



BIG SOCIETY CAPITAL

Responding to an unprecedented year

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Our impact

Our mission is to help improve people's lives in the UK. But it's the social enterprises and charities who ultimately create this impact, with investment and often non-financial support from fund managers, social banks and other intermediaries.

The areas in which these organisations create impact are as broad and diverse as the enterprises themselves. They range from education and employment, to health, housing and income support.

Our impact in 2020 needs to be understood in the context of Covid-19. The pandemic threatened, and continues to threaten, the financial sustainability of many social enterprises, charities and social purpose organisations. For an overview of our partner-led support package, see our dedicated Covid-19 response section.

The following section provides a brief impact update across our three focus areas. It also explains how enterprises, charities and social purpose organisations in these three areas have been affected by the pandemic in different ways.

1,500+

Social enterprises, charities and social purpose organisations receiving social impact investment from Big Society Capital

82%

Percentage of organisations using social impact investment based outside of London

57%

Percentage of social enterprises and charities located in the 40% most deprived areas of the UK

A message from our Chair and CEO

We will look back at 2020 for years to come. It was a strange and memorable year. Right now, it's too soon to assess the full impact of the pandemic, or to appreciate how the world may change as a result. But we can say that our response to Covid-19 was guided by the principles we apply to all our work – especially working in partnership with others.

We responded in three main ways. First, we shared information across the sector, supporting rapid understanding and learning. Second, we adapted our existing investments, giving organisations cashflow flexibility where they needed it. In all, we granted flexibility to more than 500 organisations across our portfolios. And third, we delivered new investments. We created a new investment programme, working with a range of social investors and with the Department for Digital, Culture, Media & Sport, which accelerated the release of £45 million of previously committed dormant accounts.

The £25 million [Resilience and Recovery Loan Fund](#), managed by the Social Investment Business, made Coronavirus Business Interruption Loan Scheme (CBILS) loans available to charities and social enterprises. Meanwhile, our [Community Investment Enterprise Facility](#) (CIEF), managed by Social Investment Scotland, made loans to small businesses and social enterprises in the weeks before the Bounce Back Loan Scheme was introduced.

The need was far greater than the capital we have. And so, through key partnerships, we have worked hard to play a role in offering a broad package of support to the organisations we work with.

Changing lives through our investments

Our mission is to improve people's lives in the UK. We do this by uniting capital, expertise and ideas. All over the UK, social enterprises and charities deliver positive social impact using the investment that we and other investors alongside us provide.

In 2020, including our Covid-19 response, we made 16 investments (including four follow-on investments) totalling £115 million. This brings the total number of investments we have made since we were established in 2012 to 105. In that time we, and other investors alongside us, have made available over £2.2 billion to more than 1,500 social enterprises and charities all over the UK helping them to tackle some of the toughest social challenges and improve people's lives.

Some of our new investments were in development before the pandemic but took on increased significance because of it. The Women in Safe Homes fund, managed jointly by Resonance and Patron Capital, was developed after speaking to more than 60 women's sector organisations about their housing needs. The fund provides affordable, safe and secure homes across the UK for women experiencing homelessness and who are survivors of domestic abuse. Domestic abuse offences rose during the pandemic, increasing demand on services. So, this investment will provide vital support while demonstrating the benefit of investing specifically to improve the lives of more women and girls.



Building the venture ecosystem

Elsewhere in our portfolio, we saw three new investments in venture: Ada Ventures, Bethnal Green Ventures and Eka Ventures. We believe that tech startups have the potential to create social impact at scale – but don't always have the support or encouragement to focus on improving people's lives. That's why we're helping to build a venture ecosystem that nurtures and scales innovative ways of tackling social problems, investing in venture capital fund managers that bring the right values and skills to startups.

We were also very pleased to be working in partnership with central and local government, and fund managers Bridges Fund Management, Resonance, and Social and Sustainable Capital, to build on the government's 'Everyone In' project. The project funded temporary accommodation for 30,000 people experiencing or at risk of homelessness. We have committed £30 million with over £30 million matched by pension funds, trusts and foundations to support the provision of high-quality stable accommodation.

Our financial performance

We made a net profit of £3.7 million in 2020, compared to a £2.1 million loss in 2019. This profit – in terms of the value of our investments on paper – was driven by the performance of our Social Impact Investment Portfolio, and in particular, a small number of assets in our venture and equity portfolio. Some businesses in this part of our portfolio were able to pivot their strategy during the pandemic. Many tech-based organisations offering services to support people facing tough challenges in lockdown benefited from a greater shift to life online.

Given the nature and risk profile of our portfolio, we expect to see upward and downward valuation movements each year, while in the long-term expecting a general trend towards a sustainable financial return. However, there are potential future downsides to portfolio performance as government support measures put in place to support the economy during the Covid-19 pandemic wind down. These measures have cushioned the impact for many social enterprises and charities, and this is something we'll monitor closely as the economy comes out of the pandemic.

Breaking new ground

We took a significant step into new territory in December when we partnered with Schroders to launch the listed Schroder BSC Social Impact Trust plc after a successful £75 million raise on the London Stock Exchange. This is the first tradeable product in high-impact private market social investments anywhere in the world. It's a significant development for the wider social impact investing market, opening it up to a much wider range of potential investors.

