



# 2018 **ANNUAL REVIEW**

IMPROVING PEOPLE'S LIVES IN THE UK



YMCA Luton, which received investment from Funding Affordable Homes.



# WHO WE ARE

Big Society Capital improves the lives of people in the UK by connecting social investment to charities and social enterprises.

We know that investment can help charities and social enterprises achieve more. We believe the greatest chance to improve lives comes when investors and enterprises are both motivated by social mission.

We engage with investors, fund managers, charities and social enterprises making it easier to use social investment to achieve more impact. With other investors, we have made over £1.7 billion of new capital available to organisations with a social mission, through investments into fund managers and social banks. We have a special focus on: providing homes for people in need; strengthening places and communities; and early action to prevent problems.

# CONTENTS

<b>Message from our Chair and Chief Executive</b>	<b>4</b>
<b>Strategy update</b>	<b>6</b>
<b>Our social impact</b>	<b>8</b>
Early Action	9
Homes	11
Places	13
<b>Our investments</b>	<b>15</b>
Our investments this year	16
Our investment numbers	17
Portfolio allocation	18
Managing our portfolio	19
<b>Market building</b>	<b>20</b>
Engaging social enterprises and charities	21
Engaging investors	22
Diversity in action	23
<b>The resources we use to drive change</b>	<b>24</b>
<b>Financial statements</b>	<b>25</b>



**Child Dynamix**, which received investment from Social and Sustainable Capital.

## A MESSAGE FROM OUR CHAIR AND CHIEF EXECUTIVE



Changing lives through social investment.



**Sir Harvey McGrath**

Our purpose is to improve people's lives, and we do this through connecting investment to the social enterprises and charities that create positive social impact. Alongside supporting the wide range of investments we have already made, we focus on three key areas where we believe social investment can make the most difference:

- **providing homes for people in need**
- **strengthening places and communities**
- **taking early action to prevent problems**

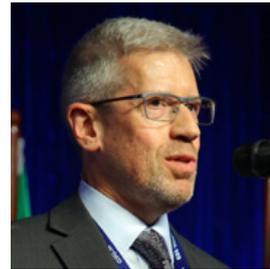
Throughout the year, we accelerated our efforts to create change in these areas, while developing a strong pipeline of investments.

In **homes**, we brought mainstream investors in to create social impact. In **place**, we partnered with Access – the Foundation for Social Investment to provide blended finance across five locations in England. In **early action**, we worked with social enterprises, charities and fund managers to create funds that focus on mental health, ageing and childhood obesity.

### MAKING A DIFFERENCE

In 2018, we signed 14 new deals with fund managers and social banks totalling £90 million, and we expect £300 million more to be invested alongside our capital. This brings the total number of investments we have made since we were established in 2012 to 85. Over time and alongside other investors, we have made £1.7 billion available for social enterprises and charities as they tackle some of the toughest social issues faced by people in the UK.

In terms of financial performance, this year we have recorded an operating loss of £6.5m compared to a small profit in 2017 with valuation movements being the key driver of the loss [see page 25 for further details]. We anticipate continued upward and downward volatility from valuation movements in the social investment portfolio over coming years



**Cliff Prior**

given the early stage nature and risk profile of these investments. Our long term aim is generate positive financial returns and social impact on a continuing basis to demonstrate financial viability and cover operational and market building costs

At the start of the year, the government confirmed that we would receive the remaining £100 million from dormant accounts pledged in 2012, alongside the capital invested by our shareholder banks: Barclays, HSBC, Lloyds Banking Group and RBS. We also welcomed the government's decision to harness more dormant accounts for social investment. This includes an extra £25 million for Big Society Capital and £10 million for Access – The Foundation for Social Investment. The money will enable us to support the incredible work of fund managers and social banks. Together we are fuelling powerful change – providing more than 1,100 innovative, hardworking and passionate social enterprises and charities with capital to improve the lives of people across the UK.

Our investments start with the social issue, working with expert partners to discover what is possible and what we need to do to make change happen. We work closely with fund managers to understand the social need, and then determine which revenue models of social enterprises and charities can support investment. That's how we can understand the difference our capital can make.

## SUPPORTING A GROWING SECTOR

Social impact investment is growing and diversifying. In the last few years, mainstream asset managers have launched commercial impact funds. These large-scale funds which offer breadth and scale complement our cornerstone work focusing on depth of impact. We have been actively involved in designing the new Impact Investing Institute which will help develop impact investing further.

It is vital that achieving positive impact remains at the heart of the new funds as the sector develops. We actively contributed to the [principles and systems](#) which will underpin this integrity for the future.

As the market continues to change, we must offer clarity to investors, investees and the wider public. A commercial fund seeking fully risk-adjusted market returns is very different to catalytic capital from foundations and philanthropy that remain critical to areas of the greatest social impact. Both are valuable, and by working with the two together we can achieve so much more.

## INVESTING IN THE FUTURE

At Big Society Capital, we are bridging the gap between impact investment and social investment, enabling social enterprises and charities to access more sources of appropriate finance throughout their journey from start-up to scale. And as the market builder, we make it easier for these organisations to access the social finance that's right for them. We will continue to bring in further funding from both mainstream and mission-first investors. We also support GoodFinance.org.uk to help social enterprises and charities reach change-making investment decisions.

Meanwhile, we are constantly working to improve our own capabilities. For example, we have developed a Learning and Development framework for our staff which we have shared across the sector so others can benefit. We are developing a People Strategy to help us recruit, retain and value a diverse team. We will continue to develop and share the learning from our Building Blocks programme, highlighting the key features of what makes a strong fund manager. We are increasing our team on impact management, data and transparency. Later this year, we will launch a new approach to our brand and narrative to engage wider support for social investment.

