Social Investment Compendium

Portfolio of research and intelligence on the social investment market

October 2013

Disclaimer

Big Society Capital has developed the compendium from publicly available sources and/or from research conducted for Big Society Capital by third party organisations, in order to bring together disparate information on social investment. It is not meant to be a 100% precise description of the state of the social investment market nor necessarily a statement of Big Society Capital’s views on the market.
We have pulled together available information on social investment to form this compendium

**What is the compendium?**

- The compendium is a collection of key pieces of research and information from across the social investment market brought together in one single document
- It tells a story about the current status of the social investment market and opportunities and challenges for further development
- It is clearly not an exhaustive collection of all existing research and information, rather it is an attempt to highlight a broad cross-section of it

**Why did we develop the compendium?**

- There is a great deal of excellent research and information already in the social investment market however these have not often been collated in one place
- Big Society Capital believes that this compendium can help us better understand the broader picture of the social investment market, any existing information gaps and help begin to identify opportunities for further research and market development activities
The compendium is structured into four sections representing distinct parts of the social investment market:

1. Products and Intermediation
   - Social Sector Organisations
   - Products (£)
   - Intermediaries
   - Products (£)

2. Demand
   - Supply (slides 25 – 35)
   - Demand (slides 15 – 24)

3. Supply
   - Broader Environment (slides 36 – 45)
   - Investors

4. Broader Environment

Compendium Index

1. Products and Intermediation (slides 5 – 14)
2. Demand (slides 15 – 24)
4. Broader Environment (slides 36 – 45)
Social investment is evolving, but many challenges and opportunities remain across all four parts of the market

<table>
<thead>
<tr>
<th>Category</th>
<th>Current status</th>
<th>Future challenges and opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Products &amp; Intermediation</strong></td>
<td>• £202m in mostly secured lending, representing 90% of market in 2012&lt;br&gt;• Four large social banks and 16 small CDFIs make for fragmented SIFI landscape</td>
<td>• Pricing of social investments needs more clarity&lt;br&gt;• Many traditional market infrastructure roles need to be filled</td>
</tr>
<tr>
<td><strong>Demand</strong></td>
<td>• Finance demand gap of £300m to £1bn p.a.&lt;br&gt;• Social sector showing significant interest in social investment, with 56% Voluntary and Community Sector in England (VCSEs) expressing interest</td>
<td>• Long-term risk-taking capital needed, particularly unsecured loans&lt;br&gt;• Small deals that are traditionally rated as low credit quality also needed by social sector organisations</td>
</tr>
<tr>
<td><strong>Supply</strong></td>
<td>• Government has traditionally been a strong source of social investment capital but is likely to be squeezed in current economic environment&lt;br&gt;• Existing trusts/foundations capital is limited, estimated to be only around £45m in 2011</td>
<td>• High net worth individuals could be the next investor class and could provide £480m&lt;br&gt;• New institutions, such as university endowments, housing associations, corporate foundations and local authority pension funds, could also soon be attracted to build scale in social investment market</td>
</tr>
<tr>
<td><strong>Broader Environment</strong></td>
<td>• New social investment tax relief headlines a broad package of policy and regulatory action conducted by the Government&lt;br&gt;• Global impact investing already represents a $9bn investment per year industry</td>
<td>• Finance sector could play a much broader role in the market than just starting impact funds, for example, in distribution and structuring&lt;br&gt;• UK can leverage the European experience, particularly its diverse investor classes and emerging regulatory structures (e.g. EUSEF)</td>
</tr>
</tbody>
</table>
Annual amount of social investments still small but the stock of investments is larger

Many studies show an annual social investment market size of between around £150 and £200m

... but even for just Community Development Finance Institutions (CDFIs), the stock of social investments is already £750m

- £146m in 2011 from CDFIs (JUST Finance, CDFA (2012))
- £165m in 2011 (Lighting the Touchpaper, BCG (2011))
- £190m in 2010 by UK Cabinet Office (Making Good on Social Impact Investment, Cabinet Office (2012))
- £202m in 2012 (Growing the Social Investment Market, GHK (2013))

But no data currently exists on the overall stock of social investment

JUST Finance, CDFA (2012) p.11. Note:
- Whilst this £ value is dominated by CDFIs that lend to civil society organisations (approx. 80%), some individuals and businesses investment also included
- Many non-CDFI SIFIs also exist that could increase the size of investment – GHK (2013) provides that only 19 out of 29 surveyed identified themselves as SIFIs
The market is diverse in terms of outcome areas but not in terms of products...

No one social outcome commands more than 14% market share...

...however diversity lacks across financial product types with secured lending increasing its dominance

And in 2012:
- Unsecured lending decreased to 5% of total market
- While secured lending increased to 90% of total market
Recently, a wider range of lending products have become available.

Social Impact Bonds had led the development of a variety of new investible opportunities for social investors.

