GROWING A CULTURE OF SOCIAL IMPACT INVESTING IN THE UK

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PREFACE

There is a strong and growing interest among individuals in seeing their savings and investments do social good, as well as produce a financial return. "What happens to my money?" is an increasingly common question addressed to advisers, bankers and investment managers, and often comes with the hope, or expectation, that the savings will help tackle social and environmental challenges. The follow up question might be along the same lines: "How do you know my money is producing the right outcome?"

The financial services industry should be prepared to answer these questions, or risk customer demand for social impact investing remaining latent. The industry should also be equipped to offer informed descriptions of the risks and opportunities involved. In a mature market segment, years of experience and market norms come into play, but social impact investing, which is much less mature, presents a greater challenge – and perhaps also a bigger opportunity.

A lack of supporting infrastructure is a common feature of most investment innovations, many of which in time enter the mainstream. The question relating to social impact investing is why it remains an underdeveloped and fragmented market, despite growing demand.

In 2016 the UK government set up an advisory group to assess how providers of savings, pensions and investments engage with individuals to support the values and social causes they care about. Composed of senior representatives from the savings, investment and social sectors, the group has focused on developing a set of practical recommendations that aims to help:

- increase the choice of savings, investment and pension products that offer social impact
- broaden sources of funding for enterprises targeting social impact as well as financial return

The group's remit was to think in a UK context, but inevitably we have also drawn on our members' global experience and, while we have focused on individual investors, we have also considered how advisers and representatives such as pension trustees may wish to respond.

In the course of our work, we have benefited from contributions from individuals, financial advisers, wealth managers, pension funds, consultants, charitable foundations, banks large and small, investment professionals and industry associations. Regulators and the financial ombudsman service have also been valuable observers of our work. We are thankful to all who have dedicated their time, energy and ideas.

In addition, we are grateful for the feedback of those who have focused on improving the flow of money to, and outcome from, social and environmental investments, and for the valuable insights from academics and others who have engaged with this topic.

Our aim in undertaking this work has been to broaden discussion and encourage wider debate around social impact investing, hopefully catalysing an increased focus on developing the market. In doing so, we have sought to contribute to a framework that will stimulate the availability of quality products that can grow to a scale that will make them more accessible to savers, pensions-funds and investors. With that in mind, we make a number of recommendations, which we have allocated to specific market participants where they might be most useful.

Although the advisory group was set up initially for a fixed term, the enthusiasm and engagement of its members has been such that we have committed to continue to provide a focal point for those interested in the growth of impact investing in the UK, and sustain a focus on the actions we have identified, which are crucial to the market's long-term health. We also hope to contribute to the considerable work being done to keep the UK at the forefront of the social impact investing market, to the mutual long-term benefit of civil society and savers who want to do well by doing good.

We hope this report and the accompanying recommendations play a role in moving social impact investing forward in the UK. Certainly for the advisory group it represents a "nailing of our colours to the mast", and an early step in what we anticipate will become a long, fruitful and socially beneficial journey. We welcome your feedback and comments.

Elizabeth Corley
Vice-Chair, Allianz Global Investors
Chair, Advisory Group appointed by HM Government

FOREWORD

Businesses, social enterprises and charities are crucial partners in delivering a society that works for all citizens. Social impact investment is one such example of this – private capital making a direct contribution to public good, often applying the expertise of civil society to bring about positive social outcomes. The government has consistently supported the development of that market, with notable success, through organisations such as Big Society Capital.

But it is currently a small part of the big picture. We believe that can change. We know there are large amounts of capital looking for productive investment opportunities. At the same time, there are many areas where generating positive social outcomes needs investment at scale. We want to understand how to bridge that gap and bring social impact investment to the mainstream. This includes investments from company balance sheets, pension schemes and individuals who want to see their savings make a difference as well as provide a financial return.

To help us do that we asked a group of experts from the financial services industry to think about what would need to change for this to happen. We asked Elizabeth Corley, vice-chair at Allianz Global Investors, to lead this work and this report represents that thinking. We are grateful to all those who contributed. There are many valuable ideas in this report which merit further consideration. Social impact investment is an area where the UK has been and should continue to be a global leader – delivering the best outcomes it can for its citizens.

Tracey Crouch MP
Minister for Sport and Civil Society

Stephen Barclay MP
Economic Secretary to the Treasury

EXECUTIVE SUMMARY

In 2016, the UK government set up an independent advisory group to answer an important question:

How can the providers of savings, pensions and investments engage with individuals to enable them to support more easily the things they care about through their savings and investment choices?

The reason for the question was that the UK had long been a leader in social impact investing, but individuals who wanted to make impact part of their personal savings and investment choice still found it hard to do so. The advisory group was asked to look into the reasons for that failure and recommend potential solutions.

The UK has been a pioneer in social impact investing. The Treasury first established a taskforce to investigate how entrepreneurship could be applied to combine financial and social returns in 2000. The UK again took the initiative in 2012 and 2013, launching Big Society Capital, a wholesale social investment institution, to grow the market and then establishing a Social Impact Taskforce and National Advisory Board during its presidency of the G8, helping take the idea global. In 2015 this led, among other things, to the Social Impact Taskforce being expanded into the Global Impact Investment Steering Group of 13 member states plus the EU.

The establishment of Big Society Capital and the National Advisory Board on Impact Investing were bold innovations that have been admired and sometimes replicated in other parts of the world. Yet closer to home, the UK is now failing to keep pace in enabling individuals to make social impact investments, despite the availability of exceptional skills, competence and the entrepreneurial drive to build on an impressive track record of innovation.

The risk is not due to a lack of demand. Younger savers in particular often see positive social outcomes as a key element in their investment decisions, and rising interest from that group is beginning to be reflected in the wider investment community. However, products that embed social impact investing are scarce, with the consequence that they are not at the forefront of financial adviser or pension trustee thinking when investment allocation decisions are made.

Reasons for a lack of investable products include the fact that social impact investment opportunities can be difficult to identify and crystallize; many are early stage, implying material credit and liquidity risk. In addition, there is sometimes a challenge in explaining social impact intentions to investors who think more in financial terms. Consistent measurement of track record and non-financial returns are still a work in progress.

Perhaps not surprisingly given those challenges, there is also some investor inertia, with enthusiasm for social impact investing yet to be reflected fully in volumes. A recent survey of 1,800 individuals in the UK revealed that 56% had at least a moderate interest in impact investing, but only 9% had already invested.[1]

Having looked into the reasons why the UK is not fulfilling its potential for social impact investing, the advisory group has concluded that none are insurmountable. In fact, there is a real opportunity to build on a history of social impact innovations in the UK and contribute actively to global sector leadership.

Achieving these aims will require a sustained commitment to creating a culture of social impact investment and savings across UK financial services, its regulatory and supervisory institutions and in government.

In asking for the advisory group to be set up, government has catalysed renewed interest across financial sector leadership. This has included many people previously not directly engaged who now wish to contribute to enabling individuals to invest and save knowing that they are doing good.

Combining this sector determination with that of leaders in social impact around a focused set of actions will provide a unique opportunity to accelerate the changes required to meet growing demand.

The growth of social impact investing

Social impact investing offers financial exposure to the many organisations that carry out socially valuable activities, from providing clean water to fighting poverty and encouraging healthier lifestyles. Its emergence echoes the trajectory of a better-known counterpart, focused on environmental, social and governance investing (ESG). That market has seen billions of dollars of inflows in recent years, reflecting changing attitudes across society. For social impact investing to be set along the same path, appealing to a broadening range of investors and savers, the market must address some tough challenges, including the need to cement its unique identity and develop a set of tools to support growth, educate consumers and raise awareness.

An early task for the advisory group was to find a commonly accepted definition of social impact investing, which remains a matter of some debate.

For the purposes of this report it is:

Investment in the shares or loan capital of companies and enterprises that not only measure and report their wider impact on society — but also hold themselves accountable for delivering and increasing positive impact.

The enterprises themselves may either directly focus on social impact or take social impact into account as part of the way they do business.

The report's definition is designed to be a broad church, focused on inclusivity rather than an approach that may exclude organisations that don't regard social impact as a primary objective but have an impact in the way they run their businesses.

A broader definition also reflects the need to improve the contribution of finance to sustainable and inclusive growth, including the ability to fund society's longer-term needs in infrastructure and innovation. Further, it will contribute to better asset pricing (and financial stability) by improving the analysis and management of material non-financial risks to value creation, as highlighted by a recent European Commission report.[2]

Recommendations

Today the UK stands at a critical point in the development of social impact investing. There are strong foundations in place, including deepening investor demand and a growing social impact environment, strongly supported by the government. Financial market participants are also eager to do more, and the UK's strong record on environmental initiatives and corporate governance and reporting augurs well for the development of standards over the coming years.

This report identifies a comprehensive range of recommendations for the short, medium and longer-term. There is no 'silver bullet', but the areas prioritised are practical, achievable and will accumulate, helping to maintain the UK's role as a leader in social impact investing and delivering a choice of quality products to individuals.

The recommendations embrace the full spectrum of social impact investment approaches, reflecting the belief that investment professionals will continue to develop their ability to measure non-financial outcomes, creating opportunities across the full spectrum of social impact enterprises.

1 *The Value of Being Human: A Behavioural Framework for Impact Investing and Philanthropy,* Barclays, 2015.

2 *Financing A Sustainable European Economy, Interim Report,* High-Level Expert Group on Sustainable Finance, 2017.

The recommendations are grouped under five key action areas:

Improve deal flow and the ability to invest at scale

- **Government – Support co-investment:** Government should increase its participation in co-investment models to encourage the provision of capital to social impact investments, potentially taking a first loss position in some circumstances.
- **Financial services industry – Support co-investment:** Industry should commit meaningful ongoing resources to work with government, the social sector and regulators on identifying investment approaches that can be used to deploy capital to tackle entrenched social and economic problems.
- **Companies – Embed positive social impact in business as usual:** Where feasible, companies should increase their focus on creating demonstrable positive social impact alongside financial returns. This would lead to an increase in the number of traditional companies that are achieving measurable social impact and expand the investable universe for impact investors. More consistent outcome reporting linked to UN Sustainable Development Goals (SDGs) will improve investor understanding and help boost confidence in the strategic relevance of non-financial measures over time.

Strengthen competence and confidence within the financial services industry

- **Regulators – Build capability and integrate social impact into business as usual:** Relevant regulators and other statutory bodies, including the Financial Conduct Authority (FCA), Financial Ombudsman Service (FOS), Prudential Regulation Authority (PRA), The Pensions Regulator (TPR) and the Financial Reporting Council (FRC), should continue to build capability in relation to social impact considerations so that, as the market develops, social impact is embedded in regulatory frameworks and understanding.
- **Financial services industry – Build capability and integrate social impact into business as usual:** Industry should engage widely to improve professional skills for social impact; to work with academics and service providers to develop a robust performance/outcome evidence base; to develop with industry bodies initiatives to sustain momentum and ensure quality as the market develops; and to provide tools and training for pension scheme trustees and independent financial advisers (IFAs).
- **Professional bodies – Provide Continuous Professional Development (CPD) and qualifications:** Professional bodies, such as the CFA Institute, the Chartered Institute for Securities & Investment (CISI) and the Chartered Insurance Institute (CII) should accelerate professional development around ESG and social impact investment, through CPD and professional qualifications. They should work with industry to ensure the use of common terms across educational materials.

Develop better reporting of non-financial outcomes

- **Financial services industry – Develop consistent non-financial reporting methods:** Industry should work with the Investment Association (IA) and CFA Society UK to develop consistent good practice and set common standards for social impact investing. This would include determining processes and reporting, potentially using the SDGs as a framework.

- **Government and Financial Reporting Council (FRC) – Explore sustainability and SDG reporting:** The Department for Business, Energy and Industrial Strategy should explore, with the FRC, how best to encourage UK business to increase transparency on the contribution business makes towards the achievement of the UN SDGs. Separately, in regard to the FRC consultation on companies' strategic report, the FRC should explore ways in which material information, useful to wider stakeholders, can be reported in the context of the UN SDGs.

Make it easier for people to invest

- **Government, financial services industry, professional bodies, social sector and regulators – Publish educational material:** Each organisation to publish educational guidance on social impact investment and its relation to ESG, with reference to the others' work to ensure consistency. This should be easily (and independently) accessible for all relevant stakeholders including individual investors, IFAs and pension scheme trustees. In time, government should work with industry on a communications campaign to raise awareness among consumers about the power they have to apply their own values to investment choices.

- **Financial services industry – Develop consistent standards to indicate product integrity to individual investors and trustees:** A cross-sector industry working group, led by the Investment Association, should coordinate the development of best practice. This should initially be around transparency for both ESG integrated funds and for social impact investment products, seeking guidance from organisations such as the British Standards Institution. In time this could lead to an investor-facing social impact investment label as the market develops (see p32: A three-stage approach to developing an investor-facing social impact investment label in time).

