Using Impact / Programme Related Investments to support social change (and education, arts and the environment)

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Danyal Sattar
Social Investment Manager
Esmée Fairbairn Foundation
Some definitions

• Language alert: same words used to mean different things and different words to mean the same thing
  – e.g. Program Related Investment has a specific US meaning (investing from spend requirement); UK meaning of Programme Related Investment is typically from endowment and in pursuit of charitable mission

• It helps to know where you are on the spectrum
  – Range from Responsible Investment, to Socially Responsible Investment, to “finance first” impact investment, to “mission first” social impact investing....to grant making
Historical & philosophical

• The mainstream financial markets have become less “social” more detached from the general economy
  – The gap between the mainstream and where we are seems wider

• There is a “break” between general finance and the charity, social enterprise and solidarity economy
  – The pensions, savings products, and regular flows of money in the economy are not usually invested in the not for profit social economy

• *While the recession, financial crisis and austerity drive interest in social investment, the above factors still apply, unless we do something different*
EFF Background

- 1961 – established by Ian Fairbairn
- Independent Trust in the name of his wife, Esmee
- All his shares in M&G Investments
- £850m endowment (expendable)
- Interest in financial education, enterprise and new ideas to improve the quality of life in the UK
- Four broad areas of interest:
  - Education
  - Environment
  - Social change
  - Arts and Heritage
Our funding

Our Funding 2012

- Task Fund
- Finance Fund (Drawn Down)
- Food Strand
- Grants Plus
- Other Funds £7,147,000

Main Fund £30,457,000
Breakdown of grants

Breakdown of Main Fund spend by sector in 2012 (£,000s)

- **Social Change**: 14,521
- **Arts**: 7,861
- **Education & Learning**: 5,286
- **Environment**: 2,789

**Main Fund Total**: £30,457

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Esmee Fairbairn Foundation
• We have an interest in new sources of funding for charity
• Charities need finance for the same reasons as any SME
• Legal structures and practices make access to conventional finance more difficult
We started organically

- 1997 - £150,000 to on-lend to charities
- 2003 Golden Lane Housing Bond
- 2004/5 two property loans
- 2005 intermediaries (CAF Venturesome, Charity Bank)
- ...then we piloted 2005-2007
- Then we ran a pilot fund, the “Finance Fund”.....2008 to present day
Finance Fund

- Commitments: £35m to achieve £26m drawn
- £24m historic commitments, £17m historic drawdown
- Repayments: £4.9m of capital has been repaid to us to date.
- Provisions: we have made £0.6m of provisions to date (of which write-offs are £0.1m).

Average investment size: £364K
- Average term of investments: 7 years
- 2.6% IRR (before costs) 1.7% after costs?
How we do it

• Direct investments into enterprises and charities
• Where we see a pattern, look for funds and intermediaries to do it better and lever in additional funds
By sector and asset

- **Environment**: 31%
- **Educa5on & learning**: 4%
- **Social change**: 49%
- **Building the soc inv sector**: 14%
- **Arts**: 2%

- **Fund**: 31%
- **Social Impact Bond**: 9%
- **Other**: 7%
- **Land Purchase**: 22%
- **Debt**: 23%
- **Equity**: 4%
- **Quasi-equity**: 4%
Sometimes it looks like this.....
....and sometimes it looks like this
Challenges

• The skill set needed crosses the traditional foundation divide – needs both finance (investment) and grant making (understanding the social problem) skills
• Everything changes all the time; our portfolio is a series of waves of innovation we have backed
• Finding good deals and intermediaries in our areas of interest; improving, but you have to be patient
• It is not for every foundation; grants are important and needed
Solutions

• Learn from the investments;
  – a big advantage to the indirect investments (sit on their advisory board, observe Investment Committee)

• Use investees for analysis/due diligence outsourcing
  – Pay a fee to them to work for you
  – Specialist advisors emerging

• Work with others
  – Social Impact Investors Group 55+ people in trusts and foundations
  – SIIG market information days;
  – presentations by people raising investment; draws in other social investors too
Smaller foundations are engage

- Bank Workers Charity
  - Allocated £1m of endowment (c. £35m total size)
- Barrow Cadbury, Lankelly Chase, Friends Provident:
  - 5%/10% of endowments; £3m - £5m.
- Panaphur, KL Felicitas
  - £10m impact allocations (100% of endowment)
- City Bridge, Esmee
  - £20m, £26m/£35m

What does this mean:

- Most impact investing foundation allocations are “small”
What does the future look like?

• Remember the past
  – We have done this all before, generation by generation
  – Our experience might mirror the past

• Continued growth
  – Mainstream will redefine itself as impact investing
  – Some impact investing markets will prove themselves, get a track record and transition from uncertainty to risk
  – It will be easier; more choice, more people, greater familiarity
How to make the future happen

• Make it someone’s problem (job) in the organisation, part time initially
• Plan simply what you want to do, based on what you want to achieve as a foundation; or embrace ‘the strategy of no strategy’
• Use advisors to help you assess and understand investments that meet the plan; often “sole traders”
• Start quickly and for as long as possible, experiment, pilot, test, trial and examine; or claim you are doing so
• Work with other “fellow travellers” on the road and share honestly and openly

Under-claim impact and.....enjoy the journey