Threadneedle UK Social Bond Fund

Annual Social Impact Report 2017

For Professional Investors only

Social Performance Highlights

As of 31 March 2017

Overview

The Threadneedle UK Social Bond Fund was launched in January 2014 as the first fixed income fund to offer ordinary people, as well as institutional investors, an opportunity to see their savings and investments do social good, as well as produce a financial return. The fund's social objective is to support more inclusive and sustainable development in the UK.

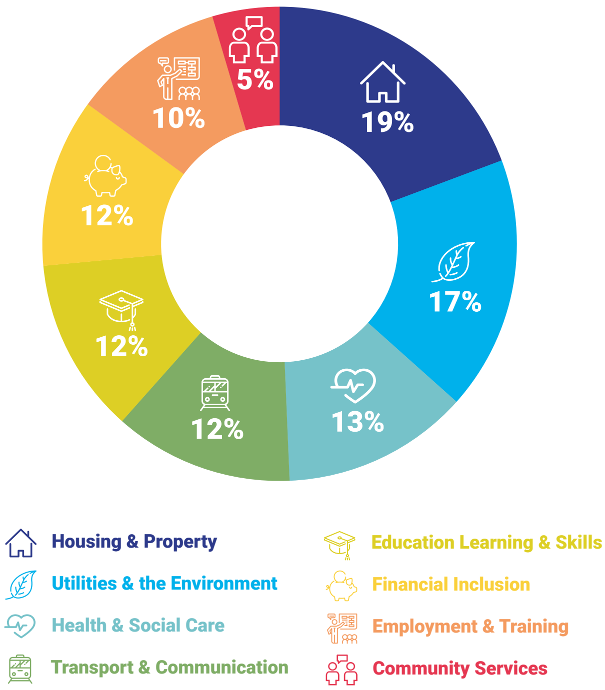
The fund was developed as a partnership between Big Issue Invest (BII), the social investment arm of The Big Issue, and Columbia Threadneedle, one of the UK's largest asset managers. Columbia Threadneedle manages the fund, and BII acts as the fund's social advisor.

£96M

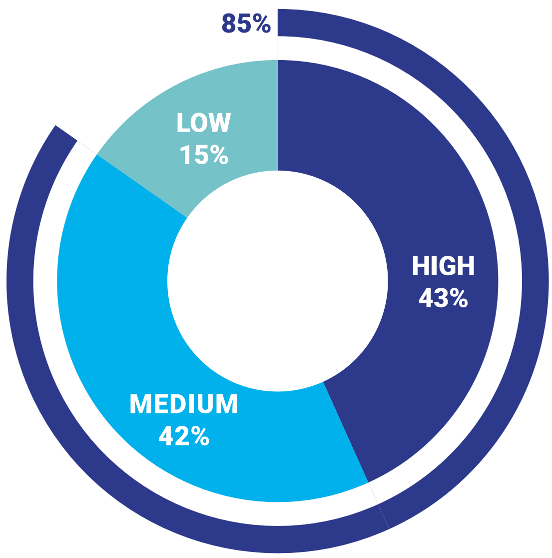
invested by both retail and institutional investors

96 bonds from 72 issuers

including charities, registered social housing providers and listed companies



Eight thematic impact areas: Diversified portfolio with an orientation towards **Affordable Housing (19%)**, **Utilities and the Environment (17%)**, **Health and Social Care (13%)**, **Infrastructure (12%)**, **Education, Learning and Skills (12%)**, **Financial Inclusion (12%)**, **Employment and training (10%)** and **Community Services (5%)**.



Social Performance (by value): **85% of bonds are rated high or medium** in terms of their overall social impact (up from 83% in 2016) and well above the performance target of 66%.


of the bonds are UK based, the remainder are global in reach
of the bonds support development in the North of England
of the bonds favour regional development outside the Greater South East
of the bonds have local or sub-regional catchment areas

Contents

By Social Entrepreneurs For Social Entrepreneurs BIG ISSUE INVEST

THE GOOD ECONOMY

Foreword

This third annual review of the UK Social Bond Fund coincides with a conventional milestone for a fund, namely a three-year track record.   In these crucial first three years the fund has exceeded £100m assets under management and outperformed on its objectives. This report deals with the Fund's performance in the social sphere. Financial performance is reported separately by the fund manager, Columbia Threadneedle Investments.

Readers can achieve a quick overview by reading the Social Performance Highlights (p.2) and the Summary of Social Performance Indicators (p.18) but I would encourage all to take the time to delve into the report in depth to gain a fuller understanding of the social impact the Fund is seeking to achieve.

Less immediately obvious from the objective and factual nature of this report are the efforts deployed by Big Issue Invest and Columbia Threadneedle Investments, both separately and jointly through the Fund's Social Advisory Committee, to develop the market for socially–geared mainstream investment products and, in particular, their availability to retail investors. These efforts range from lobbying to influence the mindset of important actors in the investment arena who can contribute to the creation of social value, to the encouragement of new bond issuance by existing and new issuers and new finance structures, such as aggregator models, to serve potential issuers currently too small to approach the market individually. We also continuously review and refine the social assessment methodology.

The track record of the past three years augurs well for the Fund's capability to meet the challenges of the next three years.

John Hale
Chair of the Social Advisory Committee
December 2017

Introduction

This is the third Annual Impact Report for the Threadneedle UK Social Bond Fund ("the fund") which was launched in January 2014 as the first mainstream, fixed income, impact investing offering in the UK.

The fund concept was developed by Big Issue Invest (BII), the social investment arm of The Big Issue Group, working in partnership with Columbia Threadneedle Investments (CTI), one of the UK's leading asset managers. CTI manages the fund and BII acts as the Social Advisor. The Good Economy Partnership prepared this Annual Impact Report on behalf of Big Issue Invest.

The social rationale for the fund has hardened in this year after the June 2016 referendum, when the short-term impacts of Brexit on living costs, business investment, jobs and public services have already surfaced for the worse. Relative poverty is increasing, social mobility shows no sign of improvement and generally the challenges in all of the fund's social outcome areas – such as social housing and health and care – are now bigger than at start of 2014. There is a consensus that the short-term impacts of Brexit – combined with the ongoing impact of public sector cuts and the job impacts of artificial intelligence-based innovation in workplaces across the UK – will create an even more challenging and uncertain environment. In these momentous times, the fund has emerged as a shining example of the type of social innovation that needs to flourish across the UK, so that inclusive and sustainable economic development becomes a reality.

During 2017, the fund achieved two significant milestones – a three-year track record and £100m assets under management. The fund has delivered annualised financial returns of 6.6%, better than the financial returns of similar corporate bond funds with no social purpose, demonstrating that there does not need to be a trade-off between financial and social returns.

We strongly believe that investors have a critical role to play in ensuring investment is used to contribute positively to society. 2017 marked a significant increase in both the profile and activity of impact investing. The launch of the United Nation's Sustainable Development Goals (SDGs) provided a clear framework and momentum to increase the role of the private sector in tackling global development challenges. The SDGs are ambitious, and the cost estimates for achieving them range from US$2-7tn per year.[1]

This fund provides an opportunity for investors to put their money behind meeting the UK's social challenges, without losing sight of financial objectives. The fund has received investment from a variety of investors across the client spectrum, from large institutional investors in the UK and overseas, but crucially also from individuals who invest through wealth management platforms and private banks. The fund is available for purchase by retail investors on most of the major investment platforms, and we continue to see strong interest and steady inflows from this client segment.

This report presents how the fund is supporting the delivery of positive impact for the period ending 31 March 2017.

[1] *Estimates by the World Bank and United Nations.*

The Fund's Social Objective

The ultimate goal is to support more inclusive and sustainable economic development, primarily in the UK.

The fund achieves this objective by investing in a diversified portfolio of bonds across eight thematic impact areas, including affordable housing, education, financial inclusion and infrastructure. The fund's impact investment strategy is aligned with the United Nations Sustainable Development Goals (SDGs), and supports the achievement of the SDGs in the UK.

The fund manager actively manages the portfolio to meet impact expectations whilst simultaneously aiming to deliver UK investment grade corporate bond-type returns, optimising the balance between financial return, risk, liquidity and impact. The fund's stand-out feature in the mainstream market is its social objective.

A percentage of the fund's earnings goes towards supporting Big Issue Invest in its work financing social enterprises – businesses with a primary purpose of tackling poverty through opportunity – adding an additional layer of social impact to any investment made in the fund (see box on page 8).

The Role of Big Issue Invest

Big Issue Invest is engaged with the fund in three ways:

01 BII developed core elements of the Social Assessment Methodology, which is used by CTI to assess the social performance potential of individual bonds.

02 Through membership of the Social Advisory Committee (SAC), BII reviews, advises on and challenges the social impact characteristics, assessments of and developments around bonds and sectors.

03 BII monitors and assesses the fund's overall social performance, and publishes this Annual Social Impact Report which is prepared by The Good Economy Partnership (TGE).

The Big Issue Group

The Big Issue is the UK's most trusted social brand. Launched in 1991, The Big Issue provides individuals facing poverty or social exclusion with an opportunity to run their own micro-business by selling The Big Issue magazine on the street. The aim is to equip them with practical business skills and build confidence and self-esteem through daily interaction with customers. Vendors purchase The Big Issue magazine for £1.25 and sell it to the public for £2.50, making a profit and providing a legitimate income. The magazine has sold over 200 million copies, and supported 100,000 vulnerable vendors. The Big Issue currently works with around 1,500 vendors in England, Scotland and Wales every year, and circulates 82,000 copies per week.

Started in 2005, Big Issue Invest (BII) is the social investment arm of The Big Issue Group. BII advances the group's mission by backing social ventures and charities that prevent and tackle poverty and create opportunity for all. BII investments range from £50,000 to £3m and take the form of early stage finance, loans, and equity. BII has invested £30m in over 300 organisations, helping to improve the quality of life in Britain's poorest communities.

In 2016-17 alone, BII committed £6.3m in investment to help grow high impact social businesses through the Social Enterprise Investment Fund II, made £2.4m smaller scale loans to social enterprises and charities and £1.1m to early stage social ventures through the Corporate Social Venturing programme. Some examples of BII's social investments are as follows:

Street UK

Street UK was established in 2000 to support financially excluded people in the West Midlands through the provision of short-term credit. A typical customer is a low-income, lone parent looking to cover a looming financial crisis like the breakdown of a home appliance. They are ethical lenders seeking to change the marketplace for their customers, offering loans that are fair, affordable, transparent and simple. As a non-profit lender, all surpluses go back in to investing in the communities they serve.

The Street UK service is about more than just money: 79% of customers say that getting a Street UK loan had more than just a financial impact. BII's Social Enterprise Investment Fund II lent Street UK £500,000 to help expand their online offer, reaching more customers at a lower cost, and ultimately reducing the cost of lending to customers.