- **Financial services industry – Develop more products:** The industry should continue to develop its savings, pensions and investment product suite with the individual investor in mind, utilising both ESG and social impact investment options. Examples of replicable models are shown as case studies throughout the report.

- **Government, financial services industry, professional bodies and regulators – Work on including illiquid assets in investment portfolios:** A wide body of research suggests that an allocation to less liquid, longer term investments is likely to enhance portfolio returns over time, but the financial services ecosystem has developed in a way that biases towards daily pricing and trading. All participants have a role in the systemic change needed to support the inclusion of these assets – many social impact investments currently fall into this category.

- **Pension scheme trustees and employers – Engage better with pension scheme members:** Trustees should work with employers and pension providers to develop best practice for better engaging scheme members with their pension investments and encouraging them to register on their pension platforms. This should lead to better alignment with members' non-financial values, with social impact investments as potential fund choices providing they have an appropriate risk/reward profile. As product track records mature, we also envisage growth in social impact investing as a natural part of default funds.

Maintain momentum and build cohesion across initiatives

- **Financial services industry – Account for progress:** Industry, supported by government, to convene a follow on group to allocate responsibility for taking forward specific actions, to monitor progress and to ensure sustained positive momentum continues. A thought-leadership conference should be held by summer 2018 as part of this process.

- **Financial services industry and professional bodies – Launch high profile awards:** The industry should both stimulate and celebrate progress in social impact investment through awards.

UK consumers have demonstrated their appetite for making a contribution to important causes in the purchasing decisions they make. They have shown a meaningful interest in expressing their values through their investment choices, and the demographic evidence suggests that this interest is likely to continue to grow. On that basis, the foundations are in place for the growth of a thriving and world-leading social impact investment market. The industry, government and stakeholders now have an opportunity to step up and turn that potential into reality.

Social impact investment in the UK – an assessment

Social impact investment in the UK – an assessment

In a globalised world the issues that touch people's emotions feel closer to home. Challenges around inequality, the environment, deprivation and social need become more immediate and pressing, and millions of people are driven to make a personal contribution. One way to do that is through social impact investing, which helps address issues traditionally confined to the philanthropic domain and reflects a global trend towards living a personal life that balances self-interest and the wider good.

Social impact investing is not a new concept, but nor is it widely familiar, and it is often confused with its better-known cousin focused on environment, social and governance (ESG) factors (See box out on p10 – ESG: the forerunner of social impact investing). The difference comes down to intention; social impact investing specifically targets companies and organisations that intentionally create a positive social benefit, either as a primary or secondary purpose.

Social impact investments that are currently available span the breadth of investment opportunities, from dedicated bond funds to direct lending and equity exposure. Still, for the time being social impact investing is a much smaller market than ESG. One reason is the widespread assumption that one can't support social causes and produce market-rate returns at the same time, something that matters more for some investors than others. In fact, that assumption is false – and a growing body of research shows it can be possible for investors who want to achieve market rate returns to also create positive social impact with their investments.

The UK impact investing market, including both social and environmental impact, is currently worth £150 billion, based on a definition specifying that investments are made with the intention of creating a positive outcome, including in renewable infrastructure, social housing, social businesses and green bonds.[3] The figure does not include investment in companies that may make a positive social impact as part of their wider business, the inclusion of which would lead to a much higher market value.

The UK has a strong track record in developing a market for financing to charities and social sector organisations. In 2012 the government and major UK high street banks set up an independent investment institution – Big Society Capital – to grow the social investment market in the UK and improve people's lives by connecting charities and social enterprises to investment. The UK is also a leader in corporate governance, pioneering the highly respected Corporate Governance Code.

However, in some respects the UK trails its peers. The correlation between those who behave sustainably in their daily lives and invest sustainably in the UK is lower than the global average, and below France, Italy and the US.[4] Meanwhile, some 81% of people in the Americas and 80% of people in Australia, feel sustainable investing is more important than five years ago, showing engagement in those geographies is growing fast. In Asia 68% of people have increased their investment in sustainable funds over the past five years.[4]

The UK has much to offer, but it also has much to learn from an evolving global market, and would benefit from engaging globally and learning from countries that offer different models of social impact investing for individual investors. This includes France, where it is mandatory for larger companies to offer staff an optional social savings fund. By the end of 2015, more than a million French savers had opted to put money into this type of account. The Dutch financial industry, including mainstream banks and pension funds, has recently committed to channel more capital to further the SDGs. Other governments including those of Canada and Australia are launching strategies to scale up their social impact investing markets.

The UK has the capacity to continue to drive the social impact investing agenda, given the depth of skills and resources across social, investment, finance, and legal sectors. However, the current rate of development is not keeping pace with innovations elsewhere and the advisory group has set out to identify why.

Certainly, social impact investing is important to people in the UK and 56% of people are interested in purchasing social impact investment products, recent research shows.[5] However there remains a gap between people's expressed interest and the actions they take, and only 9% have actually invested in the sector.[5]

3 *2017 Impact Investing Guidance Note,* UK National Advisory Board On Impact Investing, 2017.

4 *Global perspectives on sustainable investing,* Schroders, 2017.

5 *The Value of Being Human: A Behavioural Framework for Impact Investing and Philanthropy,* Barclays, 2015.

Possible reasons for the disconnect between interest and participation include:

- a lack of product supply
- the belief that financial returns must be sacrificed
- a low level of awareness and understanding among investors
- a lack of training and sector knowledge among advisers and trustees

Perhaps surprisingly, research shows that having a financial adviser makes people less likely to have prior knowledge or engagement with social impact investment.[6] In the words of one adviser, "I still don't fully understand social impact and do not see it anywhere".[7] Still, some 58% of advisers believe that training and continuing professional development would help them offer the investment to their clients.[8]

The perceived lack of social impact investing opportunities is in stark contrast to the consumer goods market, where there are numerous ways to express social and environmental preferences, often with the help of product labels such as 'Fairtrade'. The awareness deficit is borne out by the fact that 64% of people cite "I don't know enough" as a reason not to participate. Some 23%, meanwhile, say "no one I know has a social impact investment" and one-fifth state that "social impact investing is still too new".[9]

One challenge for the impact investment market is that it is relatively small scale; £150 billion may seem significant, but in the context of the multi-trillion pound savings and pension market it is a drop in the ocean. Further, in some cases investors have trouble finding companies ready to put large amounts of capital to work, often because opportunities are fragmented. Investors also struggle to evaluate impact, likely due to a lack of common standards and the diverse environments in which social impact investment opportunities arise.

58%

of advisers believe that training and continuing professional development would help them offer the investment to their clients.

6 *Social Impact Investment Attitudinal and Behavioural Research,* Centapse, 2017.

7 *Advisory Group Roundtable with Distributors and Product Providers,* June 2017.

8 *Seeking the views of the Financial Adviser and Wealth Manager Distribution Channel: Report to Advisory Group to UK Government on social impact investments, Worthstone, 2017.*

9 *Social Impact Investment Attitudinal and Behavioural Research,* Centapse, 2017.

ESG: The forerunner of social impact investing

Just over a quarter of all global assets under management in 2016 were invested in sustainable investments – meaning they had considered Environmental, Social, and Governance (ESG) factors as part of their portfolio selection and management.[10]

Environmental (E)

- climate change
- greenhouse gas (CHG emissions)
- resource depletion, including water
- waste and pollution
- deforestation

Social (S)

- working conditions, including slavery and child labour
- local communities, including indigenous communities
- conflict
- health and safety
- employee relations and diversity

Governance (G)

- executive pay
- bribery and corruption
- political lobbying and donations
- board diversity and structure
- tax strategy

Source: *Environmental, Social, Governance Factors,* Principles for Responsible Investment (PRI), 2017.

The growth in ESG over the past 10 years has enabled the investment approach to enter the mainstream; in the words of one product provider it is "the new normal".[11] Sustainability factors are no longer just the prerogative of specialty funds, but also increasingly a central part of investment analysis[12] – they can provide a more holistic understanding of long-term risk and return, which is in line with investment manager's fiduciary duties.

This rise in popularity of ESG investing has been accelerated by a number of broader trends, including an increasing focus on climate issues, supported by international agreements such as the Paris Climate Accord. There is also rising public appetite for, and expectation of, good corporate governance and reporting, including European legislation for large companies to report on ESG factors, which has led to some better data and methodologies for analysing investments.[13]

There are a multitude of studies concluding that good ESG practices can result in better operational performance and therefore it is now increasingly common to integrate sustainability factors into investment analysis and management.[14] Sustainability has become a 'financial' factor.

10 *Global Sustainable Investment Review 2016,* Global Sustainable Investment Alliance, 2016.

11 *Advisory Group Roundtable with Distributors and Product Providers,* June 2017.

12 *Sustainable Investing Grows on Asset Owner Demand;* Bloomberg Intelligence, 2017.

13 *Your Guide to ESG Reporting,* London Stock Exchange, 2017.

14 *From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance,* University of Oxford & Arabesque Partners, 2015.

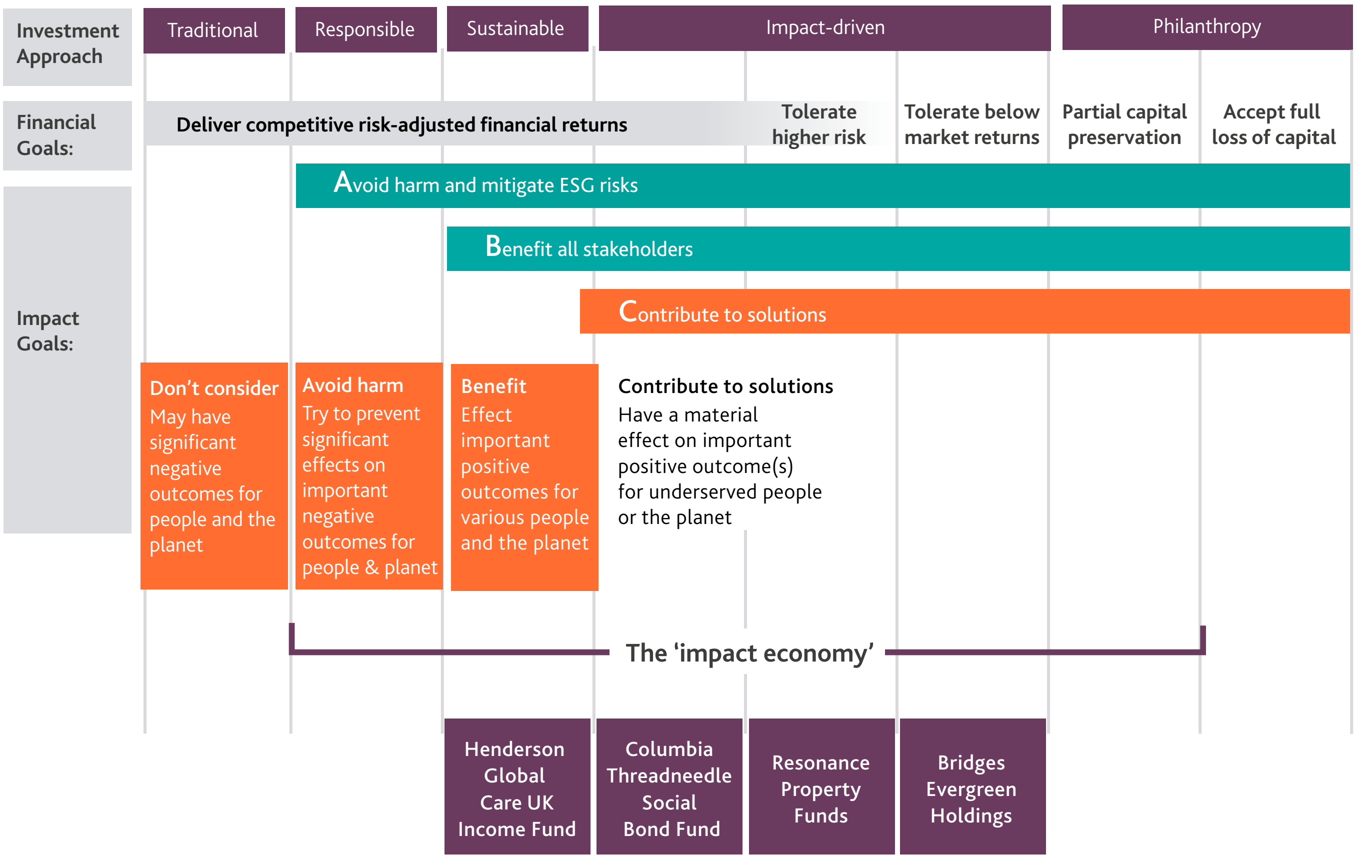
The spectrum of capital

The 'spectrum of capital' is a way of mapping the broad range of risk/return strategies in sustainable and social impact investing, from investing for maximum profit to so-called 'concessionary' investment – the option that financial return can be traded off for social return.[15] The range of investment objectives goes to the heart of the challenge in formulating a tight definition of social impact investing, and to the confusion among some investors about the level of financial risk involved.

