

Market Sizing Methodology

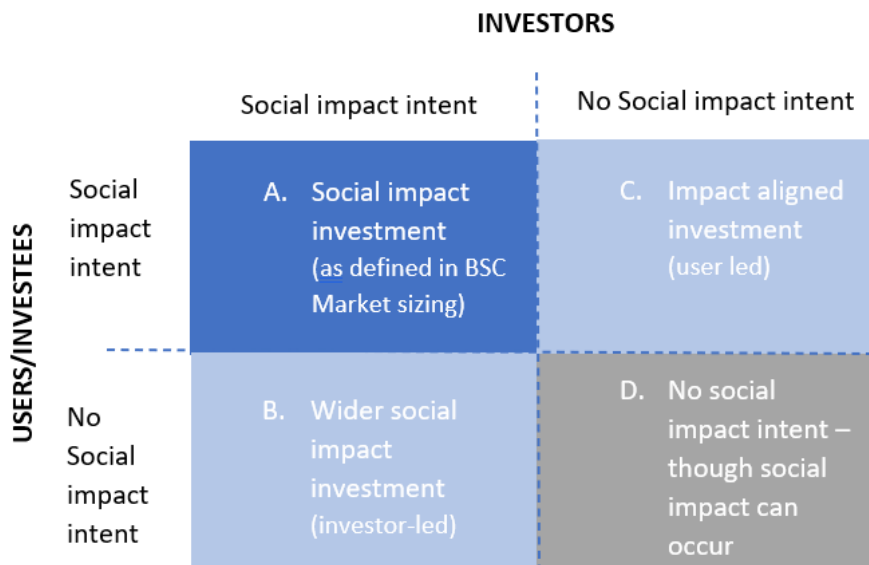
Each year since 2016, we have produced a comprehensive estimate of the size of the UK social investment market through our market data research. The purpose of this is to share insight on the development and composition of the current market as we see it evolving and identify further growth opportunities and trends. This year, for the first time, we have included an estimate of the investor composition of the market to share insight into the capital asset owners allocating to impact funds.

For the purposes of the market sizing, social impact investment is defined as:

‘Investment into social purpose organisations such as charities, social enterprises, start-ups, or real assets such as social and affordable housing. The investment enables them to deliver products or services that create measurable, lasting social impact that improves people’s lives. Social impact investors are seeking positive social impact as well as a financial return and both investees and investor demonstrate social impact intent.’

The UK Social impact investment market is a subset of the broader UK impact investment market as highlighted in Segment B and C of Figure 1 below with UK social impact investment in Segment A.

Four broad segments of impact investment¹



2023 Market Sizing Methodology

To calculate an estimate of the market size, we use the following methodology to guide the research.

1. Build and refresh the market list of impact investing organisations that meet our definition and criteria

Our existing list of impact investing organisations incorporates our own portfolio of over one hundred investments into fund managers, intermediaries and social banks combined with other UK based social investors who we are aware of through our wholesaler investor role and partnerships and meet our definition above. To evaluate investor impact intent, we look for evidence such as

¹ The size and composition of social investment in the UK, Big Society Capital, 2016

articulation of impact goals, developed impact management processes or the production of an impact report. To evaluate investee intent, we consider factors such as social objectives, targeting of specific social impact with its goods and services and asset locks for mission. Each year, we will also do a market scan to update any new investors added to the market that we are aware of and meet our definition and the following criteria:

- Organisations, specific funds, or investments that are both based and invest their capital in the UK (excludes overseas investments from UK based organisations)
- Organisations, specific funds, or investments focused on primarily achieving social impact excluding investments focussed predominately on environmental impact i.e., includes community renewables but excludes green bonds.
- Organisations, specific funds, or investments that make direct investments into charities, social enterprises, and social purpose organisations.

2. Define the key metrics and definitions for market sizing approach

We collate the following two metrics to identify an estimate of the size of the market.

Metric A: Market size (£) is the outstanding amount/value, as at the end of the calendar year (31/12/2023). We also include an estimate of the number (**i.e. # count**) of transactions/investments.

Metric B: Deal Flow (£) is the amount of social impact investment commitments made in 2023. This also includes **the # of investments** that make up the total amount of deal flow.

3) Collect and aggregate key metric data for list of impact investing organisations

For each of these organisations, we collect data on Metric A and B through the methods below:

- Our own portfolio data through valuation information available to Better Society Capital
- Publicly available sources i.e. published annual reports and balance sheets.
- Direct requests and contributions from partner and non-partner organisations to provide figures for their investments, on the basis that this would be aggregated into product level categories and not individually attributable back to intermediary level.

For the 2023 estimate, we added nineteen new investors/funds that have not previously been included in our market sizing. These are either new funds or funds/investors that are now demonstrating impact intent as set out in our definition above. We anonymise the individual amounts attributable to each investor as not all the data is publicly available.

4) Collate and estimate the investor composition of the market

This is the first year we have estimated investor composition. We collected this data through the methods below:

- The methodology is centred around our co-investor data for the funds included in the market sizing that BSC have invested into to calculate the split by investor type.
- This is supplemented by the survey we shared with our external contributors to share the % of their investors by investor type.
- The primary data sources above are supplemented by a combination of estimates from publicly listed funds, investor engagement publications and proxies using our investor data to provide a full market view.

5) Benchmark our findings and compare to our prior years and other organisations' market sizing reports

To sense check our findings, we compare the aggregated key metrics against our previous years' market sizing to understand the growth of the market and growth or reduction in individual products or asset classes. We review our methodology and compare our market size value and deal flow amount against other social investment organisations who have completed a similar exercise i.e., GIIN, Impact Europe and the Impact Investing institute.

Methodology notes and data limitations by product type/asset class

- **Social and affordable housing**
 - In housing, we use portfolio value where possible and the count # relates to no. of counterparties rather than properties or leases.
 - Where reporting does not follow the calendar year i.e. 31/12/2022-31/12/2023, we have included metrics as at the quarter end nearest to the end of calendar year.
 - For some private housing funds, we have estimated investor composition where needed based on proxies from our own housing investor data.

- **Social Lending**
 - In Charity bonds, we have included this year for the first time, charitable bonds into housing associations which has driven a substantial proportion of the increase notably due to £200m deal flow into Scottish Charitable Bonds in 2023.
 - In non-bank lending, for the Community Investment Enterprise Fund run by Social Investment Scotland, we have included the number of SME's invested into to ensure consistency with prior years methodology rather than the number of CDFIs that lend on to the SMEs.
 - In Charity bonds and bank lending, we have applied some proxies to our investor data in terms of the proportional split of capital across investor types. These estimates are driven by our own investor data, team knowledge of the market and desk research.

Impact Venture

- For venture funds, we include only UK based impact focused companies within our figures.
- As per our definition, we aim to include primarily social focussed investments, and we sense check our figures to ensure that impact ventures focussed on environmental impact only are excluded from the exercise.