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Investment type</th>
<th>Duration (approx)</th>
<th>Likely return profile (p.a.)</th>
<th>Minimum commitment (£) (approx)</th>
<th>Notable example</th>
<th>Finance SIFI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact funds (general)</td>
<td>Limited Partnership</td>
<td>Up to 10 years</td>
<td>5-10%</td>
<td>£125,000</td>
<td>Impact Investment Fund</td>
<td>Nesta</td>
</tr>
<tr>
<td>Impact funds (specialist)</td>
<td>Limited Partnership</td>
<td>Up to 10 years</td>
<td>5-10%</td>
<td>£125,000</td>
<td>Social Impact Bond Fund</td>
<td>Bridges</td>
</tr>
<tr>
<td>Venture capital trust (VCT) funds</td>
<td>Fund contribution</td>
<td>Minimum 5 years</td>
<td>5-10%</td>
<td>£2,000</td>
<td>Social Impact VCT*</td>
<td>Social Finance</td>
</tr>
<tr>
<td>Social impact bonds</td>
<td>Debt &amp; equity</td>
<td>Minimum 3 years</td>
<td>Up to and above 10%</td>
<td>£100,000</td>
<td>Essex County Council SIB</td>
<td>Social Finance</td>
</tr>
<tr>
<td>Direct investment</td>
<td>Equity, debt</td>
<td>Any</td>
<td>Up to and above 10%</td>
<td>£Any</td>
<td>Resilient Energy Great Dunkilns</td>
<td>Abundance</td>
</tr>
<tr>
<td>Charity Bonds</td>
<td>Debt</td>
<td>Minimum 3 years</td>
<td>4%</td>
<td>£2,000</td>
<td>Golden Lane Housing bond</td>
<td>Golden Lane</td>
</tr>
<tr>
<td>Deposit Accounts</td>
<td>Cash deposit</td>
<td>Fixed term (3 to 10 years)</td>
<td>3 to 6% currently</td>
<td>£Any £10,000 for CITR product</td>
<td>Charity Bank deposit account</td>
<td>Big Society Capital</td>
</tr>
</tbody>
</table>

Note that the above table provides only reports of anecdotal evidence of key information relating to social investment products and has been compiled entirely from public sources.

*Social Impact VCT now closed
Pricing process is undeveloped – it is difficult to compare to mainstream SME market

Social investment pricing defies conventional wisdom in not varying significantly between product/risk types

However, anecdotal evidence suggests lending rates for similar types of businesses may be higher

<table>
<thead>
<tr>
<th>Institution</th>
<th>Stated Price</th>
<th>Term</th>
<th>Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>Santander</td>
<td>7.9 to 12.9%</td>
<td>12 to 60 mths</td>
<td>Possibly</td>
</tr>
<tr>
<td>HSBC</td>
<td>From 7.9%</td>
<td>12mths to 10 yrs</td>
<td>Possibly</td>
</tr>
<tr>
<td>Funding Circle</td>
<td>7.1% to 9.4%</td>
<td>6 mths to 5 yrs</td>
<td>Personal guarantee</td>
</tr>
<tr>
<td>FSE group</td>
<td>5% to 9%</td>
<td>2 to 5 yrs</td>
<td>Required</td>
</tr>
</tbody>
</table>


Aggregate data suggests lending to small SMEs may be at a slightly lower rate

Increasing bank lending rejection rates may also further complicate this pricing picture

Evaluating Changes in Bank Lending to UK SMEs Over 2001-12, NIESR (2012)
The current intermediary landscape is fragmented – dominated by social banks...

Few large SIFIs have most investment, smaller market fragmented

4 social banks and 9 large SIFIs together made more than 97% of the annual social investment

The four large social banks are:

- Triodos Bank
- Charity Bank
- Ecology Building Society
- Unity Trust Bank

Lighting the Touchpaper, BCG (2011) p.9

Growing the Social Investment Market, GHK (2013), p.10
... and the long tail of small SIFIs is mostly due to the large number of CDFIs

The number of CDFIs has peaked and is in decline

The number of CDFIs has peaked and is in decline.

Many of the small SIFIs are unprofitable

Many of the small SIFIs are unprofitable. Performance is quite varied across SIFIs with small SIFIs struggling the most.

Growing the Social Investment Market, GHK (2013) p.28

Note: Small SIFIs means those organisations with less than £1m investment per year.

Mind the Finance Gap, GHK (2012)

There were almost 80 CDFIs in 2005 but now only 60.
In 2013, at this early stage of market development, more infrastructure is needed.

We may be in the “marketplace building” phase of the social investment market.

To mirror the trajectory of development of other markets, such as microfinance...

Cited in Investor Perspectives on Social Enterprise Financing, ClearlySo, (2011) p.121

Much of the traditional infrastructure is still lacking for social investment, particularly data.

Well-functioning markets need key characteristics embodied in traditional infrastructure pieces.

Currently however provision of these roles is limited.