Certainly, in early stage social impact investing, as in early stage conventional investing, there is a higher level of risk, and the maturity of an investment will often be a factor in weighing financial against social returns.

With increasing and sustained interest, the foundations of the social impact investment market are starting to fall into place, with more products, rising demand and increased engagement from government and financial industry bodies (see p12: Product examples across the ESG/social impact investment spectrum).

The Spectrum of Capital



Source: *The Rise Of Impact: Five Steps Towards An Inclusive And Sustainable Economy,* UK National Advisory Board On Impact Investing, 2017 & Impact Management Project, 2017.

15 *The Rise Of Impact: Five Steps Towards An Inclusive And Sustainable Economy,* UK National Advisory Board On Impact Investing, 2017.

Product examples across the ESG/social impact investment spectrum

ESG:
Henderson Global Care UK Income Fund

The aim of this fund is to provide income with the prospects of capital growth by investing in companies, primarily in the UK, that are contributing to the social well-being of communities and the protection of the natural environment.

The fund invests in companies that are well-managed with a sustainable competitive advantage, and that think strategically about long-term issues including environmental, social and governance (ESG).

It is set up as an Open Ended Investment Company (OEIC) and has £192 million of assets under management.

Social impact investment targeting market-rate returns:
Columbia Threadneedle Social Bond Fund

In 2014, Columbia Threadneedle launched a fund in partnership with Big Issue Invest that offers investors the dual benefit of financial returns (commensurate with the UK corporate bond market) and positive social value generated by deploying capital to companies looking to fund socially beneficial activities.

The Social Bond Fund has £99 million assets under management and has met both its financial and social return objectives – providing an annualised return of 6.6% and investing in 83 bonds in thematic areas such as affordable housing and health and social care.[16] Big Issue Invest, as social partner, forms the majority of a social advisory committee that oversees and monitors the social efficacy of the fund.

Social impact investment with focus on social impact:
Resonance Property Funds

Resonance has launched three social impact Limited Partnership property funds since 2013 totalling investment of around £135 million, focused on providing move-on accommodation to individuals and families who are excluded from the private rented sector due to having a 'homeless' background.

The funds acquire properties throughout the UK and lease them to a homelessness charity. Investors thereby obtain an annual rental yield and also capital appreciation on the portfolio at the end of the fund's life, but do not take risk on the individual tenants.

Social impact investment tolerating higher risk/lower possible returns:
Bridges Evergreen Holdings

Designed to free ambitious mission-led businesses from the constraints of traditional fund structures, the fund invests in profit-with-purpose companies, public sector spin-outs, social sector organisations and employee-owned businesses. In addition to financial capital, it also offers strategic, operational and impact management support.

Launched in 2016, it is structured as a holding company rather than a fund so it can provide ongoing support over the long term, with no exit requirement.

16 *Threadneedle UK Social Bond Fund: Three Years of Doing Well by Doing Good*, 2017.

Social impact investing faces challenges

Social impact investing faces challenges

Demand for social impact investing is rising and the financial services industry has responded with a range of new products and investment opportunities. Still, the investment approach remains outside the mainstream, held back by headwinds that are interconnected and cut across the investment process. This includes the lack of a solid definition, few common standards, low levels of education and awareness and misconceptions over expected returns.

The lack of an agreed definition

Confusion over what 'social impact investing' means is a significant barrier to adoption. One reason for uncertainty is that some investments are made specifically for the purposes of social impact while others have a primarily financial objective but also a social aspect. There is currently no consensus over whether only the first approach or both should be considered social impact investing; the debate is over the distinction between 'social impact investment' as a narrow definition or a wider concept.

One danger of a wide interpretation is that investments are described in terms of intentional social impact when they are no such thing – this unscrupulous rebranding has been called 'social washing' and cuts to the heart of the definitional challenge. It is important for the industry to be able to distinguish intentionally generated impact from incidental impact. In both cases the impact can be actively managed to improve outcomes, but only intentional pursuit of positive impact should qualify as an 'impact investment'.

This distinction between 'social impact' as an investment approach and as a way of identifying products also causes confusion. Ideally, a definition should also be suitable for assessing the impact of investments, through an impact audit. We believe the following amounts to workable standard definition that may be applied across a range of use cases:

Social impact investment consists of investment in the share or loan capital of those companies and enterprises that not only measure and report their wider impact on society – but also hold themselves accountable for delivering and increasing positive impact.

Few consistent standards

A key challenge to the growth of the social impact investment market is a lack of clarity and potential misalignment of expectations among asset owners, managers, advisers and investors in respect of social impact investment strategies, products and characteristics.

For example, there are currently hundreds of funds listed on ImpactBase, an online platform containing impact funds and products. Across these funds there are a range of objectives, strategies and approaches to investment, governance, impact measurement, monitoring and reporting. Many are not listed and about half are closed funds, which makes it challenging for advisers to assess funds and for investors to understand how the propositions can help them achieve their social and financial goals.[17]

A lack of common standards also means consumers find it tough to hold financial institutions to account for the investments they make, potentially leading to a lack of trust. Some 52% of people in the UK say the difficulty in measuring social impact is a reason for them to avoid social impact investing and only 13% disagree with the statement that "a good rating by an independent agency" would be moderately important in selecting a social impact investment.[18] Further, there is a strong need for evidence of impact before people become comfortable with investing. Nine out of ten people feel that knowing where funds are going is at least of some importance in selecting investments.[19]

Some progress is being made on standards, with recent initiatives including the Impact Management Project, coordinated by Bridges Impact+ and the World Benchmarking Alliance, exploring the development of corporate sustainability benchmarks aligned with the SDGs.[20] [21] At a European level, the EU High Level Expert Group on Sustainable Finance has recommended that the European Commission look at creating a standard for sustainable assets, including an official European green bond standard.[22]

17 *UK Retail Impact Investing Review,* Worthstone, 2017.

18 *Social Impact Investment Attitudinal and Behavioural Research,* Centapse, 2017.

19 *Social Impact Investment Attitudinal and Behavioural Research,* Centapse, 2017.

20 *Impact Management Project,* Bridges Impact+, 2017.

21 *Money Talks: How Finance Can Further the Sustainable Development Goals,* Aviva, 2017.

22 *Financing A Sustainable European Economy, Interim Report,* High-Level Expert Group on Sustainable Finance, 2017.

Finansol solidarity finance label, introduced in France in 1997

Finansol is an independent organisation in France, made up of representatives from across the finance, policy and social business (solidarity) sectors, that awards a label to a range of financial products in France that meet a specified set of criteria.

The Finansol label was launched to support asset managers in identifying suitable solidarity funds and assets and to increase investor confidence in the credibility of solidarity savings products available through their employers. In addition, it seeks to increase the overall visibility and awareness of the broad range of solidarity savings and investment options available to investors.

Since 1997 more than 144 solidarity products have been awarded the label, including a number of '90/10' solidarity long-term savings products that are available to savers through their employers.

Perceived regulatory barriers

Many market participants and consumers believe there are significant regulatory and structural barriers to social impact investing.[23] IFAs and pension trustees face particular challenges.

IFA confusion over interaction guidelines

Some independent financial advisers believe they are not permitted to talk to clients about non-financial investment motivations. This may contribute to the fact that while some 47% of IFAs think clients are at least moderately interested in social impact investing (with a further 38% slightly interested) less than 10% report discussing it with a majority (greater than 70%) of clients.[24]

"The question is just not being asked of clients; if it were asked, the demand would start to flow."– Product provider[25]

A key issue for IFAs relates to how they should interact with clients regarding social impact preferences. The FCA has found the rules around 'suitability' broad enough to allow advisers to ask about a client's non-financial motivations[26], but many IFAs are still not confident on the point. In addition, they are unclear on how to incorporate social impact investing into portfolios and about the possible consequences where social impact investments fail to deliver expected social returns.

When IFAs were asked what would help them to offer more social impact investments to their clients the top four responses were: CPD qualified training, tools to guide client conversations, practice guides from regulators and practice guides from professional bodies.[27] Published alongside this report is a tool for advisers to enable them to integrate client impact preferences into business as usual.[28]

This advisory group has engaged the FCA and the FOS on the relevant regulatory points and has written jointly to both bodies on this. The letter is available on GOV.UK.

Pension trustee concerns

Following the introduction of workplace automatic enrolment, phased in from 2012, and amid a rising focus on governance issues, many pension trustees say they do not have time to explore social impact investing, which is "low down on the list of decisions that trustees face".[29]

In addition, some 82% of pension trustees and scheme managers feel they lack hard data on social impact investment risk, with many failing to appreciate the potential diversification benefits, a recent survey shows. Just 12% feel they are "well informed".[30]

Pensions consultants are an important part of the equation – nearly 70% of trustees place significant emphasis on advice from their consultants, many of whom are also not well informed on social impact investing as an investment approach.[31]

23 *Pension Funds and Social Investment,* Law Commission, 2017.

24 *Seeking the views of the Financial Adviser and Wealth Manager Distribution Channel: Report to Advisory Group to UK Government on social impact investments, Worthstone, 2017.*

25 *Advisory Group Roundtable with Distributors and Product Providers,* June 2017.

26 *FS16/11 Call for Input on Regulatory Barriers to Social Investments,* FCA, 2016

27 *Seeking the views of the Financial Adviser and Wealth Manager Distribution Channel: Report to Advisory Group to UK Government on social impact investments, Worthstone, 2017.*

28 *A Conversation Tool For Advising on investment that creates positive impact,* Uscreates, 2017.

29 *Advisory Group Roundtable with Pension Professionals,* April 2017.

30 *Social Impact Investment and Pensions Survey,* Allenbridge, 2017.

31 *Social Impact Investment and Pensions Survey,* Allenbridge, 2017.

Additionally, there is a more general level of confusion around fiduciary requirements, which are contained in a patchwork of rules derived from different sources. For example, nearly 40% of pension fund trustees believe there is a requirement for daily pricing and liquidity.[32] In fact there is no such requirement – it is primarily the trading platforms commonly used by pension funds that require daily pricing and dealing.

The key barriers to social impact investment by pension funds are in fact structural and behavioural, according to the Law Commission. There are no legal or regulatory barriers preventing pension funds from making social impact investments, provided that:

- they have good reason to think that scheme members share the concern
- there is no risk of significant financial detriment to the fund[33]

Balance sheet investors facing hurdles

A number of financial services firms, particularly in the insurance sector, are interested in using balance sheet investments to generate a bigger social impact. Investment of this type is regulated principally by the Prudential Regulation Authority (PRA), which is responsible for the prudential regulation and supervision of around 1,500 banks, building societies, credit unions, insurers and major investment firms, and for investment that falls under the EU Solvency II directive.

Solvency II is a framework for determining the risk weighting to be applied to different assets according to their risk-adjusted return profile. It is not yet clear how long term factors around the environment or social impact should be considered in relation to systemic financial risks. The PRA has been considering its role in enhancing the financial system's resilience to climate related financial risks, and the Bank of England has recently published its response to climate change.[34] Uncertainty in the social impact space is a structural impediment to innovation and the deployment of balance sheet investments to social impact.

Cautious attitudes

UK consumers and institutional investors are increasingly interested and engaged in social impact investing but remain cautious about committing to investment, despite a growing range of fund and other products being made available. Barriers to investment include low levels of awareness, a lack of opportunities at scale, variability in returns and a lack of track record.

Low levels of awareness

Investors want to be able to find out more about what they're supporting through their investments.[35] However they aren't always aware of the options and are currently unable to access the information that would help them make a decision to invest.

Limited press coverage may play a role in this. One-fifth of journalists in a recent survey said they never write about social impact investment products. Reasons include a lack of knowledge and understanding of social impact investing, perceived lack of consumer interest, as well as limited case studies and communications material available from the industry.[36]

A lack of investable assets at scale

Social impact investments encompass a range of assets, from large-scale infrastructure projects to social housing and companies with a specific social aim. Investment can be aimed at any part of the capital structure, from private equity allocations to bonds with a specific social purpose. However, the growth of the industry is still restricted by a lack of investable assets and the small scale of many social impact initiatives.

Social impact investing is often associated with private investments into charities and social enterprises, and the investments tend to be relatively illiquid, with high transaction costs due to bespoke structures. According to one measure, there was some £2.3 billion of 'smaller social investments' in the UK in 2016.[37] That compares with a FTSE100 market capitalisation of around £1.9 trillion. One reason for the relatively small scale of the market is that enterprises often lack the resources to make their operations sufficiently 'investment ready'.

32 *Social Impact Investment and Pensions Survey,* Allenbridge, 2017.

