

## Market Overview

The UK has the world's 5th largest economy. London is one of the top two financial centres in the world and the London Stock Exchange is among the world's top five stock exchanges. Assets under management in the UK stood at £7.7 trillion in 2018, despite economic and political uncertainty as the country prepares to leave the EU. However, one fifth of the UK population is living in poverty including 4.1 million children. There is growing appetite for sustainable, responsible and impact investing in the UK. The past few years have seen unprecedented growth in new impact investing product offerings from mainstream asset managers. The Impact Investing Institute, which was announced in June 2019, has been set up to accelerate the growth and improve the effectiveness of the UK impact investing market.<sup>1</sup> The Green Finance Institute was also launched in 2019 to accelerate the domestic and global transition to a net zero-carbon, resilient and environmentally sustainable economy through mobilizing capital.<sup>2</sup>

## IMPACT INVESTMENTS HIGHLIGHTS

### Supply of Impact Capital

- ▲ Since Big Society Capital was founded in 2012, social investment into charities and social enterprises has grown 3-4x reaching £3.5 billion in 2018.<sup>3</sup>
- ▲ In the broader impact investment field, mainstream pension funds, insurers and investment banks have all made allocations to impact both in the UK and internationally. Greater Manchester Pension Fund, for example, allocated approximately £1.05 billion to local and impact investments.<sup>4</sup>
- ▲ CDC, the UK's Development Finance Institution, has a portfolio of \$5.5 billion across Africa and South Asia. Established in 1948 by the UK government, it aims to encourage private sector investment in developing countries.

### Intermediation of Impact Capital

The largest asset managers in the UK are increasingly offering impact investment products. These include:

- ▲ **Baillie Gifford** Positive Change Fund<sup>5</sup>
- ▲ **Schroders** take over of BlueOrchard<sup>6</sup>
- ▲ **Aberdeen Standard** Global Equity Impact Fund<sup>7</sup>
- ▲ **Columbia Threadneedle** Social Bond Fund<sup>8</sup>
- ▲ **M&G** Impact Financing Fund<sup>9</sup>
- ▲ **Barclays** Multi-Impact Growth Fund<sup>10</sup>
- ▲ The UK has a thriving and growing sector for specialist social investment intermediaries such as Resonance, Bridges, Big Issue Invest, Social Finance and many others. They run funds in areas such as direct lending, venture, property and social impact bonds.

### Demand of Impact Capital

- ▲ There are an estimated 120,000 mission-led businesses in the UK, with total turnover of £165 billion, employing about 1.4 million people.<sup>11</sup> Social enterprise is worth £60 billion a year to the UK economy, and there are over 100,000 social enterprises in the UK.<sup>12</sup>

### Government and Regulation

- ▲ Since 2003, there has been a dedicated central government unit supporting the UK impact investing market: The Government Inclusive Economy Unit.<sup>13</sup>
- ▲ The UK has one of the largest aid budgets globally, providing £14.6 billion in 2018.<sup>14</sup> This is principally through the UK Department for International Development (75%).<sup>15</sup>

- ▲ The British Council has a Global Social Enterprise programme, delivered across 29 countries with local and international partners.<sup>16</sup>

### Market Builders

- ▲ The UK is home to a wide range of specialist organisations and initiatives dedicated to building the market. These include consulting firms (e.g. Enclude), impact management and measurement firms (e.g. Impact Management Project), accelerators and incubators (e.g. UnLtd), research institutions and academics (e.g. The Smith School of Enterprise and Environment at the University of Oxford, Cambridge Institute for Sustainability Leadership), Big Society Capital (setting up Good Finance and Access<sup>17</sup>), advocacy and industry groups (e.g. ShareAction) and lawyers (e.g. Bates Wells).