<table>
<thead>
<tr>
<th>Characteristics of a well-functioning market (or better place)</th>
<th>Potential supporting infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large number of buyers (e.g. more confident demand) and sellers (e.g. more diverse supply), no barriers to entry.</td>
<td>Authorised brokers and advisors with local, regional and national reach, signposting, pitch events, filters, referrals, etc. NL: distinction between advisers and arrangers.</td>
</tr>
<tr>
<td>Standardised and more complete range of products appropriate to diverse needs of demand and supply.</td>
<td>Product developers, at both levels</td>
</tr>
<tr>
<td>Better quality, more balanced information, benchmarking, research and market intelligence</td>
<td>Data capture, IV&amp;I, assurance and indices, standard setters</td>
</tr>
<tr>
<td>Research houses</td>
<td>Research houses</td>
</tr>
<tr>
<td>Product reviewers and media</td>
<td>Product reviewers and media</td>
</tr>
<tr>
<td>Lower transaction costs (both for those applying for investment and those undertaking due diligence and at both levels)</td>
<td>Sharing services and collaboration mechanism, providers of standardised legal documentation, etc.</td>
</tr>
<tr>
<td>Language and culture shared and proportionate to market activity</td>
<td>Representative trade body</td>
</tr>
<tr>
<td>Education, skills and training providers</td>
<td>Education, skills and training providers</td>
</tr>
<tr>
<td>Better risk pricing and understanding of social return</td>
<td>Rating agencies</td>
</tr>
<tr>
<td>Some liquidity (opportunity for exit) and better risk management</td>
<td>Platforms and exchanges</td>
</tr>
</tbody>
</table>

Current provision

- Limited - ICRF, BLF, ClearlySo play a role with SIFIs themselves providing some of these functions
- Limited – BLF’s Next Steps program
- Limited - EngagedX is emerging
- Some – including ClearlySo, GHK, NPC, NCVO and SEUK
- Limited - Worthstone and Good Analyst
- Limited
- None, although some overlap with CDFA, UKCFA and SEUK’s social investment forum
- None
- None
- Emerging – Social Stock Exchange and Ethex, Abundance, Microgenius and ImpactBase

Data is a very commonly cited need.

All the information in this slide is from Angels in the Architecture, Common Capital (August 2013) p.23-24.
In the long-term, a successful market may need to look outside traditional view of infrastructure.

**SIFIs**
Traditional finance SIFIs

**OTHER TYPES OF INTERMEDIARIES (and examples)**

**MONITORS**
- SROI network, GIIN, SustainAbility, NPS, SE100

**MARKETING AND DISTRIBUTION**
- 3SC, Young Foundation, Innovation Unit, Social Firms Directory

**PEOPLE, NETWORKS AND EXPERTISE**
- Cooperatives UK, DTA, Energy4All, Think Public, The Hub

**INNOVATION**
- X Prize, NESTA Big Green Challenge, Social Innovation Camp, Shaftesbury Partnership, UnLtd/BVC

Growing Social Ventures, Young Foundation (2010) p.21
CONTENTS

1. Products and Intermediation
   • Overview
   • Finance gap
   • Segmentation

2. Demand

3. Supply

4. Broader Environment
The “social sector” is bigger than people think, with some large individual organisations

<table>
<thead>
<tr>
<th>Org</th>
<th>Turnover</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mencap</td>
<td>£193m</td>
<td>Services and information for people with disabilities</td>
</tr>
<tr>
<td>Age UK</td>
<td>£156m</td>
<td>Care services, information, products, training and research</td>
</tr>
<tr>
<td>CR1</td>
<td>£81m</td>
<td>Drug recovery and criminal rehabilitation interventions</td>
</tr>
<tr>
<td>Plymouth Community Care</td>
<td>£90m</td>
<td>Community health care services (NHS spin-out)</td>
</tr>
<tr>
<td>GLL</td>
<td>£76m</td>
<td>Community leisure and fitness facilities</td>
</tr>
</tbody>
</table>

There are many examples of large social sector organisations with significant revenues

<table>
<thead>
<tr>
<th>Turnover</th>
<th>Activity</th>
</tr>
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<td>£156m</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charity</td>
</tr>
<tr>
<td>Charity with social enterprise arm</td>
</tr>
<tr>
<td>Charity</td>
</tr>
<tr>
<td>Community Interest Company (CIC)</td>
</tr>
<tr>
<td>IPS (BenCom)</td>
</tr>
</tbody>
</table>

Large charities are in a different league to large social enterprises

Social sector statistics demonstrate significant impact

- 900,000 social sector organisations in the UK
- Conduit for nearly 20 million adults who volunteer each year
- Employment in charity sector is 765,000 and employment in the social enterprise sector is 800,000

Whilst grants are understandably still the preferred source of capital ...

In 2010, at least 73% of social enterprises applied for some form of grant funding

Government and trusts and foundations are the targets of 60% of all funding applications

And in 2012:
• Applications for grants rose to 89%
• While applications for loans dropped to 20%

Fightback Britain, SEUK (2010) p.47

The People’s Business, SEUK (2010) p.62
... many SSOs are showing an interest in social investment

Surprising high amount of interest in social investment

Prominent examples of successful use of social investment have proven the model can work

58% interested in social investment

Growing Social Ventures, Young Foundation (2010) p.15

Investment Readiness in the UK, BLF (2012) p.30
Various guesses exist about the gap in financing for SSOs now and in the future.

Estimates of the demand gap range from over £1bn annual finance gap (estimated by CDFA) ...

