment financial intermediaries, front line organisations and impact experts. It attempts to develop a common language for social investment and impact assessment across the sector. It is based on nine outcome areas:
 - Employment, training and education
 - Housing and local facilities

- Income and financial inclusion
- Physical health
- Mental health and well-being
- Family, friends and relationships
- Citizenship and community
- Arts, heritage, sport and faith
- Conservation of the natural environment

14. Each area has its own outcomes and specific measures as well as beneficiary groups and is intended for use by front-line investees in the planning and measurement of social impact. By way of example:

Outcome Area	Outcome	Beneficiary Groups	Measures
Employment, training and education	High quality employment, training and education within a healthy local economy	People with mental health needs	- Number of jobs created - Number of jobs sustained - Unemployment and long- term unemployment rates

15. The City Of London Corporation’s Social Investment Fund has used the outcome areas, outcomes and beneficiary groups on the cover papers for investments proposed to Board. To date the Fund has investments in four of the nine outcome areas: Employment, training and education; Housing and local facilities; Citizenship and community; and Arts, heritage, sports and faith; and these serve a large variety of beneficiary groups from Ex/Offenders to People with learning disabilities.

16. Not all Fund investees use the BSC framework for monitoring, and whilst it shows benefits arising from the investee’s work it does not necessarily attribute these to the investor’s contribution (a challenge when the Fund co-invests with others). As a result the Fund has developed its own social impact framework, which is informed by the principles of the BSC approach, but not an exact copy.

City Bridge Trust Strategic Review

17. You met Sufina Ahmad, the Trust’s Head of Strategic Review, at your December meeting. Sufina Ahmad is on secondment from the Big Lottery Fund until July 2017, and is responsible for overseeing the development of the Trust’s next funding strategy for 2018-2023. Having spent several weeks consulting widely (both internally and externally) the review is in a new phase and 6th February City Bridge Trust Committee received the first draft of proposed priorities for the coming years.

18. Provisionally titled “Bridging Divides”, the draft strategy outlines an approach which is intended to allow the Trust sufficient flexibility to cope with a period which is likely to see significant change not only in London but also in the size and shape of the voluntary sector. On 6th February, the City Bridge Trust Committee Members reviewed initial plans for more place-based funding, work to address inequalities, supporting people to make key transitions in life (for instance, moving out of long-term unemployment), and enabling disempowered communities and individuals to have their voices heard. Recognising the challenging operating environment charities face, the proposed strategy stresses the need to provide technical support to boost the sector’s resilience. The strategy considers how social investment can play its part in strengthening the sector and delivering social benefit.
19. Five ambitions underpin the new strategy: making the Trust’s processes as effective as possible; working collaboratively; taking on leadership responsibilities; using all assets well; creating more giving; and encouraging learning between London and the wider world. The strategy is designed to be adaptive and, with Member assent will be subject to annual review. A final version of the strategy will go to Court of Common Council’s July meeting, and Members of this Board are also encouraged to liaise with Sufina if they have queries or would like to provide comments that will help shape the end product: sufina.ahmad@cityoflondon.gov.uk.

Stepping Stones Fund

20. You receive regular updates from me on the Stepping Stones Fund, City Bridge Trust’s social investment readiness programme. To date 49 organisations have been awarded grant funding of £2.2m. A fourth round is expected to launch in spring 2017.

Member Handbook

21. A new addition for the Handbook, detailing the pre-Board investment review process, is shown as an appendix to this paper.

Appendix 1: Investment review process

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