As part of our market building mandate, and due to growing demand from investors for investments that target specific outcomes by providing long-term impact for underserved groups, we are working with partners to develop a social impact investment product. This will be aimed at raising external capital and leverages the experience, track record and networks we have built since our inception. The product, which we hope to launch in 2020, will invest in funds and strategies that offer investors a diversified multi-asset portfolio with the aim of positive, sustainable returns and low correlation to mainstream assets.

## THANK YOU

This year, both Danielle Walker Palmour and Sir Ronald Cohen will retire from our board. We thank them sincerely for their dedication and enthusiasm since our foundation in 2012. We also want to thank Sir Ronald for his outstanding role as our founding Chair. His achievements over the last two decades driving global impact investment initiatives and mobilising private capital to serve social and environmental good have been inspirational.

When Sir Ronald first became the Chair of the Social Investment Task Force in 2000, he had a vision that investment in entrepreneurship could yield both social and financial returns. Almost two decades later, that vision has become a reality, both in the UK and across the world. New ways of working are driving social impact investment to reach new areas.

Yet there's still more to be done. We alone can't achieve our aims. We need the pioneering spirit of the fund managers and social banks we invest in, the partners creating innovative ideas alongside us, and the dedication of the social enterprises and charities who deliver social change. We thank them all for their efforts and look forward to continuing to work with them through 2019 and beyond.

Most of all, we honour the hard work and efforts of all of the people that our investments reach: the individuals, families and communities who are turning their lives around, and making their communities better places to live. They face the greatest struggle, and they show us what really works. Everything we do is for them.



# STRATEGY UPDATE

Our strategy of focusing on areas where we believe investment can have the greatest impact began to bear fruit in 2018. We have begun making investments in our focus areas, as well as building partnerships, knowledge and opportunities which will enable us to deliver more in 2019.



**Reboot West**,  
which is supported  
by Bridges Fund  
Management.

Credit: Lucy Hunter



**Emmaus Village Carlton** is a charity that offers long-term accommodation, support and work opportunities for those affected by homelessness. It has received loans from Charity Bank to support the development of capital projects.

## 1 HOMES FOR PEOPLE IN NEED

We have two broad approaches making a difference to people facing the UK's housing crisis. One is to bring a more impact-led approach to housing investment. For example, in 2018, we invested in CBRE's £250 million UK Affordable Housing Fund. Our other approach is to work with partners to co-design housing solutions for the most vulnerable people. In 2018 we focused on the needs of vulnerable women, building relationships with experts to develop an investment proposition launching in 2019.

## 2 PLACES AND COMMUNITIES

Our vision is to tackle poverty and inequality by building partnerships to develop vibrant local social economies. The government's decision to commit money from more dormant accounts through Access – the Foundation for Social Investment, alongside investment from Big Society Capital, has opened up new opportunities. We've also worked closely with several communities to build investment propositions tailored to their needs.

## 3 EARLY ACTION

We aim to use investment to tackle early-stage problems in two ways – by supporting products that fit this approach and identifying opportunities to address specific issues. Our two key products are social impact bonds and social ventures. We made investments in both in 2018 – committing money to Bridges Fund Management's Social Outcomes Fund (its second social impact bond fund) and the latest fund from Ananda Impact Ventures. We've also built partnerships to generate solutions for specific problems, like meeting the needs of an ageing society and tackling childhood obesity.

Credit: Lucy Hunter



# OUR SOCIAL IMPACT



**Cosgarne Hall** provides accommodation and tailored support for homeless adults in Cornwall. The charity has received three Charity Bank loans to assist with a property purchase, development and refinancing.

We continue to work closely with fund managers and social banks to support social enterprises and charities all over the UK. We make repayable finance available to address a range of pressing social issues and improve people's lives.

We are committed to continuously improving how we understand, manage and communicate the social impact we seek to achieve.

Here are some examples of the work we support, and updates on our evolving approach to impact measurement and management.

**1,141**

**social enterprises and charities across the UK** have accessed repayable finance from our social fund managers or Charity Bank to buy assets, innovate, expand or improve their services, or for day-to-day costs.



**73%**

of these social enterprises and charities are located in **the 50% most deprived areas of the UK.**



**83%**

of these social enterprises and charities operate **outside of London or nationally.**



## EARLY ACTION



Our investments in Early Action address problems to prevent them escalating over time.



Our current priorities are:

**AGEING** – supporting a holistic approach to wellbeing as people age.

**CHILDHOOD OBESITY** – supporting food providers to enable and encourage lower income households to have more nutritious diets.

**MENTAL HEALTH** – supporting a shift towards preventative solutions for at risk groups, enabling better integration between the world of research and social innovation.

Two key approaches for this area are social outcomes contracts and venture investing:

**Social outcomes contracts** link financial outcomes directly to social outcomes to enable innovative and preventative models of public service delivery.

- **Big Issue Invest** committed £750,000 to **Big Picture Learning**, an innovative Doncaster school dedicated to improving educational attainment and engagement for 216 students who have disengaged, or been excluded, from mainstream schools. This £6 million outcomes contract is the first of its kind to fund a school using new ways of learning to improve the life chances of disadvantaged young people and their families in the UK.
- **Bridges Fund Management** committed over £4.5 million to **Positive Families Partnership** (PFP) – an innovative new initiative to support troubled families and reduce the number of young people going into care. It was first commissioned by five London boroughs – Tower Hamlets, Bexley, Merton, Newham and Sutton – through a social outcomes contract. Barking &

Dagenham, Richmond and Kingston have since joined the programme. PFP is set to expand even more after successfully helping over 100 young people in its first year, and is aiming to work with 400 families over four years.