Mind the Finance Gap (2013), p. 6. Note: This is taken from BSC’s submission to the European Commission (2011) Notification of State Aid Approval – Big Society Capital

... down to £300m estimated by NESTA

Understanding the Demand and Supply of Social Finance, NESTA (2012) pp.13-14

Potential demand is forecast to grow strongly

The First Billion, BCG (2012) p.9

38% per year growth until £750m by 2015
There is a significant SSO need for long-term and risk-taking capital

Longer-term loans are demanded by SSOs, as well as innovative funding cocktails

Unsecured lending and quasi-equity demand set to be much greater than supply

Investment Readiness in the UK, BLF (2012) p.31

The First Billion, BCG (2012) p.16

73% of capital required needs to be risk-taking
Another substantial SSO need is for small deal sizes rated as low credit quality...

Demand is strongest for loans £10k to £250k

Surveys indicate that small deals without quality security or track record are the most neglected by existing lenders

Demand Segmentation

Investment Readiness in the UK, BLF (2012) p.32

SEUK survey also confirms need for investment of £150k (median loan size)

The People’s Business, SEUK (2013) p.62

Internal analysis conducted for BSC (2013)
... what some commentators have termed “Builder Finance”

Can Social Finance Meet Social Need, Tomorrow’s People (2013), p.18

Often will need capital at the early stages when lack of track record drives lack in credit quality
It is also possible to consider demand across different social sectors...

Four distinct and large clusters of demand for social investment exist...

Some leading organisations already thinking about these opportunities in different clusters:

- Justice - Probation Reform
- Health social enterprise investment
- Community – How to help buy assets
- Diverse - Expanded CDFI

SSOs in communities, justice and health will need much social investment to thrive under the coming public service reform.

... and parts of the UK in most need of social investment

Demand may be greatest in areas of higher deprivation or social need ...

And social enterprises are often found in these regions...

<table>
<thead>
<tr>
<th>Band</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social enterprises</td>
<td>38%</td>
<td>26%</td>
<td>14%</td>
<td>9%</td>
<td>7%</td>
</tr>
<tr>
<td>SMEs</td>
<td>12%</td>
<td>19%</td>
<td>21%</td>
<td>26%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Whilst many SIFIs already look nationally, ensuring social investment matches the most deprived areas will be important...

... and devolved administrations

The People’s Business, SEUK (2010) p.62

English Indices of Multiple Deprivation, DCLG (2010) p.4

Lighting the Touchpaper, BCG (2011) p.11
## CONTENTS

1. Products and Intermediation

2. Demand

3. Supply

4. Broader Environment

- Early experience
- Model
- Future investors
Traditionally, social investment has been supplied from banks, government and trusts and foundations.

Historically there have been three major sources of social investment capital.

- Commercial Banks
- Government
- Trusts and Foundations
Commercial banks account for the largest share of investment into the social sector

~82% of £3.5B charity debt provided by commercial lenders

Banks however don’t target key segments of the social sector that need capital

And in current economic conditions, this is unlikely to change

NCVO Civil Society Almanac, NCVO (2012), company websites, annual reports, consultant analysis, as provided in internal analysis conducted for BSC (2013)

Interesting how much debt commercial lenders are actually providing

Internal analysis conducted for BSC (2013)
Government has traditionally been an important supplier of social investment, but is retreating

Government grants are drying up, and remaining amounts focused on “soft” capital

With overall Government spending squeezed, expansion of funding is unlikely

As cited in Growing Social Ventures, Young Foundation (2011)

Economic and fiscal outlook, OBR (March 2013)
Trusts and foundations have been pioneers but only have limited resources

Beyond BSC, SIFIs are really looking to trusts and foundations for capital

But anecdotal evidence suggests that only £45m trust/foundation capital is available in near term

<table>
<thead>
<tr>
<th>Trust</th>
<th>Identified current social investment fund size (£ millions)</th>
<th>Date established</th>
<th>Value of investments made to date (£ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elmée Fairbairn</td>
<td>20</td>
<td>2008</td>
<td>14(^{1})</td>
</tr>
<tr>
<td>CAF Venturesome</td>
<td>10 (current)</td>
<td>2002</td>
<td>22</td>
</tr>
<tr>
<td>Lankely Chase</td>
<td>5</td>
<td>2009</td>
<td>1.38</td>
</tr>
<tr>
<td>Pancharpur</td>
<td>6(^{1})</td>
<td>2010</td>
<td>1.20</td>
</tr>
<tr>
<td>Sainsbury Family Charitable Trusts</td>
<td>Nothing fenced, depends on trust within the SFCT group</td>
<td>n/a</td>
<td>&gt;£1m</td>
</tr>
</tbody>
</table>

Sources: gained from interviews with charitable foundations and from their annual reports, where appropriate

Notes: This is a snapshot of known funds and is by no means exhaustive; new funds may be emerging all the time. 13 UK trusts invested in the Social Impact Bond Pilot, so there is possibly more activity than may be ring fenced in MCI budgets
(1) £8m drawn down; £8.5m more allocted also some double counting as a £2m of Elmée Fairbairn funds are invested in CAF Venturesome
(2) £1m committed, not yet spent
(3) Pancharpur is seeking to use 100% of its £8.5m endowments for social investment

Cited in Investor Perspectives on Social Enterprise Financing, ClearlySo (2011) p.58

Lighting the Touchpaper, BCG (2011) p.16
Even BSC’s large supply-side intervention will not be sufficient by itself

BSC’s £600m is a large multiple of the size of the social investment market ...

