



SOCIAL FINANCE IN THE UK: AN OVERVIEW

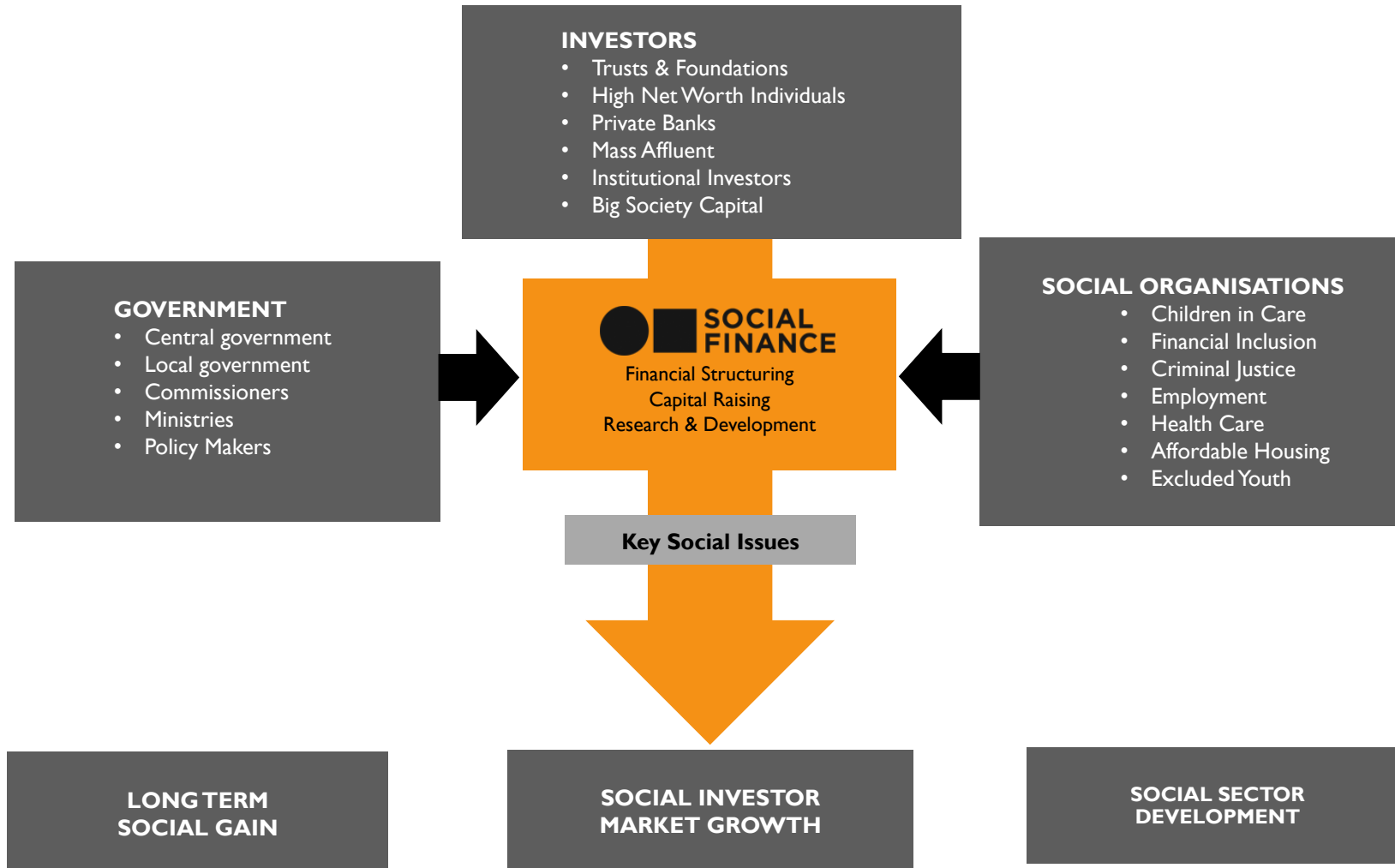
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Social Finance is authorised and regulated by the Financial Service Authority FSA No: 497568



Social Finance seeks to mobilise capital to drive social change.

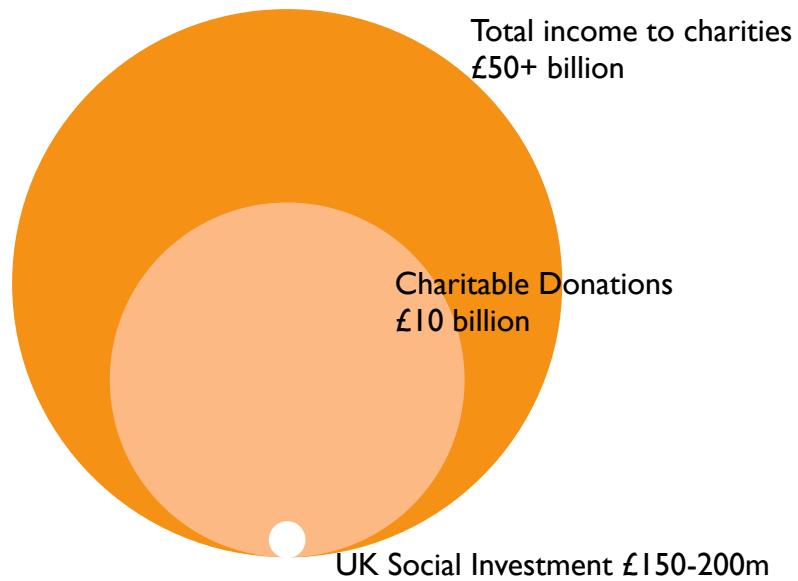


1. Social investment market: overview
2. Social investment market:
 - a. Financial product development
 - b. Regulatory environment