### Indicators<sup>A</sup>

Indicator	Value
GDP PPP (2011 US\$, billion)	2,624.6
Total Population	66.2
GINI Index	33.2
HDI	0.922
MPI	N/A
EPI	79.89

### KEY PLAYERS

Asset Owners	Asset Managers	Impact Entrepreneurs
Big Society Capital	Aberdeen Standard	Belu Water
CDC Group	AXA Investment Managers <sup>18</sup>	Bshirt
Ceniarth LLC	Baillie Gifford	Cafédirect
Esmée Fairbairn Foundation	Barclays	DS Smith
Local Government Pension Scheme - Brunel, Greater Manchester, Merseyside	Big Issue Invest, Bridges Fund Management, Resonance	Hey Girls
HSBC Pension Fund	Columbia Threadneedle	Kroton Education
Legal & General Investment Management	M&G	Me myself and I

### SPOTLIGHT DEALS<sup>B</sup>

Company	Total Funding	Main investors	Sector
Fair For You	£2 million	Big Issue Invest, Joseph Rowntree Foundation	Financial inclusion
PEG Africa <sup>19</sup>	\$25 million	CDC Group	Solar home systems, female economic empowerment
World of Books	£13 million	Bridges Fund Management	Circular economy
DS Smith	N/A	Aberdeen Standard	Circular economy
Resonance Real Lettings Property Fund	£56.8 million	Big Society Capital, L&Q Housing Association, Croydon Council	Housing

## ABCs of the UK Impact Economy<sup>C</sup>

An impact economy is a just and equitable economic system in which positive impact is embedded alongside risk and return. In an Impact Economy, governments, organizations, investors and consumers are motivated to include marginalized and underserved sections of society into the mainstream alongside consideration for our planet and its environment.

The following table shows actions undertaken by different stakeholders in the UK for the adoption of strategies that **A**void harm, **B**enefit all stakeholders, and **C**ontribute to solutions. The impact investing sector has developed considerably in the UK, notably through the traditionally robust third sector in the country which has lent the idea of social investment more resonance. The UK government has also provided strong support to foster the impact ecosystem.

	Avoid Harm	Benefit all stakeholders	Contribute to Solutions
<b>IMPACT IN BUSINESS</b>	<ul style="list-style-type: none"> <li>▲ In order to enforce greater transparency in companies' supply chains, the UK Modern Slavery Act requires since 2015 commercial organizations to publish an annual slavery and human trafficking statement.</li> </ul>	<ul style="list-style-type: none"> <li>▲ 114 British companies are now part of Dow Jones Sustainability Index 2019. The index assesses companies on ESG as well as sustainable business practices.</li> <li>▲ Benefit Corporation Certifications were launched in the UK in 2015 and there has been a steady increase in certifications, from 61 in 2015 to 161 in 2019.</li> </ul>	<ul style="list-style-type: none"> <li>▲ Social enterprise is worth £60 billion a year to the UK economy, and there are over 100,000 social enterprises in the UK.</li> </ul>
<b>IMPACT IN INVESTMENT</b>	<ul style="list-style-type: none"> <li>▲ Driven mainly by 'risk management' and 'client demand' the UK is one of the most advanced markets concerning ESG integration in the investment process. However, respondents to the 2019 UN PRI survey noted that corporate governance issues are much more systematically included in the investment process than environmental or social issues.</li> <li>▲ Responsible investment in the UK in 2017 amounted to USD 7.7 trillion.</li> </ul>	<ul style="list-style-type: none"> <li>▲ The UK green bond issuance in 2017 was \$ 2.3 billion, placing the country in the 15th place in 2017 country rankings.</li> <li>▲ Sustainability and best in class investment in the UK in 2017 reached a value of \$ 40.676 million.</li> </ul>	<ul style="list-style-type: none"> <li>▲ There is an estimated £3.5 billion of outstanding investment in charities and social enterprises as of the end of 2018, a 32% increase year on year.</li> <li>▲ The UK is the birthplace of the first Social Impact Bond (SIB) launched in September 2010 to decrease reoffending rates among prisoners in Peterborough. Social Finance UK deployed the SIB, which reduced reoffending by 9%, and the investors have been repaid. In total, there are 70 SIBs which have run or are running in the UK, with at least another 20 in the pipeline.</li> <li>▲ Fair By Design is a pioneering fund that invests in businesses tackling the Poverty Premium, which is the additional costs low-income families pay for everyday products &amp; services. They aim to eradicate the poverty premium by 2027.</li> </ul>
<b>IMPACT IN POLICY</b>	<ul style="list-style-type: none"> <li>▲ Legislation now requires pension trustees to set out how they take account of financially material factors "including those arising from ESG, including climate change" as well as whether they take account of non-financial factors such as member views (and, if they do, how they take account of such views).</li> </ul>	<ul style="list-style-type: none"> <li>▲ The Social Value Act (2012) requires public sector agencies, when commissioning a public service, to consider how the service procured could bring added economic, environmental and social benefits. We expect imminently the government to announce new policy requiring commissioners to account for social value in the award of central government contracts.</li> </ul>	<ul style="list-style-type: none"> <li>▲ A specific legal form, the Community Interest Company, was established by the government for social enterprises.</li> <li>▲ The Charities (Protection and Social Investment) Act in 2016 provided a legal definition for social investment, thereby becoming a useful building block for more advanced policy work.</li> <li>▲ Social Investment Tax Relief (launched in 2014) gives individuals who invest in qualified social sector organizations a 30% discount on that investment in their income tax bill for the year.</li> <li>▲ The Community Investment Tax Relief (launched in 2002) is a tax incentive for investors in accredited Community Development Finance Institutions (CDFIs) in the UK.</li> </ul>
<b>IMPACT IN CONSUMPTION</b>	<ul style="list-style-type: none"> <li>▲ 3 in 5 people in the UK believe that financial institutions should avoid investing in companies that harm people and planet.</li> <li>▲ Most people (57%) want their pension to be sustainable and reflect their values.</li> <li>▲ 53% of shoppers in the UK state feeling better when they buy sustainable products.</li> <li>▲ 80% of consumers in the UK think it is very important that fashion brands tackle issues of global poverty and climate change.</li> </ul>		