... however, it will never be enough in itself to meet growing market needs

Even £600m of BSC funds will not be enough by itself to satisfy forecast £750m demand per year by 2015

Data from:
- Growing the social investment market, GHK (2013)
- Green Investment Bank, ACE (Aug 2012)
- Trends in Lending, Bank of England (Jan 2013)

The First Billion, BCG (2012)
Future supply growth depends on accessing new investor classes in the right order

If evolution of the social investment market follows a well-trodden curve, High Net Worth Individuals (HNWIs) may be a key investor group to target next\(^{(1)}\)

![Diffusion of Innovation Diagram]

<table>
<thead>
<tr>
<th>Terms</th>
<th>Trusts &amp; Charitable Foundations</th>
<th>HNWIs</th>
<th>Early Institutions</th>
<th>Mass retail</th>
<th>Traditional Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>Charitable institutions with mandate for social investment</td>
<td>Investors with &gt;£100k investable assets</td>
<td>University endowments, housing associations, local authority pension funds, corporate foundations</td>
<td>Individual investors with &lt;£100k investable assets</td>
<td>Investors, such as pension funds, investment trusts</td>
</tr>
<tr>
<td>Size</td>
<td>£40m-£60m total</td>
<td>£100m per year</td>
<td>Unknown</td>
<td>Unknown</td>
<td>Unknown</td>
</tr>
<tr>
<td>Interest?</td>
<td>Market building, infrastructure, first mover notoriety</td>
<td>Early adopter, engagement with relevant social mission</td>
<td>Marketing, aligned with organisational mission, corporate social responsibility, social responsible investing</td>
<td>Ethical investment wave, engagement with local social and community issues</td>
<td>Keeping up with other investor classes, socially responsible investing</td>
</tr>
<tr>
<td>Distribution</td>
<td>Foundation networks, directly</td>
<td>Independent financial advisers</td>
<td>Unknown networks, directly</td>
<td>Mainstream financial institutions (e.g. within ISAs), directly</td>
<td>Mainstream fund managers</td>
</tr>
</tbody>
</table>

\(^{(1)}\) Everett Rogers’ 1962 Bell Curve in Diffusion of Innovation as cited in Microfinance..., Social Finance (2012) Collated from internal information, BSC (2013)
HNWIs needed as both the likely early adopters and to reach the next level of supply

HNWIs are a prime target for social investment

Vast majority want money to do social good as well as financial return

HNWIs desire to use £ to do some good

Chart reconstructed from data in Investing for the Good of Society, IPSOS Mori and NESTA (2011), p.9

“Active Investor” class >£100k

Both Active and Passive Investors are needed
Both Active and Passive Investor classes can be encouraged to make social investment by hitting the right triggers, namely:

• Tax incentive (see section 4); and
• Case studies/evidence of social outcomes

“Passive Investor” >£100k

T = Trigger, B = Barrier
Investing for the Good of Society, IPSOS Mori and NESTA (2011) p.29
Early institutions are likely to include university institutional endowments

**University endowments historical experience naturally favours social investment**

US endowments have long history of social conscience in their investment policies in leading divestments of its endowments, particularly against:
- Apartheid in South Africa (1980’s)
- Tobacco (1990’s)
- Darfur, Sudan (2005)

**International universities are leading the way for more proactive social investment policies**

Tufts is a leader in social investment of its endowment through the $115 Omidyar donation. It operates a fund-of-funds into various microfinance institutions in the world and some CDFIs

Harvard has responded to student pressure in creating a Social Choice Fund for Harvard has also invested in $20m in affordable homes in the local Cambridge/Boston areas

In the UK, endowments are more limited than the US but universities can be pathfinders for other bigger institutions

**Endowment Funds (£m)**

![Endowment Funds graph]

Other potential early institutions include:
- Local Authority Pension Funds
- Corporate Foundations
- Housing Associations

Guardian (19 Dec 2012), IRRC and Tellus Institute (July 2012)
Mass retail have underlying interest in social investment even with financial trade-off

Substantial interest amongst retail investors in social investment

Even when this involves significant trade-off with financial return

77% of over 1000 survey respondents would prefer a social investment to conventional pension

35% of people would be willing to take a 20% reduction in final pay-out for a social investment for local communities (e.g. local housing)

Defined Contribution Investment Forum, Movement Research (March 2013) p.6

Defined Contribution Investment Forum, Movement Research (March 2013) p.12
Institutional investors are the key to scale but there is clearly still work to do to attract them

Size is a massive attraction

$90trillion of capital is potentially available from different institutional investment classes globally

<table>
<thead>
<tr>
<th>Fund Class</th>
<th>Assets Under Management, $ trillion, end-2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension funds</td>
<td>31.5</td>
</tr>
<tr>
<td>Insurance funds</td>
<td>24.4</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>23.8</td>
</tr>
<tr>
<td>SWFs</td>
<td>4.8</td>
</tr>
<tr>
<td>Private equity</td>
<td>2.2</td>
</tr>
<tr>
<td>Hedge funds</td>
<td>1.9</td>
</tr>
<tr>
<td>ETFs</td>
<td>1.4</td>
</tr>
<tr>
<td>Private Wealth</td>
<td>42.0</td>
</tr>
</tbody>
</table>

Fund Management 2012, CityUK, 2012

Even 1% of this would fulfil the JPMorgan report prediction of $1trillion of impact asset market

... but pension fund managers still need convincing about social investment

Whilst pension funds are interested in SRI (51%), impact investments remains less interesting to investment managers (20%). Regulation (discussed next) may be a key barrier for institutional investors.