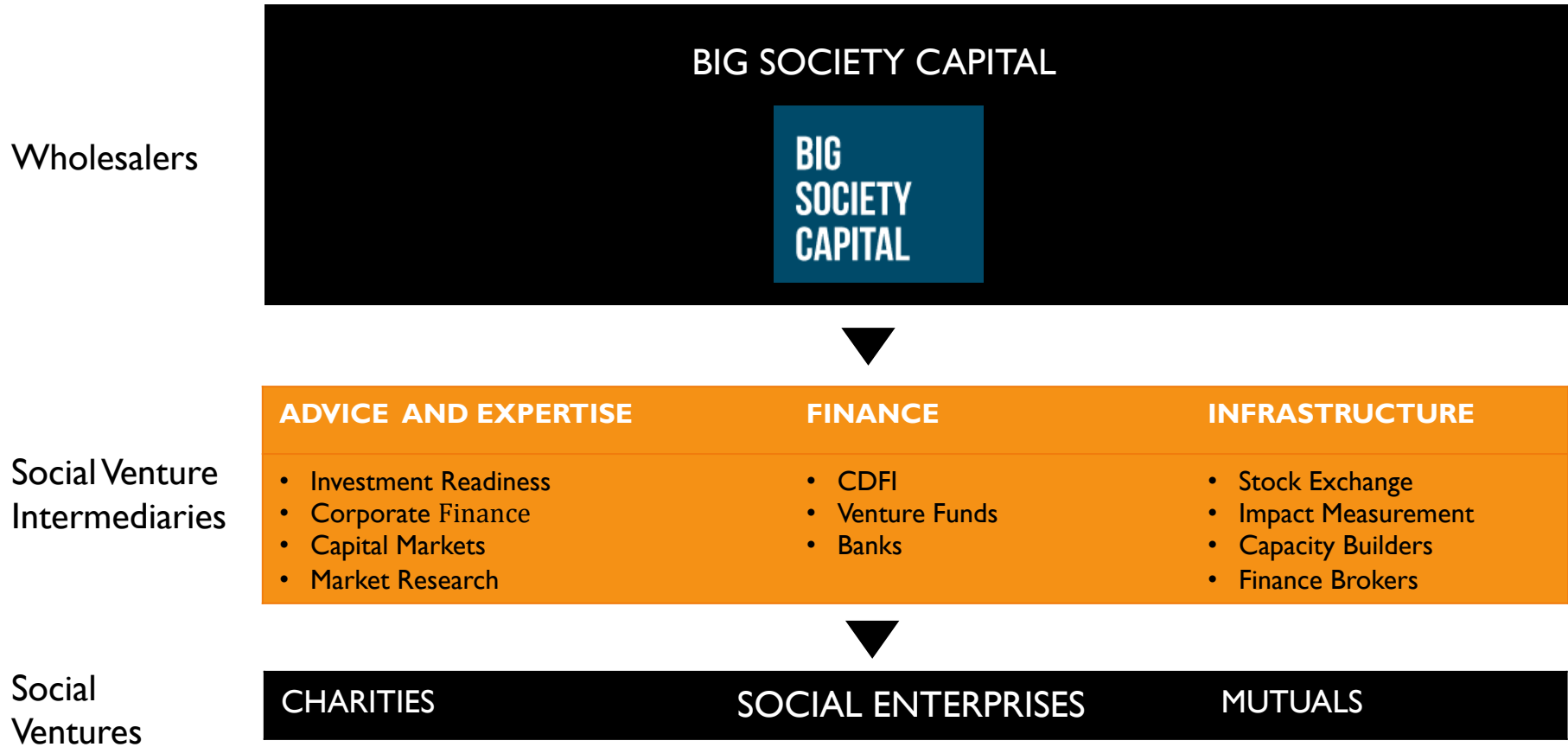


CURRENTLY THE UK MARKET FOR SOCIAL INVESTMENT IS SMALL

Six organisations account for about 90% of social investment

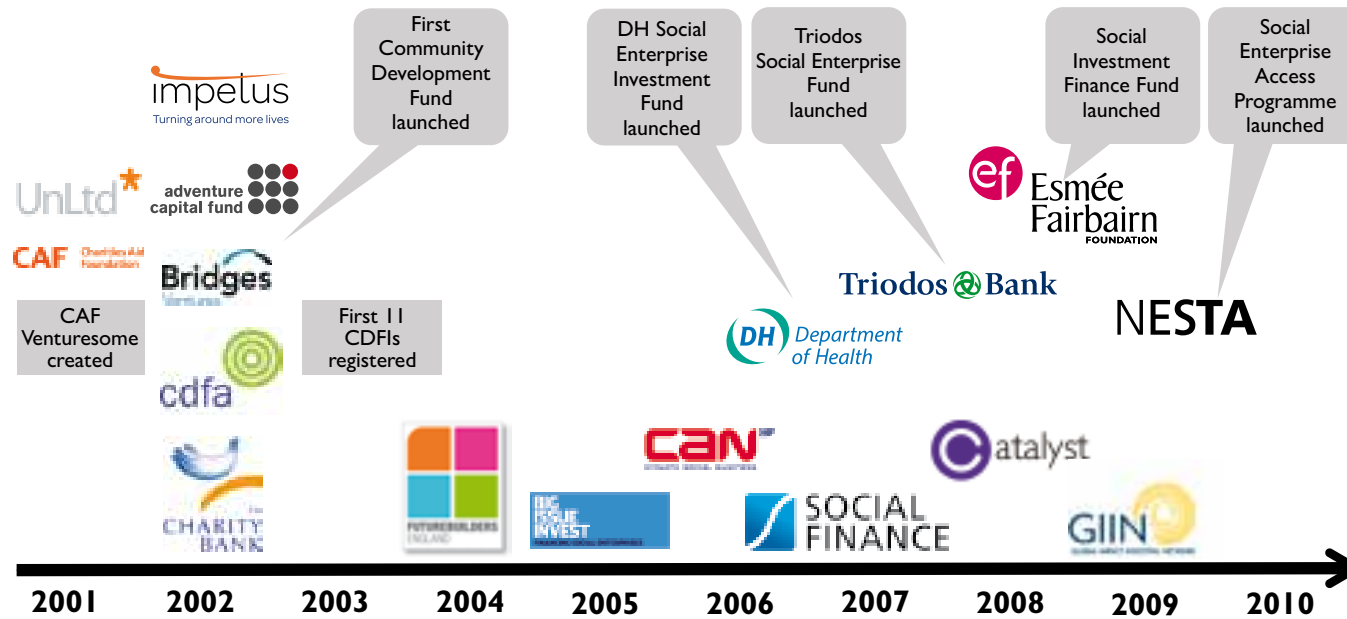


Social	↔	Investment
Visible and ideally measurable social impact		Expect return of principal plus some financial return



THE NUMBER OF INTERMEDIARIES AND FUNDS HAS GROWN

A number of social investment funds and intermediaries are developing

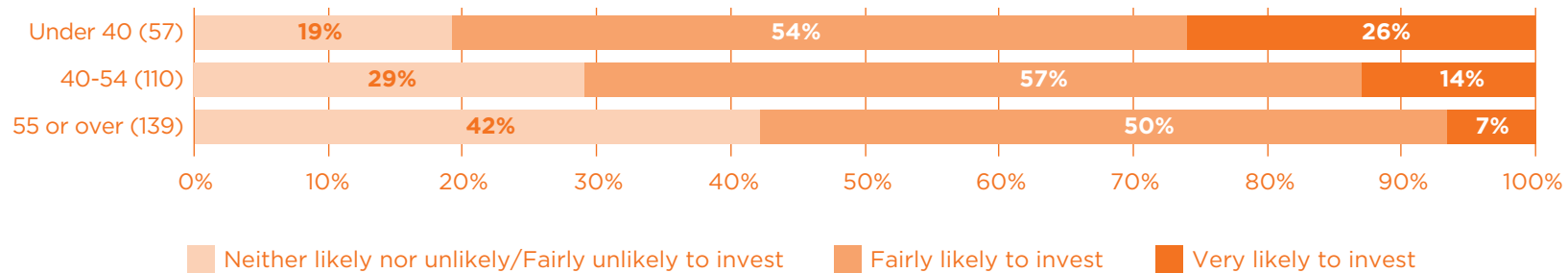


- Social Finance is seeking to build on the momentum generated by other social sector intermediaries offering direct investment and advice for charities and social enterprises

INVESTOR INTEREST IS RISING

Charitable Trusts and Foundations have been behind much social investment , but affluent retail investors could also be an important source of funds

Age and “How likely would you be to invest in a financial product that has social or ethical benefits?”