In March last year, we became a signatory to the IFC Operating Principles for Impact Management set of common standards against which the impact management systems of funds and institutions may be assessed. The Principles outline good impact management along the entire investment cycle and require us to disclose our practice annually, and have our alignment with the Principles be independently verified. We [reported this in March this year](#), and will continue to do so.

We brought renewed focus to our work on diversity, equality and inclusion this year. While we published our first Diversity and Inclusion Plan in 2019, events around the globe, highlighted by the pandemic, encouraged us to go further. So we looked at our internal processes, how we make investments, how we manage our portfolio and our work helping to build the market and identified where we can make further improvements. This work, and our new Equality, Diversity and Inclusion Action Plan for 2021-25, developed with independent involvement and reviewed by external experts, will help us contribute to a more equitable, diverse and inclusive sector.

Being accountable in everything we do

The Oversight Trust (formerly known as Big Society Trust) is our majority shareholder and oversees our work to ensure we stay on mission. In addition, since 2012 we have also received £200 million share capital from the four largest UK banks – Barclays, HSBC, Lloyds and NatWest. In 2020 the Oversight Trust carried out an independent review of Big Society Capital (the Quadrennial Review) to examine our effectiveness delivering against our mission set out in our governing documents. This report acknowledged we had made substantial progress towards our objectives, while recognising we still have plenty to do and learn in this rapidly developing sector.

We welcomed this review, and were grateful to the independent panel and all those people who shared their views. The report highlights some of the challenges and strategic issues we face, many of which are inherent in our mandate, and that we will address as we set out our next phase of development. Following the report we [committed to a schedule of actions](#) to take throughout the second half of 2020 and into 2021 to maintain and enhance our performance.

Looking ahead

As social impact investment has grown and developed since we launched in 2012, so our strategy has evolved over time. In 2014, our first strategy aimed to strengthen the foundations of the social impact investment market. In 2017, our second strategy focused on three broad investment areas: Place, Early Action and Homes. Our experience had shown us this was where there was potential for growth by delivering impact as well as a financial return.

As the social impact investment ecosystem evolves, the role we need to play in the next phase of its development will also change.

Each part of the investment ecosystem has the potential to grow considerably in the next few years in terms of the impact it can help social enterprises and charities deliver. Our role is to understand better what each segment needs – whether it's social lending or investing in impact venture and ensure they have the tailored system support to grow. We will publish more details of our approach to deliver this later this year.

Thank you

Early in the year, Cliff Prior stepped down as Chief Executive and moved to the Global Steering Group for Impact Investment. Cliff led the team at Big Society Capital from 2016, overseeing our second strategy from 2017 and playing a vital role in the global development of our movement as a member of the UK National Advisory Board on Impact Investment. We thank him for his leadership of our organisation and his dedication to the global movement.

Stephen Muers acted as Interim CEO throughout the rest of 2020, leading our response to the pandemic. After a thorough process considering a wide range of candidates, the Big Society Capital Board announced Stephen's appointment to the role permanently in April 2021. Having been instrumental in developing our new strategy, Stephen is ideally placed to lead us into the next stage of our development.

'It is an honour and privilege to lead Big Society Capital, a unique and exceptional organisation. During my five years here, and especially in the last year as interim CEO, I have learned how much difference can be made to some of the biggest issues facing UK society if investment capital is connected to the right organisations in the right way. We are at a huge moment of opportunity to grow that impact many times over and improve more people's lives. I am looking forward to working with the fantastic team here at Big Society Capital, as well as our wide range of stakeholders, to seize that opportunity and take social impact investing to a new level.'

Stephen Muers, Chief Executive, Big Society Capital

We would like to thank our talented and dedicated team who have worked so hard during an unprecedented year, and our Board who have provided invaluable support and guidance. We managed to accomplish some incredible things in 2020 and that would not have been possible without their hard work, determination and a real passion for helping to create a better, fairer society. We also want to thank the fund managers, social banks and partners we work with, and the social enterprises and charities they invest in. Together, their expertise and innovation bring about social change. We will continue to support them through the pandemic and together will work hard to build a sustainable and successful future for our sector.

Finally, and most importantly, we pay tribute to the people and communities that our investments reach. They face the social challenges we aim to address, and we can only be successful if we work with them and listen to understand what works. In a year of unrivalled challenge, it has never been more critical for us to listen and work together.

Early Action

Our investments in Early Action address social problems to prevent them from escalating over time. We follow two investment approaches in this area to drive impact for people: social outcomes contracts and venture investing.

Social outcomes contracts

Social outcomes contracts link financial outcomes to social outcomes to enable innovative, preventative models of public service delivery. They provide funding for expert charities and social enterprises to deliver outcomes-based government contracts across areas such as homelessness support, health, education, family therapy and children's services. In doing so, they achieve better outcomes for vulnerable people and better value for public funds. Because these contracts were flexible, and commissioners supported flexible terms, the majority continued to help deliver vital services during Covid-19. This meant providers could adapt quickly to fast-changing circumstances – for example moving services online.



Big Issue Invest (BII) committed £403,000 to **Skill Mill** through the BII Outcomes Investment Fund, which we invested £10 million into. Skill Mill is a not-for-profit social enterprise established in 2013 in the North East of England. They aim to increase young ex-offenders' employability and education across eight local authorities in the UK. They move ex-offenders closer to long-term, sustainable employment and reducing re-offending rates.