Bernie Grant Arts Centre

The Bernie Grant Arts Centre is a multi-purpose arts centre in Tottenham which includes a 274-seat auditorium, cinema, rehearsal space, a café, and an enterprise centre. It was founded to commemorate the late Bernie Grant MP, a champion of black and ethnic minorities within his constituency and beyond. The Centre is his legacy; it aims to support development of diverse cultural and creative artists and have a demonstrably positive impact on the quality of life of local communities. The vision of the centre is to make a substantial contribution to the social and economic regeneration of Tottenham. BII lent the organisation £60,000 to support its growth and development.

Off the Scale

Off the Scale is a not-for-profit vintage shop. Founder Eddie O'Callaghan has bipolar disorder, and for many years stigma around the condition meant he wasn't able to treat it effectively. The business uses its role in the market to destigmatise mental health problems among its young, fashion-conscious customer base. The team handpicks and purchases clothing from charity retailers' unused stock and remarkets it for customers seeking out one-off vintage items. Many items are 'up-cycled', with alterations provided by a partner social enterprise, St Anne's Textiles, that provides work experience for young people with mental health issues. Sales are made through an online shop and a mobile vintage bus that travels around university campuses, events and festivals. The shop's employees are young people from Birmingham who suffer from mental health problems. Whilst on the road with the shop, the team spread the message around destigmatising mental illness. BII supported the organisation with both a loan and business mentoring and support through the Corporate Social Venturing programme.

The Social Assessment Methodology

The Threadneedle UK Social Bond Fund is a positively screened, actively-managed fund. Each bond is assessed and selected for its potential to deliver a positive impact.

The fund is distinctive in four respects. It:

- Is social outcome-driven and makes investments that aim to respond directly to the UK's social needs and challenges (taking into account the WHAT, WHO and HOW MUCH dimensions of impact).
- Takes into account the varied geography of social need and the different spatial levels of social value creation (local, regional, national and supranational) (WHERE is impact created)
- Recognises that social value is co-created and social performance can therefore be attributed to the Issuers, the fund and investors themselves (CONTRIBUTION).
- Manages risk from both a financial and social perspective, recognizing the possibility of a failure to deliver the intended positive impact and the need for constant impact performance monitoring and active management (RISK).[2]

The fund's assessment methodology ensures that impact considerations are fully integrated into investment decision-making and ongoing fund management.

Social Outcome Areas

The fund invests in bonds in eight thematic impact areas with the following goals:

1. AFFORDABLE HOUSING – supporting the increased provision of quality, affordable housing for low-income individuals and families.

2. COMMUNITY SERVICES – improving community services that aid well-being, particularly for people with specific social needs.

3. EDUCATION – supporting wider participation in higher education and promoting social mobility.

4. EMPLOYMENT AND TRAINING – supporting inclusive job growth in major employment sectors.

5. FINANCIAL INCLUSION – improving access to affordable financial services for all.

6. HEALTH AND SOCIAL CARE – improving basic and innovative health and social care services.

7. TRANSPORT AND COMMUNICATION INFRASTRUCTURE – investing in national and regional infrastructure, particularly outside of London and the greater South East.

8. UTILITIES AND ENVIRONMENT – supporting the provision of affordable and sustainable water, energy and other essential services.

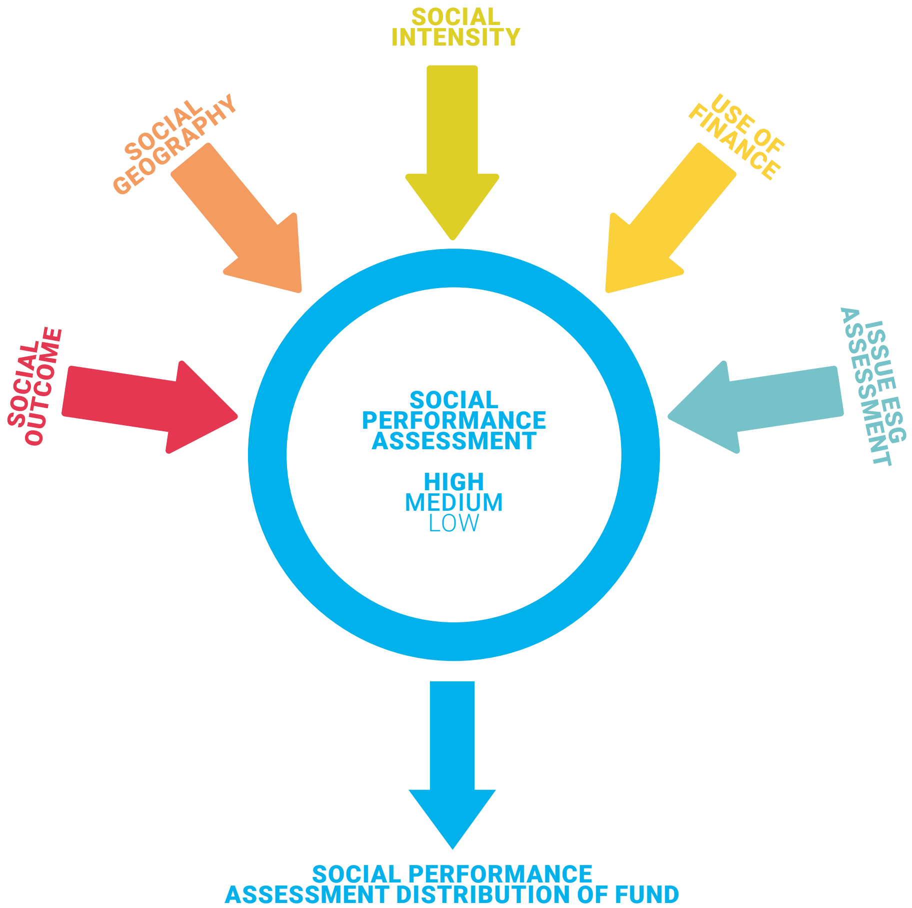
The fund's goals are aligned with the United Nations SDGs which were launched in 2016 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. The UK is currently developing an SDG implementation strategy. This fund provides a means to support achievement of the SDGs. In the coming year, we will work with CTI to demonstrate how the bond's investment strategy and portfolio is aligned with and helps deliver specific goals.

[2]The Fund takes into account the 'five dimensions of impact' as developed by "The Impact Management Project, which aims to build consensus on the shared fundamentals of impact – so there is common understanding of impact (the effects on people and the planet, both positive and negative) as there is for financial performance dimensions, such as return, risk and liquidity.

Social Assessment

The CTI Responsible Investment team carries out a social due diligence of all eligible bonds and provides an overall social performance rating (high, medium or low).

Some bonds have more direct and tangible social benefits and impacts than others. However, in all cases the fund invests in bonds that are assessed to have net positive impacts. The social assessment focuses on five areas:



i. Social Outcome: an analysis of the nature of the primary and secondary effects of the bond and who benefits. A higher rating is given to bonds that have clearly defined and measurable outcomes. Analysis is made of both the primary outcome area e.g. transport infrastructure, and also the secondary outcome e.g. employment and training. All social benefits are assessed and, where possible, quantified.

ii. Social Geography: the extent to which the project or activities financed by the bond has a geographical footprint that benefits disadvantaged communities and the UK's less competitive regions.

iii. Social Intensity: the extent to which the bond directly targets people and communities most in social need. A higher rating is given to bonds which benefit specific disadvantaged groups – for example, low-income households or people with disabilities.

iv. Use of Finance: the fund favours bonds where the proceeds of the bond issuance are used to fund a specific project with tangible and measurable social benefits, rather than for general corporate purposes. The fund also targets new bond issues where it can contribute to growing a new or under-supplied capital market, such as the charity bond market.

v. ESG Rating of the Issuer: the bond should have an Issuer with a good Environmental, Social and Governance (ESG) rating. CTI's Responsible Investment team carries out this assessment, leveraging its own well-developed ESG methodology and approach.

Each bond's overall Social Performance Rating is based on combining its scores for the five different assessment criteria. The fund's portfolio includes a mix of bonds with high, medium and low social performance ratings.

The fund's overall social performance target is to have at least two-thirds of bonds rated as high and medium social performance.

We monitor and analyse impact-related performance data, where available, on an ongoing basis and report on social performance annually through this report. The quality of impact measurement and management varies across the fund's portfolio. Organisations issuing bonds for a specific social purpose, such as registered social housing providers and charities, typically track and report on results achieved.

Both BII and CTI recognize that the impact measurement as it relates to impact investing is an emerging field. We are committed to being actively engaged in this field, and will continue to review and refine our approach in line with industry developments and standards.

A positive development in this regard was the launch of The Social Bond Principles in June 2017 by the International Capital Market Association (ICMA). The CTI team participated in the development of these guidelines sharing lessons learned from the UK Social Bond Fund. The principles represent an important step in the further development of social impact-oriented bond issues. Social Bonds are defined as "use of proceeds bonds that raise funds for new and existing projects with positive social outcomes. Social projects are those that directly aim to help address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially, but not exclusively, for a target population." The majority of the fund's portfolio qualify as social bonds.

Social Advisory Committee

A Social Advisory Committee (SAC) meets quarterly to review and challenge individual bond social assessments (and therefore the overall social performance of the fund), assess risks and provide advice on sector developments and development of the social assessment methodology. An annual policy and planning meeting is also held to review the Social Assessment Methodology, as well as to discuss strategy and developments and opportunities relevant to the fund and its outlook.

The committee comprises an independent chair (John Hale, formerly a manager in Investment Affairs at the Association of British Insurers), BII-appointed members (Nigel Kershaw, Chair of The Big Issue Group, Madeleine Thornton, Big Issue Invest, Sarah Forster and Mark Hepworth of The Good Economy Partnership,) and two Columbia Threadneedle Investments members (Iain Richards, Head of Responsible Investment and Simon Bond, Fund Manager). See annex 2 for biographies.

Portfolio Performance

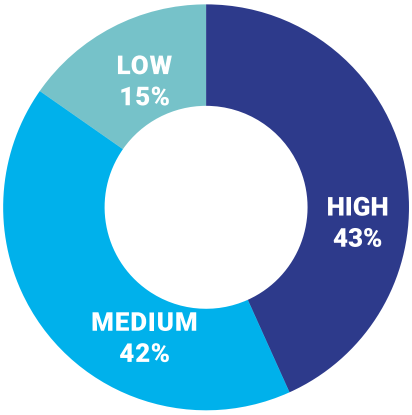
As of March 2017, the Fund had raised £96 million from both institutional and retail investors (up from £86 million in March 2016). The Fund was invested in 96 bonds from 72 issuers, including charities, registered social housing providers and companies. The top 25 holdings representing 61% of the Fund’s value are listed overleaf.

