



CITY OF LONDON CORPORATION SOCIAL INVESTMENT FUND THE FIRST FIVE YEARS

INTRODUCTION



It gives me great pleasure to introduce this report looking back over the first five years of the City of London Corporation's £20million Social Investment Fund. As Chairman of the Social Investment Board since its inception it has been my privilege to contribute to this important and innovative work. In our first five years we have achieved an IRR of 4.7% (gross) which is 2% in excess of the initial target. Thus I believe that we have clearly demonstrated that by making socially responsible investments, it is possible to have a positive social impact without compromising on financial returns. This was the City's original intention in establishing the Fund, namely to demonstrate that social investment was a credible investment medium.

When we started our Fund in 2012 we knew there would be challenges. At the time, social investment was a relatively new concept, with the financial supply being often greater than the investment opportunities available. We knew it would take time for us to deploy our Fund, and we have had to adapt our approach to meet the changing nature of the social investment market. This is inevitable in such a new field of work and the City has risen to the challenge. As I believe this report demonstrates, the social impact of the organisations that have received investment has been significant, and I am confident that over the coming years, increasing awareness of social impact investing will enable it to become a mainstream class of investment in the future.

Alderman Peter L R Hewitt, JP, FCSI, FRSA
Chairman, Social Investment Board

BACKGROUND

The City of London Corporation's Social Investment Fund was established in May 2012 in order to produce a positive social impact, whilst also helping to develop the social investment market through the influence of the Corporation and by demonstrating that social investment could be a financially viable model. £20million was allocated to this Fund from the assets of the Bridge House Estates charity, of which the City of London Corporation is the sole Trustee.

The Fund made its first investments in December of the same year. However, it has older roots having emerged from the Corporation's learning as trustee of a charitable funder, City Bridge Trust. Throughout the early 2000s, and along with other grantmakers, City Bridge Trust could see the pressure the charity sector was under. This was exacerbated by the financial crash of 2008 and the subsequent roll back of many statutory functions when people turned instead to charitable providers. Increased demand from service users alongside funding pressures is a considerable challenge, and something many charities continue to struggle with almost a decade on.

The City examined how we might make use of the other resources we have available, beyond our grant funding. This included discussions about the underlying investments which generate City Bridge Trust's grant spending. We benefited from the wise counsel of several Trusts and Foundations who had already started to make social investments, particularly the Esmée Fairbairn Foundation who are rightly regarded as pioneers in this space.

When we established our own Social Investment Fund, we set ourselves 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.

We decided to consider both direct investments to charities and social enterprises as well as indirect investments into funds with a social focus.



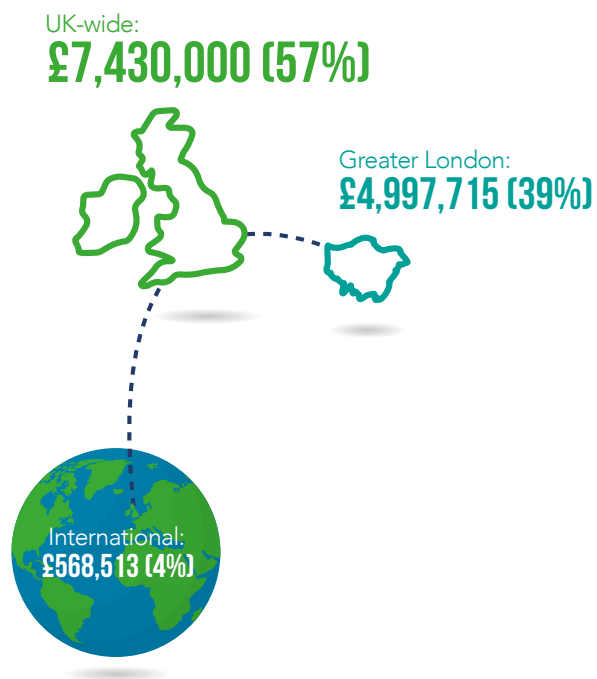
OVERVIEW

Since its first investment meeting in December 2012 the Fund has approved 20 investments totalling £12,996,228. Of these, three have been redeemed, either because they matured or the Fund took the decision to exit. A full list of investment commitments made between December 2012 and November 2017 can be found at Appendix 1. Of seventeen current investments, all but two are presently rated Green in our internal 'RAG' reporting system thereby indicating that they are meeting financial and social targets.