33 *Pension funds and social investment,* Law Commission, 2017.

34 *The Bank of England's response to climate change,* Matthew Scott, Julia van Huizen and Carsten Jung, 2017.

35 *Social Impact Investment Attitudinal and Behavioural Research,* Centapse, 2017.

36 *Media Audit - An Analysis of awareness and perceptions of Social Impact Investment (SII) amongst personal finance and investment media,* Tangerine, 2017.

37 *Designing a social investment fund for UK pensions,* Big Society Capital, 2016.

Elusive track record

Investors and advisers are understandably cautious about allocating money to investments with little track record. A recent survey of pension trustees found that a lack of information on social impact investment risk and returns was one of the key reasons for not investing, and many social impact investments do not have the three years of demonstrable returns considered the minimum by trustees and other institutional investors.[38]

In addition, track record in respect of social outcomes are hard to come by, either because they are difficult to quantify in conventional financial market terms, or because the organisations themselves do not have the resources to provide information. There is as yet no labelling system, colour-coded chart or kite mark that can guide investors on whether the investment is a bona fide social impact investment opportunity.

Investments can generate a range of returns

The 'spectrum of capital' concept shows how social impact investors sometimes decide to trade off expected financial returns for expected social returns. In particular individual investors appear to be willing to sacrifice some gains.[39] However, performance data shows that this does not always have to be the case.

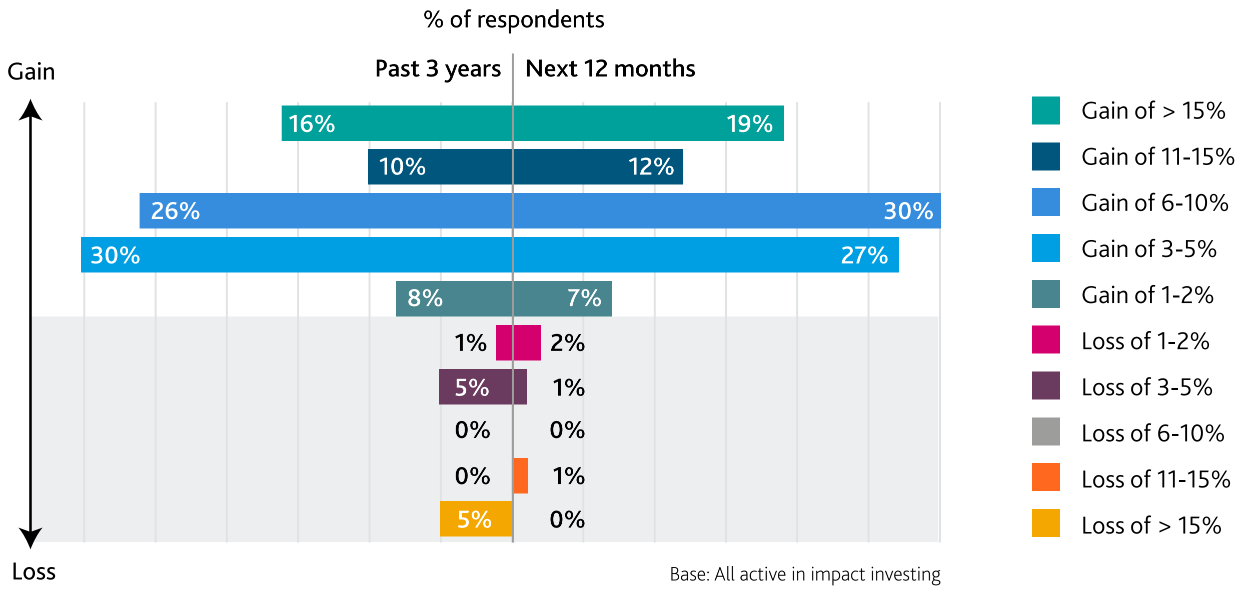
Meanwhile, a survey of impact advisers and consultants shows "overcoming myths about impact financial performance as the biggest industry challenge, followed by a shortage of quality investments".[40]

The combination of financial and social return can work in three ways:

- Investments where social and financial returns are directly linked, such as in low-cost UK gym provider The Gym, backed by Bridges Fund Management.
- Investments where social impact can be increased without much or any effect on financial returns. Green bonds typically trade at the same price as a company's regular bonds, for example, but have increased positive environmental investment and the measurement and reporting of environmental impact.
- Investments where the social return requires some sacrifice of financial return. An example is investment into growing enterprises, which often require long-term capital or subsidies to help them scale up to the point they can take on more commercial finance.

Market rate returns are attainable, notably for longer term investments with higher risk tolerance into opportunities that have gone through a 'set up phase'.

Average annual financial returns from impact investment: achieved and expected



Source: *Financial Times,* Investing for Global Impact, 2017.

38 *Social Impact Investment and Pensions Survey,* Allenbridge, 2017.
39 *Social Impact Investment Attitudinal and Behavioural Research,* Centapse, 2017.
40 *T100: Insights from Impact Advisors and Consultants,* Toniic, 2017.

Leading to a lack of provider resources and attention…

Incorporating social impact into investment decisions (including assessing investment performance and impact measurement) requires specialist skills, which are currently not widely available in the UK. One reason is that independent financial advisers, asset managers and pension fund trustees are limited in developing expertise by a lack of educational resources for themselves and for clients.

While some universities offer social impact and sustainability courses, they are not yet widely available as core undergraduate subjects or as post-graduate qualifications. In addition, the subjects are conspicuous by their virtual absence from continuing professional development – there is currently only one relevant CPD-accredited course for IFAs; the Worthstone ACT (Adviser Competency Training) for social investment.

> "There is a need for industry/government to signal to students that these skills will be valued in the future." – Education provider, 2017 [41]

…and creating investor inertia

More than half of individual investors have at least a moderate interest in social impact investing, research shows, either because they wish to avoid unethical exposures or would like to invest in organisations that reflect their values. However, fewer than 10% actually own a social impact investment.[42]

The intent-action gap may also be widened by cultural barriers through the investment process. Some 38 percent of Millennial high-net-worth individuals have found "push back from financial advisers" to be a challenge in making impact investments, one survey shows, perhaps due to IFA confusion over interaction guidelines.[43] In fact, having a financial adviser makes people less likely to have prior knowledge or engagement with social impact investing.[44]

In order to stimulate more interest in social impact investing, Social Investment Tax Relief (SITR) was introduced in the UK in 2014 to provide 30% relief to investors for unsecured investments in charities and social enterprises. It was the first tax relief of its kind in Europe, and holds significant potential to unlock private capital for social good, but take-up has been limited. So far, only around £4.5 million has been raised by around 40 organisations.

Social Investment Tax Relief – a good idea with mixed results

SITR's limited early success may be partly due to low levels of awareness, but the structure of the relief also limits its scope. Specific challenges include:

- Investment cap – though the recent Finance Bill increased this to a £1.5 million lifetime limit, charities and social enterprises in specific sectors are likely to have larger lifetime investment requirements. This is also likely to limit the scale and viability of SITR funds.
- Excluded activities – A number of the trading activities excluded from SITR severely limit the scope and utility of the tax relief. This includes property development, asset leasing and financial activities – such as banking, insurance, money-lending and hire-purchase financing.
- Lack of inheritance tax benefits – Shares in Enterprise Investment Scheme (EIS) qualifying companies will generally qualify for Business Property Relief (BPR) for inheritance tax purposes, providing an additional incentive for investors. By contrast, most investments which qualify for SITR do not benefit from BPR, reducing the incentive for investors to invest in social enterprises.

41 *Advisory Group Roundtable with Education Providers,* June 2017.

42 *The Value of Being Human: A Behavioural Framework for Impact Investing and Philanthropy,* Barclays, 2015.

43 *Millennials & Impact Investment*, Toniic, 2016.

44 *Social Impact Investment Attitudinal and Behavioural Research,* Centapse, 2017.

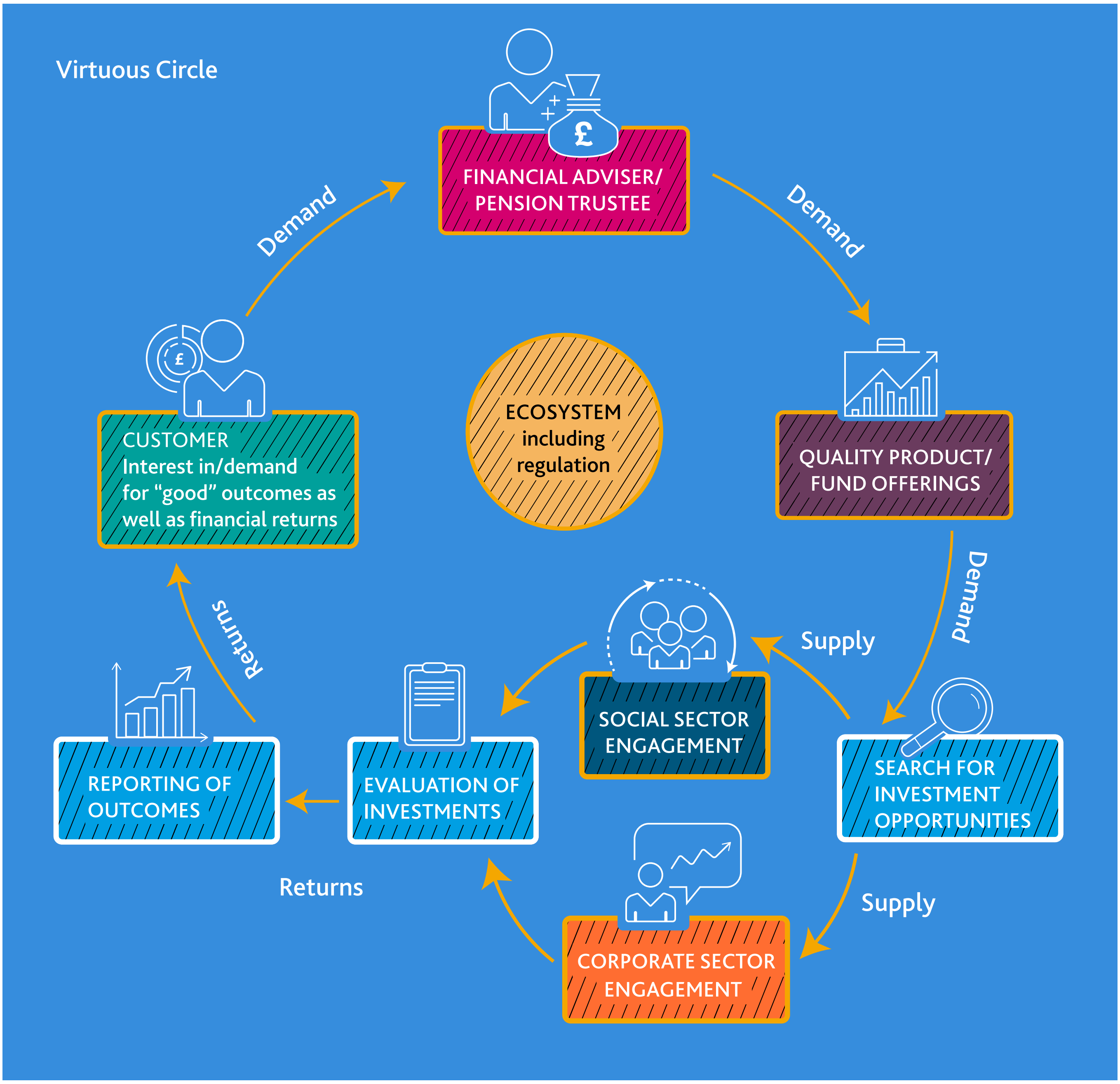
The UK's social impact opportunity

The UK's social impact opportunity

While the social impact investment industry has many challenges to overcome, there are also factors driving demand in the UK, including rising interest among 'millennials', world-leading financial analytical capabilities and the growing credibility of the UN SDGs (which can support benchmarking and standard setting). There are also commercial drivers – asset managers increasingly recognise the opportunity and feel more confident in offering products based on improving market intelligence and containing diversification benefits in an increasingly correlated environment.

In addition, the UK government strongly backs the expansion of the social impact sector, and is supported by a committed regulator and a corporate reporting and governance framework that encourages transparency.

If rising demand and adviser engagement, and a supportive regulatory environment, lead to the expansion of quality products and offerings, the corporate world is likely to be more engaged. This will increase the number and scale of investment opportunities and likely lead to advances in impact measurement and reporting. That in turn should lead to higher demand, creating a virtuous circle that will drive the market forward.



Rising millennial interest and consumer demand

Younger investors and 'millennials' are key constituents of the social impact movement, which reflects many of that generation's priorities and values, particularly around 'transparency' and 'business for good'.[45] In addition, since the financial crisis there is a broader move among investors toward a requirement for greater responsibility and transparency in corporate behaviour, which is reflected in the growth of the ESG market.