Bridges Outcomes Partnerships supported **Norfolk Carers Partnership** through the Bridges Social Outcomes Fund II, which we have invested £12.5 million into (£4.2 million as part of Big Society Capital proprietary portfolio and £8.3 million through the Schroder BSC Social Impact Trust plc). This service, commissioned by Norfolk County Council, delivers support services to unpaid adult carers, and is a transformation of an existing carer support service. The contract builds on the core elements of the existing service while implementing improvements based on co-production with participants' insights. The objectives of the contract are to increase the number of known carers in Norfolk and to improve the health and wellbeing of carers that need support to sustain their caring role.

4

Number of specialist outcomes funds vs 0 in 2012

27,706

Number of people supported by Bridges Fund Management and Big Issue Invest through outcomes contracts

55

Number of outcomes contracts Big Society Capital has invested in

Venture investing

Our venture investments, complemented with impact know-how and network-building support, are intended to help nurture and scale innovative ways of tackling social problems. Technology startups have the potential to catalyse change and social impact through business models allowing them to scale rapidly and reach more people more effectively.

Despite the broader Covid-19-related challenges in 2020, the surge in demand for tech-enabled products presented a unique opportunity to accelerate growth for many of the ventures in our portfolio. Similarly, many ventures pivoted their business models to address new opportunities presented by the pandemic.

In 2020, the **Fair by Design Fund**, which we invested £6 million into, made a follow-on investment into **Wagestream**. This company is on a mission to improve the financial health of people in work, by giving them more power over their pay with a set of tools to track, access, save and manage their wages in real-time. Partnering with organisations to offer it as 'the ultimate employee benefit', the service breaks apart the outdated pay cycle and completely re-builds workers' relationship with their salary, helping them avoid predatory forms of credit in the process. This is particularly important in the context of 2020 and the pandemic, where according to the Office of National Statistics (ONS), 9 million people had to borrow more than usual to make ends meet. According to an impact study we commissioned with 60 Decibels, 45% of Wagestream's customers are below the UK national poverty line. Sixty-one per cent reported that Wagestream had improved their quality of life.



Togetherall, an investment by the **Impact Ventures UK** fund (which we invested £15 million into) is scaling its digital peer-to-peer and clinically managed community for people experiencing mild to moderate mental ill health. Like Wagestream, the pandemic increased people's need for Togetherall's offer – the ONS reported that depression rates have doubled since the pandemic began. It's clear from the data that Togetherall is creating meaningful impact on people's mental health. Since Impact Ventures UK invested, Togetherall have added over 210,000 new registered users in the UK, with 92% of members reporting improvements in their wellbeing.

125

Number of startups supported

28

Number of impact venture funds
vs 3 in 2012

9

Number of venture funds we have
invested in

[Harnessing user voice in investments](#)

Impact management and measurement practice update

A key part of our model in Early Action is enabling managers to enhance the impact they're creating by improving how they manage it.

To do this, we created two tools, which we piloted and launched in 2020. The first, our Impact Canvas, helps managers articulate their impact and systems change goals and how they plan on achieving them. The second, our Impact Practice Roadmap, helps articulate the different steps to improving how managers assess, measure and report on impact. We believe improving impact practice is a key way to ultimately improve the impact created.

Homes

We want to create a more inclusive housing market by providing high quality, safe and affordable homes so people can lead better lives.

Together with investors, housing providers and homelessness charities, we aim to provide adequate housing for the most vulnerable. We also want to attract new, impact-driven capital to improve the wider housing system.

In the context of Covid-19, our portfolio has generally continued to deliver strong impact performance. However, given challenging economic circumstances, we expect to see some tenants become more vulnerable, as well as an overall increase in demand for affordable and social housing.

Fighting homelessness and providing homes for the most vulnerable

In 2020, alongside a co-investor, we invested £30 million into four property funds to find 240 homes for those affected by rough sleeping and homelessness because of the pandemic. This included two **Resonance** investments, one with social justice charity **Nacro** in London in partnership with **The Greater London Authority** targeting people with significant needs. The second was with **Let Us**, an Ethical Lettings Agency in Greater Manchester where 97,000 people are on the waiting list for a social home.

We also topped-up our investments into **Social and Sustainable Housing** and the **Ethical Housing Company** which will see investment flow to at least five charities. These include properties targeting homelessness prevention in Teeside and a national charity **People, Potential, Possibilities** (P3) supporting vulnerable people with 'steppingstone' accommodation in Lincolnshire and Gloucestershire.

£385.2m

Amount drawn down from Big Society Capital and other investors alongside us

2,788

Number of new homes created

5,418

Number of people housed

Promoting social innovation in Housing

In March 2020 we launched a **Request For Proposals** (RFP) for impact housing funds as an opportunity to assess a wide range of strategies. Managers were invited to submit proposals for housing funds tackling a wide range of social issues. These included (but were not limited to) affordable and social housing, private rented sector housing, urban regeneration, modern construction methods and land use. We received **19 prospects** across a diverse range of tenure types, fund sizes and fund managers. Combined, these funds are targeted to raise £9.8 billion.