**Venture investing** nurtures and scales early stage ventures pioneering innovative ways of tackling social problems.

- **Ananda Impact Ventures** invested £1.5 million into **Hometouch**, a marketplace for live-in care focused on dementia patients. Hometouch seek to improve the quality of life for older people in need of care with a mission to fight the progression of neurodegenerative conditions. So far, Hometouch has helped provide 360,000 hours of care to more than 150 older people.
- **Bethnal Green Ventures** supported **TalkLife**, an online peer-to-peer support network for young people's mental health. TalkLife combines social connection with support to help tackle loneliness, anxiety, depression and self-harm among young people globally. So far, TalkLife has reached more than 60,000 users.



### West London Zone.

which received investment from Bridges Fund Management.



**Child Dynamix**, which provides high quality, affordable nursery provision in disadvantaged areas of Hull.

**£42 million**

Total value of our social outcomes contracts fund investments

**49**

Number of frontline social outcomes contracts we've supported

**More than 32,000**

Number of people we expect to support

**£55 million**

Value delivered to government to date\*

**53**

Number of commissioners worked with\*

\*Figures relate to our investment in the Bridges Social Impact Bond Fund up to April 2018

**MEASURING IMPACT EFFECTIVELY**

Our evolving impact measurement approach is shaped by the partners and thematic areas we are working in (like Guy's and St Thomas' Charity in childhood obesity and The Wellcome Trust in mental health) as well as the financial products we use. Right now we are seeing advanced impact methodologies used in social outcomes contracts, and more proportionate impact approaches for early stage ventures that often use digitally-enabled data.

Credit: Lucy Hunter

## HOMES



Our housing investments aim to provide homes for the most vulnerable and attract new impact-driven capital to tackle the UK's housing challenges.



### FIGHTING HOMELESSNESS AND PROVIDING HOMES FOR VULNERABLE PEOPLE

- The **Ethical Housing Company** was created in 2018 via our £30 million investment in **Bridges Evergreen**. The company buys and rents out affordable properties for people with housing needs in Teeside. This follows our success in Glasgow, where our investee **Social and Sustainable Capital** invested £2.9 million in **Homes for Good** to provide another 50 homes for people on low incomes and in housing need. This adds to Homes for Good's existing 400 property portfolio made possible following earlier investment from our investees **Impact Ventures UK** and **Charity Bank**.

- Other investments over the past few years have also focused on providing homes for people with additional needs. For example, **Funding Affordable Homes** acquired 32 units of specialised supported housing for **Independent Living England**. Also, the **Cheyne Social Property Fund**, in partnership with **Thera Trust**, provided homes for 114 adults with acute learning disabilities across the UK.



**Cosgarne Hall** received support from Charity Bank.

### PROMOTING SOCIAL INNOVATION IN HOUSING

- In 2018 we invested £10 million into **CBRE's** £250 million **Affordable Housing Fund** to provide funding for housing associations to build social and affordable homes. As well as addressing the acute shortage of suitable homes on the market, our investment aims to help shape the impact approach. We also want to further encourage and support co-investors in the fund interested in how their capital can create impact.



**YIMCA Luton,**  
which is supported by  
Funding Affordable  
Homes

**10**  
Housing  
investments  
signed

**£73.9  
million\***

Committed  
(£620.4 million  
alongside  
other investors)

Over  
**3,800**  
People housed

**81%**  
Of those housed  
through our  
homelessness  
investments with  
Resonance say they  
now feel positive  
about the future

\*This does not include  
£15 million committed to a  
community-led housing fund  
top-up facility. This fund was  
not deployed due to a change  
in the funding environment.  
A different social investment  
solution was needed, which  
we're exploring.



**MEASURING IMPACT EFFECTIVELY**

Raising the bar on impact measurement and management is a central part of our housing strategy. Through our investments and our influence we want to showcase best impact practice to the sector – especially, more and more, helping impact-driven investors with the potential to reach scale. We see this as an opportunity to improve standards, move norms and ensure housing investments work for the people who need them most.

## PLACES



We care about tackling deeply-rooted poverty and inequality in communities across the UK.

### INVESTING TO SUPPORT COMMUNITY-BASED BUSINESS MODELS

- We worked with **Social Investment Scotland** to deliver a £30 million **Community Investment Enterprise Facility (CIEF)**. This supports greater investment into underserved small businesses in disadvantaged communities.
- **Finance for Enterprise** received a £7.5 million loan from the **CIEF** to provide loans to small businesses in Yorkshire and Humber not served by mainstream finance. This creates jobs and local economic activity in underinvested places.

### FINDING NEW WAYS OF SUPPORTING SOCIAL ENTERPRISES AND CHARITIES

- We invest alongside partners who bring in other types of capital to create positive change in communities.
- Building on lessons from the **Growth Fund**, we unlocked an extra £10 million from dormant bank accounts, to be managed by **Access – The Foundation for Social Investment**, and blended with repayable investment to create a programme of support across England.
- **WHAG Community Enterprises CIC** received a £50,000 blended loan from **Greater Manchester Centre for Voluntary Organisations (GMCVO)** to develop the organisation. WHAG CIC supports the WHAG charity, that supports and empowers vulnerable women and people affected by domestic abuse.