A 2016 Deloitte survey shows some 87% of millennials believe that corporate success should be measured by more than just financial performance.[46] Global millennial wealth could stand at US$24 trillion by 2020.[47]

According to research by UBS Wealth Management, the "under-35 age group believes that businesses in which they invest, whether as employees or with financial capital, have wider responsibilities than simply making profit".[48] Still, positive sentiment toward social impact investing is not restricted to younger investors. Nearly two thirds of UK citizens would like their money to support companies that are both profitable and make positive contributions to society and the environment.[49] Only 8% disagree with the statement that they would like their investment to do some good and provide them with a financial return, and just 4% disagree that "it is possible to do good and make money at the same time".[50]

Still, 51% have never been offered a social impact investment, even as 39% say they would be willing to spend an hour learning more.[51] [52]

With regard to knowledge acquisition, 69% of people say they read about investment opportunities at least once a month.[53] This is one of the most powerful factors in predicting interest in social impact investing, behavioural research shows.[54] The strong correlation highlights the opportunity for financial institutions to engage their clients more effectively.

Cat Gregory, freelance assistant editor in the film and TV industry
Customer of Triodos' Socially Responsible Investment Fund

When investing, Cat wants to know she is doing something that might make a positive impact, but certainly will not make a negative one.

Cat has invested in both the Triodos Sustainable Equity Fund and the Sustainable Pioneer Fund since March 2015.

Why did she decide to invest? She is keen that her savings are invested into companies that share her values, are transparent and have a strong ethical side.

Cat believes finance can be a force for good when it is used to support businesses and social enterprises that are trying to do something different and positive and make lives better. That is why she is keen to support environmental causes and small and medium-sized businesses as she felt that she could contribute a bigger positive impact on them than on larger corporations.

She believes that people her age and younger generations are more interested in sustainability and are generally more socially conscious. Cat is not sure whether that translates into their investments yet, but she is sure that she is not the only person to actively seek out an ethical investment provider when looking to save.

45 *Millennials & Impact Investment*, Toniic, 2016.
46 *The Deloitte Millenial 2016 Survey: Winning over the next generation of leaders,* 2016.
47 *Millennials - the global guardians of capital,* UBS, 2017.
48 *Millennials - the global guardians of capital,* UBS, 2017.
49 *Invest in progressive and pioneering business to build fairer, more sustainable society, say UK investors,* Triodos, 2017.
50 *Social Impact Investment Attitudinal and Behavioural Research,* Centapse, 2017.
51 *Socially Responsible Investments, Triodos Bank Survey for Good Money Week,* 2016
52 *Social Impact Investment Attitudinal and Behavioural Research,* Centapse, 2017.
53 *Social Impact Investment Attitudinal and Behavioural Research,* Centapse, 2017.
54 *Social Impact Investment Attitudinal and Behavioural Research,* Centapse, 2017

Pioneering pension funds

Pension funds have around £2.8 trillion to put to work, and a few have put themselves at the vanguard of social impact investing, crossing over from ESG expertise and sometimes leveraging the UN SDGs to help develop investment guidelines.[55]

The Environment Agency Pension Fund, one of the largest local government pension schemes, with around £3.5 billion of assets, has a strong focus on sustainable investment and stewardship.[56] More than a third of the fund is invested in companies that make a positive contribution to a green and sustainable economy. Managers actively encourage the companies they invest in to act more responsibly and improve their practices, and are focused on using the UN SDGs to evaluate current and future investment opportunities. The fund has delivered financial returns of 11.6% over the past five years, which it attributes to its commitment to investing responsibly.[56]

HSBC's default equity pension fund, with around £1.9 billion under management, has a climate change 'tilt'. The fund is the Legal & General Investment Management (LGIM) Future World Fund, a passive global equities fund that tracks a new FTSE Russell index that incorporates climate change parameters.

An evolving fund product landscape

In the past, direct social impact investment products were designed largely for institutional investment or high net worth individuals, for example in the form of limited partnerships. Now, financial institutions are tapping into growing demand from individual investors and launching an array of retail-focused opportunities.

The products offer a range of investment objectives, from a primarily ESG focus to a narrow focus on high social impact or the incorporation of some element of impact into an otherwise traditional fund. Examples include the Henderson Global Care UK Income Fund, the Barclays Multi-Impact Growth Fund and the UBS Oncology Impact Fund.

France is a pioneer of employee-focused investments, and companies with over 50 employees are mandated to offer a 'solidarity' savings fund, in which as much as 10 percent goes towards high impact social enterprise investments, with 90% invested in more traditional socially responsible assets. While recognising that this model operates in a different regulatory environment, these types of products have potential for UK institutions such as pension funds, which may struggle to invest a large proportion of any fund in illiquid social impact assets.

New product development demonstrates the opportunity for the investment management industry to innovate and add value. This could be expanded through innovative structures, identification of social impact opportunities and a demonstrable ability to ensure that they generate impact. In an increasingly competitive asset management market, there is appeal in an investment style that requires a high level of analytical expertise and differentiation. This could potentially be a valuable lever for the UK's post-Brexit financial sector.

The Barclays Multi-Impact Growth Fund

Barclays launched the Multi-Impact Growth Fund to offer mainstream investors the opportunity to generate long-term capital growth while making a positive contribution to society. Inspired by the French 90/10 model, the fund invests primarily in third-party impact fund managers, with a small percentage allocated to direct investments.

Barclays' leveraged existing capabilities in fund selection, portfolio construction and asset allocation, and developed new ones in impact assessment and due diligence. Investments are selected as best-in-class based on their potential for strong financial returns and the consideration of their impact around key social and environmental issues. As a UCITS vehicle, the fund was designed to give retail investors a simple, liquid, and single-access means of impact investing as their primary portfolio or to include within tax efficient wrappers.

55 *Asset Management Survey,* Investment Association, 2016–17.

56 *Responsible Investment Report, Annual Report and Financial Statement,* EAPF, 2017.

Project Snowball LLP

Project Snowball is a UK investment trust that aims to 'fill the gap' for an investment product that is simple, listed, liquid, well diversified and low cost. It is currently set up as a limited partnership, which may appeal to large institutional investors and will be accessible to the ordinary retail investor by way of a listing on a public market.

Snowball applies an impact lens to investment analysis and reporting. Investors will be able to access and engage with the benefits their investments are delivering.

US Community Investment Notes - Calvert Foundation

Calvert Foundation is a US-based non-profit investment firm that sells the Community Investment Note – a fixed-income security designed to be an accessible and risk-mitigated impact investing option.

Community Investment Notes are available for as little as $20 directly through Calvert Foundation's website or $1,000 in brokerage accounts at more than 100 firms, and pay interest of up to 4% depending on the term. This accessibility has enabled 18,000 U.S. investors to invest over $1.5 billion in the notes since 1995. The capital has been lent to organisations operating throughout the US and in over 100 countries around the world in affordable housing, good jobs, quality education, clean energy and other community services.

A range of vehicles

In addition to traditional capital market securities, there are a range of alternative routes into social impact investing, which have attracted mixed levels of interest and liquidity. These include:

Social impact bonds: Payment by results contracts procured by government where investors fund an organisation to deliver a service (e.g. reduce the reoffending rate of prisoners) and the government pays the investors back with interest if the intervention is successful.

Retail charity bonds: A fixed income investment that provides charities with unsecured loan finance. The Allia Retail Charity Bonds platform is an intermediary that makes the process easier for listers - it lists the bonds on the LSE Order Book for Retail Bonds under its special purpose vehicle and lends the proceeds to charities.

Social Investment Tax Relief (SITR): A tax break for individuals investing into charities and social enterprises - where investors get 30% of the cost of their investment off their next income tax bill (see box out on p18: Social Investment Tax Relief – a good idea with mixed results).

Community Investment Tax Relief (CITR): Encourages investment into disadvantaged communities by giving tax relief to investors who invest in accredited Community Development Finance Institutions (CDFIs) – these are organisations that specialise in providing funding to businesses, social and community enterprises in deprived areas. The tax relief is worth up to 25% of the investment into the CDFI.

Emerging commercial opportunities

Social impact investing is increasingly recognised as a commercial opportunity that has driven the growth of profitable business lines.

Morgan Stanley made the decision in 2009 to formalize its sustainable investing effort by integrating it into its core business and forming a Global Sustainable Finance group. "This is something that is key to who we are, and of increasing importance to institutional and individual clients," said Audrey Choi, the bank's chief sustainability officer and chief marketing officer. In 2012, the bank launched its 'Investing with Impact' platform, which offers wealth management clients investment options that include restriction screening, ESG integration, thematic investment (e.g. indexes of renewable energy companies) and impact investing (more direct investment into companies focused on particular environmental and/or social outcomes).

Morgan Stanley has seen its financial advisers benefit from the platform and from incorporating mission and impact preferences into their processes – including higher retention and satisfaction rates among clients. At the end of September 2017, nearly 70% of their 16,000 financial advisers used the platform.

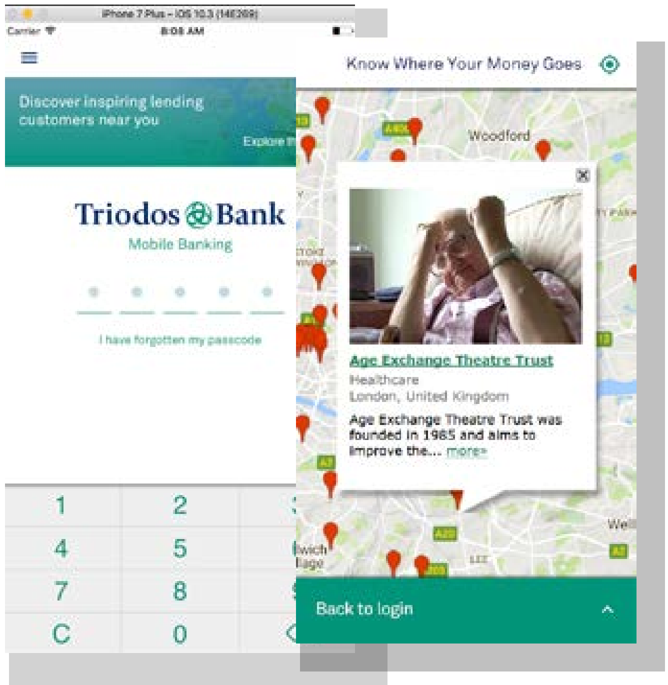
In the UK, some 45% of independent financial advisers say they believe their business would be more successful if they offered impact investing to their clients.[57]

In another example, Australian-based global insurer QBE in 2016 launched 'Premiums4Good', under which customers can elect that up to 25% of their premium is allocated to social impact investments. According to CIO Gary Brader, the product has given QBE a competitive advantage, driving profitable new business and improving retention rates among existing customers. QBE is able to identify a sufficient range of impact investments that provide a suitable risk-adjusted return. However, these investments require expertise and extensive due diligence and a number, for example social impact bonds, are long term and illiquid.

Netherlands-based Triodos Bank has integrated impact investing into its business model, which provides savings and investment products for individuals, businesses and charities – only lending money to organisations and projects that make a positive difference to society. Transparency is central to its approach and it recently launched an interactive 'Know Where Your Money Goes' mobile app, listing all the organisations it lends to, and including a GPS function so customers can see the social impact created in their area.

Talent retention

From a corporate point of view, integrating social or environmental values creates an opportunity to win and retain talent. Most young professionals choose organisations that share their personal values. A Deloitte survey finds that six in ten millennials say a "sense of purpose" is a major factor in their decision to work for their current employer.[58]



An improving performance tool kit

Performance measurement is improving in ESG and social impact investing. In one meta-study analysing 2,200 individual pieces of research, some 90% found a non-negative relationship between ESG criteria and corporate financial performance, and this was stable over time. From an asset class perspective, the strongest positive link was in real estate, following by bonds and then equities. Splitting the ESG criteria into its individual components, governance was the most powerful, with a 62% positive relationship with financial performance, followed by environmental at 59% and social at 55%.[59]

Methods to integrate ESG factors into investment management may include the exclusion of companies linked to negative social outcomes, positive screening using best in class methodologies, the use of voting rights and the encouragement of norms and standards such as the Principles for Responsible Investment and the UK Stewardship Code and Global Reporting Initiative, which has pioneered sustainability reporting since 1997.[60]

Of course, ESG and social impact investing are different. ESG is about integrating more information into the overall investment approach to get a broader understanding of corporate risk and opportunity, while

57 *Seeking the views of the Financial Adviser and Wealth Manager Distribution Channel: Report to Advisory Group to UK Government on social impact investments, Worthstone, 2017.*

58 *The Deloitte Millenial 2016 Survey: Winning over the next generation of leaders,* 2016.

59 *ESG and financial performance: aggregated evidence from more than 2000 empirical studies, Deutsche Bank,* University of Hamburg, 2015.