Impact management and measurement practice update

Since June 2020, [The Good Economy](#), [Big Society Capital](#) and a working group of 10 investment fund managers have worked on a collaborative project to create a sector standard impact measurement approach for equity investments in social and affordable housing. The purpose of this project is to define a common framework to achieve consistency across the market. This will help fund managers steward capital responsibly, ensuring it delivers positively for those in greatest housing need, particularly those on lower incomes.

Place

We use our investments to build an inclusive economy and promote social inclusion. By doing this we aim to reduce inequality, reduce poverty and create thriving and inclusive communities across the UK.

Covid-19 has further highlighted the importance of this work. Many of the communities and organisations we support through our investments have been disproportionately affected by the pandemic. In 2020 we worked hard to find new ways of [supporting charities and social enterprises to navigate through these challenging times](#).

£34.4m

Amount of lending by CDFIs to underserved SMEs, including £20m of CBILS (from CIEF and match funding from Triodos and Unity Trust Bank)

8,384

Number of people employed by enterprises in receipt of Community Investment Enterprise Facility investment

526

Number of loans made to under-served small or medium-sized enterprises through Community Investment Enterprise Facility (CIEF) and match funding

47%

Number of organisations receiving CIEF finance based in the 35% most deprived areas by IMD of the UK

CDFIs
Community development financial institutions

SMEs
Small and medium-sized enterprises

CBILS
Coronavirus Business Interruption Loan Scheme

CIEF
Community Investment Enterprise Facility

IMD
Index of Multiple Deprivation

Building resilience in social enterprises and charities to support continued impact in their communities

With the support of Big Society Capital and the National Lottery Community Fund, to date, the [Access Growth Fund](#) has made more than 500 investments at an average size of £66,000 across England. With a network of small funds, including some with a regional and/or sector focus, the majority of the investment has been in the 30% most deprived communities according to the indices of deprivation.

In 2020, when Covid-19 struck, we adapted our existing funding to target capital and interest rate holidays. This was the quickest way to give cashflow relief to organisations affected by the crisis and help them continue to serve their communities.

Investing to support community-based business models

Working with partners at [Social Investment Scotland](#) who deliver the £30 million [Community Investment Enterprise Facility](#) (CIEF), we amended the terms of the facility in response to the Covid-19 pandemic. This supported greater investment into small businesses at the heart of communities at a time when it was needed most.

[BCRS Business Loans](#) received an £8.5 million loan from the CIEF to provide loans to small businesses in the West Midlands. BCRS deployed over £5.6 million of Coronavirus Business Interruption Loan Scheme (CBILS) lending in 2020. With matched funding from Triodos Bank, BCRS deployed £10.4 million, including £5.6 million of CBILS, to underserved businesses through the crisis, contributing to economic resilience in their communities.

Working with local partners to support more equal and resilient social economies

Building on the example of the Growth Fund, our Local Access programme launched, announcing the support of £10 million grant and £15 million loan funding for six places across England in 2020 to establish blended finance products for social enterprises and charities. In addition, a further £8 million has been committed to Access to support the corresponding development of enterprise activity in those places.

It has been adapted to the circumstances of Covid-19, with greater resource and support provided through the initial planning phases. The long-term aims of the programme, to support visions of a thriving social economy in each place, will be a vital contribution to local economic recovery in the coming years.

Impact management and measurement practice update

In 2020, we continued working on our Place impact measurement framework. It outlines our approach to capturing the impact and systems change we're aiming for by working with local and national partners on shared outcome goals – as well as helping build local investment ecosystems that strengthen local social economies. Through increased capital flows we intend to support enterprises deliver impact within and across communities. The impact framework forms the basis of our impact measurement approach for the Local Access programme and our support to six places.



Giroscope, which received investment from Social and Sustainable Capital

Our investments

We make investments that create an impact on people, generate returns for investors, and change the system.

£735m

Total amount of signed Big Society Capital investments

£1.5bn

Total amount of signed capital from other investors alongside us

£452m

Total amount of capital drawn down by fund managers and social banks from Big Society Capital

2020 investments

In 2020, we provided finance to fund managers across our strategy themes and portfolio.

Early action	Ada Ventures	£3m	Gender and minority-focused pre-seed venture fund.
	Bethnal Green Ventures	£3m	Tech for good venture fund investing at accelerator, pre-seed and seed stage as companies build a path to scale.
	Connect Ventures III	£3m	Follow-on investment into a fund backing purpose-led founders of tech-enabled ventures that build a better society.
	Eka Ventures	£8m	Impact venture fund investing at Series A stage in sustainable consumer technology companies.
	Good Food Fund	£1.1m	Pilot fund in partnership with Guy's and St Thomas' Charity, supporting healthy challenger food brands to scale in order to improve access for lower-income communities who disproportionately experience childhood obesity.