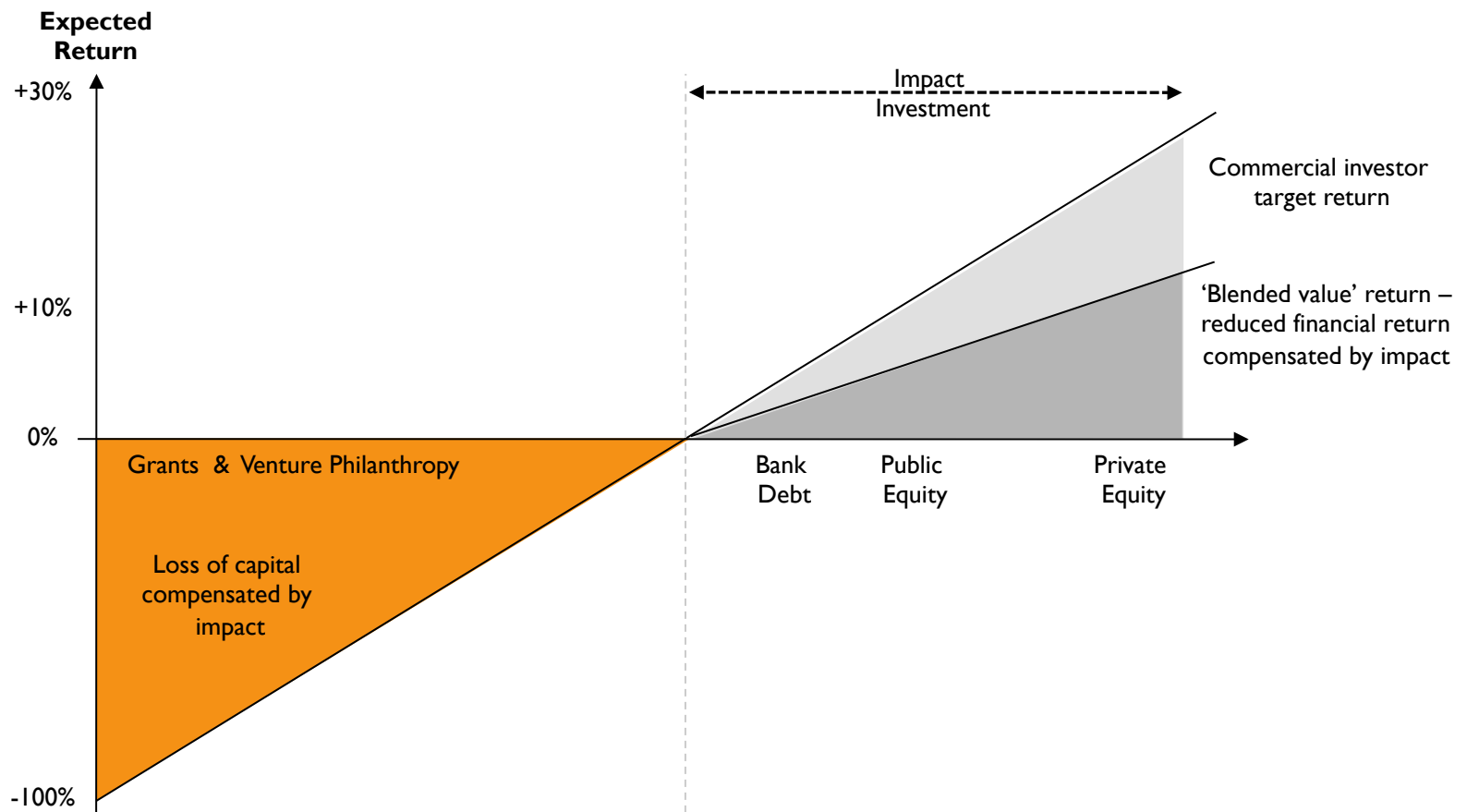


Sample of investors with over £100k investment assets

Source: NESTA/Fair Banking, Investing for the Good of Society



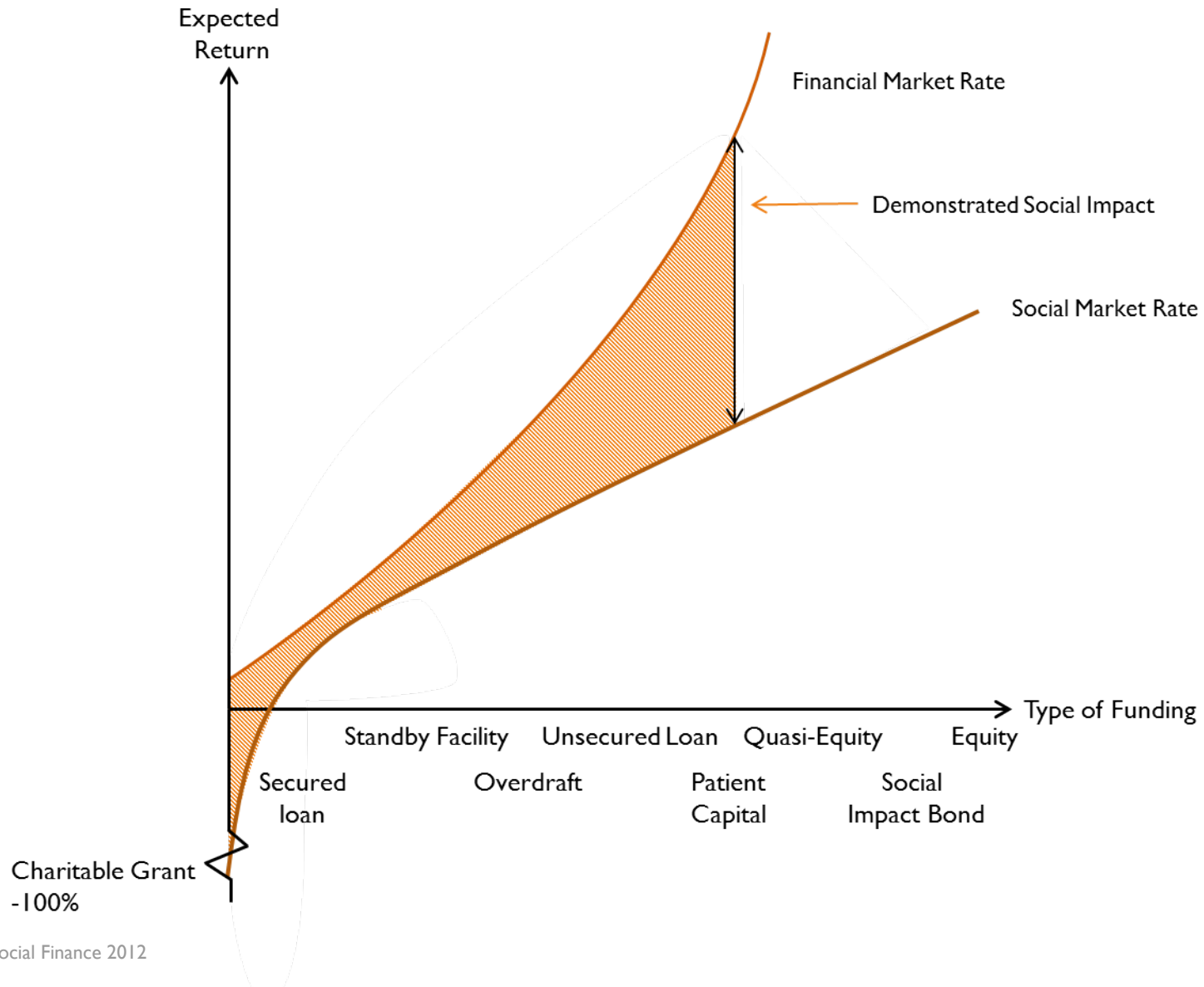
THE FINANCIAL SPECTRUM OF INVESTOR RETURNS