# SDG Dashboard and Trends

## CURRENT ASSESSMENT - SDG DASHBOARD



■ Major challenges 
 ■ Significant challenges 
 ■ Challenges remain 
 ■ SDG achieved 
 ■ Information unavailable

## SDG TRENDS



↓ Decreasing 
 → Stagnating 
 ↗ Moderately improving 
 → Maintaining 
 ↑ On track 
 ●● Information unavailable

## Key Initiatives

### Impact measurement

The Impact Management Project (IMP) is a forum for building global consensus on how to measure and manage impact. Its origins lay with Bridges Fund Management, however, now an organization with its own identity, the IMP structured network is an unprecedented collaboration of organizations, that through their specific and complementary expertise, are coordinating efforts to provide complete standards for impact measurement and management.

### Clarification of fiduciary duty

The Investment Intermediaries Fiduciary Duties Reform permits trustees to make investment decisions based on non-financial factors provided there is no significant financial detriment to the fund. As of October 2019, trustees of occupational pension schemes are required to have a policy on how they take account of financially material ESG factors, including climate change, and on whether they take account of non-financial factors such as member views.

### Put purpose at the heart of public procurement

The government has proposed a 10% minimum weighting for social value in the award of central government contracts and expects to take a decision on this later this year. As the single largest buyer of goods and services in the UK, the Government has an unparalleled opportunity to use its procurement spend to address social and environmental issues.

### Use of outcome-based contracts

The UK has been a pioneer in the use of outcomes-based contracts, with the first Social Impact Bonds (SIBs) being created there. To date, 70 SIBs have been commissioned in the UK, out of 151 worldwide. There is a pipeline of a further 20 SIBs, including the largest ever SIB in the UK. The project, run by Kirklees Council to tackle homelessness, totals £23m, including a contribution of £6.6m from the government's £80m Life Chances Fund.

### Understanding UK public demand for impact investment

The Department for International Development in partnership with PwC conducted the largest survey of UK attitudes to value-based investing and found that 3 in 5 people in the UK believe that financial institutions should avoid investing in companies that

harm people and planet. Most people (57%) want their pension to be sustainable and reflect their values.<sup>20</sup>

### Tax incentives for social enterprises and charities

The UK government has developed two main fiscal levers which are Community Investment Tax Relief (CITR) and Social Investment Tax Relief (SITR) to unlock additional capital for impact enterprises and investors. Both, however, have faced challenges and volumes have not met original targets. HM Treasury led a consultation on its extension and expansion earlier this year, the results of which are due to be announced later this year.

### Accelerate the rise of purposeful businesses

In 2019, for the fifth year, Social Enterprise UK ran a national 'Buy Social' campaign which aims to boost the number of UK consumers buying from social enterprises. Benefit Corporation Certifications were launched in the UK in 2015 and there has been a steady increase in certifications, from 61 in 2015 to 161 in 2019. The British Academy has launched a research programme into the purpose of business and its role in society.