60 *Designing a Social Investment Fund for UK Pensions,* Big Society Capital, 2016.

social impact investment is about intentionality and measurement of impact (channelling money into specific types of investment). Social impact is a newer and more challenging proposition spanning a variety of outcome categories, but as it develops it can build on many of the existing approaches.

Incremental private capital increasingly available

Significant amounts of additional capital must be deployed to social impact investment if material results are to be obtainable in the next five to ten years.[61] Government likely has a role to play in catalysing those investments, either through commitment of relatively modest sums of capital or the use of other stimulus, leading to a 'crowding in' of private investment. Such 'pump priming' would help drive development of the market and in time also stimulate more investment opportunities for individual investors.

The United Nations sustainable development goals and other standards to support reporting

Facilitated by the United Nations, more than 150 world leaders in 2015 adopted a set of sustainable development goals (SDGs) aimed at ending poverty, protecting the planet and ensuring prosperity for all.

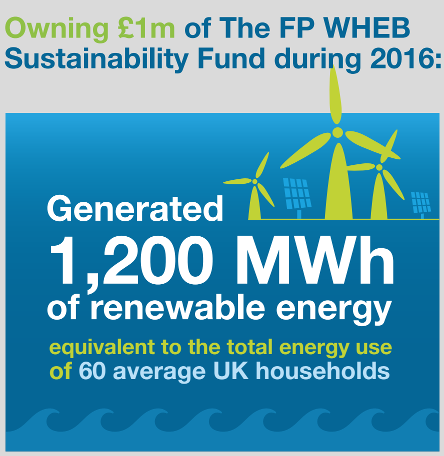
There was explicit recognition that for the goals to be reached, "everyone needs to do their part: governments, the private sector, civil society and people like you".[62]

The SDGs are seen by many financial markets participants as a potential framework for measuring, managing and reporting social impact. A range of tools exist to help companies use the goals, including SDG Compass, which provides guidance for companies on aligning their strategies and measuring their contribution to the SDGs, and the Future-Fit framework, which helps companies set sustainability targets.[63] [64] Insurer Aviva recently launched the consultation phase of the World Benchmarking Alliance (WBA) which will develop benchmarks ranking companies on their sustainability performance and contributions towards achieving the SDGs.[65]

The SDGs also play a role in the investment process; some social impact funds use the goals to measure performance, and they can be an elegant way of presenting thematic choices to investors.

Other organisations or initiatives promoting sustainability reporting include the Cambridge Institute for Sustainability Leadership, Accounting for Sustainability, EY's Embankment Project and the Sustainability Accounting Standards Board.

WHEB used the SDGs in its annual impact report



WHEB, a specialist sustainability investor, has produced its third annual impact report. It uses the SDGs as a framework for its listed fund, mapping impact metrics as progress towards specific goals. It also provides clients with a calculation of its global portfolio's environmental impact.

WHEB describes the toughest hurdle as quantifying impact and retrieving accurate data on the metrics, but the SDGs can be used as a simple and easily adaptable framework to fit different reporting methodologies.

Source: Performance through Positive Impact, WHEB, 2017.

61 *The Rise Of Impact: Five Steps Towards An Inclusive And Sustainable Economy,* UK National Advisory Board On Impact Investing, 2017.
62 *UN Sustainable Development Goals,* 2015.
63 *SDG Compass: The Guide for Business Action on the SDGs,* 2015.
64 *Future-Fit Buisness Benchmark,* 2017.
65 *Benchmarking Companies as a Driver for Change,* World Benchmarking Alliance, 2017.

Recommendations for stakeholders and policy makers

Recommendations for stakeholders and policy makers

The UK social impact investment sector is growing fast and being carried forward by a shift in public attitudes towards offering financial support for socially constructive behaviour. Enterprises that have a positive social impact are increasingly in favour, and individuals are keen to express their approval through their investment decisions. However, if the sector is to take advantage of its growing popularity, there is work to be done in enabling investment at scale, strengthening competence, developing reporting standards, making it easier for people to invest and planning for the future.

The UK government has made progress in encouraging social impact investing. The next step forward will require:

- a commitment to creating an ecosystem for social impact and ESG investing to thrive at increasing scale
- a sustained focus on all aspects of excellence in corporate leadership to embrace ESG factors in company strategy and reporting
- continuing commitment from the financial services industry to work with government, regulators, the companies invested in and the social sector to bring investing with impact into the mainstream

The government can play a vital role in supporting the development of social impact investing. With that in mind we recommend the government places social impact and sustainable investing at the core of domestic strategy and works closely with regulators and other stakeholders going forward.

Without the high-quality work to date, the UK would not have kept pace with global trends. Now is the time to work together and catalyse a faster rate of progress, which will have benefits for society, individual savers and investors, and stimulate a socially relevant segment of the financial services industry. The stakes are high, and there is a need for an industry commitment to quality in product design, investment, advice and service, but significant rewards are available.

This report proposes a number of recommendations to enable stakeholders to consider how they can contribute. Some require immediate attention, while others may benefit from a strategic approach in which they are implemented at the appropriate point in the market's development.

The recommendations are grouped under five key action areas:

Improve deal flow and the ability to invest at scale

The natural starting point in expanding the social impact investment market in the UK is to ensure there are sufficient opportunities to invest. The financial services industry has a key role to play in identifying opportunities, supported by government in its capacity as a driver and enabler of social outcomes.

Challenges include giving enterprises and companies the tools they need to fund effectively and aiming for efficient capital formation, which can help bridge the gap between the sometimes-modest requirements of social organisations and the larger-scale needs of the investment community.

★ **1. Government – Support co-investment:** The government should increase its participation in co-investment models to encourage the provision of capital to social impact investments, potentially taking a first loss position in some circumstances.

2. Government – Continue to issue new outcomes -based payment contracts: The success of the world's first social impact bond, the HMP Peterborough SIB, launched in 2010 to address criminal recidivism, illustrates the role the structures can play in applying private capital to social problems.

3. Government – Review the lower limit on retail charity bonds: The government should work with HMRC to review the lower limit for capital market activities of charities looking to access unsecured loan finance through the retail bond market.

4. Government – Review Social Investment Tax Relief: The government should review eligibility criteria to identify ways in which the scheme might be made easier to operate, in particular looking at expanding eligible trading activities (i.e. asset leasing), lifting the seven-year cap at the earliest opportunity and reviewing restrictions for subsidiaries.

5. Government – Consider other tax incentives: HMT should work with industry to identify what conditions would be necessary, particularly in relation to definitions, in order for IHT relief or pension allowance for high earners to be considered as ways to support social impact investments.

★ **6. Financial services industry – Support co-investment:** Industry should commit meaningful ongoing resources to work with government, the social sector and regulators on identifying investment approaches that can be used to deploy capital to tackle entrenched social and economic problems.

7. Financial services industry – Encourage the bond market: Charity and social enterprise bond issuance could be increased through moves to improve individual investor access. Industry could look at scaling models similar to the Allia retail charity bonds platform in the UK, the climate bond initiative, or consider models of aggregation such as the US Calvert Foundation's Community Investment Notes model.

8. Companies and impact organisations – Strengthen capacity to attract investment: Issuers should ready themselves to be impact investable by developing impact management and reporting skills and resources. While this is most obviously the case for charities and social enterprises, it is also true for large scale issuers, which need to operationalise the ability to demonstrate impact and monitor and report outcomes.

★ **9. Companies – Embed positive social impact in business as usual:** Where feasible, companies should increase their focus on creating demonstrable positive social impact alongside financial returns. This would lead to an increase in the number of traditional companies that are achieving measurable social impact and expand the investable universe for impact investors. More consistent outcome reporting linked to UN Sustainable Development Goals (SDGs) will improve investor understanding and help boost confidence in the strategic relevance of non-financial measures over time.

Strengthen competence and confidence within the financial services industry

Social impact investment is a relatively new concept that spans financial and social behaviours, and practitioners are on a journey to better understand how the two can be integrated. However, investors must be confident investments 'do what they say on the tin', based on insight into investment targets and their performance. Equally, the industry, government and regulators must protect the market's integrity, so that current and future issuers can rely on it as a source of funding.

Efforts to improve education will help drive the market's expansion, allowing more issuers to raise social capital, more intermediaries to structure social capital into investment products and more advisers to assess social capital investments for their clients.

★ **10. Regulators – Build capability and integrate social impact into business as usual:** Relevant regulators and other statutory bodies, including the Financial Conduct Authority (FCA), Financial Ombudsman Service (FOS), Prudential Regulation Authority (PRA), The Pensions Regulator (TPR) and the Financial Reporting Council (FRC), should continue to build capability in relation to social impact considerations so that, as the market develops, social impact is embedded in regulatory frameworks and understanding.

11. FCA and FOS – Ensure a joined-up approach for advisers: The FCA and the FOS should ensure a joined-up approach is communicated to the adviser community, clarifying how social impact elements of investments will be treated (see advisory group letter to FCA and FOS published on GOV.UK).

12. FCA and FOS – Use the FCA 'sandbox': The FCA should promote its regulatory sandbox and 'project innovate' to encourage testing of more potential social impact investment products. Where possible, the FOS should offer real life case studies from products that have passed through the sandbox.

13. PRA – Enhance risk weightings under Solvency II: The PRA should develop a framework for social impact investing, exploring how social returns might interact with expected risk-adjusted financial returns, including when determining risk weights under Solvency II.

The financial industry should help by providing supporting data to evidence how social impact can lower specific or systemic financial risk.

This is potentially consistent with thinking in Europe on the evolution of Solvency II should the final recommendations from the EU High-Level Expert Group on Sustainable Finance be taken forward. In its interim report, the Group concluded, "Prudential regulation for institutional investors will also have to be reviewed. For example, consideration of adjusting Solvency II to enable greater investment by insurance companies in sustainable equity and long-term assets should be explored."[66]

14. Department for Work and Pensions (DWP) and FCA – Implement the Law Commission recommendations: The DWP and FCA should implement the five recommendations for government from the recent Law Commission report on social impact and pension investments.[67]

15. FCA – Ensure interpretation of Know-Your-Customer rules evolves with the market to include non-financial factors: The FCA should consider whether the Know-Your-Customer requirements should be interpreted to include information about an individual's values and whether these might influence investment decision-making.

★ **16. Financial services industry – Build capability and integrate social impact into business as usual:** Industry should engage widely to improve professional skills for social impact; to work with academics and service providers to develop a robust performance/outcome evidence base; to develop with industry bodies initiatives to sustain momentum and ensure quality as the market develops; and to provide tools and training for pension scheme trustees and independent financial advisers (IFAs).

17. Financial advisers – Rethink client onboarding: Wealth managers and financial advisers should incorporate relevant non-financial values and intentions questions into the client onboarding process, integrating social impact considerations. A pro-forma guide to support this is published alongside the report on GOV.UK.

66 *Financing A Sustainable European Economy, Interim Report,* High-Level Expert Group on Sustainable Finance, 2017.

67 *Pension funds and social investment,* Law Commission, 2017.

18. Financial services industry – Gather evidence on risk-adjusted financial returns: Investment management firms and industry bodies should work with academics, data providers and rating agencies to develop a robust database of risk-adjusted financial returns from different types of social impact investment (funded by the government or BSC).

19. Financial services industry and government – Explore an apprenticeship scheme: Financial services firms and civil society organisations should work with government to produce a plan for a social impact apprenticeship scheme. Levy payers (i.e. financial institutions) could help build skills and capacity across the sector by seconding their apprentices to civil society organisations, and by supporting those organisations to create their own apprenticeship schemes.

20. Professional bodies – Track assets under management: The Investment Association should measure social impact AUM growth as part of its annual investment management survey.

21. Universities – Add modules to undergraduate and postgraduate degree qualifications: Finance and business degree providers should add more course modules on social impact investment and social business.

★ **22. Professional bodies – Provide Continuous Professional Development (CPD) and qualifications:** Professional bodies, such as the CFA Institute, the Chartered Institute for Securities & Investment (CISI) and the Chartered Insurance Institute (CII)) should accelerate professional development around ESG and social impact investment, through CPD and professional qualifications. They should work with industry to ensure the use of common terms across educational materials.

23. Professional bodies – Educate advisers: Professional bodies such as the Personal Finance Society (PFS) should update their educational programmes to help advisers understand the spectrum of social impact investments and how to incorporate them into client portfolios.

Develop better reporting of non-financial outcomes

There is a need for a common set of standards and language through the social impact investment chain. From investment management reporting on predicted and actual social impact to the information provided by capital raisers to investors, ratings agencies and indexes, consistent and reliable reporting formats are key. The UN's SDGs are an invaluable resource in creating reporting data elements across a range of social activities.