Homes	Bridges Evergreen BSC Housing Fund	£2.5m	Part of the Everyone In initiative, a fund generating improved social outcomes for homeless people and those at risk of homelessness.
	National Homelessness Property Fund II	£5m	Part of the Everyone In initiative, this fund aims to provide homes to formerly homeless people or those at risk of homelessness.
	Resonance Supported Homes Fund	£5m	Property fund providing supported living to adults with learning disabilities, developed in partnership with United Response.
	Social and Sustainable Housing	£11m	Follow-on investment into a fund providing better solutions to charities supporting vulnerable people through housing.
	Social and Sustainable Housing Side-car LP	£4m	Side fund to the Social and Sustainable Housing fund, aiming to provide additional funding to support vulnerable and homeless people in Gloucestershire and Lincolnshire.
	Women in Safe Homes fund	£10m	Housing fund providing affordable, safe, and secure homes across the UK for women and their children experiencing or at risk of homelessness.
Place	Arts and Culture Impact Fund	£6m	Follow-on fund established to fulfil unmet demand and deliver social impact through the arts.
	SASC Bridge Finance	£5m	Follow-on investment for lending to community groups, enabling them to develop, own and govern a proportion of professionally developed ground-mounted solar farms.
General portfolio	Resilience and Recovery Loan Fund	£25m	Loan fund established to support social enterprises and charities whose businesses have been disrupted by the pandemic, with guarantees from the Coronavirus Business Interruption Loan Scheme (CBILS).
	Resonance Health and Wellbeing (Access)	£1m	Follow-on investment to support VCSEs and SMEs in the health and social care sector.
	Schroder BSC Social Impact Trust plc	£22m	Listed investment company established in partnership between Big Society Capital and Schroders, to provide investors with the opportunity to invest in a diversified portfolio of private market social impact investments, with a focus on delivering a positive social impact in the UK.

Portfolio management

At the heart of connecting capital to the organisations improving people's lives are the fund managers, social banks and other intermediaries. We invest through these intermediaries and support them to raise more capital, deliver more investments and create more impact.

£104m

Amount drawn down by fund managers deploying investments

£255m

Drawdown with matched co-investment

£32m

Increase in drawdown compared to 2019

£58m

Increase in matched drawdown compared to 2019

The challenge

The social impact investment ecosystem is relatively new and still developing the structures, organisations and track record that attracts investors. Each market segment from outcomes contracts to property financing, and from venture investing to lending for smaller enterprises, requires different skills and channels to connect capital to organisations delivering impact.

Our approach

We work with impact fund managers and other intermediaries as they look to scale as well as more mainstream managers looking to move towards investing with more impact. We provide investment and monitor the investments ensuring they deliver their predicted financial and social impact returns. Alongside this investment we provide a range of support to help them become more sustainable in the long term.

Our investments in 2020

We start with the social issue, then aim to identify the sustainable enterprise models that can help address it. We then seek out, invest in and support fund managers who can channel investment to those enterprises.

We help these fund managers establish proposals that balance the needs of investors with those of social enterprises, charities and social purpose organisations. We also help them build a successful track record that can attract more capital over time.

During the year, £104 million was drawn down by intermediaries deploying investments compared to £72 million in 2019. With matched co-investment, the year's drawdown amount was £255 million compared to £197 million in the previous year. The level of new investments and drawdowns in 2020 were at record levels for us. During a time when some other investors became more cautious, we aimed to provide additional investment at the time it was needed most.

Support in 2020

In response to the pandemic, portfolio management activities in 2020 pivoted to our Covid-19 priorities of sharing information, adapting existing funding where needed and supporting intermediaries in our portfolio.

Sharing information

Sharing information with our fund managers and partners was crucial, particularly as the crisis hit. We established early in the crisis regularly updated social investor and charity and social enterprise pages on our website, which include a charity and social enterprise guide to funding possibilities, hosted over 48,000 unique users in March-May 2020.

At the height of the lockdown (March-July), we published a weekly blog to give real time transparency into the crisis response programs we were designing with partners and sent out a regular letter with additional information to all intermediaries in our portfolio. We also took an active part in sector forums such as for loan managers, to share information on the developing need. We later published these insights in our “Mapping the Needs” publication to help guide other investors.

Adjusting existing funding

Working closely with our fund managers to adapt investments as needed, capital and interest holidays were granted to over 500 organisations in our portfolio. In addition, we amended the terms of many of our direct investments into intermediaries, and provided additional funding as needed to support organisations through the crisis.



Supporting fund managers

We adapted our manager support programme to focus on areas where it was most useful through the crisis.

Activities in 2020 included:

- 23 training sessions attended by over 330 people – including sessions focused on staff wellbeing and the changing working environment
- Access to [TogetherAll](#), an online service providing advice to millions with anxiety, depression and other common mental health issues, for all staff members of intermediary organisations in our portfolio
- Assistance with recruiting nine non-executive director positions for seven of our intermediaries
- A leadership programme for senior staff and executives
- Dedicated, tailored investment and support for fund managers looking to scale, with [Zamo Capital](#) investing in two of our intermediaries – Social and Sustainable Capital and Ascension Ventures

Portfolio allocation

There are four elements to constructing our portfolio so that we can create the maximum impact in a sustainable way over time. This approach enables us to maintain a strong level of commitment and generate returns that ensure our capital is available in future years.

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

Second, we weigh opportunities and risks against our strategic priorities and long-term vision for social impact investment. We are mindful of the risks across financial, impact and systems change dimensions. Given our mandate, we are generally more comfortable taking some kinds of risk than others.

Specifically, we believe it is our role to take on certain types of risk when we have high conviction in an opportunity's impact or systems change potential.