**South Bristol Sports Centre**, which is supported by Resonance and Bristol and Bath Regional Capital.





**Cherry Tree Community Centre**, which received investment from Key Fund.

**£45 million**

Big Society Capital's investment into community energy groups

**43**

Number of community energy projects supported

**£27.9 million**

Total projected community benefit funds and savings\*

\*Social investments into renewable assets such as solar farms allow financial surpluses to be generated over their 20-25 year lifetimes, and the assets to move into community ownership. These funds are managed by communities and deployed to tackle local issues such as fuel poverty and financial inclusion. In general, without social investment, the assets would either not be built or remain in commercial hands and no surpluses would reach the community.

**WORKING WITH LOCAL LEADERSHIP TO EMPOWER THRIVING AND INCLUSIVE COMMUNITIES**

- We support the development of Bristol's **One City Plan** and the City Funds that will target inequality and economic inclusion in key parts of the city.
- **Bristol City Funds** is based on cross-sector partnership and city-wide consultation. It will invest in, and provide support to, enterprises who are creating profound change around four priority funding themes.

**MEASURING IMPACT EFFECTIVELY**

Our emerging impact measurement and management approach is aligned with the vision and strategy of key partners. We intend to capture the impact on communities, social enterprises and charities, as well as the impact from supporting key stakeholders to work together more effectively. Our impact approach will develop as more projects go live in 2019.



# OUR INVESTMENTS

---

In 2018, we made £90 million of new commitments and had over £450 million of new investment alongside our capital. Some of these investments demonstrate how our strategic theme areas are developing and growing our pipeline.



**Shared Lives,**  
which is supported  
by Social Finance.

## OUR INVESTMENT THIS YEAR

In 2018, we provided finance to fund managers and social banks across our strategy themes and portfolio

### EARLY ACTION

#### Bridges Social Outcomes Fund II £12.5 million

Social Impact Bond fund dedicated to investing in government-commissioned outcomes contracts in children's services, homelessness and health and social care.

#### Ananda Ventures £4.5 million

Pan-European venture fund investing in high growth social ventures across Europe and in the UK.

#### Bethnal Green Ventures £250,000

Building Bethnal Green Ventures' ability to launch and scale tech for good ventures that will improve people's lives.

### HOMES

#### CBRE Affordable Housing £10 million

Property fund attracting institutional capital to social impact-driven affordable housing.

### PLACES

#### Key Fund Community Property £1.5 million

Helping local organisations take on community buildings.

### PORTFOLIO

#### Charity Bond Support Fund £20 million

Charity bond fund helping charities and social enterprises grow their impact by raising capital from investors through the public bond markets.

#### Charity Bank co-investment facility £10 million

Growing Charity Bank's lending to support more social enterprises and charities.

#### Bridges Evergreen £18.7 million

Providing long-term investment and hands-on support to ambitious, mission-led businesses.

#### Unity Trust Bank £3.1 million

Growing Unity Trust Bank's lending to social enterprises and charities.

## THE GROWTH FUND: MANAGED IN PARTNERSHIP WITH ACCESS – THE FOUNDATION FOR SOCIAL INVESTMENT

#### Big Issue Invest Impact Loans England £2.3 million

Loan finance between £20,000 and £150,000 for social enterprises and charities in England.

#### Community Impact Partnership £1.8 million

Helping housing associations include social enterprises in their supply chain.

#### Forward Enterprise Fund £1.2 million

Small loan fund supporting people, social enterprises or charities run by ex-offenders or people in recovery. Delivered in partnership with the Social Investment Business.

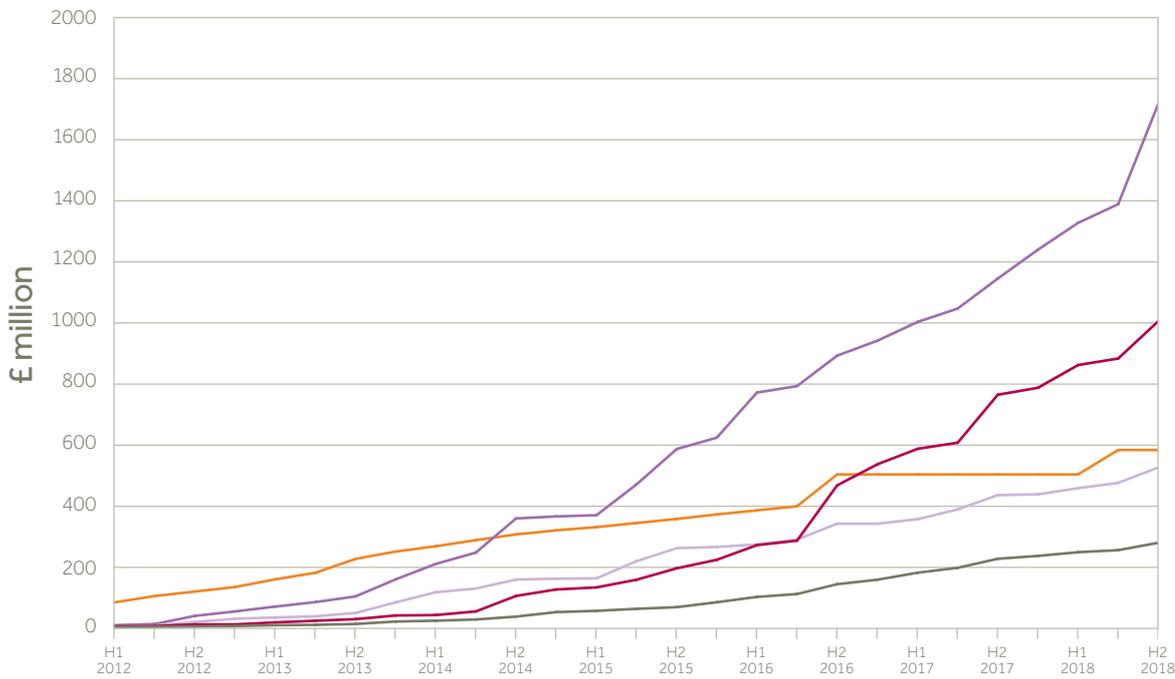
#### Nesta Culture loans £2.5 million

Small loan fund for socially driven arts, cultural and creative organisations and enterprises delivering impact through the arts.