★ **24. Financial services industry – Develop consistent non-financial reporting methods:** Industry should work with the Investment Association (IA) and CFA Society UK to develop consistent good practice and set common standards for social impact investing. This would include determining processes and reporting, potentially using the SDGs as a framework.

★ **25. Government and Financial Reporting Council – Explore sustainability and SDG reporting:** The Department for Business, Energy and Industrial Strategy should explore, with the FRC, how best to encourage UK business to increase transparency on the contribution business makes towards the achievement of the UN SDGs. Separately, in regard to the FRC consultation on companies strategic report, the FRC should explore ways in which material information, useful to wider stakeholders, can be reported in the context of the UN SDGs.

26. FRC – Include social impact reporting in strategic priorities: The FRC should include the development of mechanisms for wider corporate reporting by companies, including reporting on social impact in the context of the UN SDGs, in its consultation of its strategic plan for 2018/21.

27. FRC – Include social impact aspects in Corporate Governance Code: The FRC should ensure its review of the Corporate Governance Code encourages more companies to be purposeful, engaged with wider stakeholders and committed to assessing and communicating their social impact in the context of the SDGs.

28. FRC – Include social impact aspects in Stewardship Code consultation: The FRC should consult with investors and others on how signatories to the Stewardship Code can (1) better evaluate the contribution that the social impact of businesses, including environmental factors, is making to the long term sustainability and success of the business and (2) monitor and engage with the work of Boards of Directors in discharging their responsibilities to wider stakeholders under section 172 of the Companies Act.

29. Companies and social enterprises – Align reporting standards: Companies and social enterprises should align their reporting standards with the investor community, and scale up capabilities in respect of data marshalling and dissemination of sustainability and SDG metrics as part of a wider effort to increase their investability.

Make it easier for people to invest

The relatively slow rate of growth of the social impact market led the Financial Conduct Authority in 2016 to call for input on whether regulatory barriers had impeded its development. A few months earlier the government had asked the Law Commission to look into pension funds' consideration of social impact when making investment decisions. In both instances, a number of relatively minor impediments were identified, but the overall finding was that the obstacles were primarily structural and behavioural, suggesting efforts to build awareness around social impact investing will be useful in promoting the market's growth.

If the social impact investment market is to achieve its potential, investors must also be confident investments will perform in line with expectations. Communications materials and labels can be useful tools to build on the existing narrative around ESG investing and its increasing mainstream success, while public relations efforts could help journalists engage with the topic. Journalist feedback shows that articles on social impact investing would best sit in the personal finance, money, investing, and finance and economic sections of publications.[68]

30. Government, financial services industry, professional bodies, social sector and regulators – Publish educational material: Each organisation to publish educational guidance on social impact investment and its relation to ESG, with reference to the others' work to ensure consistency. This should be easily (and independently) accessible for all relevant stakeholders including individual investors, IFAs and pension scheme trustees. In time, government should work with industry on a communications campaign to raise awareness among consumers about the power they have to apply their own values to investment choices.

31. Government – Publish a guide: The new single financial guidance body to publish a guide and make video resources available to explain ESG and social impact investment, which may be promoted to media outlets and information providers.

32. Pensions and Lifetime Savings Association – Publish a guide: The Pensions and Lifetime Savings Association to publish a guide, which could be promoted at its March 2018 Investment Conference.

33. Government and financial services industry – Launch a campaign to raise awareness (in time): Government to work with industry to launch a 'money values' campaign to raise awareness among consumers about the power they have to apply their own values to their investment choices. The government should collaborate with the UK Sustainable Investment and Finance Association, whose annual Good Money Week campaign is aimed at increasing awareness of ethical and sustainable financial products.

34. Financial services industry – Develop consistent standards to indicate product integrity to individual investors and trustees: A cross-sector industry working group, led by the Investment Association, should coordinate the development of best practice. This should initially be around transparency for both ESG integrated funds and for social impact investment products, seeking guidance from organisations such as the British Standards Institution. In time this could lead to an investor-facing social impact investment label as the market develops (see p32: A three-stage approach to developing an investor-facing social impact investment label in time).

68 *An analysis of awareness and perceptions of Social Impact Investments (SII) amongst personal finance and investment media,* Tangerine, 2017.

35. Investment Association – Launch a sector flag for social impact: The Investment Association should develop a flagging system that highlights social impact funds.

36. Financial services industry – Engage data vendors: Organisations that rate or score funds/fund managers should develop ways to provide consistent assessments of their social impact engagement and of the processes used to generate and report that impact. Those that rate or score platforms should develop ways to incorporate platforms' ability to allow investors to express their investment preferences into their assessments.

A three-stage approach to developing an investor-facing social impact investment label over time

A three-stage roadmap may be optimal in developing an investor-facing social impact investment label in time. This should start with a common framework for indicating product integrity of social impact investments for individual investors and pension trustees. This should be market-led, driven by a cross-sector industry working group led by the Investment Association. The group should seek guidance from organisations such as the BSI that could coordinate efforts in reviewing or could provide advice on approaches to reporting, materiality, evidence and validation. This should take into consideration the work of the World Benchmarking Alliance. The Impact Management Project, facilitated by Bridges Impact+, may also be a useful tool.

An eventual label should reflect achievement of standards based on the common framework (initially around transparency and provision of information, and later around approach).

Stage 1: Short term (6 to 12 months) – Encourage the market-led development of a principles-based framework to promote transparency for both ESG integrated funds and for social impact investment products. The framework would ensure a common language and promote transparency on a core set of components. For example, for social impact funds these could include: mission and objectives and intended (additional) impact targeted, processes, criteria and methodologies used to monitor the achievement of intended impacts, governance and approach to financial and impact reporting and disclosure (integrating best practice around consistent non-financial reporting).

Stage 2: Medium term (12 to 24 months) – The development of a protocol for assessing and rating social impact investments for the individual investor. This should ensure consistent provision of information on key dimensions with an independent assessment and rating of approach and performance, along the lines of ratings provided by Moody's Investors Service or Morningstar. This would help move the market towards higher standards and increase confidence across the investment chain.

Stage 3: Medium to longer term – Support the development of an investor-facing label to facilitate decision-making and provide assurance on product quality and performance. This could be similar to those now available for energy consumption.

Recommendations continue on following page

★ **37. Financial services industry – Develop more products:** The industry should continue to develop its savings, pensions and investment product suite with the individual investor in mind, utilising both ESG and social impact investment options. Examples of replicable models are shown as case studies throughout the report.

38. Financial services industry – Enlist platform and third-party providers: The industry should encourage investment platforms, ISA and SIPP providers to include a social impact investment option (or options) in their product ranges.

★ **39. Government, financial services industry, professional bodies and regulators – Work on including illiquid assets in investment portfolios:** A wide body of research suggests that an allocation to less liquid, longer term investments is likely to enhance portfolio returns over time, but the financial services ecosystem has developed in a way that biases towards daily pricing and trading. All participants have a role in the systemic change needed to support the inclusion of these assets — many social impact investments currently fall into this category.

40. Regulators – Clarify permitted links rules: The FCA should provide guidance on the permitted links rules (i.e. how schemes can manage illiquid investments and produce unit prices for illiquid assets) to better enable pension scheme providers and Independent Governance Committees to incorporate more illiquid social impact investments into contract-based schemes.

41. Regulators – Advise trustees in relation to social impact: The Pensions Regulator should provide trustees and pension scheme providers with guidance on reconciling liquidity concerns with the benefits of investing in illiquid assets such as infrastructure and some social impact investments (as per the Law Commission's options for reform).

42. Financial services industry – Tackle platform liquidity requirements: Industry bodies, platform providers and pension trustees should work with the government to explore in detail whether current platform liquidity requirements (i.e. the requirement for daily trading) are in the best interests of pension savers and the wider economy.

★ **43. Pension scheme trustees and employers – Engage better with pension scheme members:** Trustees should work with employers and pension providers to develop best practice for better engaging scheme members with their pension investments and encouraging them to register on their pension platforms. This should lead to better alignment with members' non-financial values, with social impact investments as potential fund choices providing they have an appropriate risk/reward profile. As product track records mature, we also envisage growth in social impact investing as a natural part of default funds.

44. Pension scheme trustees – Statement of investment policies: Trustees to state their policies in relation to stewardship, long-term risks and members' ethical and other concerns in the scheme's Statement of investment principles (as per the Law Commission's recommendations). In addition to include specific policies relating to social impact.

45. Pension scheme trustees – Expand the Statement of investment principles (over time): Over time trustees may consider including wording in the Statement of investment principles relating to their intent to favour investments with positive impact and/or to avoid investments with a negative impact.

46. Pension scheme trustees – Incorporate social impact options into pension scheme chosen funds: Trustees, pension consultants and personal pension providers should consider including social impact investments in chosen funds (subject to Law Commission guidance) where there is good evidence that their scheme members are actively engaging in pension choices.

47. Pension scheme trustees – Incorporate social impact investment into pension scheme default funds: Trustees, pension consultants and personal pension providers should consider including social impact investments in default funds, subject to Law Commission guidance around appropriate risk-adjusted financial returns. Schemes should review their portfolios to identify the extent to which they already invest in social impact. They should work progressively towards including a meaningful allocation to social impact investments in default funds as the market develops.

48. Employers — Align pensions and benefits with corporate social responsibility policies (CSR): Employers that have already committed to CSR policies should align their employee benefits and pensions with the policies, as recommended by the Principles for Responsible Investment.

49. Employers — Encourage employee engagement: Large employers should consult employees on their investment preferences when (re)appointing a pension provider (taking into account any other existing requirements). Communicating in relation to a scheme's social impact investments might provide an opportunity to invite additional contributions from scheme members.

Maintain momentum and build cohesion across initiatives

There is significant momentum in the development of the social impact investment market, including rising demand, an expanding range of products and better systems to monitor performance and social outcomes. To encourage the sector to accelerate its progress, stakeholders must commit to taking the necessary steps to embrace the opportunities ahead.

The advisory group for this report is committed to building on the valuable work already undertaken, and plans regular reviews of progress across the various initiatives recommended here, alongside increased collaboration with parallel efforts, hopefully creating a whole that is greater than the sum of its parts.

50. The Government Inclusive Economy Unit — Support collaboration: The government's Inclusive Economy Unit should continue to support coordination across government departments and private sector projects.

★ **51. Financial Services Industry — Account for progress:** Industry, supported by government, to convene a follow on group to allocate responsibility for taking forward specific actions, to monitor progress and to ensure sustained positive momentum continues. A thought-leadership conference should be held by summer 2018 as part of this process.

52. Financial services industry — Engage the media: The industry to engage the personal finance and mainstream press to increase awareness of the potential to align investments with personal values. The effort should focus on using case studies of existing social impact investment products, customer case studies and social impact stories.

★ **53. Financial Services Industry & Professional bodies — launch high profile awards:** The industry should both stimulate and celebrate progress in social impact investment through awards.

Initiative	Lead by	Focus	How does this fit?
National			
Advisory Group [this report]	Requested by Government, made up of senior industry practitioners	Producing a set of recommendations for industry and Government, looking holistically at what the market needs to become mainstream	Holistic
UK National Advisory Board on Impact Investing	Linked to the Global Steering Group, comprises practitioners from the impact investing sector and other areas of business and finance	Recently published a report on what is needed from Government and other stakeholders to strengthen and scale the wider impact investing sector in the UK	Holistic
Law Commission Report	Commissioned by Government, carried out independently by the Law Commission	A report which looked at how far pension funds may or should consider issues of social impact when making investment decisions. Made 5 key recommendations to Government, and 11 options for reform	Strengthen competence & Make it easier for people to invest
Mission-led Business Review	Commissioned by Government, led by an independent panel	The report set out a vision for the role of mission-led businesses (organisations with a specific social purpose) in the UK, and recommendations to industry and Government on supporting the sector	Improve deal flow
Pensions for Purpose Initiative	Run by two pensions professionals as a collaborative initiative promoting impact investment among schemes	A central platform where thought leadership, case studies, blogs and events relating to social impact investment can be shared by Influencer members (fund managers, consultants etc) for the benefit of Affiliate members (pension funds)	Strengthen competence
Good Money Week Campaign	Co-ordinated by UK Sustainable Investment & Finance Association - (UKSIF)	Runs annually in October to increase public awareness of sustainable and responsible investing via banking, pensions and investments	Make it easier for people to invest & Maintain momentum
International			
EU High-level Expert Group on Sustainable Finance	Set up by the EU Commission, comprises 20 senior practitioners	The group will provide recommendations to the Commission on how to develop a comprehensive EU strategy on sustainable finance. Interim report was published in July 2017	Holistic