ILLUSTRATIVE



SOCIAL MARKET RETURN RATES OF RETURN WILL DEVELOP OVER TIME

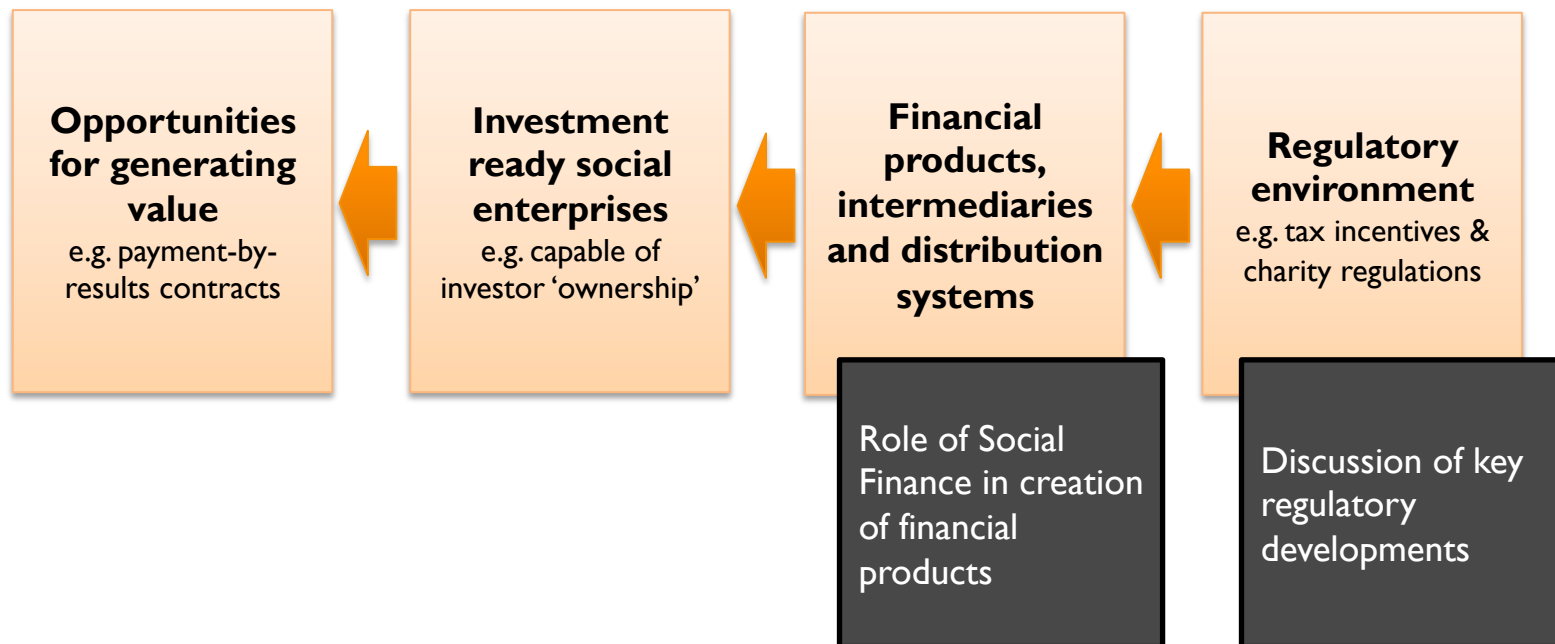




THE TASK IS TO DEVELOP A SOCIAL INVESTMENT SYSTEM

10

A number of components are required to stimulate the social investment market



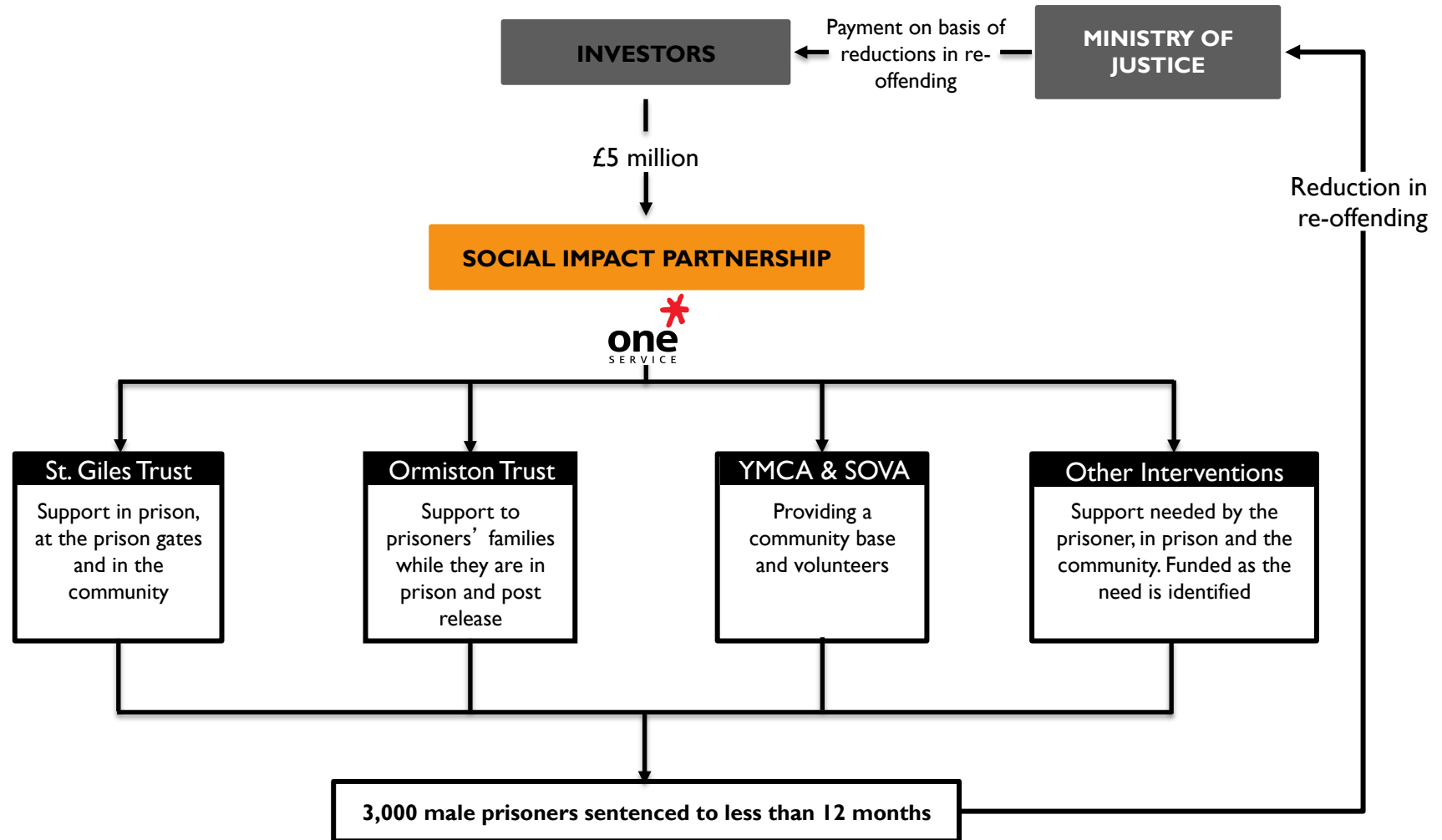
●■ AGENDA