Top 25 Bond Holdings, 2017

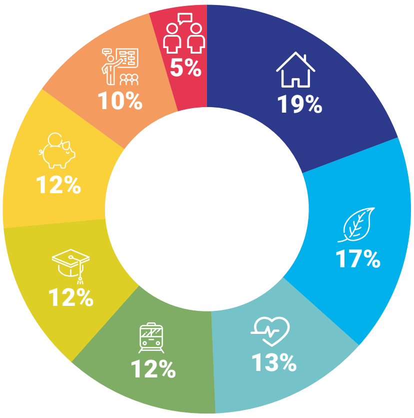
NAME OF ISSUER	SOCIAL OUTCOME AREA	SOCIAL RATING	% OF PORTFOLIO (MARCH 2017)	% CHANGE (2016-2017)
BUPA	Health and Social Care	Medium	3.98	0.62
Wellcome Trust	Health and Social Care	High	3.95	-0.17
Motability Operations Group	Financial Inclusion	High	3.52	-0.23
Lloyds ESG	Employment and Training	Medium	3.42	0.34
UNITE Students	Education Learning and Skills	Medium	3.29	-0.29
Manchester Airport Group	Transport and Communication Infrastructure	Medium	3.18	0.00
Nationwide Building Society	Financial Inclusion	Medium	3.04	0.08
Dwr Cymru (Welsh Water)	Utilities and the Environment	High	2.75	1.01
A2 Dominion Housing Association	Housing and Property	High	2.41	0.17
Legal and General	Financial Inclusion	Low	2.39	1.69
Northern Ireland Electricity	Utilities and the Environment	Medium	2.30	0.06
BBC Pacific Quay	Transport and Communication Infrastructure	High	2.12	-0.75
Wheatley Housing Association	Housing and Property	High	2.11	-0.24
Charities Aid Foundation	Community Services	High	2.11	0.41
Pennon (South West Water)	Utilities and the Environment	Low	2.08	-0.09
London & Quadrant Housing Association	Housing and Property	Medium	2.05	1.56
Electricity North West	Utilities and the Environment	High	2.03	0.14
Scottish and Southern Energy	Utilities and the Environment	Low	1.97	0.99
Intu Metrocentre	Employment and Training	Medium	1.88	-0.08
Places for People Homes	Housing and Property	High	1.75	-0.34
Cardiff University	Education Learning and Skills	High	1.72	0.12
Associated British Ports	Transport and Communication Infrastructure	Medium	1.68	0.75
Sanctuary Capital	Housing and Property	High	1.66	-0.16
Circle Anglia Social Housing	Housing and Property	High	1.64	0.06
IADB EYE bond	Education Learning and Skills	High	1.63	-0.12
			60.66	

Overall Performance

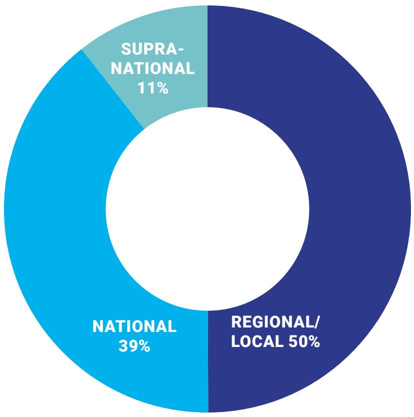
During 2016/17, the fund continued to perform well against its key social performance targets.



Social Performance: by value, 43% of the bonds fall into the high social performance category, 42% into medium and 15% were rated as low. The fund continued to perform well above the original expectation of having 66% of the portfolio rated as high or medium.



Social Outcomes: by value, the fund remained diversified across its eight impact areas with an orientation towards **Affordable Housing (19%)**, **Utilities and the Environment (17%)**, **Health and Social Care (13%)**, **Infrastructure (12%)**, **Education, Learning and Skills (12%)** and **Financial Inclusion (12%)**.



Social Geography: the impacts of 89% of investments are concentrated in the UK. Half of the UK-based investments provide positive benefits at the regional-local level, with a focus on more disadvantaged regions and communities. The fund has a 10% allocation to bonds with a high impact in developing countries.

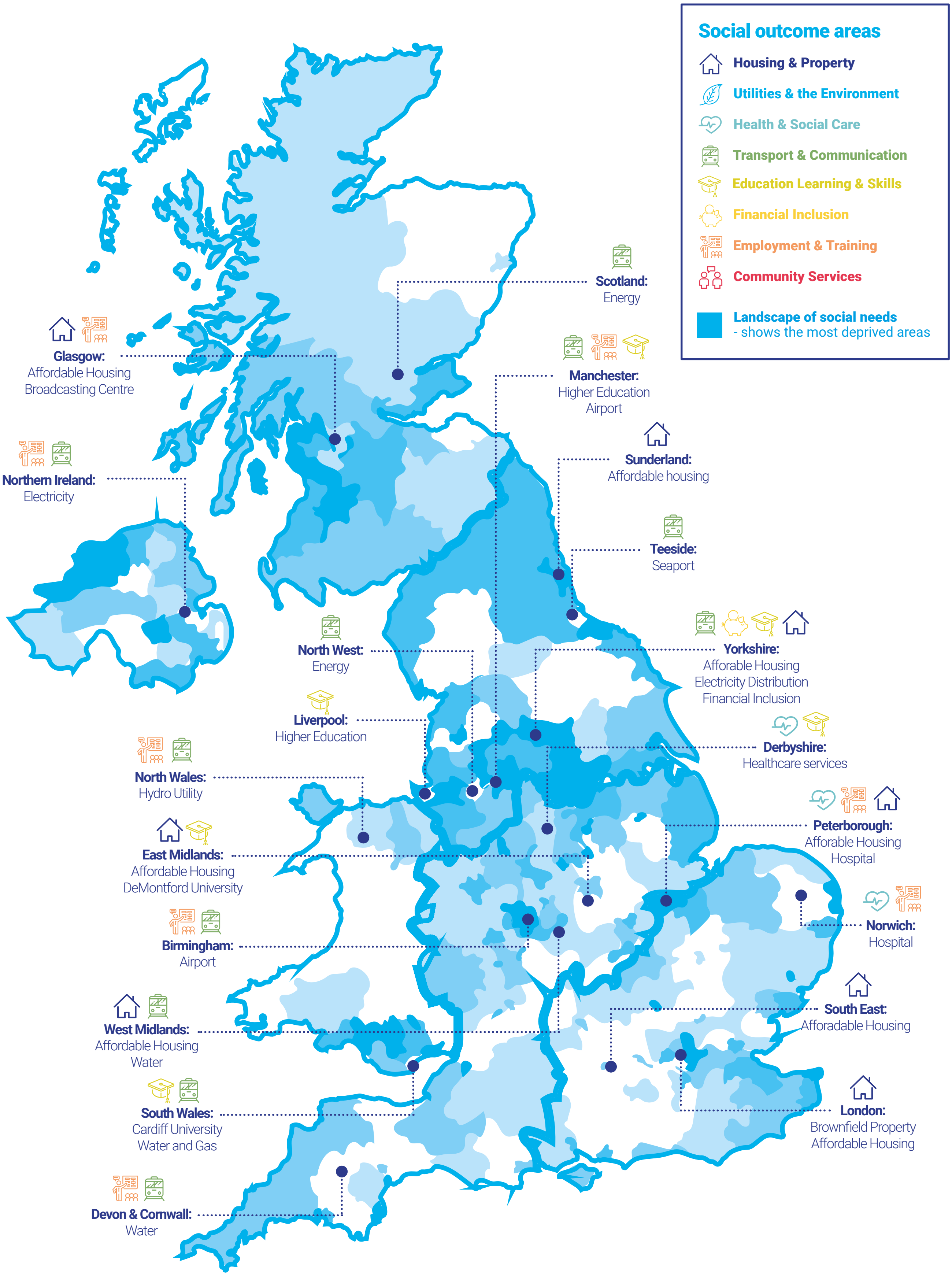
The fund supports balanced and inclusive economic development:

- 75% of the ‘regional-local’ investments in the fund are outside the high-growth Greater South East (including London)
- 33% of investments benefit the North of England
- The Midlands and South West each have a 20% share of investment
- Scotland and Northern Ireland have a combined share of 9% and Wales 11%

The map below helps to visualise the geography of the fund’s investments within the UK (for a selection of holdings). The fund is invested in every nation and region of the UK, helping to support inclusive and sustainable economic development – “an economy that works for everyone”. The investments are mapped onto the UK’s landscape of socio-economic deprivation, showing that the fund is supporting many of the country’s most disadvantaged communities.

Investment for Inclusive and Balanced Development in the UK

The geographical distribution of the fund's investments (selected holdings).



Overall Jobs Performance

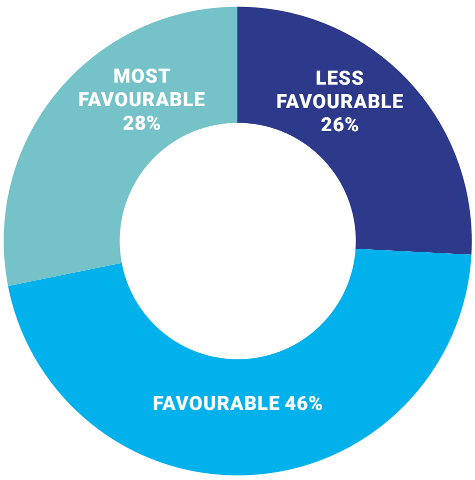
Inclusive job growth is central to meeting the UK's social and economic challenges. Poverty eradication is only possible through stable and well-paid jobs. Poor job quality is linked to underemployment, 'working poverty' and low productivity. Inclusive job growth lies at the heart of the SDG Framework covered by two goals: SDG8, "inclusive and sustainable economic growth, full and productive employment and decent work for all", and SDG 10, "tackling inequality within and among countries".

We track the employment performance of the fund using the "Jobs Assessment Methodology" (JAM) developed by The Good Economy Partnership, on behalf of Big Issue Invest. The JAM rates the jobs performance of all sectors of the UK economy using four sets of indicators and indices:

- **Employment Index:** Relative employment scale and growth of the sector
- **Wage Index:** Median earnings in the sector relative to the living wage
- **Accessibility Index:** Proportion of the sector's workforce with intermediate or higher level vocational qualifications (NVQ level 3)
- **Geography Index:** Concentration of sector employment in high-deprivation areas

Using the JAM methodology, 74% of bonds (by issuer) are concentrated in sectors of the UK economy with a favourable jobs performance. These favourable job sectors include utilities, health and care, housing associations and wholesale and retail trade.