Impact Management Project	Led by Bridges Impact+, contributions from hundreds of industry stakeholders	A set of shared fundamentals for how to communicate and measure impact	Better reporting
Impact Market Map	Principles for Responsible Investment (PRI)	A resource for investors to help identify companies that generate impact within 10 thematic environmental and social areas	Make it easier for people to invest
Shaping the Future of Sustainable & Impact Investing	World Economic Forum	A series of initiatives that mobilise investors, Governments and impact enterprises to tackle roadblocks and provide tangible pathways to scale the sector	Holistic
Grow Inclusive	World Economic Forum & World Bank Group	Interactive hub enabling businesses, investors and policymakers to benchmark their economic, social, environmental and governance impact against the SDGs. To be launched early 2018	Improve deal flow & Better reporting
Business Reporting on the SDGs	Lead by UN Global Compact and Global Reporting Initiative (GRI)	An action platform to accelerate corporate reporting on the SDGs	Better reporting
The Embankment Project for Inclusive Capitalism	Ernst and Young and the Coalition for Inclusive Capitalism	The project will bring together CEOs from over 20 global companies to work on a proof of concept to encourage and measure long-term value creation. It will develop and test a new framework to identify and measure a company's purpose, products and effects on people and the planet	Improve deal flow & Better reporting
World Benchmarking Alliance	Aviva, UN Foundation, BSDC, and Index Initiative	An initiative to develop, fund and house publicly available corporate sustainability benchmarks aligned with the SDGs. This has begun with a series of consultations throughout 2017.	Better reporting & Make it easier for people to invest

Appendix

Appendix 1: Table of recommendations for industry participants

Industry Participant	Time frame	Recommendation number
All		
Government, financial services industry, professional bodies and regulators: Publish educational material	Short-term	30
Government, financial services industry, professional bodies and regulators: Work on including illiquid assets in investment portfolios	Long-term	39
Across the financial services industry		
Financial services industry: Support co-investment	Ongoing	6
Financial services industry: Build capability and integrate social impact into business as usual	Ongoing	16
Financial services industry: Develop consistent non-financial reporting	Ongoing	24
Financial services industry: Develop more products	Short-Medium term	37
Financial services industry: Encourage the bond market	Medium-term	7
Financial services industry and government: Explore an apprenticeship scheme	Short-term	19
Financial services industry: Enlist platforms and third party providers	Short-term	38
Financial services industry: Develop consistent standards to indicate product integrity to individual investors and trustees	Ongoing	34
Financial services industry: Engage data vendors	Short-term	36
Financial services industry: Tackle platform liquidity requirements	Short-term	42
Financial services industry: Account for progress	Ongoing	51
Financial services industry: Engage the media	Ongoing	52
Financial services industry and professional bodies: Launch high profile awards	Short-term	53
IFAs/Wealth Managers		
Financial advisers: Rethink client onboarding	Medium-term	17

Pensions professionals		
Pensions & Lifetime Savings Association (PLSA): Publish a guide	Short-term	32
Pension scheme trustees and employers: Engage better with pension scheme members	Medium-term	43
Pension scheme trustees: State investment policies	Medium-term	44
Pension scheme trustees: Expand the Statement of Investment Principles	Long-term	45
Pension scheme trustees: Incorporate social impact options into pension scheme chosen funds	Medium-term	46
Pension scheme trustees: Incorporate social impact investment into pension scheme default funds	Long-term	47
Employers: Align pensions and benefits with corporate social responsibility (CSR) policies	Medium-term	48
Employers: Encourage employee engagement	Medium-term	49
Trade / industry bodies		
Investment Association: Track assets under management	Short-term	20
Investment Association: Launch a sector flag for social impact	Short-term	35
Educational/professional bodies		
Professional bodies: Provide Continuous Professional Development (CPD)	Medium-term	22
Professional bodies: Educate advisers	Medium-term	23
Universities: Add modules to undergraduate and postgraduate degree qualifications	Medium-term	21
Regulators & other statutory bodies		
Regulators: Build capability and integrate social impact into business as usual	Ongoing	10
FCA & FOS: Ensure a joined-up approach for advisers	Short-term	11
FCA & FOS: Use the FCA 'sandbox'	Short-term	12
PRA: Enhance risk weightings under Solvency II	Long-term	13

FCA & DWP: Implement the Law Commission recommendations	Medium-term	14
FCA: Ensure interpretation of Know-Your-Customer rules evolves with the market to include non-financial factors	Ongoing	15
FRC: Inclusion of social impact reporting in strategic priorities	Short-term	26
FRC: Include social impact aspects in Corporate Governance Code	Short-term	27
FRC: Include social impact aspects in Stewardship Code consultation	Short-term	28
FCA: Clarify permitted links rules	Medium-term	40
TPR: Advise trustees in relation to social impact	Short-term	41
Government		
Government: Support co-investment	Ongoing	1
Government and FRC: Explore sustainability and SDG reporting	Ongoing	25
Government: Continue to issue new outcomes-based payment contracts	Ongoing	2
Government: Review the lower limit on retail charity bonds	Medium-term	3
Government: Review Social Investment Tax Relief (SITR)	Medium-term	4
Government: Consider other tax incentives	Medium-term	5
Government: Publish a guide	Short-term	31
Government and Financial Services Industry: Launch a campaign to raise awareness (in time)	Medium-term	33
Government: Support collaboration	Ongoing	50
Companies		
Companies: Embed positive social impact in business as usual	Medium-long term	9
Companies and impact organisations: Strengthen capacity to attract investment	Short-term	8
Companies and social enterprises: Align reporting standards	Medium-term	29

Appendix 2: Contributors

Advisory Committee	Position	Firm/Company
Elizabeth Corley	Vice-Chair	Allianz Global Investors
Jamie Broderick	CEO	UBS Wealth Management (UK)
Harvey McGrath	Chair	Big Society Capital
Mark Fawcett	CIO	NEST Corporation
Saker Nusseibeh	CEO	Hermes Investment Management
Caroline Mason	CEO	Esmee Fairbairn Foundation
Peter Hewitt	Chair	City of London Social Inv. Board
David Hutchinson	CEO	Social Finance
Keith Skeoch	CEO	Standard Life Aberdeen
David Carrington	(Formerly) Vice-Chair	Triodos Bank
Michele Giddens	Partner and co-founder	Bridges Ventures
Andrew Formica	CEO	Janus Henderson Investors
Nigel Kershaw	CEO	Big Issue Invest
Dena Brumpton	CEO, Wealth & Investments	Barclays
Jayne-Anne Gadhia	CEO	Virgin Money

Steering group	Title	Firm/Company
Brian Henderson	Head of DC Group	Mercer
Claire Marshall	Head of Fund Governance	Aberdeen Standard Investments
Will Goodhart	CEO	CFA Society UK
Tony Stenning	Deputy Chair	TISA
Dave Dyer	Adviser and former CFO	Virgin Money
Tim Hinton	Head of Mid Markets & SME Banking	Lloyds Banking Group
Bevis Watts	Managing Director	Triodos Bank UK
Hans Georgeson	CEO	Architas Hub
Chris Ralph	CIO	St. James's Place Wealth Management (SJP)

Richard Romer-Lee	Managing Director	Square Mile Investment Consulting Research
Olivia Dickson	Non-executive Director	Financial Reporting Council (FRC)
Chris Cummings	CEO	Investment Association (IA)
Graham Vidler	Director of External Affairs	Pension and Lifetime Savings Association (PLSA)
Patrick Reeve	Managing Partner	Albion Capital Group LLP
Amanda Young	Head of Responsible Investing	Standard Life Investments
David Newstead	Partner	Grant Thornton
Mark Burgess	Deputy Global Chief Investment Officer, CIO EMEA	Columbia Threadneedle Investments
Jared Lee (observer)	Head of Policy	UK National Advisory Board on Impact Investing
Damian Payiatakis	Director of Impact Investing	Barclays
Sue Fox	CEO	M&S Bank
David Geale (observer)	Director of Policy	Financial Conduct Authority (FCA)
Campbell Fleming	Global Head of Distribution	Aberdeen Standard Investments
Tom McPhail	Head of Retirement Policy	Hargreaves Lansdown
Helene Pantelli (observer)	Ombudsman leader	Financial Ombudsman Service (FOS)
Debbie Enever (observer)	Head of External Relations	Financial Ombudsman Service (FOS)

Product Working Group	Firm/Company
Will Goodhart (WORKING GROUP LEAD)	CFA Society UK
Abigail Rotheroe	New Philanthropy Capital (NPC)
Alastair Wainwright	Investment Association (IA)
Amanda Young	Standard Life Investments
Andrew Parry	Hermes Investment Management
Charles Tanner	Legal & General Investment Management
Damian Payiatakis	Barclays
David Hutchison	Social Finance
Evita Zanuso	Big Society Capital

Gavin Francis	Worthstone
James Hewitson	HSBC
Jasjyot Singh	Lloyds Banking Group
Jonathan Dean	AXA Investment Management
Julius Pursaill	Pensions & Governance roles including Prudential, Royal London
Karen Shackleton	Allenbridge
Matthew Cox	Esmee Fairbairn Foundation
Maxine Wille	Hermes Investment Management
Michael Berreen	ClearlySo
Patrick Reeve	Albion Capital Group LLP
Paul Fordham	Columbia Threadneedle Investments
Peter Baxter	Project Snowball LLP
Rene Marston	Invesco
Rhodri Mason	Legal & General Investment Management
Sharon Graves	Triodos Bank
Sophie Miremadi	Virgin Money
Whitni Thomas	Triodos Bank

Customer Engagement Working Group	Firm/Company
Brian Henderson (WORKING GROUP LEAD)	Mercer
Claire Marshall (WORKING GROUP LEAD)	Aberdeen Standard Investments
Ben Leonard	Meta Finance
Camilla Parke	Big Society Capital
Greg Davies	Centapse
James Potter	Virgin Money
Zoe Theocharis	Centapse
Kate Brett	Mercer
Louise Wheeble	M&S Bank

Matthew Blakstad	NEST Corporation
Peter Brooks	Barclays

Advice and Distribution Working Group	Firm/Company
Tony Stenning (WORKING GROUP LEAD)	TISA
Damian Payiatakis	Barclays
Gareth Davies	Columbia Threadneedle Investments
Gavin Francis	Worthstone
Helen McDonald	UBS Wealth Management
Huw Davies	Triodos Bank
Nick Hunt	St. James's Place Wealth Management (SJP)
Richard Romer-Lee	Square Mile Investment Consulting & Research
Shaun Port	Nutmeg
Simon Hillenbrand	Janus Henderson Investors

ROUNDTABLE CONTRIBUTORS

PRODUCT WORKING GROUP

Pensions Executives
HSBC
Islington Council
Allenbridge
BESTrustees
Capital Cranfield
Pensions and Lifetime Savings Association
Eversheds Sutherland
NEST Corporation
Law Commission

Insurance Executives
Prudential Assurance
Royal London
Aberdeen Standard Investments
QBE Insurance
MS Amlin
Investment Managers
Investment Leaders Group
Liontrust Asset Management PLC
Sumerian Partners
BMO Global Asset Management
WHEB Asset Management
Generation Investment Management
Cazenove Capital Management
Insight Investment

ADVICE AND DISTRIBUTION

Investec
Rowan Dartington
Cofunds
Standard Life
Chartered Insurance Institute
Whitechurch Securities Wealth Managers
Investment Quorum
Rayner Spencer Mills Research
Redington Ltd
AJ Bell Investments
FE Financial Express Ltd
The Adviser Centre
Intrinsic Financial Services

City Asset Management PLC
Cazenove Capital Management
Education
Oxford Saïd Business School
Cass Business School
University of Nottingham
UK Sustainable Investment and Finance Association (UKSIF)
Investing For Good
University of Northampton
Kings College London
Leicester Buisness School, De Montford University

CUSTOMER ENGAGEMENT

UBS Wealth Management (Millennials Roundtable)

OTHER ORGANISATIONS CONSULTED

ABN AMRO
Access
APG Asset Management
Association of British Insurers (ABI)
Aviva
B Corporation
B&CE The People's Pension
Bates Wells Braithwaite
Bloomberg
BNP Paribas (France)
British Standards Institution (BSI)
Calvert Foundation
Cambridge Institute for Sustainability Leadership (CISL)
Confederation of British Industry (CBI)
Department for Buisness, Energy and Strategy (BEIS)

Department for Work and Pensions (DWP)
Eighteen East Impact Capital
Ethex
First State Investments
Future-Fit
Institute of Chartered Accountants (ICAEW)
International Capital Market Assoication (ICMA)
International Integrated Reporting Council (IIRC)
M&G Investments
Morgan Stanley
Mustard Seed
National Savings and Investments (NS&I)
New Philanthropy Capital
PIMCO
S&P Global
Share Action
Social Enterprise UK (SEUK)
Social Stock Exchange (SSX)
Social Value
The 100 Group
The Pensions Regulator (TPR)
The Prince's Accounting for Sustainability Trust (A4S)
Triple Bottom Line Investing (TBLI)
Principles for Responsible Investment (PRI)
World Economic Forum (WEF)

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