The figures quoted below relate to all investments approved by November 2017 and include those now matured or redeemed.

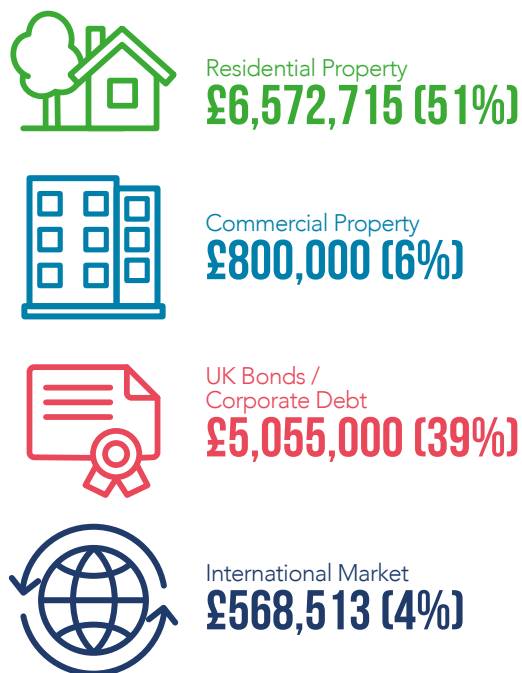
GEOGRAPHICAL BREAKDOWN

The Fund is mainly UK-focused, and we have a particular interest in work that benefits communities in Greater London. However, we have a £2m provision for work outside of the UK to allow us to consider as wide a range of social investment opportunities as possible. Thus the geographical allocation of our investments to date is as follows:



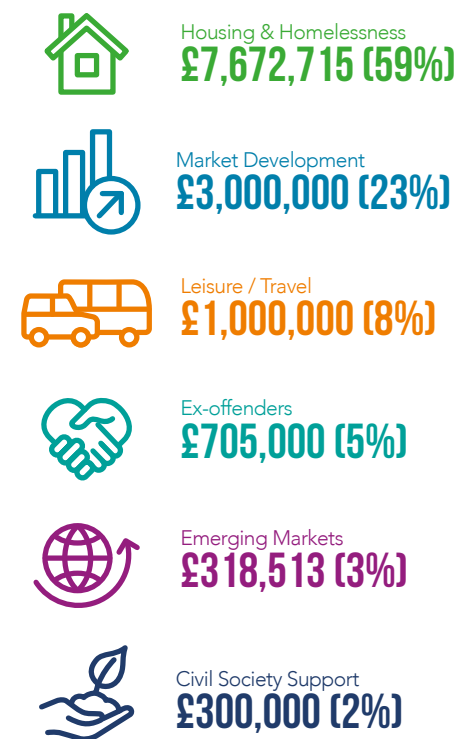
WHAT WE HAVE COMMITTED OUR FUND TO

Much of the UK's social investment market is debt-focused, and our investments to date reflect this, although we remain keen to find suitable equity, or quasi-equity opportunities with the right social enterprise partners.



SECTORS

Investments to date have been made across a number of sectors, tackling recognised social issues within the UK and internationally. These are as follows.



FINANCIAL PERFORMANCE

Judging the overall financial performance of the Fund is not a straightforward task. The majority of investments are not exchange listed or subject to daily pricing, so as a result we make a number of assumptions when calculating our return, and only realise this return when investments reach full term and mature or are redeemed.

However, based on our calculations, and subject to a method approved by the board, the overall financial performance of the Fund was 4.7% IRR (gross) at Sept 2017. This is up by some 2% in excess of the original target return of at least 2.7% gross.