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● SOCIAL IMPACT BONDS (SIBs) COULD BE AN IMPORTANT PRODUCT

The Peterborough pilot SIB draws together investors, commissioners and service providers

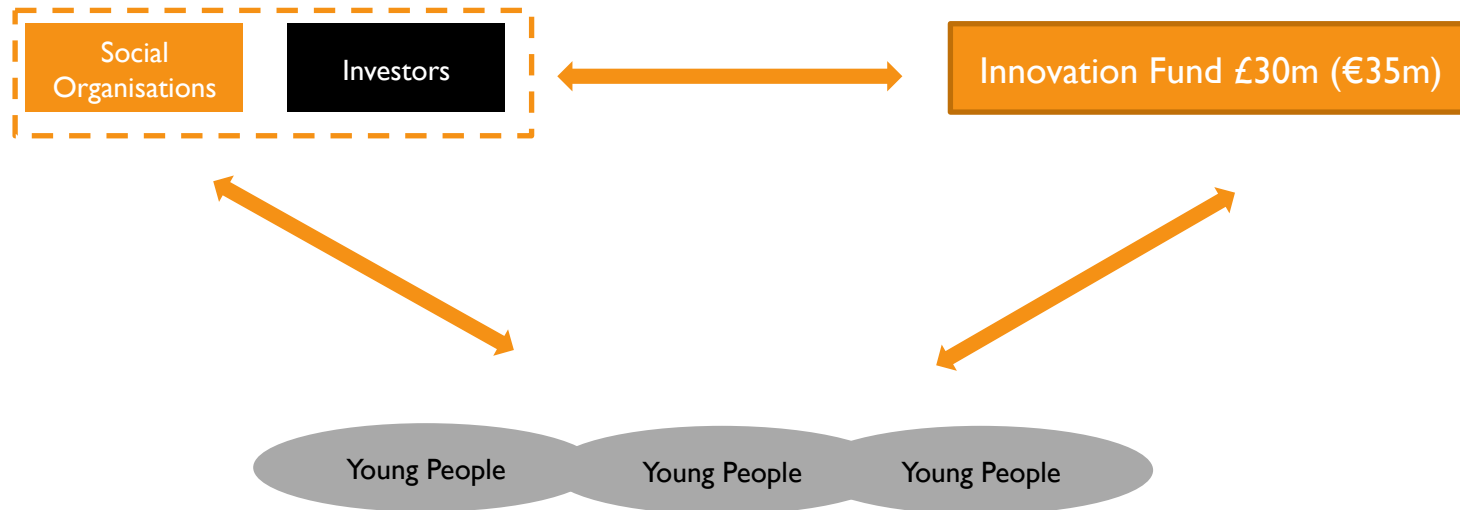




SOCIAL IMPACT BONDS ARE NOW BEING EXPLORED MORE WIDELY

13

Department for Work and Pensions' Innovation Fund is set to stimulate 5-10 projects