Potential Institutional Investors
- SRI funds
- Bank: Investment, Private, Retail, Social
- Pensions
- Mainstream private equity
- Social private equity


Investor Perspectives on Social Enterprise Financing, ClearlySo (2011) p.58
Broader environment impacts social investment through various ways

[Diagram showing the flow of investment from Investors to Intermediaries, then to Social Sector Organisations, with connections to International, Europe, UK regulation, and Financial Sector.]
Strong social sector interest, particularly for evidencing impact yet big gaps remain

Social impact analysis tools have developed however still focused on measurement and investors

Focus on impact strategy and impact analysis
Focus on other commissioners, such as government, for greater reach
The mainstream finance sector is still relatively unengaged with the social investment market

Whilst there has been lots of talk about putting social investment within mainstream finance ...

“Social investment is an area where the expertise of the financial services industry could be usefully deployed”

Deputy Prime Minister Nick Clegg (January 2011)

“Tremendous innovation of the city (had already helped to) create a market”

Sir Michael Bear, Lord Mayer of the City of London (July 2011)

... and several well-know institutions are ‘dipping their toe’ into investment ...

£10m Impact Investment Fund I

Invested in the first US SIB alongside Bloomberg

$50m fund-of-funds

MicroFinance fund

... there has been limited involvement in the broader social investment process

Origination | Structuring | Execution | Distribution | Fund management

There has been progress on some UK regulatory issues but important reforms still to be tackled

**BWB Ten Recommendations**

Half underway is a good sign but the biggest reforms still untouched

<table>
<thead>
<tr>
<th>No.</th>
<th>Recommendation</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A social investment duty should be placed on each of the Financial Conduct Authority and the Prudential Regulation Authority to encourage sensitive regulation.</td>
<td>Complete – Financial Services Bill</td>
</tr>
<tr>
<td>2</td>
<td>The rules governing financial promotions should be reformed to take account of investors who invest with social or philanthropic motives, crowdfunding and peer-to-peer lending.</td>
<td>No change</td>
</tr>
<tr>
<td>3</td>
<td>A specific authorisation regime should be introduced by the Financial Conduct Authority to facilitate crowdfunding, peer-to-peer lending and other online direct investment facilities.</td>
<td>Consultation under way by FCA</td>
</tr>
<tr>
<td>4</td>
<td>The regulatory concept of ‘suitability’, which undergirds investment recommendations and discretionary management activity, should expressly include investors’ social goals.</td>
<td>FCA has given express guidance that not affected though IFAs still uncertain</td>
</tr>
<tr>
<td>5</td>
<td>A tax break should be introduced for social investment and community interest companies to level the investment playing field and encourage more social enterprise start-ups.</td>
<td>Tax incentive under consultation with HMT</td>
</tr>
<tr>
<td>6</td>
<td>The law concerning the investment duties of charity trustees should be reformed to strengthen and expand the ability of charities to invest for social impact.</td>
<td>No change</td>
</tr>
<tr>
<td>7</td>
<td>The law concerning the investment duties of pension fund trustees should be reformed to add to the ability of pension funds to consider environmental, social and governance factors.</td>
<td>No change</td>
</tr>
<tr>
<td>8</td>
<td>Company law and co-operative law should be reformed to encourage the formation of more start-up companies with a social purpose and more new co-operatives.</td>
<td>No change</td>
</tr>
<tr>
<td>9</td>
<td>A model social investment fund structure should be introduced to enable Government, charities and other investors to more easily invest in structured funds for social impact.</td>
<td>No change</td>
</tr>
<tr>
<td>10</td>
<td>The registration of co-operatives and community benefit societies should be moved to Companies House and the CIC Regulator, to create a new Social Economy Commission.</td>
<td>No change</td>
</tr>
</tbody>
</table>

*Note: Above is an extract of the ten recommendations to grow the Social Investment Market prepared originally by BWB, along with a status item recording exactly where the recommendation has been acted on or not. Red indicates no action take yet. This is not an indication of what should be done.*
The tax landscape is changing to support social investment by individuals

Current tax incentives do not currently target investment by individuals in social sector organisations

<table>
<thead>
<tr>
<th>Funding Tax incentive</th>
<th>Eligible Investees</th>
<th>Investors</th>
<th>Funding type</th>
<th>£m/yr</th>
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</thead>
<tbody>
<tr>
<td>GiftAid</td>
<td>Registered charities</td>
<td>Individuals</td>
<td>Donation</td>
<td>£bns</td>
</tr>
<tr>
<td>EIS</td>
<td>CLS</td>
<td>Individuals</td>
<td>Equity</td>
<td>£600</td>
</tr>
<tr>
<td>SEIS</td>
<td>CLS</td>
<td>Individuals</td>
<td>Equity</td>
<td>£100</td>
</tr>
<tr>
<td>VCT</td>
<td>Unlisted VCT funds</td>
<td>Individuals</td>
<td>Debt and equity</td>
<td>£300</td>
</tr>
<tr>
<td>CITR</td>
<td>Accredited CDFIs</td>
<td>Companies, Individuals</td>
<td>Debt and equity</td>
<td>£60 (total)</td>
</tr>
</tbody>
</table>