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

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

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

The table below maps our portfolio as at the end of 2020 into risk/return zones. The vertical axis shows the return (expected net portfolio IRR at time of investment approval) and the horizontal axis shows financial risk (dispersion of expected return).

Investing for others

Since we launched in 2012 we have worked to develop the social impact investment market in the UK. In this time, the market has grown significantly, increasing six-fold to over £5 billion in value. We have £625 million of our own capital to invest, and to help the market continue to grow and develop, we have to bring in new sources of capital to help improve lives in the UK.

To do this, we partnered with leading investment manager [Schroders](#) to launch the [Schroder BSC Social Impact Trust plc](#). Following a successful initial raise of £75 million, the trust listed on the London Stock Exchange. The trust offers a diversified portfolio providing sustainable returns, demonstrable social impact and low correlation to traditional financial markets. Not only does this bring millions of pounds of additional capital to help social enterprises and charities, it allows ordinary investors access to private market impact investment for the first time.

The Schroder BSC Social Impact Trust will focus on investing in high impact housing (Real Lettings Property Fund, UK Affordable Housing Fund and Social And Sustainable Housing), debt for social enterprises (Charity Bank Co-investment Facility, Rathbones Charity Bond portfolio and Bridges Evergreen Holdings) and social outcomes contracts (Bridges Social Outcomes Fund II). By managing other investors' funds as well as our own capital, we will bring considerable further investment into the social impact market. We want to raise awareness of and interest in social impact investing and see the launch of the Schroder BSC Social Impact Trust plc as a key step towards achieving this.





Market building

Big Society Capital's overall purpose is to help build an **investment ecosystem** that supports **enterprises** to improve **people's lives**.

We do this both through investing our own capital in ways that bring in other co-investors and also through wider market building activities. These involve building awareness and understanding of social impact investment among investors of all kinds, as well as among social enterprises and charities that could use repayable finance.

Our approach to market building is through education and partnership, with a long-term goal of building a movement of people and organisations who use social impact investment to improve lives.

Engaging social enterprises and charities

We work to raise awareness of, and confidence in, social investment. We want to make sure that every social enterprise or charity that can benefit from using repayable finance has access to the right kind of investment and all the facts needed to make informed and appropriate decisions.

Working together with a wide range of sector partners who are fundamental to our work, we aim to do this by:

- Raising awareness
- Increasing understanding
- Simplifying navigation

Good Finance

Our mission is to:

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

200,000

Number of Good Finance unique users to date

30,000

Number of unique user of the Investor Directory

The [Good Finance resource hub](#) was a vital source of information during the global pandemic, especially in the early weeks of the first lockdown, visited by over 40,000 unique users.

In early 2020, we launched our impact management animation which has had 6,000 views. We wrapped up 2020 with the launch of a new fund mapper tool enabling users to search social investors and funds by their specific region or post code.

Events

We've run [Let's Talk Good Finance](#) events all over the country in previous years. In 2020, we needed to do something different and gauge the appetite for online events.

We hosted three virtual Let's Talk Good Finance events, focusing regionally and reaching 120 social enterprises and charities. We ran our first Let's Talk Good Finance focused on social impact investment opportunities for Black and minority ethnic-led social enterprises and charities in partnership with [GMCVO BAME Social Enterprise Network](#).

Online course

We launched Social Investment Unpicked, an online, peer-supported training programme on social investment. The programme is designed for people who want to equip themselves with the knowledge and resources to inform and explain social impact investment to others.

Diversity and Inclusion

We launched the [Addressing Imbalance](#) project, to improve access to social investment among diverse communities. The project partners with organisations, with the aim of making social impact investment more accessible to enterprises and founders from diverse backgrounds and serving more marginalised communities. This project will really gain traction in 2021.

Campaigns

We supported social enterprises and charities to use Social Investment Tax Relief through our [GET Sitr](#) website. We also successfully asked the government to extend it to help support organisations to build back better.

Engaging investors

We engage with investors to raise awareness and understanding of investments that help to solve some of the most pressing social issues in the UK.

From individuals to large institutional investors, we help them navigate the impact investment market, sharing how investing for social impact can form part of their overall investment strategy. Many of the investors are 'impact first' investors, where social investing is just one tool for creating impact. Others want to embed impact into their overall investment strategy, giving it the same emphasis as financial returns.

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

Our most significant activity in 2020 was launching an [investment trust product](#) designed to allow ordinary investors access to private market impact investments for the first time.

We have been working in partnership with fund managers including [Resonance](#), [Social and Sustainable Capital](#) and [Bridges Investment Management](#) on fundraising additional capital, alongside a £30 million investment from us, as part of the Everyone In project to tackle homelessness.



We continue to support investors on their journey towards investing capital into social impact through developing networks. These include the now-established [Social Impact Investors Group](#) for trusts and foundations, and more recently the [Responsible Investment Network – Universities](#), which has been successfully growing this year. We are now exploring the creation of a similar network, to support individual investors with significant wealth to deploy into social impact. These networks help deepen understanding of different investor needs, and facilitate greater collaboration between asset owners with shared financial and impact goals. Other networks we are involved in include [Pensions for Purpose](#), the [British Private Equity & Venture Capital Association](#) and the [Global Impact Investing Network](#).