Job Performance (by number of bonds)



Three job-related aspects of the fund's issuer-sector profile are worth highlighting:

- 81% of bonds are concentrated in sectors that have a relatively high employment concentration in the most deprived areas of the UK (down 6%) – notably affordable housing, utilities and health and care.
- 42% of bonds are concentrated in sectors that have favourable median earnings, up 7% from 2016 due to a higher representation of utilities and financial sector bonds in the fund. The fund's overall earnings performance reflects the lower wage levels in retail and wholesale trade, and to a lesser extent in affordable housing and health and care.
- 52% of bonds are concentrated in sectors that provide intermediate (NVQ3) level job opportunities, including apprenticeships (down 3%) – notably utilities and retail trade, where many of the larger energy companies and retailers lead the way on apprenticeships.

Three-Year Performance Trends

The fund's portfolio has steadily increased in scale by all measures, whilst maintaining a high level of overall social performance (85% rated medium or high).

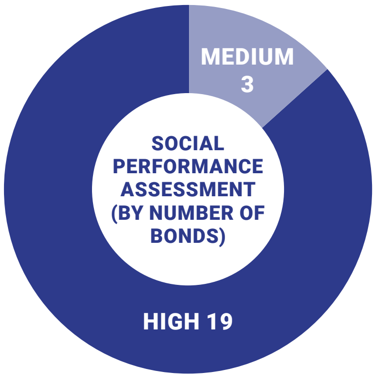
The fund's investments are increasingly concentrated in the UK, and in regions and nations outside the greater South East (including London). The fund maintains a diversified bond portfolio which has become more evenly spread across the eight social outcome areas, with community services, employment training, education and financial inclusion growing relatively. The fund's overall jobs performance, based on its underlying sector composition, has weakened, but remains highly positive.

		2015		2016		2017	
PORTFOLIO	Value	£68.5m		£86.1m		£95.7m	
	Number of Bonds	79		83		96	
	Number of Issuers	60		66		72	
	Largest Issuers (% of fund by Value)	4.5		4.1		4.0	
	Largest Issuer	Motability		Wellcome Trust		BUPA	
	Top 25 Issuers (% of fund by Value)	71.4		63.3		60.7	
		% OF BONDS	% OF VALUE	% OF BONDS	% OF VALUE	% OF BONDS	% OF VALUE
SOCIAL INTENSITY PERFORMANCE	High	39.2	42.1	38.6	42.0	37.5	43.3
	Medium	39.2	43.7	44.6	47.8	37.5	41.5
	Low	21.5	14.2	16.9	10.1	25	15.3
SOCIAL OUTCOMES	Community Services	1.3	1.5	3.6	3.8	3.1	4.6
	Education Learning and Skills	6.3	9.2	10.8	13.6	8.3	12.0
	Employment and Training	15.2	7.6	13.3	8.5	13.5	10.4
	Financial Inclusion	8.9	9.4	10.8	8.6	15.6	11.5
	Health and Social Care	15.2	15.5	12.0	13.3	8.3	12.7
	Housing and Property	24.1	22.9	22.9	17.7	22.9	19.3
	Transport & Communication Infrastructure	13.9	17.6	10.8	16.7	10.4	12.2
	Utilities and the Environment	15.2	16.3	15.7	17.8	17.7	17.3
SOCIAL GEOGRAPHY	Regional-Local	48.1	52.0	49.4	53.4	47.9	49.9
	National	38.0	34.9	41.0	34.9	44.8	39.4
	Supra-national	13.9	13.1	9.6	11.7	7.3	10.6
REGIONAL GEOGRAPHY	Outside of Greater South East	73.7	69.9	75.6	73.6	73.9	75.7
	Midlands and South West	15.8	15.1	17.1	14.1	19.6	17.7
	North	36.8	28.2	36.6	30.9	32.6	29.8
	Scotland and Northern Ireland	10.5	17.0	9.8	14.3	8.7	13.4
	Wales	7.9	3.8	9.8	10.2	10.9	13.0
	Multi-Regional	2.6	5.8	2.4	4.0	2.2	1.8
	Greater South East	26.3	30.1	24.4	26.4	26.1	24.3
JOB PERFORMANCE	Favourable Overall Jobs Performance	84.8	81.3	83.1	76.7	74.0	73.8

Performance by Social Outcome Area

Affordable Housing (22 holdings, 17 issuers)

Increasing the provision of quality, affordable homes



Lack of affordable housing and rising homelessness are major challenges in the UK. Affordability – both of rental and purchase property – is a key concern, with the gap between earnings and high property prices meaning home ownership is increasingly out of reach for many people. Overcrowding, evictions, the use of temporary accommodation and rough sleeping are all on the rise, with destitution and homelessness at a level that hasn't been seen in decades. Investment in new housing is needed in all segments of the market, but there is a particularly urgent need to provide quality, affordable homes for people on lower incomes who are suffering the worst effects of the housing crisis. Currently, 1.2 million households are sitting on local authority waiting lists.[3]

"The homelessness situation is returning to the desperate times of the 1990s. Radical action is needed." Lord John Bird, The Big Issue Founder

Registered housing providers are a crucial part of the solution to the affordable housing crisis. There are around 1,500 registered social housing providers (housing associations and local authorities) providing approximately 2.65 million social homes in England and Wales (17.5% of total housing stock). Registered providers build one in five new homes, and are major providers for low-income people and vulnerable people (through the provision of supported living and care accommodation).

Since 2010, the social housing model has been affected by policy changes, including cuts to grant funding, a drive towards subsidised home ownership and caps on benefits. This has challenged the financial sustainability of housing association business models. In response, many housing associations are shifting their business models towards more commercial, mixed-tenure models, developing more market and affordable homes for rental and sale with a view to reinvesting profits in 'social rent' properties. The social housing sector is also seeing increasing numbers of mergers, including 'mega mergers', in a drive towards scale and efficiency to fund growth. As public finance diminishes, the capital markets are becoming an increasingly important source of long-term funding.

Investments in affordable housing remain the backbone of the fund, accounting for 19% of the total portfolio value as of March 2017 (up from 17% in 2016). The fund holds bonds issued by 14 registered providers, with new investments in 2016/17 including Peabody Trust Group (see box) and the most recent issues from A2Dominion, London and Quadrant and Places for People.

The total number of properties owned and managed by housing associations in the fund is 594,516 (9.1% increase since 2016). 58% of properties are for 'general needs' social rent. 18% of properties are for supported housing.

BII and CTI collaborate on the social performance analysis of housing associations. We analyse a set of key performance indicators which allows us to keep track of the housing tenure mix provided by bond issuers (see annex 1). The portfolio includes smaller housing organisations with a strong local, social housing focus (e.g. Walsall Housing Group) and larger organisations increasingly investing in the "affordable and intermediate" market (e.g. Sanctuary Housing Association).

The social benefits of social housing providers extend beyond housing. Most social landlords also strive to improve the quality of the community environment through tackling anti-social behaviour and crime, and fund initiatives that offer opportunities and support to tenants, including apprenticeships, employment opportunities, money advice and the provision of savings and affordable credit services, often through partnership with local credit unions. CTI analyses housing provider's community activities as part of the social due diligence, and favours investment in bonds issued by organisations that invest in community-driven activities and increasing residents' opportunities and well-being.

[3] *Local authority housing statistics by district, year ending March 2016. Department for Communities and Local Government (DCLG)*

Peabody Trust

New to the fund's holdings this year is one of London's oldest housing associations, Peabody Trust. The trust's mission is to make London a city of opportunity for all.

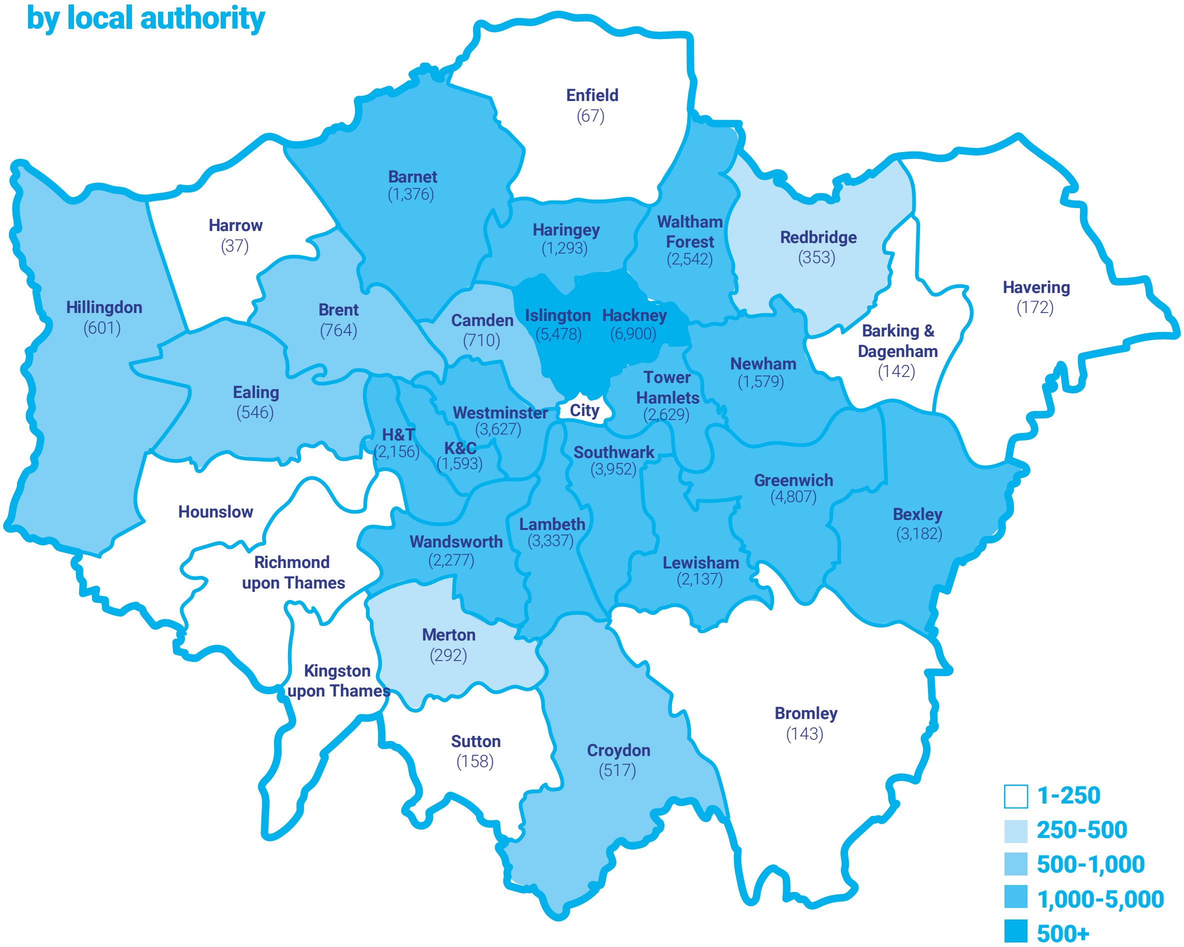
Peabody is committed to help people make the most of their lives by providing good quality affordable homes, working with communities and promoting well-being.