#### PICNIC £2 million

Helping the National Trust develop impact driven enterprises in parks. Delivered in partnership with Environmental Finance

## OUR INVESTMENT NUMBERS AS AT 31 DECEMBER 2018



**£1,721m**  
Signed plus match

**£1,004m**  
Drawdown plus match

**£581m**  
Received from Reclaim Funds & banks

**£524m**  
Signed

**£276m**  
Drawdown

### MONEY AVAILABLE TO CHARITIES AND SOCIAL ENTERPRISES

Cumulative amount of investments signed by Big Society Capital and other investors:

**£1.7bn**

Of this

**£524m**

is money from Big Society Capital

**£1.2bn**

is from other investors

Across

**85**

different investments

The major categories of investors include:

Pensions and insurance (34%)

Funds and Fund of Funds (14%)

Social bank depositors (14%)

Individuals and Family Office (13%)

Charity or Foundation (12%)

Government bodies (5%)

Banks (5%)

Other (3%)

### MONEY REACHING CHARITIES AND SOCIAL ENTERPRISES

**£1bn**

Cumulative amount drawn down from Big Society Capital and our co-investors:

Of this

**£276m**

has come from Big Society Capital's own funds

**£728m**

from our co-investors

This is how the drawdown has been divided/used (we have based our calculations on Big Society Capital's drawdown):

Product type

**65%** is capital for charities and social enterprises through funds and social banks.

**20%** is into property, mainly to help charitable service delivery.

**4%** is helping charities deliver services using Social Impact Bonds.

**6%** management fees paid to intermediaries.

**3%** is capital for arrangers.

**2%** is cash balances in funds.

Organisational form

**68%** asset locked charities and social enterprises.

**14%** non-asset locked social enterprises.

**4%** Social Impact Bonds.

**3%** Local Authorities.

**3%** is capital for arrangers.

**6%** management fees paid to intermediaries.

**2%** is cash balances in funds.

## PORTFOLIO ALLOCATION HOW WE DESIGN OUR PORTFOLIO TO ACHIEVE OUR GOALS

### There are four elements to constructing our portfolio.

First, we start with the social issue, identifying solutions to social problems where investment could play a role. Some investment opportunities come to us, while others are developed by working with fund managers and partners. Both approaches require us to understand the available revenue models - considering the potential for social impact, systems change and financial return. Where investment products are not currently available, we aim to design them.

Second, we weigh opportunities and risks against our strategic priorities and long-term vision for social investment. We are mindful of the risks across financial, impact, and systems change dimensions. Given our mandate, we are generally more comfortable taking some kinds of risk than others. Specifically, we believe it is our role to take on certain types of risk when we have high conviction in an opportunity's impact or systems change potential.

Third, we consider how best to bring in greater amounts of capital on a sustainable basis, and price investments where others are willing to invest. This approach best enables our capital to crowd-in other investors to achieve our goals. We aim to grow the market, not be the market.

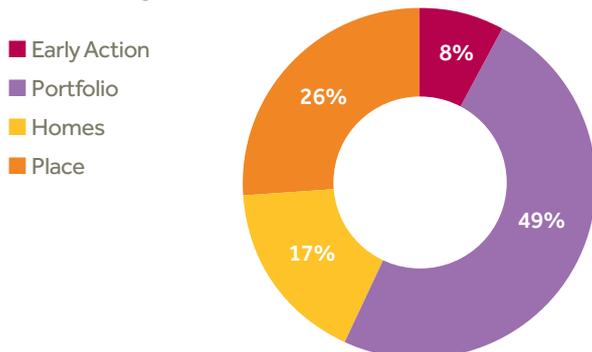
Finally, we weight our capital commitments across opportunities to create a balance between strategic objectives, diversified across factors such as frontline organisational types, intermediaries, geography, segment growth rates and product types.

The objective is to build a broad market while maximising impact and systems change as well as meeting our financial targets on commitment, drawdown rate, liquidity, and return. Our higher returning, lower risk investments generally attract more investors to impact investing and also help cross-subsidise the important catalytic investments we make that have higher risk and potentially lower returns.

The table below maps our portfolio as at the end of 2018 into risk/return zones. The vertical axis shows the return (expected net IRR at time of investment approval) and the horizontal axis shows financial risk (dispersion of expected return).

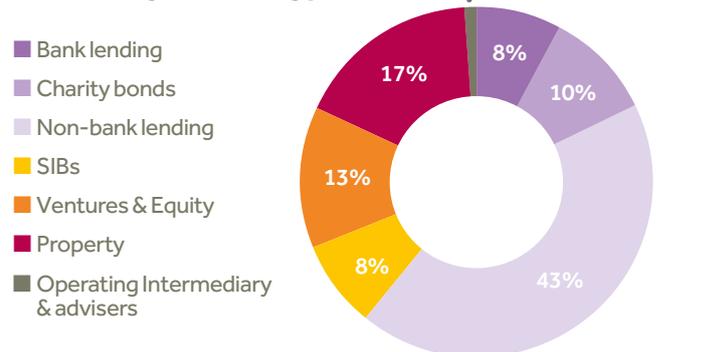
					Return Totals
>6%	0%	11%	5%	0.5%	16%
3% to 6%	18%	13%	17%	2%	50%
3% or lower	16%	6%	10%	2%	34%
	Low Risk	Medium Risk	High Risk	V High Risk	
Risk Totals	34%	30%	32%	4%	

### Portfolio by Focus Area\*



\*By sum committed

### Portfolio by Product Type\*



\*By sum committed

# MANAGING OUR PORTFOLIO

Managing the social and financial performance of our portfolio is a vital part of achieving our mission. We also work with intermediaries to help them build strong and sustainable business models and ensure we learn from past experience.