Only one investment has underperformed and this is expected to result in a capital loss on the investment of 50%. However, due to the overall size of the Fund and strong performance from other investments the overall impact on the ROI is -0.41%, which has been accounted for in the overall return.



Target IRR: **2.7%**

Current IRR: **4.7%**



SECTORS

Investments to date have been made across a number of sectors, tackling recognised social issues within the UK and internationally.

SUPPORT FOR EX-OFFENDERS



ISSUE

Around a quarter of people released from prison reoffend within a year of leaving custody.

PROJECTS WE HAVE SUPPORTED

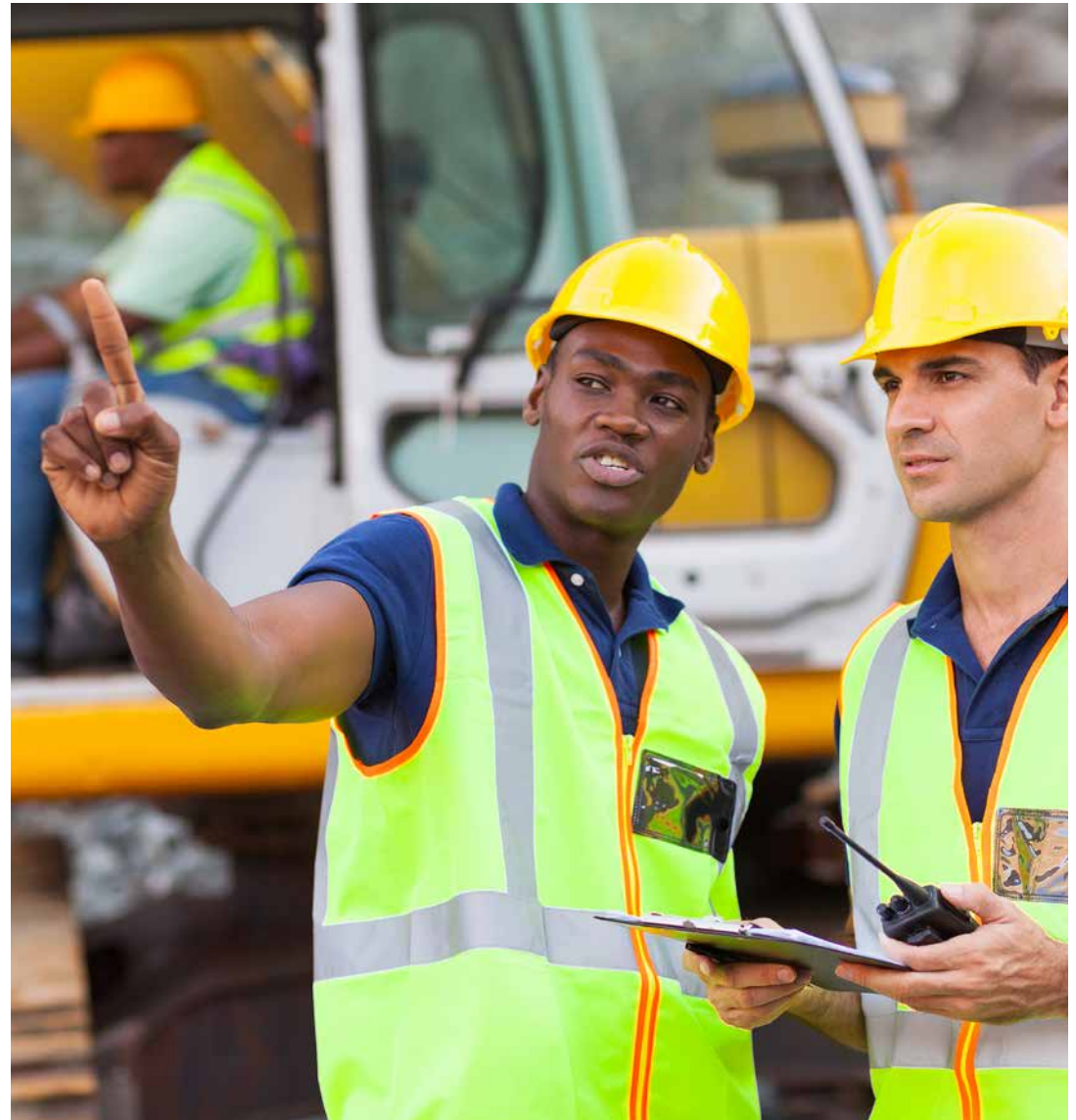
The Fund invested in two organisations which are both part of the Together group that operates in three regions across the UK.