HMT announced on 20 March it would consult on a social investment tax incentive to introduce in Budget 2014

1.135 Social enterprises play an important role in growing the economy, reforming public services and promoting social justice. The Government will introduce a new tax relief to encourage private investment in social enterprise. The tax relief will complement the Government’s other recent measures to help social enterprises access the capital they need, such as the launch in 2012 of Big Society Capital. The Government will consult formally on the details of the relief by summer 2013 and the relief will be introduced in Finance Bill 2014. (Budget 2013)

If EIS is any guide, it may take 5 years for the tax incentive to build genuine investor interest

No tax incentive for investment in registered charities, IPS (BenComs) and CICs ... until now
European-level social investment is still relatively young but current supply is interesting.

EU-wide social investment market stands at €280m and remains dominated by grants (1).

...but experience of attracting institutional investors provides a lesson for the UK.

...many social investors invest in debt and equity frequently but for small amounts.

European Venture Philanthropy and Social Investment 2011/12, EVPA (2012)

Note: (1) Market size for European social investment is not much larger than the UK market size (in the Touchpaper report of £178m). Differences in methodology and terminology or small size of the EVPA survey may be the cause of this.
Strong support of social investment by European Commission could lead to new opportunities for the UK

**Regulation**

- EU Social Business Initiative
- EUSEF branding framework to be launched in Summer 2013
- State Aid regulation reforms - de minimus and public services consultations

**European Social Entrepreneurship Funds, Linklaters (2013)**

**Funding**

- European Investment Bank (over €240bn)
- European Investment Fund Social Impact Accelerator launched in 2013
- European Financial Instrument focused on employment outcomes
- Progress Microfinance Facility (€200m)
- Structural funds (ESF and ERDF) may provide support for civil society in social investment, possibly through local impact funds

**Supplementary Guidance to Local Enterprise Partnerships, HM Government (2013)**
UK social investment market is a leading player in a broader global impact investing phenomenon

Potential huge worldwide demand for impact investment

- $8 to $9 billion in impact investments already
- Driven by performance against impact and financial expectations

SIBs have been expanding around the world

Financial inclusion leads social outcomes in international impact investment

Perspectives on Progress, JPMorgan (2012)

The Social Investment Market, CO and SBS (2013) p.6

ImpactBase website, GIIN (2013)
UK social impact investment is also now influencing the broader international agenda

Traditional aid providers are looking at the opportunity presented by development impact bonds

Key international conferences have driven social impact investment up the international agenda

Development Impact Bonds, Working Group Meeting, 29 May 2012, Social Finance

... and the new Taskforce on Social Impact Investment, led by Sir Ronald Cohen, could be a focal point
WHAT’S NEXT?
Many questions about the social investment market remain unanswered and require further research.

**Broader Environment**
- Financial promotions reform to suit small SSO investments and retail investors
- Corporate form: International comparison of key attributes of social corporate forms
- EUSEF: What are the opportunities to use new EUSEF regulations in the UK?
- Labour: What workforce does the social investment market need and how to attract this?
- US: What broad lessons should we learn from US community finance experience?

**Demand**
- Regions: Which UK regions should be targeted for different social investments?
- SIBs: What social issues could SIBs target?
- Corporations: What steps to encourage companies to buy from social enterprise?
- Consumers: How to build greater consumer awareness of social enterprise?
- Marketing: How to help social sector demonstrate and exploit its competitive advantage as against private sector?

**Products and Intermediation**
- Characteristics of SIBs as an asset class
- Catalogue of types of quasi-equity/performance-related debt
- Nature of secured lending available, needed and for what purpose

**Infrastructure**
- What are the social impact measurement intermediaries required?
- Crowd-funding models: Which ones could work for social investment and why?
- How to further build up the capacity to accurately price social investment?

**Supply**
- Angels: Who are the potential social angels and how to best work with them?
- Who are the next big specialist investor class?
- Retail: Who are the retail investors and what motivates them?
- Banks: What internal restrictions for mainstream banks lending to SSOs and how to overcome?
- Foundation investors: Current and future size
- Social incubators: What is the most effective form of incubators?
We would welcome hearing further research ideas or thoughts on market development.

Research commissioners

Many market players, such as Big Lottery Fund, HM Government and the City of London, as well as BSC, are looking to coordinate research more closely in the future.

Efforts are underway to improve social investment data

Work is underway to develop a data platform to help describe the data in the market.

BSC continues to look for ways to advance knowledge about the social investment market through research and further market development ideas. For any ideas or thoughts, please contact:

Matt Robinson, Head of Strategy and Market Development
mrobinson@bigsocieycastleal.com

Simon Rowell, Strategy and Market Development Director
srowell@bigsocieycastleal.com
This slide records the references to the sources quoted in this Compendium.