In July 2017, Peabody Trust completed a merger with housing association Family Mosaic. Following the merger, Peabody now own and manage more than 55,000 homes across 29 London boroughs as well Kent, Sussex and Essex. They also deliver and support a wide range of community programmes.

The trust will use the bond proceeds to support its 2017-21 business strategy, which includes the delivery of 2,500 low-cost rent and shared ownership properties each year.

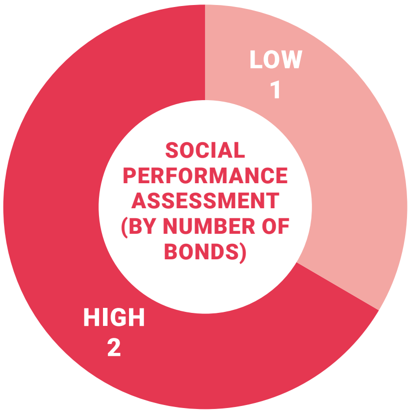
The Peabody Trust also delivers a wide range of community programmes. Targets include:
- Supporting 2,000 people each year into jobs by 2021, of which at least 75% will be paid the London living wage or higher
- Creating 600 apprenticeship opportunities by 2021

Peabody and Family Mosaic combined stock by local authority



Community Services (three holdings, two issuers)

Improving the availability of community services for people with specific social needs



Within this impact area, the fund seeks to make investments in charities that positively impact people's lives, particularly the most vulnerable. Raising funding through public bonds is a new activity for the charity sector, but one with the potential for growth. CTI actively encouraged the launch of the Retail Charity Bond Platform, an initiative created by Allia, to support charitable organisations that are too small to issue bonds directly to raise capital through bonds listed on the London Stock Exchange.

Charity bonds expand the pool of capital for investments that benefit low-income communities and people in social need

The fund currently holds two bonds issued via the Retail Charity Bond Platform: the Golden Lane Housing bond (see box), and the Charities Aid Foundation (CAF) bond. CAF raised £20m in one week in 2016, and is using the proceeds of the bond issue to increase its lending to charities, and to enhance its services for donors and the thousands of charities with whom CAF works. Dominic Casserley, CAF chairman of trustees, commented: "Opening the London Stock Exchange to mark the success of the bond symbolised the way CAF adds value: a charity using the skills and techniques common in the commercial finance world to support civil society, making it easier to give, helping charities process and manage their money more effectively and acting as a powerful advocate."

Golden Lane Housing

Golden Lane Housing (GLH), a division of the charity Mencap, is a leading supported housing landlord for people with a learning disability. Since GLH's inception in 1998, they have helped transform the lives of over 1,700 people with a wide range of needs living in more than 750 properties across the UK.

Alastair Graham, director of Golden Lane Housing, said: "There are approximately 1.4 million people in the UK who have a learning disability, yet only 16 per cent of those known to the local authority are in secure long-term tenancy or own their own home. By offering safe and appropriately adapted accommodation, with security of tenure, we enable our tenants to have greater independence and control over their lives."

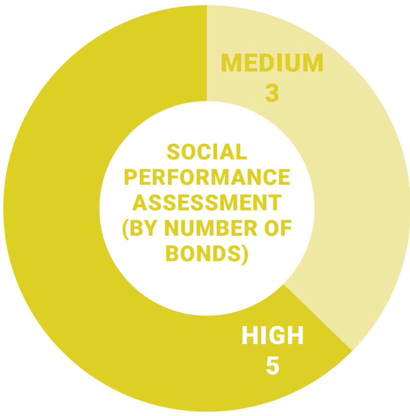
In 2014, through the Retail Charity Bond platform, GLH became the first ever charity to issue a bond listed on the London Stock Exchange.
- The bond raised £11m in less than two weeks. The fund was one of the first investors.
- This capital has been used to adapt and purchase 30 high quality houses and bungalows providing homes for 112 people with a learning disability in their community

In 2015, GLH commissioned an external report into the social impact of the new bond-financed properties. The results showed tenants reporting increased confidence, learning of new skills, a wider social life and increased participation in the community. Golden Lane Housing has now also captured the impact on parents of their son or daughter moving into a property:

	Baseline	Follow up
Agree that their relative has the support they need	85%	100%
Agree that their relative has sufficient space in their property	68%	91%
Agreed that they "have enough time for myself after spending time with my relative"	55%	95%
Agreed "I have an active social life and can visit friends regularly"	48%	77%
Agreed "caring for my relative has meant my family's social life has suffered"	38%	23%

Education, Learning and Skills (eight holdings, eight issuers)

Supporting wider participation in high education with a focus on promoting social mobility



This impact area focuses on bonds which support access to education, learning and skills. Higher education (HE) providers are the most active bond issuers in this area, with an increasing number of universities issuing bonds to invest in their teaching facilities and services. Reducing inequality and promoting social mobility remains our core impact focus.

> "Eighteen year-olds from the most advantaged groups remain 2.4 times more likely to enter university than their disadvantaged peers, and 6.3 times more likely to attend one of the most selective institutions in the UK. Having graduated from university, students from disadvantaged backgrounds are less likely to go into professional jobs, and if they do they are likely to be paid less."[4]

The fund holds bonds issued by five universities: Cardiff, De Montfort, Leeds, Liverpool and Manchester. Universities UK acknowledges that "there is more to do in widening participation for under-represented groups and solving the attainment gap in graduate outcomes and employment".

This year, for the first time, the fund is informed by a University Social Mobility Rating system developed by The Good Economy Partnership for the UK higher education sector. The rating system covers 112 UK HE institutions (Scotland's universities are currently excluded due to data compatibility problems). Results for the fund's universities are shown below, together with their ratings in the new Teaching Excellence Framework (TEF). All five universities perform above average on social mobility, with Leeds standing out. De Montfort scores highly on the TEF quality of teaching measure, and also performs well on social mobility, according to The Good Economy Partnership university ratings.[5]

University	Graduate Prospects (Employability Score out of 100)	Students from low participation neighbourhoods (LPN) (%)	Students from LPN no longer in Higher Education the year following entry (%)	The Good Economy University Score	Teaching Excellence Framework Outcome
Leeds	81.3 (A)	8.1 (B)	5 (A)	18	Gold
Manchester	82.1 (A)	7.8 (B)	5.8 (B)	12	Silver
De Montfort	75.3 (B)	13.4 (B)	8.5 (B)	8	Gold
Cardiff	72.3 (B)	9.3 (B)	6.4 (B)	8	Silver
Liverpool	76.5 (B)	9.1 (B)	6.6 (B)	8	Bronze
UK	71.5	11.3	8.8	-	-

** A refers to the top 25% of UK universities, B to the next 26% - 74%, and C to the bottom 25%. The Good Economy University score is the product of each indicator (A – 3, B – 2, C – 1).*

[4] Success as a Knowledge Economy: Social Mobility and Student Choice, Department for Business, Innovation and Skills, May 2016

[5]Data sources used in The Good Economy University Ratings: Graduate Prospects 2018 - The Complete University Guide; Wider Participation and Continuation Rates 2015/16 - Higher Education Statistics Agency Limited (HESA); Teaching Excellence Framework outcomes 2017 - Higher Education Funding Council for England (hefce)

Universities are forecast to increase their bond issuance activity in the medium term, spurred on by global competition for students attracted to high quality teaching, research and other campus facilities. Three of the fund's university holdings – Manchester, Cardiff and Liverpool – are listed as eligible for purchase in the Bank of England's Corporate Bond Purchase Scheme, part of quantitative easing to aid the economy post-Brexit.

The fund also contains bonds issued by two providers of student accommodation – UNITE Group and The University Partnership Programme. UNITE Group provide housing for around 50,000 students across 28 universities in England and Scotland, with their services aimed at providing culturally-diverse students with the best possible foundation for academic success. The bond has been secured on a portfolio of 53 existing properties across 19 towns and cities, thus enabling UNITE to expand its reach and impact.

De Montfort University

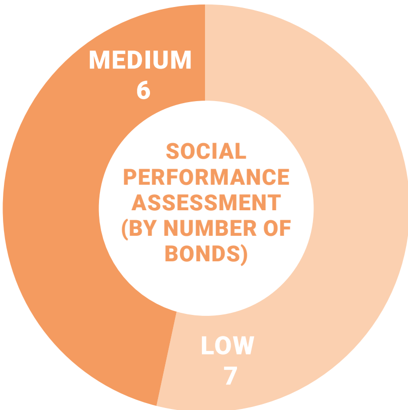
De Montfort University (DMU) is a public university in the city of Leicester, England which was awarded a 'Gold' rating in the UK Department of Education's 2017 Teaching Excellence Framework. De Montfort scores well on The Good Economy's Social Mobility Ratings.

New to the fund's holdings this year is a bond issued by De Montfort University, which used the funds raised for a £136m campus transformation project. The crowning feature, the £42m Vijay Patel Building, was officially opened in early 2017. Recently named best educational building in the East Midlands by the Local Authority Building Control, this state-of-the-art building provides sector-leading facilities for the university's art and design students.

The university plays an important role in widening access to higher education and provides long-term social and economic benefits for Leicester and the East Midlands more widely, an area with a high level of socio-economic deprivation.

Employment and Training (13 holdings, eight issuers)

Supporting inclusive job growth in major employment sectors



Having a good job is fundamental to economic and social well-being, and promoting access to employment and training remains an important social outcome for the fund. These outcomes are mainly 'secondary' or indirect resulting, for example, from bond investments in housing and infrastructure development. Retail is the only sector that the fund invests in explicitly for its direct job creation impact.

Retail is by far the biggest direct employer, with approximately three million workers in the UK, and one of the biggest generators of indirect employment through extensive supply chains[6]. Further, relative to other sectors, retail jobs are balanced across regions and deprived urban areas. This sector is also a major provider of (mostly part-time) job opportunities for women and young people. A third of employees are under 25, including many school leavers looking for vocational careers.

A combination of factors – the shift to online shopping, rises in business rates and the living wage, the apprenticeship levy and Brexit-induced 'currency spikes' with increases in sourcing costs – has created an adverse job outlook. The fund's retail holdings show a mixed picture in terms of recent job growth:

- **John Lewis**'s workforce shrunk from 91,500 to 86,700 jobs – or by 63,900 FTEs to 63,300 FTEs – between 2016 and 2017, and has cautioned over future job losses.
- **Sainsbury's** increased its workforce from 163,000 to 182,000 – 108,000 to 118,000 FTEs – between 2016 and 2017. However, it announced 2,000 job cuts in human resources and payroll staff on 17 October 2017.
- **Morrisons** reduced its total workforce from 121,000 to 112,000 – 83,000 FTEs to 77,000 FTEs – between 2016 and 2017.
- **Intu** shopping centres supported 137,000 jobs (15% growth) in 2016/17 across 15 locations. Intu development plans are predicted to generate an additional 31,000 jobs over the next 10 years.