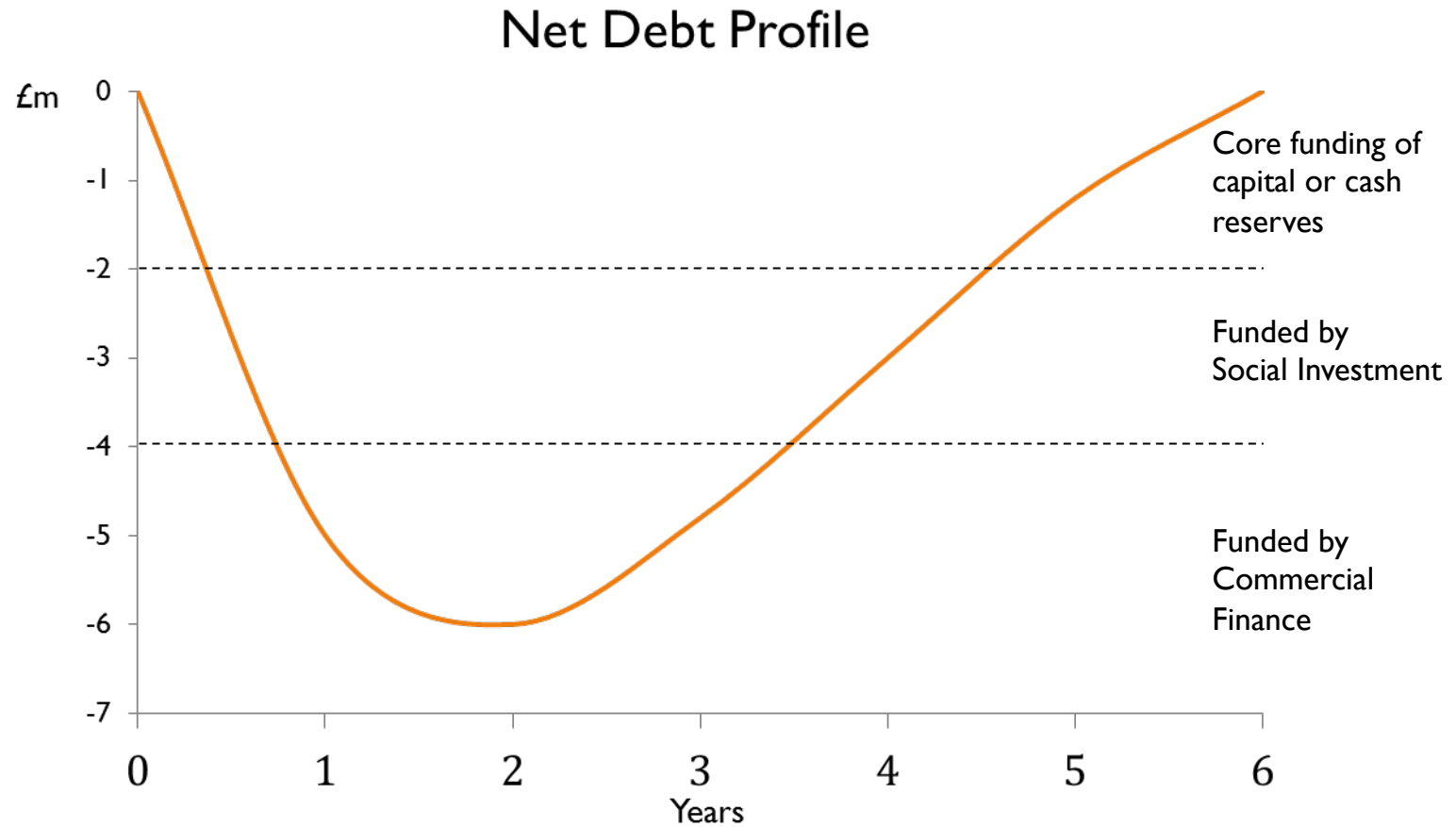
With other policy areas exploring a similar approach and conducting feasibility studies:

- Supporting families facing multiple problems
- Supporting young people with severe behavioural problems
- Supporting drugs recovery
- Reducing rough sleeping
- Managing long term health conditions



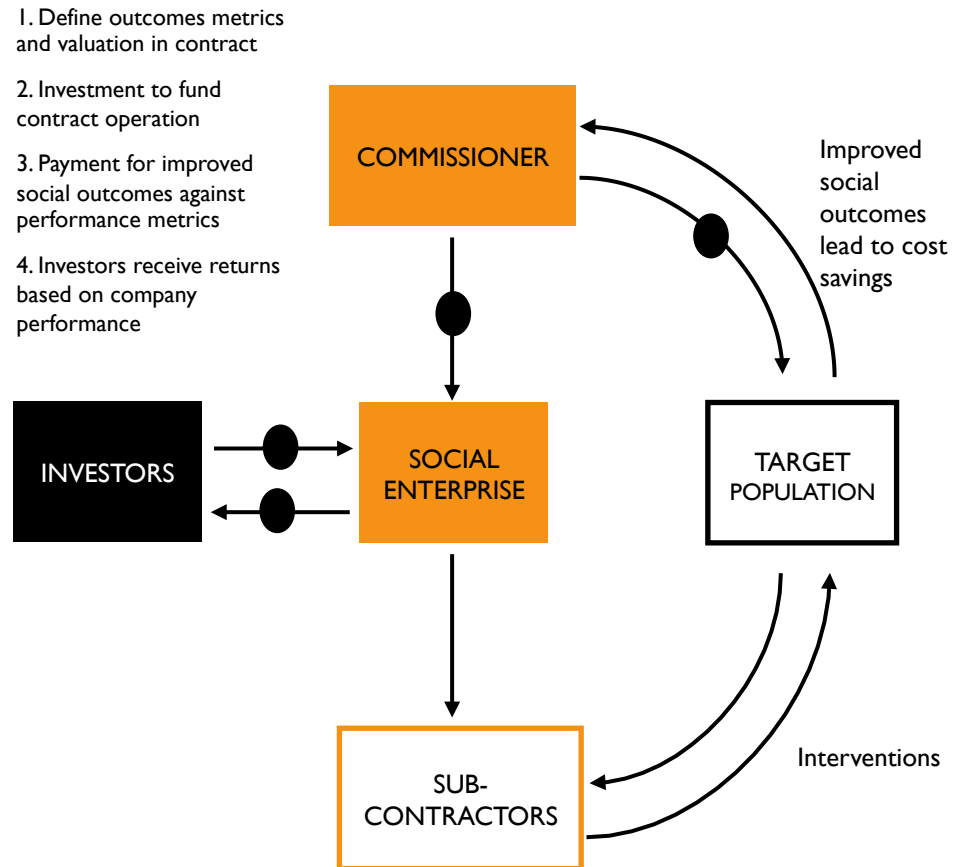
SOCIAL INVESTMENT CAN PLAY ITS PART ALONGSIDE TRADITIONAL CAPITAL MARKETS

Illustrative working capital strain:



SOCs are a loan product to enable social enterprises to raise hybrid equity linked to positive social outcomes.

- Suitable for Social Enterprises with outcomes-linked contracts (e.g. Work Programme or other PBR contracts)
- Payments to investors are made in the form of a “royalty return”, a percentage of the outcomes contract revenue. As this revenue is tied directly to contractual outcome metrics (e.g. getting people into work), the return is directly related to the social impact achieved
- The SOC provides risk finance which can help social enterprises who accept the working capital risks of PBR



There are currently limited social investment opportunities for mass affluent individuals and private banks. The aim of a Social Impact VCT is to create a pool of readily available investment capital immediately deployable among social sector organisations in the UK.

- The Social Impact VCT aims to take advantage of the attractive triple tax relief available to VCT shareholders
 - Income tax relief of 30% of the amount invested (provided shares are held for a minimum of 5 years)
 - Tax free dividends
 - No capital gains tax on disposal of the shares
- Given the tax exemptions, a modest lower single-digit return of the underlying VCT portfolio becomes attractive relative to the after-tax return of a higher rate tax payer.