### Good Finance

In 2016, Good Finance was launched to help social enterprises and charities navigate the complex world of social investment.<sup>21</sup> Their website, which has been visited by over 100,000 people to date, includes diagnostic tools that help you decide whether social investment is right for your organisation and lists 80 social investors and advisers.

### Growing a culture of social impact investing in the UK

In 2016 the UK government set up an Independent Advisory Group on Growing a Culture of Impact Investing in the UK, to ask how the providers of savings, pensions and investments could engage with individuals to enable them to support more easily the things they care about through their savings and investment choices. Following the Advisory Group's report in 2017<sup>22</sup>, the Prime Minister launched an Implementation Taskforce with a one year mandate to identify specific next steps. The final report by the Implementation Taskforce highlights the progress made over the year and level of engagement across the private, public and social sectors.<sup>23</sup>

# Road to Impact Economy

## PATH TO TIPPING POINT 2020

- ▲ The Impact Investing Institute, which was announced on 3 June 2019, brings together the UK National Advisory Board on Impact Investment and Implementation Taskforce on Growing a Culture of Social Impact Investing in the UK. Its vision is that people's lives improve as more investors choose to use their capital to help solve social challenges.
- ▲ It has three objectives: mobilise big pools of capital; make capital more accountable; and empower people to save and invest in line with their values. The III will focus on increasing the impact of major pools of capital, to leverage its strong connections with institutional investors. It will work on initiatives that improve the effectiveness and accountability of capital seeking to have a positive impact, and it will provide and disseminate information to help people invest with impact.
- ▲ It has broad backing from the financial services and social sector, the City of London Corporation and government (Government Inclusive Economy Unit and Department for International Development). With the strong support of its network of volunteers, it will take forward key projects to move towards the Impact Economy 2030.
- ▲ The Impact Investing Institute will work alongside and learn from the numerous other market building initiatives in the UK and elsewhere, which make important and valuable contributions to moving the UK towards the Impact Economy 2030.

## TRANSITION TO IMPACT ECONOMY 2030

- ▲ Continue to raise awareness and understanding that people have a choice to invest their savings and pensions in line with their values.

- ▲ Further increase the confidence and competence of independent financial advisors and pensions trustees so that there is widespread understanding of the social reasons to offer impact products and potential risks in not doing so.
- ▲ Help people interested in investing for positive social impact. This requires defined contribution pension plans<sup>24</sup>, retail funds and other savings vehicles to provide affordable products that are easily accessible to all who are interested.
- ▲ Move big pools of capital at scale by facilitating quality product / fund offerings that deliver measurable positive social and environmental impact.
- ▲ Promote transparent, consistent and comparable impact reporting that reflects and drives real impact.
- ▲ Facilitate convergence of approaches to environmental and social impact measurement and reporting by businesses, social enterprises and investors.
- ▲ Ensure social enterprises and charities benefit from the growth in impact capital.
- ▲ Embed positive social impact in companies as 'business as usual', align employer pension product providers with corporate social responsibility policies, and encourage employee engagement on their pension preference.
- ▲ Improve data on the risk / return characteristics of impact investments to build trust in impact investing.
- ▲ Improve coordination across government departments on an increasingly aligned agenda.
- ▲ Introduce a supportive regulatory and policy environment for impact investment, e.g. Social Investment Tax Relief, social value at the heart of public and corporate procurement, and enhancing the 'S' in ESG at the European Union level.

### Footnotes:

- <sup>1</sup> **Environmental Performance Index** Available in: <https://epi.envirocenter.yale.edu/>; All other **indicators** available in: <http://hdr.undp.org/en/countries>
- <sup>2</sup> Information tends to be limited for specific rounds of funding. Therefore, in **Spotlight Deals**, 'Total Funding' refers to the total money that a specific company has raised. The investors listed may have participated in one or several rounds, and may have done so as lead or co-investors.
- <sup>3</sup> The **ABC** of the **UK Impact Economy** table is adapted from the IMP framework.