Notwithstanding these direct workforce headcounts, the 'wage floor' in the retail sector – including the fund's major employers – has risen since the national living wage was introduced in April 2016. The Resolution Foundation's analysis shows that the rising 'floor' is the main driver of the substantial recent fall in the number of UK employees who are low-paid, from 25% in 2015 to 18.4% in 2017 – the biggest drop since 1977. The fund's investments in retail are supportive of the commitment by big employers to 'good job' creation by earnings quality, security and fulfilment. Research shows that continuous improvements in retail wages and working conditions will have a disproportionate impact on poverty levels, given the sheer scale and geographical spread of the sector.[7]

[6]The Good Economy ranks Retail 5th out of 28 sectors on 'employment effects' based on ONS Input-Output data.

[7]Economic and Social Research Council, 'Harnessing Growth Sectors for Poverty Reduction, 2017

Major supermarket retailers have extensive indirect employment effects through their supply chains and sourcing policies. There is a discernible and profiled shift amongst the major supermarkets to 'buy British' in the post-Brexit era. An April 2017 YouGov "Buy British" report found that 'one in five people say they are more likely to buy British food after Brexit because they want to support the domestic economy'.[8] On the back of a report commissioned by the supermarket outlining the risks of climatic and political change to food supply from outside the UK, Morrisons has targeted 200 more British suppliers of fruit and vegetables. Sainsbury's is also a big supporter of the UK farming industry, having invested £9m in 28 research and development projects focusing on improving agricultural productivity and environmental impact. It offers farm tech scholarships, delivered through Imperial College, to support new generations of farmers, as well as agriculture and horticulture apprenticeships (Annual Report 2017).

The growth of local sourcing will be important to job creation in the post-Brexit era. Food and drink also ranks highly on its indirect employment effects, and it is a sector that is relatively evenly distributed across the UK regions – hence the sourcing of the fund's retail holdings will be increasingly significant, even if the direct employment outlook is more uncertain and less secure.

Buying British – retail as an indirect employer

Local sourcing by retailers plays an important role in supporting small business growth and local job creation

John Lewis launched its Locally Made scheme at its Leeds store in October 2016, stocking 120 products from 11 local suppliers within a 30-mile radius of the city. The project, in partnership with The Great British Exchange, sources artisanal products from new designers, established makers, independent businesses and British-based factories. The scheme has been extended to John Lewis stores in Edinburgh, Glasgow and Cardiff (Annual Report 2017). John Lewis is working with more than 130 UK manufacturers – including a textile manufacturing company founded in Lancashire in 1934, which is one of the last remaining weaving mills in this country.

Waitrose, the supermarket arm of John Lewis, sources 2,500 local food products from 600 local suppliers also located within a 30-mile radius of a branch. Many local suppliers are small, family run businesses that are supported by Waitrose's "Small Producers' Charter" commitment to a fair and ethical relationship. Waitrose was rated top UK supermarket for providing access to small UK suppliers who are outselling their big brand equivalents.[9]

[8]https://yougov.co.uk/news/2017/04/18/brexit-drives-brits-buy-british-only-if-price-righ/

[9]Source: Buying British in 2017', a report from supply chain standards member organisation GS1 UK.

Financial Inclusion (15 holdings, six issuers)

Improving access to affordable financial services for all

The fund's holdings in the financial sector are focused on improving the accessibility and affordability of financial services for all. Currently, one million adults still do not have a bank account,[10] and 50% of the UK population are categorised as financially vulnerable, with 4.1 million people in financial difficulty (having already failed to pay domestic bills or meet credit commitments).

50% (25.6 million) of UK consumers currently display one or more characteristics that signal their potential financial vulnerability. FCA Financial Lives Survey 2017

Compared to most corporate bond funds, the fund continues to have a relatively small exposure to the financial sector, favouring mutual and regional building societies owned by and accountable to their customers. This year, the fund added two bonds issued by the Yorkshire Building Society to those it already held with Nationwide and Coventry Building Society. These are the UK's three largest building societies, and together serve over 12.6 million customers. Aligned with the fund's aim of helping people buy an affordable home, all three building societies played a prominent role in supporting first-time buyers, with Nationwide in particular providing mortgage finance for 75,000 people (an increase of 31% from last year) and Yorkshire Building Society helping 3,100 first-time buyers become homeowners during the first half of 2017.

In 2017, the fund also invested in a bond issued by Royal London. With over nine million policy holders, Royal London is the UK's largest mutual life, pensions and investment company. Founded as a friendly society in 1861, the company's founding mission was to help families avoid the stigma of a pauper's grave. Today there are still 33 million adults in the UK who do not currently use any form of professional advice to manage their finances. Royal London plan to increase their customer base by targeting the everyday 'man on the street'.

The fund continues to hold Lloyds Banking Group's Environmental, Social and Governance (ESG) bond which was issued in response to customer demand to invest in products that create positive impacts (see box).

[10] Recent findings from the FCA's Financial Lives Survey 2017 (the largest consumer tracking survey ever commissioned)

Lloyds Banking Group's Environmental, Social and Governance (ESG) bond

Lloyds developed the ESG deposit scheme in response to customer demand to invest in products that create positive impacts.

Since 2014, Lloyds has launched two ESG bonds totalling £500m. The fund invested in and continues to hold the first ESG bond. The proceeds of the bond support Lloyds' "Helping Britain Prosper Plan" which underpins the bank's commitment to go beyond business as usual to help address social and economic challenges. The plan focuses on five areas:

- Finding and buying an affordable home
- Saving for the future
- Skills and employability
- Sustainable business growth
- Social disadvantage

In 2016, Lloyds adjusted the plan to make it more ambitious, more focused and more measurable in its outcomes. Lloyds reviewed its targets and achievements through an annual performance report. Achievements in 2016/17 include:

1,000

new apprenticeship places created, with a third offered to candidates from the UK's most disadvantaged areas

121,000

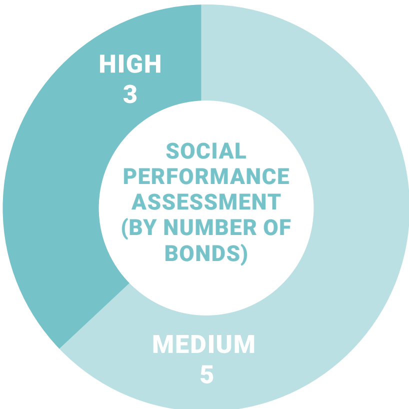
start-up businesses supported

£1.2bn

in new funding to Britain's manufacturing businesses

Health and Social Care (eight holdings, six issuers)

Ensuring universal access to basic infrastructure



Faced with challenges of an aging population (1 in 7 people projected to be over 75 by 2040)[11], an increasing prevalence of long-term conditions, high levels of mental health problems and health inequalities linked to poverty and deprivation and concerns regarding Local Authority capacity to support increased care costs; the UK health and social care system remains under unprecedented demographic, financial and staffing capacity pressure.

The Government has pledged £2bn in extra funding for social care over the next three years, however Government funding plans are outpaced by demand and cost: The Health Foundation highlights a £2.1bn social care funding gap will have opened by 2019/20.

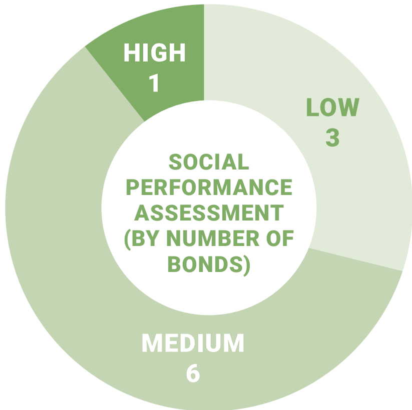
[11] *Future of an Ageing Population, Government Office for Science, 2016*

The fund's health-related investments comprise eight bonds supporting physical and mental health services, health insurance and health research and innovation. Within the UK, the fund's bonds have supported the construction and financing of major NHS hospitals in Peterborough, Derbyshire, Norfolk and Norwich, as well as the expansion of NHS mental health services in Derbyshire.

The Fund also holds bonds supporting the work of the Wellcome Trust, a global health research and innovation charity which uses income from its £18 billion investment portfolio to fund leading-edge bio-medical research, to provide venture capital finance for the commercialisation of bio-medical research and development and to deliver extensive public health programmes. Over 40 countries around the world benefit from the work of the Wellcome Trust. In the UK, the Wellcome Trust also funds community projects included the Engaging Libraries project, a £200,000 pilot funding programme for libraries to discover new ways of engaging communities about health.

Transport and Communications Infrastructure (10 holdings, 10 issuers)

Ensuring universal access to basic infrastructure



OECD research shows that compared to its main international rivals, UK infrastructure has suffered from under-investment since the Eighties[12]. Brexit has sharpened the focus on the need for infrastructure investment in order to support future growth and job creation. The government has established the National Productivity Investment Fund (NPIF) to provide over £23bn of high-value investment between 2017-18 and 2021-22, with a focus on priority areas that are critical for improving productivity: transport and communications infrastructure, housing and R&D. The NPIF provides the financial backbone to the government's industrial strategy. The fund supports the Independent Industrial Strategy Commission's recommendation that "all citizens in all places should be provided with universal basic infrastructure. Everywhere in the UK should be served by high-quality hard infrastructure and have access to high-quality human capital-building universal services."[13]

The fund portfolio includes a range of sea, road, rail and air transport investments, with bonds issued to finance major improvement works to Manchester Airport and Birmingham Airport, both central to the Northern Powerhouse and Midlands Engine regional growth strategies. We recognise that these investments are risk factors for some investors, given the negative environmental impact of airports and air travel. However, on balance, these were assessed and found to support positive regional development impacts.

In London and the South East, there are strong demographic and environmental pressures on sustainable economic development. London is the worst area for air pollution in the UK. Research shows that every area in the capital exceeds World Health Organisation (WHO) limits for a damaging type of particle known as PM2.5. Nearly 95% of the capital's population, 7.9 million Londoners, live in areas that exceed the limit by 50% or more. In light of these extreme pressures on the capital's sustainability, the fund invested in Transport for London's (TfL) first green bond issued in April 2015 (see box below).

In addition to bonds issued to finance transport improvements, this year a bond issued by the telecommunications provider EE was added to the fund. EE has highlighted continued geographical unevenness in digital inclusion and a lack of digital education as a barrier to realising the full benefits of digital inclusion and connectivity. The use of the bond's proceeds and EE's progress in relation to their targets for achieving digital inclusion will be monitored closely over the coming year.