## Portfolio at a glance

<p><b>85</b> investments in our portfolio</p>	<p><b>15</b> either <b>closed</b>, or have been <b>repaid</b> or <b>sold</b></p>	<p><b>61</b> <b>board and committee</b> <b>seats</b> were taken by our staff or appointees</p>
---	--	--



### Assessing our investments

We give a Green, Amber or Red status to all our investments to assess progress towards goals, based on financial performance, social impact and systems change. For 2018, based on draw down amounts, we graded:

<p><b>51%</b> <small>green</small> &gt;&gt;&gt;</p>	<p><b>44%</b> <small>amber</small> &gt;&gt;</p>	<p><b>5%</b> <small>red</small> &gt;</p>
---	---	--

## WORKING IN PARTNERSHIP

- ### 1. Supporting intermediaries

We continue to use Building Blocks to support intermediaries in our portfolio to develop – and have embedded the tool into our investment process. Two intermediaries who used it in 2017 repeated the process for a second time, allowing them to track their progress. We also provide one-on-one support for intermediaries in key development areas. This includes tailored personal and professional development training on essential topics like recruitment skills and support with non-executive director recruitment.
- ### 2. Finding common solutions

We're constantly exploring ways to help develop solutions to common challenges intermediaries face. For example, we coordinated training in pipeline development, management due diligence, recruitment skills and GDPR for intermediaries during the year. We also launched our Aspire Leadership Development programme – a year-long training programme for director-level professionals in the social investment sector.
- ### 3. Using funds for good

During the year, £52 million was drawn down by intermediaries deploying investments compared to £82 million in 2017. With matched co-investment, the year's drawdown amount was £240 million compared to £297 million in the previous year. We target £60-100 million capital drawn down each year, based on the expected return of capital to ensure money is available in a balanced way over time. This number was below target in 2018 due to a couple of large drawdowns being delayed. Overall co-investment on drawdowns continues to increase, from 1x in 2013 to almost 5x in 2018. We expect this number to increase further over time and help supply the ongoing growth in frontline demand for investment capital.

## OUR KEY CHALLENGES

- ### 1. Raising investment

Co-investment alongside investment from Big Society Capital grew from £712 million in 2017 to £1,197 million during 2018. This is a significant increase, but raising investment funds remains one of the key challenges for intermediaries. We still see the greatest challenge in innovative funds, where risk factors are higher and where new fund managers do not have a successful track record to highlight their work.
- ### 2. Intermediary sustainability

The sustainability of intermediaries is still a significant challenge, affecting both advisers and fund managers. This is because advisers do not earn recurring revenues, and fund managers have to manage relatively small funds.
- ### 3. Early-stage losses

We have continued to see losses in our portfolio in the infrastructure organisations of the social investment market, where we have invested directly in early-stage businesses.

SECTION 4



# MARKET BUILDING

We support the sector, increasing the use of social impact investment and building understanding with social enterprises, charities and investors.



**South Bristol Sports Centre**, which raised a charity bond supported by Bristol and Bath Regional Capital and Resonance.

# ENGAGING SOCIAL ENTERPRISES AND CHARITIES

We work to raise awareness of, and confidence in, social investment. We want to make sure that every social enterprise or charity that can benefit from using repayable finance has access to the right kind of investment and all the facts needed to make informed and appropriate decisions. Working together with a wide range of sector partners who are fundamental to our work, we aim to do this by:

1. Raising awareness
2. Increasing understanding
3. Simplifying navigation

## OUT AND ABOUT

We presented at

**47 events,** reaching over **300 people**



**GET INFORMED**  
Social investment for boards

The GET Informed campaign provides practical resources and support for trustees



- 8.5k** What is SITR Video Views
- 10** Free Specialist SITR Tax Advice Surgeries
- 10** Free New SITR Resources

*"I wanted to feedback how incredibly helpful your 'A Simple Guide to Tax Reliefs for Charities and Social Enterprises' and 'A Guide to Advance Assurances' are. I see there are lots more useful docs but reading these two has already clarified and demystified so many aspects around tax relief that I have been trying to get straight. Super useful - thanks!"*

**Catherine McGlen, BuddyHub CIC**

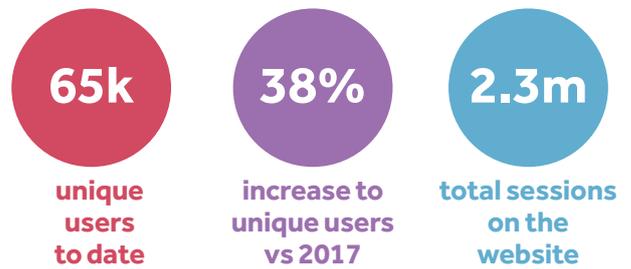
**GOOD FINANCE** [goodfinance.org.uk](http://goodfinance.org.uk)



**Our mission is to:**

- Be the **trusted source of information** on social investment for social enterprises and charities, striving to be open in everything we do, encouraging transparency within the market.
- **Be collaborative** and **user-centred** in our approach with the final goal always being about creating a greater social impact in society.
- Support and empower our users by improving **knowledge, decision-making** and **connection** around investment and finance.