The group's model involves the construction or purchase and refurbishment of empty properties. Ex-offenders are employed full-time in each project and provided training and mentoring. Completed properties are then sold on, with the proceeds recycled to purchase additional properties.

CASE STUDY: GLASGOW TOGETHER

Following the Together model highlighted above, this organisation aims to develop 3-4 projects per annum. In addition, it is also planning to begin work on a new build project employing a minimum of five clients. In total it will work with 100 offenders and ex-offenders

To date, the project has purchased six properties and worked with 15 ex-offenders producing 997 client days.



ACCESS TO LEISURE & TRAVEL



ISSUE

Disadvantaged groups find it difficult to access leisure and travel services, and this has a negative impact on their health and well-being.

PROJECTS WE HAVE SUPPORTED

The Fund invested in two organisations, HCT Group and Greenwich Leisure. Both are not-for-profit organisations which are using the funds to support their services, which include working with hard-to-reach groups such as people with disabilities and those on low incomes.

CASE STUDY: GREENWICH LEISURE

This organisation operates dozens of community sport & fitness venues across Greater London, including the Copper Box Arena and London Aquatics Centre in the Queen Elizabeth Olympic Park.

To ensure that their services are fully accessible, Memberships are available for people with disabilities, while groups such as carers or people on low incomes are offered discounted fees.



"The City of London's Social Investment Fund has been trusted social investors in HCT Group for the past two years. The City's investment has been instrumental in our growth – from £44.2m at the time of the investment to a forecast £62m in the current financial year. More importantly, this growth has enabled us to increase our social impact and deliver on our social mission."

Dai Powell, CEO, HCT Group

HOUSING AND HOMELESSNESS

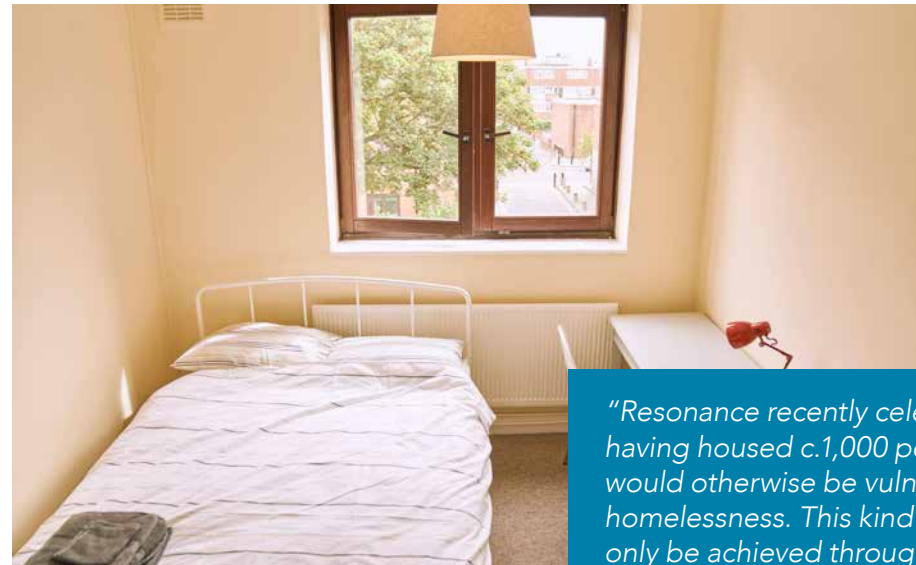


ISSUE

Access to affordable and specialist housing is limited in certain parts of the UK, leading to rising levels of homelessness.

PROJECTS WE HAVE SUPPORTED

The Fund has invested in eight organisations working in this sector. They are primarily targeting those in the greatest need and those who require additional support such as people with learning disabilities, people who were previously homeless, young adult carers, and vulnerable migrants. These are groups who often cannot find suitable housing in the private rental sector.



"Resonance recently celebrated having housed c.1,000 people who would otherwise be vulnerable to homelessness. This kind of result can only be achieved through the trust in our processes and commitment to support, shown by investors such as the City of London Corporation, who over the last four years have invested £2.5 million in our Affordable Homes Rental Fund, Real Lettings Property Fund and the National Homelessness Property Fund. Furthermore, we are very grateful that this support has given others the confidence to invest and we look forward to further partnership, bringing even more social impact."

John Williams, Senior Investment Manager, Resonance Ltd

CASE STUDY: REAL LETTINGS PROPERTY FUND

This Fund, a partnership with homelessness charity St Mungo's, was developed in response to the lack of private rented accommodation accessible to rising numbers of people living in temporary accommodation or otherwise at risk of homelessness in London.

To date, it has purchased 260 properties in London helping 650 tenants with 'move on' accommodation.

CIVIL SOCIETY SUPPORT



ISSUE

Faced with funding cuts and increased property prices, voluntary and community sector organisations are finding good quality office space increasingly scarce.

PROJECTS WE HAVE SUPPORTED

The Fund invested in the conversion of an Edwardian factory in the Vauxhall area into affordable energy efficient and fully accessible office space. This was rented to organisations working in the field of social justice, creating a community of similar organisations who share ideas whilst reducing operating costs.

CASE STUDY: THE FOUNDRY

Follow its refurbishment, The Foundry is now home to more than 25 tenant organisations working in a variety of social justice and human rights related fields in the UK and abroad. These include Engineers Without Borders, Malaria No More UK, Shannon Trust and Sheila McKechnie Foundation.



EMERGING MARKETS



ISSUE

For many SMEs in small or emerging markets, access to sufficient working capital is the biggest barrier to growth.

PROJECTS WE HAVE SUPPORTED

The Fund has a small provision to support international schemes. Our first investment was in a Small Enterprise Impact Investment Fund, providing finance to small and medium sized businesses in low income countries, with a particular focus on women's empowerment and food security.

CASE STUDY: OXFAM SMALL ENTERPRISE IMPACT INVESTMENT FUND (SEIIF)

This Fund was established in 2012 to provide micro-finance for small and medium-sized enterprises in countries including Costa Rica, Zimbabwe and Cambodia.

Over three years it was estimated to have created over 9,000 jobs, over 40% of which were in rural areas and 41% women. This is above the average for these regions where traditionally the level of female economic participation is low.

At inception it was hoped that SEIIF would raise around US\$100m, however in the event it raised less than US\$8m which significantly reduced its impact. As a result, in 2016 SEIIF was wound up and rolled into an equivalent product with a micro-finance focus. The Fund took the decision to redeem the investment, which, due largely to the fact that this was held in USD and the favourable exchange rate, resulted in a small capital gain for the Fund.



MARKET DEVELOPMENT



ISSUE

As a new and developing market, with limited track record, it will take time to bring social investment into the mainstream.

PROJECTS WE HAVE SUPPORTED

The Fund invested in two funds run by mainstream investment institutions which are ethical or socially responsible. These are used to support organisations working across a wide-range of themes including employment, housing and the environment.

CASE STUDY: RATHBONE ETHICAL BOND FUND

This £900million Fund is operated using strict socially responsible investment criteria. Potential investments are screened to ensure that they operate responsibly with regards to a range of social, environmental and ethical issues.

Investments have been made across a range of sectors including housing, renewable energy and healthcare.