[12] *Infrastructure Policies and Investment, House of Commons Library Brief, March 2017*

[13] *The Final Report of The Independent Industrial Strategy Commission, November 2017*

Transport for London (TfL) Green Bond

TfL is a statutory bond responsible for London's transport network. It implements the mayor's transport strategy and manages transport services across London.

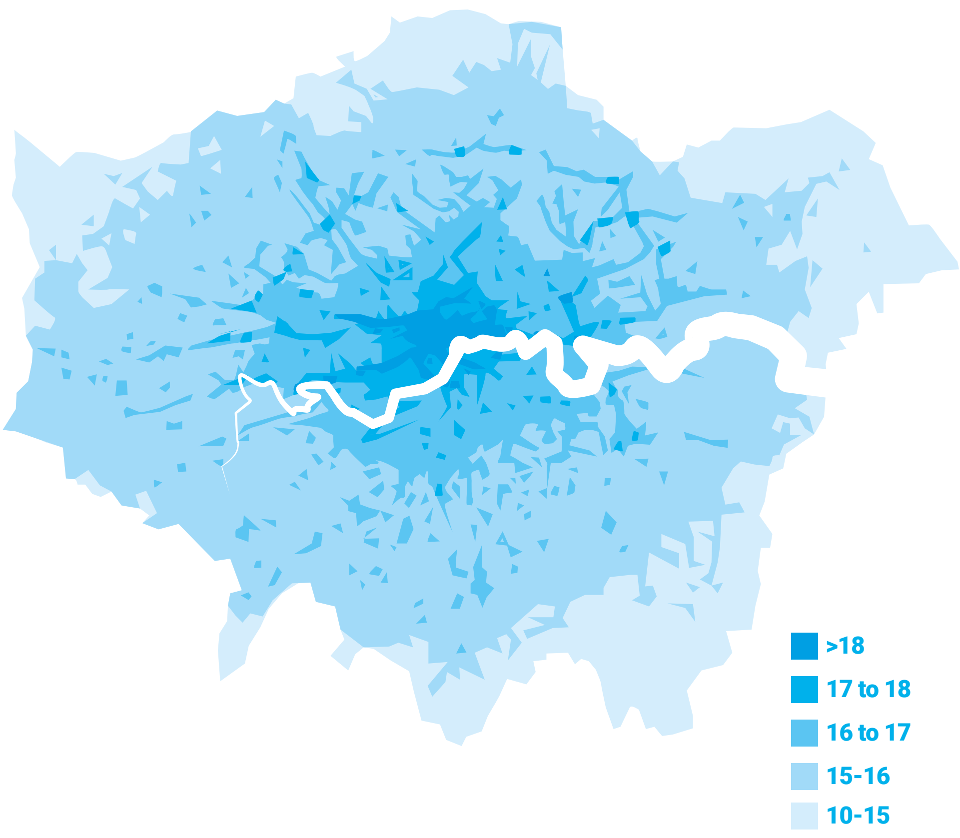
Proceeds from this bond will fund low carbon transport projects from TfL's business plan to 2021, including station and line upgrades on rail and underground, low emission hybrid buses and cycling improvements. To provide transparency to the green bond investors, TfL will report on the environmental impact of projects funded by the green bond in its annual health, safety and environmental report.

The bond was oversubscribed by 50%, with the £400m offering receiving orders for £600m, and it is widely hoped that TfL's issuance will pave the way for other investors to come to market with green bonds to fund low-carbon transport.

The TfL green bond framework has identified £4bn of eligible projects in the pipeline, and if the initial success of this issuance continues green bonds may become a far more regular feature for the improvement of transport infrastructure nationwide.

Average annual levels of PM 2.5[14] based on updated 2013 exposure estimates

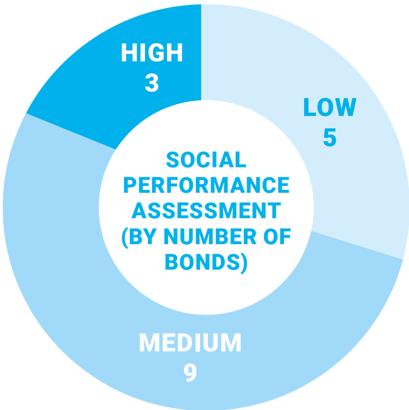
WHO guideline limit = 10g/m3



[14]PM2.5 is a measure of small particulate matter in the atmosphere. This metric is associated with adverse health effects

Utilities and Environment (17 Holdings, 14 Issuers)

Supporting the provision of affordable and sustainable water, energy and other essential services



The fund invests in the UK energy and utilities sector, which is critical to delivering on the UK's objectives of environmental sustainability and building a 'green economy'. The sector is at the forefront of the government's "Clean Growth Strategy" (October 2017) involving £2.5bn public R&D investment on low carbon energy, transport, agriculture and waste.

Utility companies also have important social benefits as regional employers. Energy is the top-rated employer sector in the jobs assessment methodology rankings. Many companies in the fund have accredited voluntary living wage employer status (e.g. SSE, Yorkshire Water and Centrica).

The fund also focuses on tackling energy-based social inequality. Energy companies have a statutory responsibility to help tackle 'fuel poverty'. The biggest challenges for vulnerable consumers relate to access, affordability and debt[15], and although water disconnection is illegal fuel poverty persists: 1.6 million pre-payment customers self-disconnect their energy supply at least once a year. The bond social assessment includes an appraisal of utilities' fuel poverty policies and programmes.

The fund holds two bonds issued by Dŵr Cymru Welsh Water, the UK's only not-for-profit water and waste water company, run solely for the benefit of its three million shareholders (who are also customers) in Wales, Herefordshire and Deeside. Between 2015 and 2020, the company is running a £1.7bn investment programme funding a range of social tariffs which lower bills for customers who "genuinely struggle" to pay their water bills. The company reports it is on track to assist in excess of 100,000 customers by 2020. With a workforce of nearly 3,000 people, the company is a major employer in Wales.

The fund has also invested in two new issuers, Centrica and Severn Trent. Centrica is committed to ensuring equitable access to its energy supplies, helping 2.1 million vulnerable customers in 2016, and to creating a positive impact in communities. Centrica has already invested £8m through Ignite, the UK's first corporate impact investment fund focused on energy, in a range of projects including alleviation of fuel poverty using free solar electricity and an energy education programme for young people. Severn Trent has operated a trust fund for 20 years, which provides grant support to individuals unable to pay water charges due to poverty and debt, as well as to community organisations.

[15]National Audit Office, "Vulnerable Consumers in Regulated Industries, 31 March 2017

Electricity North West's environmentally sustainable purpose-built £2m training academy opened in Lancashire in 2013, and this year 6,482 people attended training courses (a 36% increase from 2016). In a low-performing local labour market, the company's positive employment and training performance, combined with its strategy to tackle fuel poverty, resulted in a high social performance rating.

The fund holds two European Investment Bank 'green bonds', issued by Unilever and the European Investment Bank, which have an international reach and are reported on page 36.

Wales and West Utilities (WWU)

Wales & West Utilities operates the gas distribution network across Wales and the South West England regions of the United Kingdom. They were selected for investment because of their strong track record on tackling fuel poverty.

WWU provide energy to 7.5 million customers across Wales and the South West of England, and employ more than 1,300 staff and apprentices. In addition to their importance as a regional employer, from the fund's perspective, WWU's primary social outcome is increasing access to affordable energy for vulnerable, low-income families:

- In January 2017, they became the first gas network to gain British Standard (BS1477) for inclusive service provision. This recognises the company's work in identifying customers' needs and adapting services for the most disadvantaged or those in vulnerable situations.
- They were named Responsible Business of the Year 2016 by Business in the Community Wales.
- Since 2015 they have referred an additional 535 customers to the Fuel Poor Network Extension Scheme, working alongside OFGEM.
- They provided 4,600 warm packs last year, making sure customers in the most vulnerable situations were supported during gas emergencies.
- They trialled fuel poor hubs in Cardiff and Flintshire, donating £45,000 to this initiative, so that the charitable organisation Care & Repair could give energy and financial advice to the public.

International Reach

Although the primary focus is the UK, the fund invests in bonds with an international development impact where they are assessed to have a high social impact.

Bonds with an international reach include:

Inter-American Development Bank is a pioneer in social bonds, and its Education, Youth and Employment bond funds programmes in Latin America and the Caribbean. Following a “life-cycle” approach to building human capital from early childhood care and education, through primary and secondary education, IDB runs programmes that facilitate labour market placement, supporting increased productivity and improved social inclusion and outcomes for young people.

The European Investment Bank (EIB) remains the largest issuer of green bonds, with over EUR 15bn raised across 11 currencies, of which EUR 3.8bn was raised during 2016. Green bonds were created to finance renewable energy projects, encouraging sustainability and providing the necessary capital to fund environmental solutions. The EIB issued the first green bond a decade ago in order to access mainstream capital markets for environmental projects. To date, 160 global renewable energy and energy efficiency projects have been supported.

The Unilever Green Sustainability Bond was issued in March 2014. Proceeds are being used to fund projects linked to greenhouse gases, water and waste targets in the Unilever Sustainable Living Plan. According to the bond’s progress report to December 2016, eco-efficiency improvements were achieved in Unilever’s factories located in the US, China, Turkey and South Africa.

The fund also holds the “Gavi” bond issued by International Finance Facility for Immunisation (see box).

International Finance Facility for Immunisation (IFFIM)

IFFIM exists to rapidly accelerate the availability and predictability of funds for immunisation. The resources raised by IFFIM are used by Gavi, the Vaccine Alliance, a public-private partnership which provides funds to purchase and deliver life-saving vaccines and to strengthen health services in the world’s poorest countries.

This year, the fund added another bond issued by IFFIM to its portfolio, supporting expanded scope and increased impact of the Gavi immunisation programme with the following results:

- IFFIM bonds have raised more than US$5.7bn in immediately available cash resources for Gavi immunisation programmes since inception.
- Funding has allowed Gavi to substantially increase its expenditure on health programmes, leading the effort to vaccinate more than 580 million children between 2000 and 2016.
- In October 2016, IFFIM issued $500m in three-year floating rate vaccine bonds.
- This resulted in eight million lives being saved between 2000 and 2016.

Forward Look

The UK Social Bond Fund was established to bring social impact investing to the mainstream – to give ordinary people the choice to invest for both a financial return and social good. We thank all those – both individuals and institutions – who have been early investors and recognised the compelling investment proposition offered by the fund.

This year has seen a rapid increase in activity and level of mainstream interest in "impact investing" – defined as investments made with the intention of creating a positive outcome – across the world. This is, in part, led by consumer demand, particularly among younger people. Increasingly, individuals want to know how their money is invested, and are demanding more socially responsible investment opportunities. A recent survey revealed that 56% of individuals are interested in purchasing social impact investment products – however, only 9% have actually made such investments. This is a strong indicator of latent demand for this type of investment opportunity.

The Threadneedle UK Social Bond Fund was and remains a pioneer in social impact investing. It was established with the expressed purpose of making impact investment available to the ordinary individual. BII sees this as part of a wider movement of bringing about the "democratisation of capital".

The UK government is lending its support to growing a culture of impact investment within Britain's mainstream financial market. In 2016, the government set up an independent advisory group to answer the following 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?" Both BII and CTI were represented on this group and shared the experience of this fund.

Although the UK has been a global leader in developing a market for financing charities and social enterprise, it has much to learn from countries that do more to offer citizens opportunities to invest for social good. In France, for example, it is mandatory for companies to offer staff an optional social savings fund. By the end of 2015, more than one million French savers had opted to put money into this type of account.

The UK National Advisory Board on impact investing, where both BII and TGE play a role, have called for a fundamental realignment of motivations within the UK's financial investment market, with an increasing allocation to impact investments. There are a range of ways to deploy capital, all of which will have an impact to a greater or lesser degrees. These approaches can be considered together as a 'spectrum of capital' or 'continuum of impact', as shown below.

The Spectrum of Capital

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

We are delighted that the fund has achieved its £100m milestone and has delivered annualised returns of 6.6%. It is also meeting impact expectations as described in this report. In the year ahead we expect to see further growth such that the fund can put more investment to work to help address the UK's pressing social challenges. We make three recommendations that are aimed at growing the overall impact investing market:

- Make it easier for people to invest. The fact that Scottish Widows picked the fund for its Pension Funds and Life Funds was an important development in increasing access to the fund this year. We support the Independent Advisory Group's recommendation that more needs to be done to raise consumer knowledge and awareness and to build capability and integrate social impact into the financial services industry (including regulators, financial advisors and professional bodies) so impact investing becomes an easy and positive choice.

- Develop better reporting of non-financial outcomes and an investor facing social impact investment label. This fund is among the first to report transparently on its impact goals, investment process and results. BII and TGE have been at the forefront of impact monitoring and reporting. We support the call for common standards for reporting non-financial outcomes. We are open to collaboration in this regard, and would welcome the establishment of a 'social impact investing label' to ensure product integrity.

- Encourage more social bond issuance. Bonds provide the opportunity to raise finance for a specific social purpose, and so can target particular social outcomes with a precision that is difficult to achieve with equities. They also offer investors relatively stable income and daily liquidity, so are attractive from an investor perspective. There is huge potential for growth in the social bond market. Specifically, we would like to see more issuance among the following market segments:

  - **Local government bonds**: UK local authorities once commonly issued bonds for to raise fund for public projects, but for a variety of reasons no longer do so. CTI has been lobbying for changes to the rules to encourage further local authority bond issuance.

  - **Charity bonds**: the Retail Charity Bond Platform has proven an effective mechanism to help charities access to retail bond market. The fund prioritises all charity bond issues, and would welcome more such issuance.

  - **Social housing bonds**: bond issuance is familiar territory for large housing associations, but more could be done to support smaller housing associations issue bonds, perhaps through an aggregator model

  - **Social bonds**: We expect that the launch of The Social Bond Principles will encourage the growth of the social bond market as has happened with the green bond market. The fund supports leaders from any organisation developing bonds for social good.

This year has seen the UK Social Bond Fund become an established investment product with a proven track record in terms of both financial and social returns. Next year we want to fully exploit this successful start, by growing the fund and demonstrating its impacts not only to business and government, but to the public at large. We want the fund to become a showpiece for the 'democratisation of capital' – an investment opportunity for everyone, and which benefits everyone.

Annex 1

Registered Housing Provider – social data analysis

Bond Issuer	Total number of units owned and managed	Percen which “gener social
A2Dominion Housing Group Ltd	36,883	49.4%
Affinity Sutton Housing Group Ltd Total	58,223	64.5%
Cross Keys Homes Ltd	12,734	60.3%
Circle Anglia Housing PLC	72,724	60%
East Midlands Housing and Regeneration Ltd	21,260	47.3%
London & Quadrant Housing Trust	72,006	63%
Peabody Trust Group	73,209	50.5%
Places for People Group Ltd	68,541	57.3%
Sanctuary Housing Association Ltd	102,643	44.9%
West Mercia Housing Group	35,258	68.6%
Walsall Housing Group	20,086	91.1%
Yorkshire Housing Ltd	20,949	41.1%
TOTAL/AVERAGE	**594,516**	**58.2%**

ntage of are for ral needs" rent	Percentage of which are for "intermediate and affordable" rent	Percentage of which are for supported housing	Percentage of social housing converted from "social" to "affordable"
%	2.4%	12.3%	0.1%
%	9.3%	14.8%	0.1%
%	9%	19%	0%
	9.1%	14.7%	3.1%
%	2.4%	39.7%	0%
	6.4%	11.6%	0.8%
%	3.9%	10.5%	0.3%
%	1.6%	19.6%	0.6%
%	9%	28.1%	1.4%
%	7.6%	11.5%	0.5%
%	5.1%	0.5%	0.3%
%	19.6%	28.6%	4.5%
%	7.1%	17.6%	1.0%

Notes:
Only registered housing association issuers included. Data provided relates only to Groups' regulated activities and may exclude some commercial holdings. Scottish RLs are excluded as data is not available.
All data taken from the Private Registered Provider Social Housing Stock in England: Statistical Return Dataset 2016

Annex 2 Biographies

John Hale

Chair of the Social Advisory Committee

John began his professional career in industrial market research and consultancy in the petroleum, steel and transport sectors. With a focus on Latin America, he moved to work for Lloyds Bank International as an economist and then specialised in export and project finance, including three years in Brazil, and finally developing country debt management.

He joined the Investment Department of the Association of British Insurers in 1992 to represent the association and its members on policy matters (UK and EU) and commercial issues. Amongst other things he was responsible for the ABI Bond committee, the Property Investment Committee and the joint ABI Treasury Insurers Infrastructure Investment Forum. He played a leading role in the UK bond market, convening the ABI special committees on specific fixed income matters including a number of major debt restructurings. He was also closely involved in the early development of ABI's corporate governance service IVIS and ABI's Responsible Investment policy and, for a period, acted as secretary to the insurance grouping ClimateWise.

Nigel Kershaw OBE

Chair of the Big Issue Group

Nigel is Chair of The Big Issue Group, having previously been The Big Issue's CEO and Executive Chair. He was also the founding CEO of its social investment arm, Big Issue Invest, which manages, or advises on, £170m of social funds through its innovative lending programmes, regulated investment funds and advisory services.

Since 1974, Nigel has founded and grown three employee-owned companies. He is a member of the advisory group to government on 'Creating a Culture of Social Impact Investment and Savings'. A Social Enterprise UK 'Champion of Champions' and a winner of the Institute of Directors' Good Enterprise Award, he was awarded an OBE for services to social enterprise.

Madeleine Thornton

Social Impact Manager, Big Issue Invest

Madeleine joined Big Issue Invest in June 2015. Her role at BII is to support investees in develop their social impact practice and to lead on the measurement, analysis and reporting of BII's social impact. Madeleine began her career working in housing and social security before moving into the charity sector. Prior to joining Big Issue Invest, she was responsible for evaluating services at the children's charity Buttle UK.

Sarah Forster

CEO, The Good Economy Partnership

Sarah is CEO of The Good Economy Partnership (TGE) which she co-founded in 2015. TGE provides strategy consulting, product development, and impact measurement and management services that enable investors, businesses and government to play a bigger role in building an inclusive economy and society. Sarah has over 25 years experience in international development, development finance and impact investing. She has worked at the forefront of the development of the UK social investment market leading on the design of innovative investment products and impact assessment methodologies that integrate social value considerations into investment decision-making. Previously, Sarah held senior management roles at Big Issue Invest, the New Economics Foundation and the World Bank.

Mark Hepworth

Director of Research and Policy, The Good Economy Partnership

Mark is a multidisciplinary economist with a career spanning academia, public policy and commercial consultancy. Mark leads The Good Economy's data analytics, research and policy work. He played a key role in the development of the Threadneedle Social Assessment methodology and continues to help refine and develop the approach. He has also developed a powerful new analytics tool to assess the contribution of companies to inclusive job growth and economic development, which has been adopted by asset managers and government.

In the 1980s and 90s, Mark's research and policy work focused on the information society and the knowledge economy. He held advisory positions with the OECD, UN Economic Council and European Commission. In 1997, Mark co-founded the Local Futures Group, which evolved into a leading economic development consultancy and data analytics business. Mark holds a first degree in Economics from Warwick University and a Doctorate in Economic Geography from the University of Toronto.

Simon Bond

Director, Responsible Investment Portfolio Manager

Simon joined the company in 2003 as an Investment Grade Portfolio Manager, and has been the manager of the Threadneedle UK Social Bond Fund since its launch in 2013. Having previously managed a number of institutional and retail investment grade corporate bond portfolios, Simon now concentrates his focus on managing Columbia Threadneedle's social bond portfolios and developing other responsible investment strategies across the firm.

Simon has over 30 years' experience in the fund management industry, with the last 26 years specialising in corporate credit. Throughout his career, Simon has taken a keen interest in the social investment space and as an analyst the first entity Simon reported on was Peabody Trust and the first sector he covered was housing associations. Simon is particularly passionate about the role of infrastructure in both regeneration and economic growth.

Prior to joining the firm, Simon managed £6bn in his role as the Senior UK Credit Fund Manager for AXA. Simon also worked GE insurance as a Portfolio Manager, Provident Mutual as a Fixed Income Analyst and Hambros Bank as an Investment Accountant and Pension Fund Investment Administrator. Simon is a fellow of the Chartered Institute for Securities and Investment, holds the Investment Management Certificate and the General Registered Representatives Certificate.

Iain Richards

Head of Responsible Investment, EMEA

Iain Richards joined the company in 2012 and is currently Head of Responsible Investment, EMEA.

Prior to joining the company, Iain was Regional Head of Corporate Governance at Aviva Investors. His career in the City has also included roles at Schroder Investment Management, the Policy Group of the UK's Listing Authority and the London Stock Exchange. Iain has also worked at the UK's Department of Trade and Industry (now BIS) in various roles in the European and competition
policy units.

He has written papers on a range of issues including auditing, sovereign wealth funds and, in 2006, on the impending risk of a systemic banking crisis. He was responsible for leading the UK investment industry's successful lobbying to re-establish the over-arching 'True and Fair View' principle of accounting in revised UK company law. He has also appeared as an expert witness before the UK House of Lords Select Committee on Economic Affairs to give evidence on audit market concentration and the role of auditors.

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