Despite the restrictions in place due to the global pandemic, we continued to engage with investors through meetings, speaking opportunities in the media and events, and helped raise awareness of social impact investing among key target investor groups.

Responding to Covid-19

The global pandemic is the greatest challenge we've faced in generations. It threatened, and continues to threaten, the financial stability of social enterprises, charities and social purpose organisations.

49

Number of social enterprises and charities receiving loans from the Resilience and Recovery Loan Fund

£16m

Value of loans from the Resilience and Recovery Loan Fund

293

Number of investments made by fund managers in our portfolio in the first three months of the first lockdown

Knowing the need was much greater than the capital we had available, we worked with government and other partners to ensure broad support packages were available to organisations we support. Our response was three-fold:

Sharing information

We understood the crucial importance of transparency in a crisis and shared information across the sector, creating resource hubs on both the [Good Finance](#) and [our own website](#), to help organisations find the most comprehensive range of options for adapting their work. These hubs received significant traffic with 40,258 and 4,808 page views respectively up until 31 December 2020. This reflected the importance of the information on these pages, particularly in the early weeks of lockdown.

Adapting existing investments

We adjusted our existing funding across our portfolio, giving organisations extra cashflow flexibility where they needed it. We targeted capital and interest rate holidays as the quickest way to give cashflow relief to organisations affected by the crisis. In all, we granted these to more than 500 organisations across our portfolios. While this is over one-third of our portfolio by number, it is around 10% by value of our investments, as in general smaller organisations were disproportionately affected.

Delivering new investments

We created a new investment programme for during the crisis and beyond, working with a range of social investors, and the [Department for Digital, Culture, Media & Sport](#) (DCMS) which accelerated the release of £45 million from previously committed dormant accounts.

The £25 million [Resilience and Recovery Loan Fund](#), managed by [Social Investment Business](#), made Coronavirus Business Interruption Loan Scheme (CBILS) loans available to 49 charities and social enterprises totalling more than £16 million. They are interest-free for the first year. Our [Community Investment Enterprise Facility](#) (CIEF) made 155 loans to small businesses and social enterprises – totalling £10.6 million – in the weeks before the Bounce Back Loans Scheme was introduced.

Also, fund managers in our portfolio made 294 new investments totalling £102 million in the three months following the first lockdown – significantly increasing their activity during a challenging operational and risk environment.

There are many areas where we're still working with partners to consider the role social impact investment could play. For instance, three fund managers in our portfolio are to help some of the 30,000 rough sleepers who were housed in hotels as part of the Government's support package. We committed £30 million to top up existing funds in 2020 and expect more investments in 2021.

Diversity, equality and inclusion

Our mission at Big Society Capital is all about system change. But what if we try to change systems only to replicate the bias, unfairness and inequality found in the old?

Feedback from the Quadrennial Review, alongside the disproportionate impact of the pandemic on people from Black, Asian and Minority Ethnic communities, and the global reaction to the killings of George Floyd and Breonna Taylor, has shown how racial injustice is built into the systems we are part of and trying to change. It is clear we need to do more.

In 2020, we took three principles to guide our work.

- Intention: making deliberate choices about what we are going to do and how we will know when we have made progress.
- Transparency: collecting and publishing data where possible.
- Building capacity with and for others rather than trying to do everything ourselves: we do not yet have all the answers and are still developing our plans.



We hope that these three principles will help us make progress, as we apply them across four areas: internal standards, our investment strategy and processes, managing and reporting on our portfolio and our work as a market builder.

The first of these is whether we live up to this high standard internally and are addressing issues raised by the sector-wide [Diversity Forum](#). The 2020 data on the composition of our senior team and Board show that we are not as diverse as we should be, and we will address this in future recruitment.

Second, we want to ensure our investment strategy and processes support equality and diversity. Our [Women in Safe Homes](#) fund, managed by Resonance, focuses on gender and we want to make more investments that specifically address inequality.

Third is around how we manage and report on our portfolio. We will now collect and share data from our top 15 fund managers of the diversity of their Board and senior leadership team in Investment Committees, starting in 2021.

The fourth area is our role as a market builder. We will support and amplify what others are doing, and improve the tools we offer. We have begun to update our Outcomes Matrix, adding an inequalities lens, while also adding diversity and inclusion as a component of our Building Blocks toolkit.

Finally, we have worked with Inclusive Boards and a working group from our staff to develop our own Equality, Diversity and Inclusion Action Plan for 2021-25. This builds on our first plan, published in 2019, while also recognising there is still much for us to do in this area to bring about a more equitable, diverse and inclusive sector.

Governance and accountability

[The Oversight Trust – Assets for the Common Good](#) (formerly known as Big Society Trust) is our majority shareholder and ensures we stay on mission. It also oversees the activities of other dormant accounts recipients [Access – The Foundation for Social Investment](#), [Youth Futures Foundation](#) and [Fair4All Finance](#). The trust commissions an independent review of each organisation on a quadrennial basis. The very first of these reviews, of Big Society Capital, took place in 2020.

The review, conducted by an independent panel through interviews with a variety of stakeholders, acknowledges we have made substantial progress towards our objectives. This is through our activities as a social impact investment wholesaler, as market builder and through an initiative supporting the establishment of Access – the Foundation for Social Investment and [Good Finance](#). The overwhelming majority of people interviewed by the panel believe that social impact investment in the UK would not have grown to the same extent as it has without our focus, funding and highly-skilled team.