### Sources:

- <sup>1</sup> <https://www.ft.com/content/256f3d29-7762-37e0-86cf-7810eb527504>
- <sup>2</sup> <https://www.greenfinanceinstitute.co.uk/>
- <sup>3</sup> This includes investments from over 100 institutions such as AXA Investment Managers, Deutsche Bank and Manchester Greater Pension Fund.
- <sup>4</sup> <https://www.pensionsforpurpose.com/gmpf-case-study-updated-format.pdf>
- <sup>5</sup> **Baillie Gifford** Positive Change Fund is a global equity fund that invests in high quality growth companies delivering positive social change in one of four areas. The four areas are: Social Inclusion and Education; Environment and Resource Needs; Healthcare and Quality of Life; and Base of the Pyramid (addressing the needs of the world's poorest populations).
- <sup>6</sup> **BlueOrchard**, which focuses on microfinance, has invested \$6 billion in over 80 emerging and frontier markets across Asia, Eastern Europe, Latin America and Africa.
- <sup>7</sup> **Aberdeen Standard** Global Equity Impact Fund invests in listed companies and aims to support the delivery of measurable positive environmental and social impact while generating strong financial returns
- <sup>8</sup> **Columbia Threadneedle** Social Bond Fund invests primarily in UK bonds issued by companies, government agencies, voluntary organisations, and/or charities that engage in one of eight socially beneficial categories: (1) Community services, (2) Education, learning and skills, (3) Employment and training, (4) Financial inclusion, (5) Health & social care, (6) Housing & property, (7) Transport & communication infrastructure, (8) Utilities and the environment.
- <sup>9</sup> **M&G** Impact Financing Fund invests internationally predominately in private and illiquid debt to achieve a positive social or environmental impact
- <sup>10</sup> **Barclays** Multi-Impact Growth Fund invests across asset classes in impact managers and direct investments that generate a positive financial return while also making a positive impact on social and environmental issues.
- <sup>11</sup> A mission-led business refers to a business that: (i) can fully distribute its profits, with no legal restriction on profit distribution either through a profit lock or through legal form; (ii) identifies an intention to have a positive social or environmental impact as a central purpose of its business; (iii) makes a long-term or binding commitment to deliver on that intention through its business and operations; and (iv) reports on its social impact to its stakeholders. Deloitte, November 2016

- <sup>12</sup> <https://www.thirdsector.co.uk/social-enterprises-contribute-60bn-economy-year/social-enterprise/article/1493336>
- <sup>13</sup> The Government Inclusive Economy Unit mission is to build a country where society's most difficult social issues are being addressed by private investment, responsible business, and social enterprises in partnership with innovative public services. It sits in the Department for Digital, Culture, Media & Sport but has a cross-government mandate and works extensively with the private and social sectors.
- <sup>14</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/832541/Statistics-on-International-Development-final-aid-spend-2018.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/832541/Statistics-on-International-Development-final-aid-spend-2018.pdf)
- <sup>15</sup> Within DFID, the Private Sector Department (PSD) supports inclusive economic development by strengthening markets, catalyzing investments and partnering with the private sector. PSD has oversight of CDC, the Private Infrastructure Development Group, and the department's development impact bond and responsible business work.
- <sup>16</sup> The Global Social Enterprise Programme provides social entrepreneurs with access to training, mentoring and funding opportunities; promotes social enterprise education in schools and universities; conducts research and advises foreign policymakers.
- <sup>17</sup> 75% of Big Society Capital's investments are into first time funds, team or products.
- <sup>18</sup> AXA Investment Managers are both an asset owner and an asset manager.
- <sup>19</sup> <https://pegafrika.com/peg-africa-raises-25m-to-accelerate-off-grid-solar-expansion-in-west-africa/>
- <sup>20</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/834207/Investing-in-a-better-world-full-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/834207/Investing-in-a-better-world-full-report.pdf)
- <sup>21</sup> [www.goodfinance.org.uk](http://www.goodfinance.org.uk)
- <sup>22</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/664321/Final\\_Report\\_Growing\\_a\\_Culture\\_of\\_Social\\_Impact\\_Investing\\_in\\_the\\_UK.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664321/Final_Report_Growing_a_Culture_of_Social_Impact_Investing_in_the_UK.pdf)
- <sup>23</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/811914/Final\\_report\\_by\\_the\\_Implementation\\_Taskforce\\_Growing\\_a\\_culture\\_of\\_social\\_impact\\_investing\\_in\\_the\\_UK\\_2019.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/811914/Final_report_by_the_Implementation_Taskforce_Growing_a_culture_of_social_impact_investing_in_the_UK_2019.pdf)
- <sup>24</sup> With the introduction of autoenrollment, assets in Defined Contribution (DC) pension schemes are expected to increase six-fold to USD 200 bn by 2030, making this a great place to start promoting funds.

SUPPORTED BY:

