



WHAT TO EXPECT IN YOUR INVESTMENT DOCUMENTS

May 2016

INTRODUCTION

Our investment documents look similar to any other investment transaction. However, as a result of receiving the majority of our funding from dormant bank and building society accounts and our governance documents that protect our dual purpose, we have certain requirements for how we invest our funds.

This pack of information briefly describes these requirements, which will be covered in more detail in the investment documents.

The requirements fall into five key areas:

- State Aid
- Responsible Business Principles
- Publicity
- Third Sector Organisations
- Reporting

STATE AID

Under EU legislation, Member States are forbidden from granting assistance (“aid”) to domestic undertakings which may threaten or distort competition in the EU common market. The regulations also apply where aid is dispersed through any state resources and so apply where payments are made by a private sector body from state-derived funds.

As we are partly capitalised through state funding (the dormant account monies), a consideration of state aid issues is required for all of our investments.

A state aid clearance notification from the European Commission means that funding from Big Society Capital to intermediaries will be allowable state aid provided we only invest where intermediaries are unable to access the finance they are requesting from elsewhere. However, this notification does not extend to investments into third sector organisations by intermediaries.

To ensure that you are made aware of this need to consider the state aid implications of an investment, Big Society Capital has template wording to be included in its investment agreements, as well as a guide (which is available [here](#)) explaining more about state aid.

RESPONSIBLE BUSINESS PRINCIPLES

We have developed a framework of Responsible Business Principles to ensure that businesses we invest in act in a responsible manner towards their stakeholders.

We require each intermediary into which we invest both to adhere to these principles themselves and to ensure that any entity to which they invest funds also adheres to these principles. These are not intended to be onerous, and cover basic behaviour that most businesses would consider standard practice, including fair treatment of employees and upholding high standards of integrity. We also specify businesses that we are not able to invest in, such as those involved with illegal or immoral activities.

Our standard clause is included on the following page. This outlines the details of the principles and the obligation to adhere to them. We require this to be inserted into all investment agreements that we enter into.

RESPONSIBLE BUSINESS PRINCIPLES – CONTRACTUAL PROVISION

“The [Intermediary] will adopt and adhere to, and will ensure that any entity to which it invests in will adopt and adhere to, the guiding Responsible Business Principles as listed below:

1. The Responsible Business Principles include four guiding principles:
 - a) **Business Integrity.** To be open and honest in all its dealings, while respecting commercial and personal confidentiality and to operate in accordance with all legal and regulatory requirements.
 - b) **Fair dealing.** To be objective, consistent and fair with all its stakeholders.
 - c) **Good citizenship.** To be a good corporate citizen, demonstrating integrity in each business and community in which it operates.
 - d) **Respect.** To respect the dignity and well-being of all its people and those with whom it is involved.

2. Each organisation adopting the Responsible Business Principles agrees:
 - a) to provide safe and healthy working conditions for its employees and contractors;
 - b) to encourage the efficient use of natural resources and promote the protection of the environment;
 - c) to treat all employees fairly in terms of recruitment, progression, remuneration and conditions of work, in accordance with applicable equalities legislation;
 - d) to allow consultative work-place structures and associations which provide employees with an opportunity to present their views to the management;
 - e) to take account of the impact of its operations on the local community and seek to ensure that potentially harmful occupational health and safety, environmental and social effects are properly assessed, addressed and monitored;
 - f) to uphold high standards of business integrity and honesty, and to operate in accordance with law and good practice (including those intended to fight extortion, bribery and financial crime).

3. Each organisation adopting the Responsible Business Principles agrees not to undertake or to invest in any of the following businesses:
 - a) business manufacturing equipment (including nuclear products) primarily designed or primarily designated for military purposes.
 - b) businesses involved in the production, processing or distribution of illegal drugs.
 - c) businesses for whom the following activities are, or are intended to be in the future, a significant source of revenue:
 - (i) the establishment or operation or any form of gambling other than society lotteries as defined in the Gambling Act 2005;
 - (ii) pornography, or the provision of products or services of a substantially similar nature;
 - (iii) the manufacture or distribution of tobacco or tobacco related products.
 - d) a business which is subject to any sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department; or is named in the consolidated list of persons, groups or entities subject to European Union sanctions administered by the European External Action Service of the European Commission; or is a "designated person" under the Terrorist Asset-Freezing etc. Act 2010.”

PUBLICITY

Investing in organisations is just one part of how we support the development of social investment in the UK. Communications is a key part of this and we work with and through our intermediaries to achieve this. To help us do this we ask that you:

- Mention our investment (and use our logo) in your materials (e.g. on your website, in your reports and in press releases).
- Let us know a few days before you make any announcements

We hope that being able to publicise our relationship with you will help you to achieve your objectives. But working with us in this way also enables us to support you using our networks and contacts. For example, our communications team can:

- Give you advice on publications or journalists that might be interested
- Share your announcements through our social media channels and email lists
- Suggest speakers for events, or invite you to speak at relevant events
- Support you in the development of case studies such as videos

In addition we also invite all investees to join the Social Investment Communications Network which we run, to share what's going on, discuss best practice and identify opportunities for collaboration.

You can find out more about the communications team and what they do [here](#).

THIRD SECTOR ORGANISATIONS

We can only invest into intermediaries providing finance or other support to third sector organisations. Third sector organisations are defined in legislation as those that “exist wholly or mainly to provide benefits for society or the environment”.

Third sector organisations can be divided into regulated organisations and unregulated organisations. Our definition of regulated organisations are charities, community interest companies and community benefit societies. Unregulated organisations are other forms of organisation (including profit-making companies/enterprises) that have a clear social mission.

We have interpreted the definition of a third sector organisation to allow Big Society Capital to fund both regulated and unregulated organisations, provided that unregulated organisations adopt the principles in our Governance Agreement (which is available [here](#)).

The scope of eligible organisations will be considered separately for each investment.

REPORTING

We ask you to report on your financial, social impact and market development performance. This takes the form of regular reporting documentation and also face to face meetings between your senior management team and our investment committee.

This allows us to monitor how the investment is proceeding and to identify areas where we could further your potential through non-financial support such as helping to develop impact measurement processes.

We also collect information about the investments you have made which will be published semi-annually. We hope this will improve the understanding of activity in the social investment market for all involved, not just us.

The social impact reporting we typically expect is an annual social impact report containing:

- Mission;
- Target beneficiaries;
- Target outcomes;
- One indicator per outcome stated, tracked over time (against a baseline value if applicable); and
- A target value per indicator and performance against that target (if applicable).

The financial reporting we typically expect is:

- Annual audited financial statements
- Half- year financial statements
- Quarterly management accounts
- Tax information
- Our % holding of capital and voting rights

Market development reporting is considered separately for each investment.