The [review identified consensus](#) among investors, investees and other stakeholders, as well as internally within Big Society Capital, on the issues for us to take stock of and consider. These ranged from relationships and influencing government, to culture and governance.

In response, [we published a route map](#) of how we intend to rise to some of the challenges highlighted in the review. Many of these plans were already underway or in development before the review, but the review gave us the opportunity to set them out. These plans fall into three broad areas:

Mission

Some stakeholders felt aspects of our mission were not understood, and that some felt our capital was priced too cheaply while others felt it was too expensive. We committed to do more to increase understanding of these topics for our stakeholders, develop innovative products and approaches to extend the reach of social impact investment and to develop and strengthen our relationships with investors and investees.

Culture

The review highlighted our strong internal culture. It noted that we have a talented staff team with diverse backgrounds both in terms of gender and ethnicity and professional experience, with a high proportion (38%) joining from the social sector. We committed to making sure we maintain and improve our culture of learning, and actively consult and listen to a wide diversity of voices and backgrounds.

Investment process

We recently commissioned an expert external review on our investment process. It concluded investments follow industry best practice, are in line with our status as a regulated financial services firm and demonstrated an unusually high degree of openness and challenge. However, as the review suggests, there is more we can do to understand and meet the needs of intermediary investees. We will work with organisations going through our investment process to better understand the issues they face and what changes are possible. We will specifically review whether our investment process sufficiently enables funds to provide access to investment for social enterprises and charities serving diverse communities. And we will continue to monitor the performance – and capitalisation – of our intermediary fund managers and provide a range of support both financial and non-financial to enable them to grow.

The Quadrennial Review acknowledged the progress we have made, and confirmed the broad areas where we agree we can do more to improve further. We are excited about meeting the challenges that lay ahead.

Financial performance

Big Society Capital's long-term objective is to generate positive financial returns alongside demonstrable social impact.

Profit and loss

In a year defined by the global pandemic, the need for us to succeed in our aim to improve the lives of people in the UK was greater than ever. Our full audited Report and Financial Statements for the year ended 31 December 2020 are available here. Summary financial data is shown below.

Profit and loss for the year ended 31 December 2020

	2020	2019
	£000	£000
Social investment portfolio¹		
Interest, fee and dividend income	4,511	4,784
Fair value adjustments on investments:		
- Valuation changes and income relating to underlying investments	9,170	(805)
- Management fees and expenses paid to fund managers	(6,494)	(4,000)
Other valuation changes	(17)	(17)
	7,170	(38)
Treasury portfolio²		
Interest income	2,997	3,357
Fair value adjustments on investments	1,682	2,352
	4,679	5,709
Staff costs and other expenses ³	(8,224)	(7,803)
Profit/(loss) on ordinary activities before taxation ⁴	3,625	(2,132)
Taxation	62	6
Profit/(loss) for the financial year	3,687	(2,126)

1. These are the results from our social impact investments which you can read about in the [impact section of this report](#). The increase in revenue this year is the result of upward valuation movements outweighing write-downs across the portfolio. The valuations do not necessarily reflect the long-term view of performance, but instead they look at the current value and risk profile of the investments as required by accounting standards. Partially offsetting these valuation movements are higher management fees incurred by Big Society Capital reflecting the growth and diversity of the social impact portfolio.
2. This is the return on funds we hold before they are drawn down into social impact investments. We deploy our treasury portfolio proactively to create social impact alongside our objectives to preserve capital, maintain liquidity and generate returns on investment. The reduction in net income for the year compared to 2019 is due to a lower average treasury balance and market volatility within certain areas of the portfolio.
3. Operating costs have risen in line with expectations, with continuing investment in the resilience and effectiveness of Big Society Capital, as the social impact investment portfolio continues to grow.
4. Big Society Capital's long-term objective is to generate positive financial returns alongside demonstrable social impact. The company made a profit in 2020, and this will be used to achieve further social impact, by making investments to address social issues aimed at improving lives in the UK. The generation of financial returns will also enable the company's operational and market building costs to be covered, and move the company towards generating returns for its shareholders. When balanced against losses in previous years the positive returns in 2020 put us on a track towards operating on a sustainable basis, although there are potential future downsides to portfolio performance as government support measures put in place to support the economy during the Covid-19 pandemic are unwound.

Our treasury portfolio

Our treasury portfolio is used to create social impact alongside our objectives to preserve capital, maintain liquidity and generate returns on investment. Since 2016 the largest part of our treasury portfolio has been managed by [AXA Investment Management](#). This is governed by a mandate that permits only investments that have been successfully screened in accordance with a socially responsible investment process, while aiming for capital preservation. During 2020 we increased engagement with AXA to ensure they are delivering responsible investing strategies in line with environmental, social and corporate governance (ESG) best practice.

The remainder of the treasury portfolio is invested in social bond, equity and multi-asset funds.

Total revenue from the treasury portfolio in 2020 was £4.7 million, approximately 20% lower than 2019, which had seen very strong bond and equity market performance. The decrease reflects a lower treasury balance and lower, but still positive, mark-to-market increases on the social bond, equity and multi-asset funds.

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