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<th>No.</th>
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<th>Author</th>
<th>Year</th>
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<tbody>
<tr>
<td>1</td>
<td>Lighting the Touchpaper: Growing the Market for Social Investment in England</td>
<td>Adrian Brown and Will Norman</td>
<td>Nov 2011</td>
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<td>2</td>
<td>The First Billion: A Forecast of Social Investment Demand</td>
<td>BCG</td>
<td>2012</td>
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<td>3</td>
<td>BSC Blog: Market Update and Call for Ideas</td>
<td>BSC</td>
<td>Oct 31, 2012</td>
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<td>4</td>
<td>Ten Reforms to Grow the Social Investment Market</td>
<td>BWB</td>
<td>July 2012</td>
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<td>6</td>
<td>Mind the Finance Gap: Evidencing demand for community finance</td>
<td>Nick Henry and Philip Craig (GHK)</td>
<td>2013</td>
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<td>8</td>
<td>Investment Readiness in the UK</td>
<td>Dan Gregory, Katie Hill, Ioana Joy, Sarah Keen</td>
<td>July 2012</td>
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<td>9</td>
<td>Investing for the Good of Society: Why and how wealthy individuals respond</td>
<td>IPSOS Mori and NESTA</td>
<td>April 2011</td>
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<td>10</td>
<td>European Venture Philanthropy and Social Investment 2011/12: The EVPA Survey</td>
<td>EVPA</td>
<td>March 2013</td>
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<td>11</td>
<td>Microfinance, impact investing and pension fund investment policy survey</td>
<td>Social Finance</td>
<td>October 2012</td>
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<td>12</td>
<td>Impact Investment: An emerging asset class</td>
<td>JPMorgan</td>
<td>Nov 29, 2010</td>
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<td>13</td>
<td>Perspectives on Progress</td>
<td>JPMorgan and GIIN</td>
<td>Jan 2013</td>
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<td>14</td>
<td>JUST Finance: Capitalising communities, strengthening local economies: A new vision for community finance</td>
<td>CDFA</td>
<td>2012</td>
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<td>15</td>
<td>Understanding the Demand and Supply of Social Finance</td>
<td>NESTA</td>
<td>2011</td>
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<td>16</td>
<td>Evaluating changes in bank lending to UK SMEs over 2001-12</td>
<td>NIESR</td>
<td>2012</td>
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<td>17</td>
<td>Investor Perspectives on Social Enterprise Financing</td>
<td>Katie Hill (ClearlySo)</td>
<td>July 2011</td>
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<td>18</td>
<td>Growing Social Ventures: The role of intermediaries and investors: who they are, what they do, and what they could become</td>
<td>Young Foundation</td>
<td>2010</td>
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<td>19</td>
<td>The Green Investment Bank: Market conditions, challenges and rationale behind GIB</td>
<td>ACE</td>
<td>2012</td>
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<td>22</td>
<td>Environment, Social and Governance investing by College and University endowments in the United States: social responsibility, sustainability and stakeholder relations</td>
<td>IRRC Institute, Tellus Institute</td>
<td>July 2012</td>
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<td>23</td>
<td>Defined Contribution Investment Forum (DCIF): Identifying new ways to engage with savers in Defined Contribution Pensions</td>
<td>Movement Research</td>
<td>March 2013</td>
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<td>24</td>
<td>European Venture Capital Funds and European Social Entrepreneurship Funds: Twin proposals from the European Commission to promote small and social businesses</td>
<td>Linklaters</td>
<td>Dec 2011</td>
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<td>25</td>
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<td>UK Civil Society Almanac</td>
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<td>27</td>
<td>Growing the Social Investment Market: Landscape and Economic Impact</td>
<td>ICF GHK, BMG</td>
<td>2013</td>
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<td>28</td>
<td>The People’s Business</td>
<td>SEUK</td>
<td>2013</td>
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<td>29</td>
<td>The Development and Delivery of European Structural and Investment Fund Strategies: Supplementary Guidance to Local Enterprise Partnerships</td>
<td>Government</td>
<td>July 2013</td>
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<td>30</td>
<td>Development Impact Bonds: Working Group Meeting</td>
<td>Social Finance</td>
<td>29 May 2012</td>
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<td>31</td>
<td>Angels in the Architecture: Building the Infrastructure of Social Investment</td>
<td>Common Capital</td>
<td>August 2013</td>
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<td>32</td>
<td>Can Social Finance Meet Social Need</td>
<td>Tomorrow’s People</td>
<td>2013</td>
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<td>Small Business Survey</td>
<td>BIS</td>
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<td>34</td>
<td>Funds Management 2012</td>
<td>The CityUK</td>
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This slide provides definitions for the abbreviated terms used in this Compendium.

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<th>Term</th>
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<td>BSC</td>
<td>Big Society Capital</td>
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<td>CDFI</td>
<td>Community Development Finance Institution</td>
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<td>EUSEF</td>
<td>European Social Entrepreneurship Funds</td>
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<td>HNWIs</td>
<td>High-Net Worth Individuals</td>
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<td>SIB</td>
<td>Social Impact Bond</td>
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<td>SIFI</td>
<td>Social Investment Finance Intermediary</td>
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<td>SSO</td>
<td>Social Sector Organisation</td>
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<td>VCSE</td>
<td>Voluntary and Community and Social Enterprise</td>
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<tr>
<td>VCT</td>
<td>Venture Capital Trust</td>
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