## GOOD FINANCE WEBSITE



*"I just went on your platform and wow. It's amazing! So, so helpful. I've already sent out an application to one of the websites you proposed. The work that you do is great. And it arrived in the perfect moment for me, as I'm currently looking for investors but did not really know where to look."*

## LET'S TALK GOOD FINANCE AND GOOD FINANCE LIVE

**From Hertfordshire to Horncastle, Brighton to Birmingham we have supported 16 Let's Talk Good Finance events around the country for those looking to find out more about what social investment is and if it might be relevant to them.**

We piloted our first Good Finance Live format in Newcastle. Bringing together social enterprises and charities who are looking for investment together with 17 different investors.

*"Great event. I felt like I have had a really productive day!!! Thank you to all involved. A great opportunity for national funders to be available in one place to speak to local people."*

## ENGAGING INVESTORS

We engage with investors to raise awareness and understanding of investments that help to solve some of the most pressing social issues in the UK. From individuals to large institutional investors, we help them navigate the impact investment market, sharing how investing for social impact can form part of their overall investment strategy. Many of the investors are 'impact first' investors, where social investing is just one tool for creating impact. Others want to embed impact into their overall investment strategy, giving it the same emphasis as financial returns.

We also work with organisations and individuals who have the expertise to co-develop solutions to social issues, and who may benefit from using social impact investment.

### CHANNELS TO INDIVIDUAL INVESTORS

We work with financial institutions that have links to individual investors to raise awareness of social impact investment, how to do it and the opportunities available.

#### In 2018 we:

- Sponsored the first **Worthstone** Social Investment Academy Impact Awards (the first awards for the UK retail impact investment community) and participated in the judging panel.
- Spoke at Worthstone's annual Social Investment Academy, reaching more than 140 wealth and financial advisers.
- Co-hosted an event with **Philanthropy Impact** to showcase Social Investment Tax Relief, reaching more than 50 people.
- Played an active role in the **Tonic** network, sharing best practice of being a 100% impact investor and showcasing our investments with other investors.
- Continued working with our **Donor Advised Fund Advisory Council** to raise awareness of how DAFs can offer social investment opportunities to donors.

We presented and helped curate the content of more than 40 events reaching around

**4,500**  
attendees

### TRUSTS AND FOUNDATIONS

We work with partners to help trusts and foundations with investable assets understand how to become social investors. We also support existing social investors, equipping them with the tools to become better investors and showcasing the opportunities available.

#### In 2018 we:

- Successfully transitioned the **Social Impact Investors Group (SIIG)** as a network group within the Association of Charitable Foundation (ACF) with Big Society Capital as Co-Chair of the Steering Committee.
- Launched a series of learning events with the SIIG and a toolkit focused on the practical skills required to become better social investors.
- Continued working with the UK Venture Philanthropy Steering Group in collaboration with ACF and **European Venture Philanthropy Association (EVPA)** to ensure there is enough co-ordinated flexible capital and non-financial support available.
- Co-hosted the Positive Use of Endowment event with **Nesta**, reaching over 40 foundations.
- Launched the Research to Venture Mental Health Programme with **Wellcome Trust, Bethnal Green Ventures** and **Zinc** to enable collaboration across the worlds of research, impact and early stage development.

### INSTITUTIONAL INVESTORS

We work with partners to help institutional investors learn about impact investments – specifically investments that contribute to solving social issues and how that can be part of their overall investment portfolio.

#### In 2018 we:

- Were an Influencer Member and Oversight Committee member of **Pensions for Purpose**.
- Sponsored the Investing with Impact conference, the first dedicated impact investing conference for pension funds, reaching over 50 pension funds and their advisers.
- Convened a group of university endowments, in conjunction with **ShareAction**, for the Rise of the Impact Economy event – an opportunity for universities, reaching 12 university endowments.
- Spoke at **FundForum International**, Fundforum ESG & Impact, Impact Summit Europe and **Global Impact Investors Network** Investor events.
- Participated in the **British Venture Capital Association**, Association of Charitable Foundations, Social Impact Investors Group, European Venture Philanthropy Association and Global Impact Investing Network. Tonic is core to our engagement with investors and the financial sector.

**282** social investors met one to one

## DIVERSITY IN ACTION



In 2018, we continued in our aim of making social investment more diverse and inclusive through signing up to the Diversity Forum's manifesto and launching our own initiatives.

We spoke to a number of organisations who do more on diversity and inclusion than we do, such as the Joseph Rowntree Foundation, The National Lottery Community Fund and Power to Change, to learn more.

### In 2018 we:

- Measured and published our gender pay gap.
- Started using the Applied recruitment platform and ran internal programmes to help combat unconscious bias in recruitment, opening the session up to partners and intermediaries we work with.
- Saw our first gender-lens investment proposition come to our Investment Committee and signed the Criterion Institute letter of intent seeking investment that addresses gender-based violence.
- Agreed our first ever Diversity and Inclusion plan by the end of 2018, giving us a more long-term view and factors to measure ourselves against.

McKinsey & Company's 2018 report *Delivering Through Diversity* highlighted the business case for diversity, with a measurable relationship between diversity and business performance in companies that commit themselves to diverse leadership. We can make our organisation and sector more diverse through our behaviours, our culture, the support we provide to other organisations, the people we reach in our events and campaigns, and our investment decisions and capital.

Some of the measures in the plan are straightforward, such as not taking part in all-male panel discussions at events. Others involve input from the fund managers we work with, looking at the diversity of their Boards, Investment Committees and Executive teams when we carry out due diligence. Some measures, such as developing a sector-wide apprenticeship scheme, require working in partnership across the sector. But we hope they will all bring about lasting change, and a more diverse and inclusive social investment sector.