THE NEXT FIVE YEARS

- » The Fund will continue to seek new investments in line with its current criteria to expand the portfolio and increase deployment. However, because of a scarcity of suitable investments, the Fund will continually review its criteria to look at ways it could increase the deployment. This may include considering smaller investments or venture capital proposals.
- » The Fund is evaluating ways of being more proactive in creating investment opportunities. One such area under consideration is the provision of housing for teachers in areas of London where housing costs are high. This is an area of particular interest to the City of London Corporation as it sponsors several Academy schools in inner-London boroughs and has experienced difficulties in recruiting teaching staff due to the high cost of living. It also re-enforces the excellent charitable work historically undertaken by the various Livery Companies of the City of London. Accordingly, the Fund is working closely with the charitable arms of the Livery to produce a suitable investment concept.
- » The Fund will continue to work closely with colleagues across the City of London, in particular the City Bridge Trust's grant-making operations. The Trust has recently undertaken a strategic review of its grantmaking and launched a new funding strategy in 2017. This referenced social investment as part of its range of funding options for organisations.
- » The City Bridge Trust's new strategy builds on the existing social investment readiness programme, Stepping Stones, delivered in partnership with the UBS bank. This scheme provides organisations with grants to enable them to explore social investment as an option for funding. The long-term aim is to bring the City Bridge Trust grants and City of London Social Investment Fund into closer alignment.
- » Finally, the City will continue to use its considerable convening powers to collaborate with other national organisations, such as the Government's Advisory Group on Social Investment and the UK National Advisory Board on Impact Investing in the pursuit of a fairer society.



APPENDIX 1: INVESTMENT COMMITMENTS TO DATE

INVESTMENT	AMOUNT AND PURPOSE
Affordable Homes Rental Fund	£500,000 to provide affordable accommodation for people who would otherwise be unable to continue living in their local area.
Columbia Threadneedle UK Social Bond Fund	A total of £1,500,000 to support organisations working across a wide-range of social development themes including employment, housing, and the environment.
Commonweal / Quaker Social Action	£500,000 to provide supported accommodation for young adult carers (aged 18-24) who wish to live independently and to test which housing and support services result in positive social outcomes for this client group.
Commonweal-Praxis Housing Project	£500,000 funding good-quality accommodation for vulnerable migrants through the purchase and management of seven homes in the Croydon area.
Glasgow Together Bond	£405,000 invested to provide employment, training and mentoring to 100 offenders and ex-offenders through a property refurbishment and construction programme.
Golden Lane Housing	A total of £875,000 invested to be used to purchase, adapt and let up to 30 freehold properties to Golden Lane clients across the UK, enabling people with learning disabilities to live independently.
Greenwich Leisure	£500,000 invested for the restoration of the Royal Greenwich Lido, repurposing the Olympics Aquatics and Copper Box Centres, for developing affordable health and fitness centres in Sidcup and Romford, and for other projects.
Greensleeves Homes Trust	£500,000 invested to support the provision of care homes for older people across the UK.
HCT Group	£500,000 fixed-rate loan to increase transport opportunities to those with disability or in poverty.
Midlands Together	£300,000 invested to provide employment, training and mentoring to 100-150 ex-offenders through a property refurbishment programme across the West Midlands.
National Homelessness Property Fund	£1,000,000 invested to purchase one and two bedroom properties across the UK for tenants who are, or have previously been, homeless.
Oxfam Small Enterprise Impact Investment Fund	£318,513 invested to finance small and medium sized businesses in low income countries, with a particular focus on women's empowerment and food security.
Rathbone Ethical Bond Fund	£1,000,000 in a fund investing in tradeable debt instruments issued by socially screened organisations.
Real Lettings Property Fund	A total of £1,000,000 to locate and purchase around 300 one and two-bedroom properties in London which will provide 'move on' housing benefitting up to 600 tenants who are, or have previously been, homeless.
The Foundry	£300,000 towards the conversion of an Edwardian factory in the Vauxhall area into affordable office space which will be rented to organisations working in the field of social justice.
Thera Trust Bond	£100,000 to provide adapted accommodation for adults with learning disabilities.
Y:Cube Housing Project	£500,000 towards an initiative from YMCA London South West providing 36 units of affordable accommodation for people who are exiting a period of homelessness.



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