

# HTF Summer Symposium

Ethical Investing

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## Policy view (1 of 2)

Key policy guidance

- **Charities can choose to invest in *ethical* investments (CC14 guidance)**
  
- But what does *ethical* mean?
  - Reflecting the organisation's *values and ethos*
  - Not running counter to its *aims*
  - Must be justifiable as being in the charity's best interests
  
- Justifications:
  - Conflicts of interest
  - Risk of losing supporters/beneficiaries
  - No *significant* financial detriment

## Policy view (2 of 2)

### Implementation

- Negative screening: avoid specified companies or sectors
- Positive screening: seek investments that align with values
- Stakeholder activism: using position as a shareholder to influence change

Guidance tends to assume investment in shares or similar...

...but it can be focused to build a portfolio or direct investments in social sector

The rules allow for broad interpretation and implementation

**Social Investment – an example of positive screening...**

# What is 'social investment'?

Key features:

- **Targets a clear and attributable social impact (theory of change)**
- **May seek to achieve broader 'systemic' change in the process** (where they have an overarching policy agenda)
- **Seeks a financial return that is moderated compared to commercial markets** (recognising the value of the social return achieved)

*Contrast with*

- **Ethical investment** (arguably less targeted)
- **Social Impact Bond** (a particular type of social investment)
- **Venture Philanthropy** (not necessarily expecting financial returns and or higher risk)
- **A mainstream banking facility offered to a charity** (not targeting specific impact)

# The UK Social Investment Market – an overview

## Market size and trends

### ■ Outstanding investment value:

- £1.5 billion – 2015
- £2.0 billion – 2016

### ■ Deal flow:

- 427 deals – 2015
- 630 deals – 2016

### ■ Average deal size:

- Broad range of deal sizes from multi-million pound property transactions to small c£100k to £150k loans for early stage businesses; and
- 49% of the market is defined as ‘social bank lending’, with a further 21% defined as unsecured ‘social property’ lending.
- Averaging based on the above doesn’t necessarily give a meaningful answer...

*Source: Big Society Capital*

# Social investment – some examples (1 of 2)

## Unsecured project finance

### To fund:

- Unsecured components of building/capital projects
- Working capital or other loan
- Project development/start-up/mobilisation costs
- Strategic growth (e.g. mergers, acquisitions etc.)

### Timescales:

- Typically 5 to 7 years (unlikely to stretch longer due to fund structure)

### Returns:

- Depends on risk profile but typically 8 to 15% return (IRR) required.
- Return can be structured using:
  - Fixed interest rate;
  - Performance based interest rate (some caps apply to legal forms e.g. CICs);
  - Hybrid of fixed and performance-based interest; and/or
  - Equity (for share companies only)

# Social investment – some examples (2 of 2)

## Charity Bonds

### To fund:

- Property-backed development projects(not secured but with property assets held to underpin the issue)
- Project finance
- Growth finance (mergers, acquisitions etc. – but unlikely to sell on the market unless these can be specified)

### Timescales:

- Assume 10 years, but can become a permanent capital line with subsequent re-financing.
- Investors can trade on the market to achieve earlier exit

### Returns:

- Typically interest rates start at approximately 4.5%, but may be higher for riskier investments.

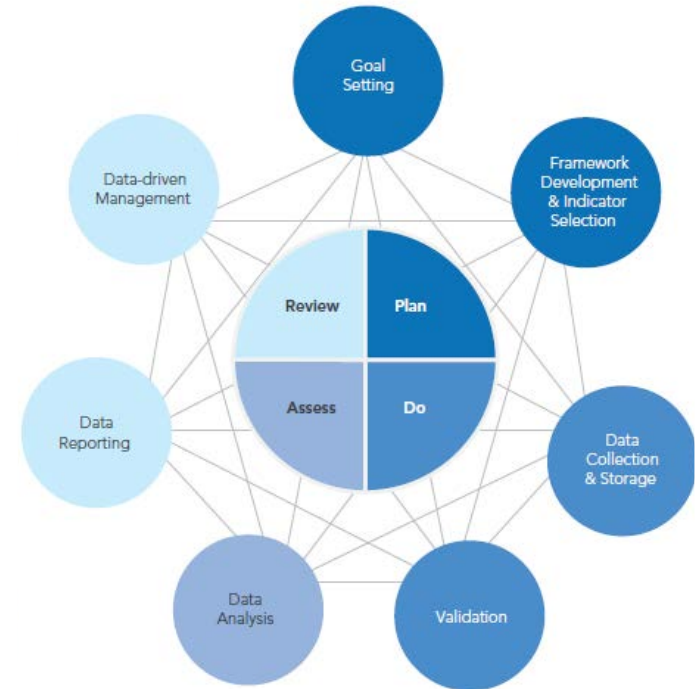
### Investment vehicle:

- Either via a retail charity bond fund or through a new PLC (depending on the route taken)

# 7 Guidelines

The key stages of impact-based investment

1. Set Goals
2. Develop Framework & Metrics
3. Collect & Store Data
4. Validate
5. Analyse
6. Report Data
7. Make Data-driven Investment Decisions





# Impact Investment: where next ?

## Opportunities

- Moving away from public service revenue into market revenues
- Re-engineering markets and behaviours
- Stretching the boundaries to self-investment and profit-with-purpose
- Joining up conventional and social markets in a continuum
- Ideas incubation – funding it and driving it

## Funding changes

- VCT-type funds
- Stronger, more creative social sector
- Institutional tiering
- Growth of private investor



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