**West London Zone,**  
supported by Bridges  
Fund Management

## RESOURCES WE USE TO DRIVE CHANGE

### OUR TREASURY PORTFOLIO

We use our treasury portfolio to create social impact alongside our objectives to preserve capital, maintain liquidity and generate returns on investment. Since 2016 the largest part of our treasury portfolio has been managed by AXA Investment Management on a 'buy and maintain' basis investing mainly in sterling bond issuers that address challenges in society.

This approach uses innovative techniques for integrating and measuring the impact of environmental, social and governmental (ESG) factors. ESG and social impact principles are embedded in all aspects of the investment process, from portfolio construction, to the management and monitoring of the portfolio.

The treasury portfolio also includes an allocation to social bond, equity and multi-asset funds. As part of our market development activities over recent years, we are pleased to have been able to provide cornerstone investment to three different impact-focused funds with Columbia Threadneedle, Barclays and M&G, totalling £30 million. These funds have in turn attracted a further £160 million from other investors.

Total income from the treasury portfolio in 2018 was approximately £1.4 million (33%) lower than 2017. This was as a result of a lower average treasury portfolio balance in the year and lower returns on the social bond, equity and multi-asset funds, reflecting bond and equity market trends during the year.



### SUPPORTING CHANGE THROUGH HOW WE WORK

**51**

**charities were supported** by our staff as Trustees or in other voluntary governance roles outside of their work commitments. We actively encourage and support our team to do this, providing extra time off for volunteering.

**5**

**social enterprises and charities** are in our supply chain.

**101**

**hours of free meeting room time** was given to charities and social enterprises.



**South Bristol Sports Centre.**

**6**

**desk spaces** provided free of charge to a housing association for three months.

Our full audited Report and Financial Statements for the year ended 31 December 2018 are available on our website - [bigsocietycapital.com](http://bigsocietycapital.com). Summary financial data is shown here.

## PROFIT AND LOSS

for the year ended 31 December 2018

	2018 £000	2017 £000
<b>Social Investment Portfolio</b>		
Fair value adjustments on investments:		
– Management fees and expenses paid to intermediaries	(4,175)	(3,832)
– Valuation changes and income relating to underlying investments	(1,896)	4,475
Other valuation changes and income	111	(142)
Interest, fee and dividend income	2,895	2,183
	(3,065)	2,684
<b>Treasury Portfolio</b>		
Fair value adjustments on investments	(587)	450
Interest income	3,497	3,868
	2,910	4,318
Staff costs and other expenses	(6,304)	(6,232)
<b>(Loss)/profit on ordinary activities before taxation</b>	<b>(6,459)</b>	<b>770</b>
Taxation	1	12
<b>(Loss)/profit for the financial year</b>	<b>(6,458)</b>	<b>782</b>

These are the results from our social investments which you can read about on pages 15 - 19. The decrease in revenue this year results from downward movements in the underlying performance and valuation of the social investments, with write-downs across the portfolio outweighing valuation increases. The valuations do not necessarily reflect the company's view of the long-term value of the social investments, but instead look at the current value and risk profile of the investments as required by accounting standards. Partially offsetting these valuation movements is higher interest income generated in the year, reflecting the continued growth of the social investment portfolio.

This is the return on funds we hold before they are drawn down into social investments. We deploy our treasury portfolio proactively to create social impact alongside our objectives to preserve capital, maintain liquidity and generate returns on investment. The reduction in net income for the year compared to 2017 is due to a lower average treasury balance and market volatility.

Operating costs have risen in line with expectations, as our portfolio and pipeline continue to grow together with the continuing commitment to our social investment market building activities.

For the 2018 financial year, we reported a loss, compared to a small profit in 2017. The decline in this year's net profit demonstrates the upward and downward volatility from valuation movements in the social investment portfolio that are likely to continue to be a feature of our performance in future years. This is due to the early stage nature of the social investment portfolio and as a result of applying fair value measurement principles. Our long-term aim is to demonstrate financial viability and cover operational and market building costs in order to generate positive financial returns and social impact.

# BALANCE SHEET

as at 31 December 2018

	2018	2017
	£000	£000
<b>Fixed assets</b>		
Intangible assets	45	-
Tangible assets	133	192
Social Investment portfolio	220,196	194,856
	220,374	195,048
<b>Current assets</b>		
Debtors	451	525
Current assets held in our treasury portfolio	320,633	284,413
Cash at bank and in hand	17,251	5,230
	338,335	290,168
Creditors: amounts falling due within one year	(768)	(770)
<b>Net current assets</b>	<b>337,567</b>	<b>289,398</b>
<b>Total assets less current liabilities</b>	<b>557,941</b>	<b>484,446</b>
Deferred taxation	(24)	(21)
<b>Net assets</b>	<b>557,917</b>	<b>484,425</b>
<b>Capital and reserves</b>		
Called up share capital	581,345	501,395
Profit and loss account	(23,428)	(16,970)
<b>Total equity</b>	<b>557,917</b>	<b>484,425</b>

THE TOTAL NUMBER OF STAFF PAID MORE THAN £60,000 WERE:

	2018	2017
	Number	Number
£60,000 - £69,999	10	7
£70,000 - £79,999	3	5
£80,000 - £89,999	1	1
£90,000 - £99,999	1	2
£100,000 - £109,999	1	1
£110,000 - £119,999	2	1
£140,000 - £149,999	-	1
£150,000 - £159,999	1	-



[www.bigsocietycapital.com/annualreport](http://www.bigsocietycapital.com/annualreport)