VCT criteria for underlying investments:

Building Futures	Companies engaging with people who are marginalized, vulnerable or disadvantaged
Community Cohesion	Companies working in local communities to support cohesion and improve access to services and opportunities
Ethical Consumerism	Companies promoting ethical trade and consumerism to enable producers and suppliers earn a fair price for their products
Health & Education	Companies building human capital by enhancing health and education provision for individuals



THE GLOBAL SOCIAL IMPACT FUND (GSIF) ACCESSING IMPACT INVESTMENTS

17

The Global Social Impact Fund aims to challenge the key factors that prevent investors from making impact investments and impede the development of this market segment as an asset class in its own right:

Barrier to investment

An **absence of multi-strategy** vehicles in the market which tends to narrow allocations to just one strategy, i.e. Microfinance

Investors **lack the capacity** to source, analyse, categorise and select impact investment opportunities

Common perception amongst investors that **financial returns are necessarily inferior**

Global Social Impact Fund

Broad range of strategies identified with varied risk/return/impact profiles, **aggregated** into one offering

GSIF represents an **outsourced solution** to manager selection in a fragmented, nascent asset class

GSIF will invest in sectors where financial returns and positive social impact are **mutually reinforcing**



A RANGE OF GRANTS AND INVESTMENT PRODUCTS ARE REQUIRED AS STAFF FORM MUTUALS

18

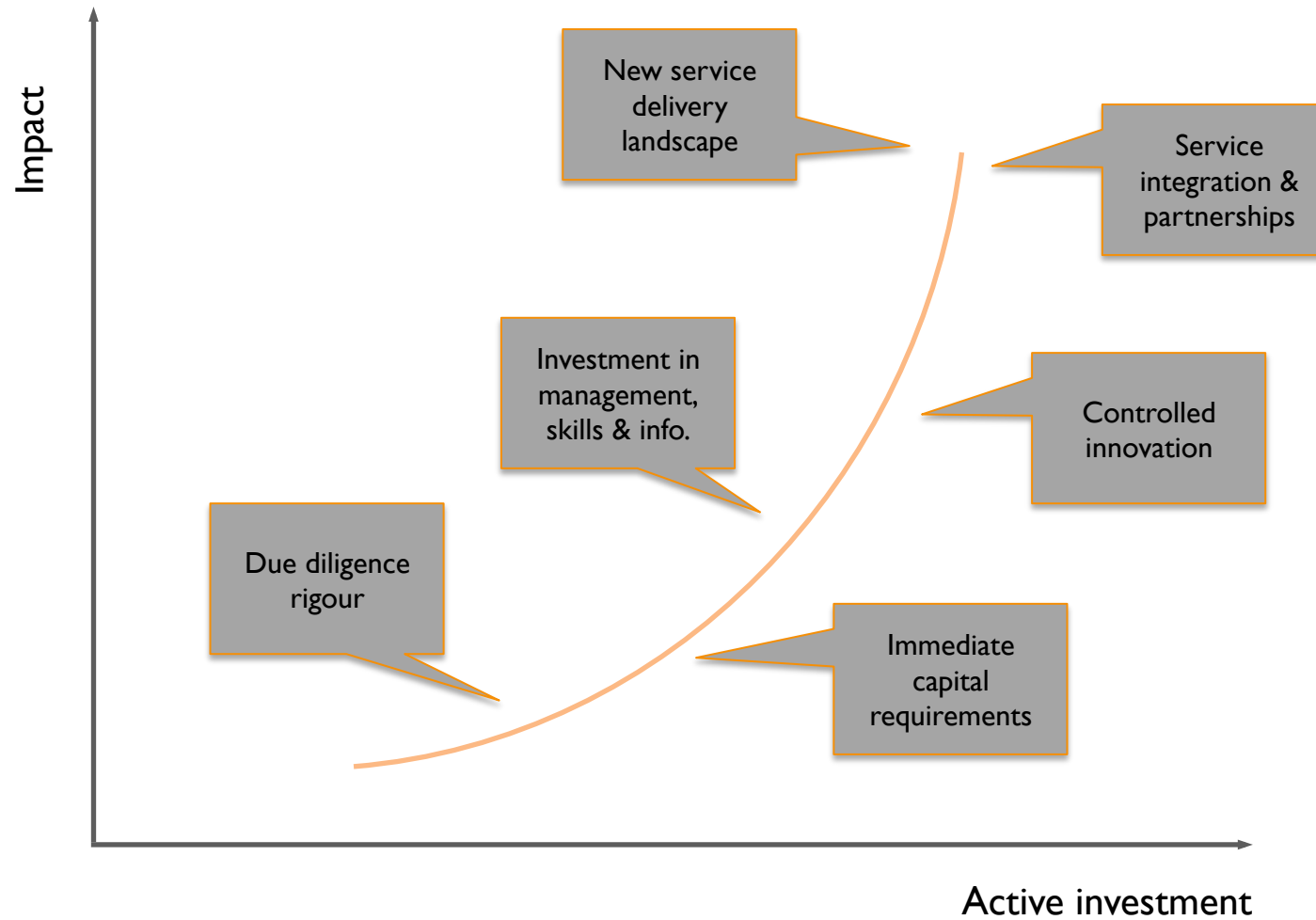
Staff led social ventures require nurturing, but not to the extent that investment is crowded out

	Option Appraisal	Business Planning	Set Up	Start Up	Expansion
Resources required	Back-filling staff time	Business support and staff engagement	One-off costs e.g. legal costs, new premises, branding	Working capital & business investment	Growth and development capital
Type of finance required	Support from 'host'	Grants or patient capital e.g. repayable grants	Desire grants but some investment may be possible.	A working capital facility . equity or quasi-equity to debt.	Variety of products, probably risk capital for expansion
Typical size	£0-£10k	£20k-£250k	£20-£250k	£0 -£1 million (higher if payment-by-results)	£0-£ millions

- The Social Investment Enterprise Fund has enabled over 50 groups of National Health Service employees (c. 20,000 in total) to form social ventures. A new Government support fund may also provide help in early stages from 2012.
- Social investors may be the main form of expansion finance since most ventures are asset locked, although some commercial providers of finance are also interested.

● ■ SOCIAL INVESTMENT CAN BE MORE THAN JUST MONEY

Social investment should help transform services, not just provide capital





THE UK GOVERNMENT IS HELPING TO GROW THE SOCIAL INVESTMENT MARKET

20

The government plays a crucial role in engaging the two main groups of early stage investors:

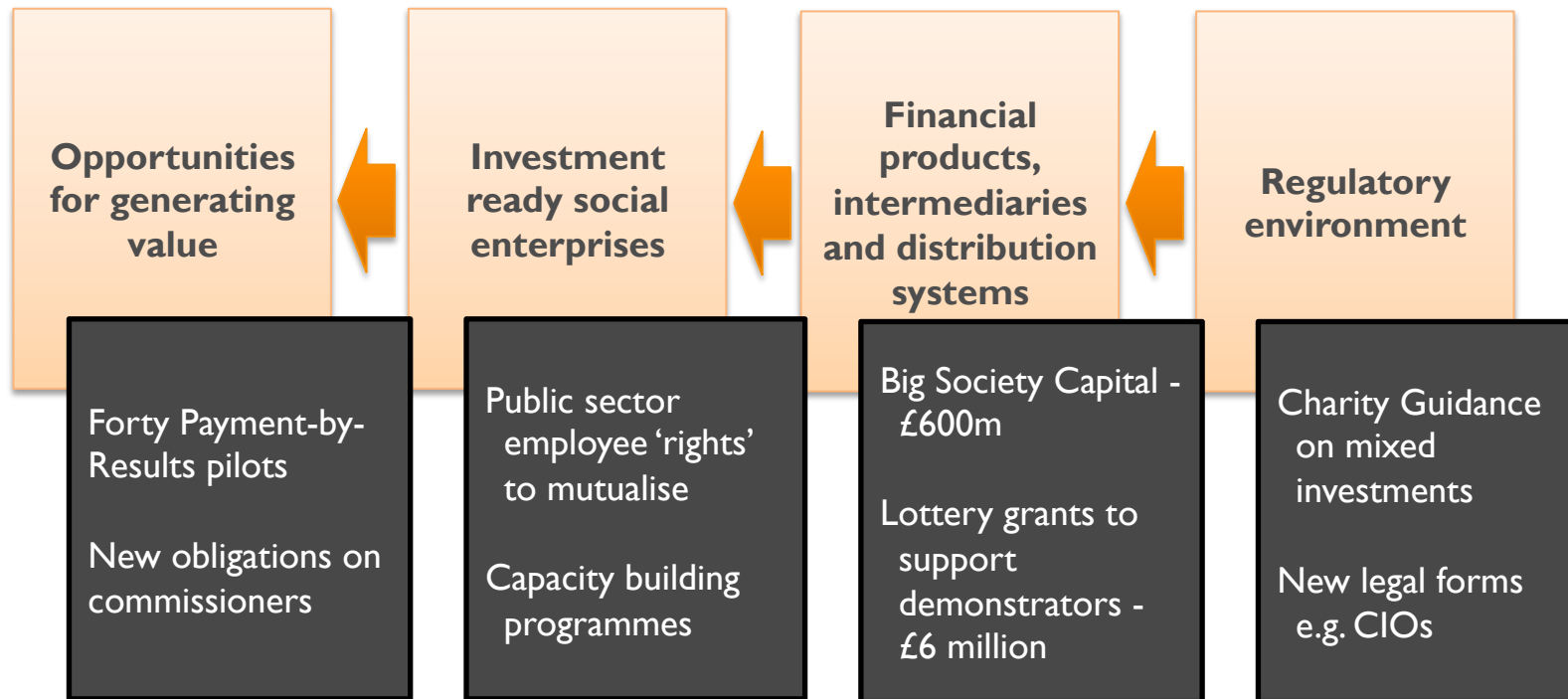
Trusts & Foundations

- Charity Commission published guidance in 2011. It stated that, in addition to their grant making activities, charities can invest their assets in three ways:
 - Financial investment
 - Programme Related Investment (PRI)
 - Mixed Motive Investment (MMI)
- Provided trustees have an agreed investment policy, have taken appropriate advice and have documented their process for reaching a 'reasonable decision' their decisions should not be open to criticism by the Charity Commission

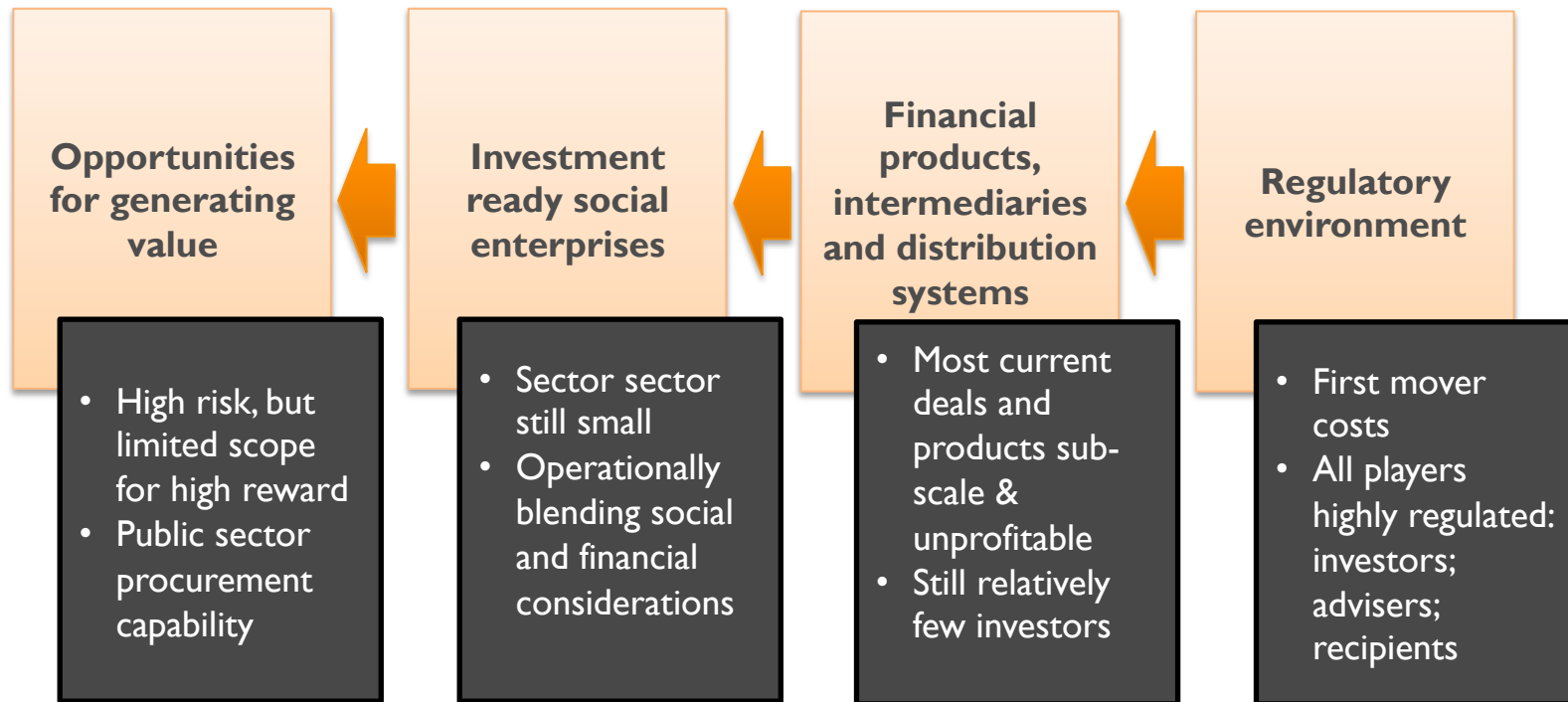
Individual investors (high net worth)

- Social investment products can seek to take advantage of existing tax incentive schemes:
- Venture Capital Trusts – equity investments in social enterprises through an investment trust
 - Enterprise Investment Schemes – direct equity investment, likely in non-listed companies
 - Community Investment Tax Relief (CITR) – investment in Community Development Finance Institutions

Enabling the system to develop is involving action on many fronts – current examples from UK



But some fundamental challenges remain – we are still near the start of developing a fully operating system





THANK YOU