

# DISCLOSURE STATEMENT

## Big Society Capital

Operating Principles for Impact Management

26 March 2024

Big Society Capital Limited (“BSC”) hereby affirms its status as a Signatory to the Operating Principles for Impact Management (the “Impact Principles”).

Big Society Capital’s total portfolio of impact investments into fund managers, social banks, and other intermediaries across its multi-asset portfolio is managed in alignment with the Impact Principles.

Big Society Capital’s total assets under management in alignment with the Impact Principles is £690 million<sup>1</sup>, as of 31 December 2023.



**Stephen Muers**

**CEO, Big Society Capital**

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<sup>1</sup> Equivalent to USD 868 million, as of 22 March 2024

## **Overview of key changes to BSC’s Impact Approach**

This section provides a brief overview of key updates in our Disclosure statement, compared to our 2023 version.

### **Embedding “equity, diversity, and inclusion (EDI)” into our investment process**

In 2023, we further developed our EDI approach in several key areas.

Firstly, we improved our EDI due diligence approach of fund managers. The updated framework, developed with support from The Social Investment Consultancy (TSIC), assesses fund managers’ EDI practice across seven criteria, including culture and mindset, governance and decision-making, and data and accountability. This assessment informs EDI Action Plans agreed with fund managers on key areas of improvement, if necessary. In 2023, we piloted the tool across two live due diligence processes with two new fund managers, and benchmarked EDI practice across a subset of our existing portfolio. In 2024, we will roll the tool out for all new investments.

Secondly, we improved scope and quality of our EDI data collection and sharing process for BSC and portfolio EDI data. In addition to collecting data across our portfolio on the extent to which fund managers are diverse-led, the diversity of the leadership of their portfolio companies, pay gap reporting, and barriers and resources to implementing EDI, we added questions on socioeconomic status and challenges to implementing EDI. We also organised a session with fund managers to obtain feedback, share back and reflect on the results from last year’s survey. We recognise that diversity data collection and reporting remain a challenge for the sector. Therefore, we are collaborating on a user-led project led by the Diversity Forum to improve the standards of diversity data collection in the sector.

And thirdly, we became one of the first Limited Partner (LP) signatories to the Investing in Women Code and supported other industry initiatives such as Diversity VC, Diversity Forum, the Equality Impact Investing Project (EIIP) and the recently launched [Equalising Deal Terms project](#). Our sister organisation, Good Finance, launched Investment Committees of the Future, a programme designed to increase the numbers of individuals bringing improved diversity and greater lived experience to investment decision-making in the social investment sector.

### **Strengthening our ESG approach**

In 2023, we made the following changes to our ESG approach:

Firstly, we became a signatory to the Principle for Responsible Investment. While we considered ourselves aligned before, we decided that a more formal commitment was appropriate for signalling, learning, and accountability purposes.

Secondly, we piloted our new Social Property ESG due diligence questionnaire which enabled deal teams to better identify material ESG risks and provide reference points for ESG best practice in property. As part of this work, we have identified gaps to improve on our wider investment process across other asset classes, which we will continue to improve over the course of this year. Thirdly, we started to report on greenhouse gas emissions, covering 52% of our Schroders BSC Social Impact Trust portfolio. And fourthly, we became a certified B-corp.

### **Reporting on our impact**

We published our 2023 Impact Report in February 2024 – our first, comprehensive external impact report since 2020. Going forward, we want to publish our Impact Report on an annual basis.

## STRATEGIC INTENT (PRINCIPLES 1 & 2)

### Principle 1: Define strategic impact objective(s), consistent with the investment strategy

*The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.*

#### Our strategy

Big Society Capital is the UK's leading social impact investor with a mission is to grow the amount of money invested in tackling social issues and inequalities in the UK. We do this by investing our own capital and helping others invest for impact too.

To build solutions to tough social challenges, we work with expert partners to understand such social issues. We consider sustainable enterprise solutions to such challenges, and work with partners to design and deliver investments that consider the needs of both enterprises and investors. Doing so allows us to grow market participation and support investment ecosystem transformation to enable long-lasting change to people's lives.

As a wholesale social impact investor, we invest in fund managers, social banks, and other intermediaries, who in turn invest in enterprises and charities all over the UK. Our investments span a wide range of financial product types and asset classes, including property, private debt, renewables, private (venture) equity, social bank lending, charity bonds, and social outcomes contracts.

#### Our intended impact

Based on our overall mandate and underlying theory of change, we consider and manage impact and impact risks throughout the investment lifecycle, across two key dimensions:

- **Systems Change:** is our primary focus and relates to the changes we intend to contribute to with regard to the broader investment ecosystem. These include impacts from our investments and other market building activities on fund managers and intermediaries, enterprises and charities, investors, and broader policy environment. Our overarching goal is to influence the behaviours and interactions of key system actors, so that more capital and support is reaching enterprises and charities, enabling them to create sustained positive change in the lives of people in the UK, while at the same time increasing their organisational resilience and growing their impact
- **Impact on People:** this is the intended social impact on individuals and communities that enterprises and charities have, receiving BSC's investment through our fund managers, social banks, and other intermediaries. Our overarching goal is to tackle important social issues through social impact investment, thereby improving people's lives in the UK across a wide range of social outcome areas.

Regarding BSC's intended Impact on People, we draw upon several existing impact frameworks to guide our work, including BSC's own Outcome Matrix, the Sustainable Development Goals, and the Five Dimensions of Impact (as defined previously by the Impact Management Project and now managed by the successor organisation, [Impact Frontiers](#)). For our impact on the broader

investment eco-system, including the impact on enterprises' resilience and growth, we have developed our own, bespoke frameworks.

Our most recent 2025 BSC strategy, approved in 2021, focuses on helping build an investment ecosystem that supports enterprises to improve people's lives. We focus on four market system areas, where our experience has shown us that social impact investment can help create a better, sustainable future:

- **Social Lending** – to help build a social lending market that meets the needs of a more diverse range of social purpose organisations and investors alike, extending reach to the most overlooked communities.
- **Social Property** – to help create a system that provides more safe, secure and affordable homes for everyone to access regardless of their circumstances, particularly for the most vulnerable people in our communities.
- **Impact Venture** - to help develop a system that nurtures and scales innovative ways of tackling a broad range of social problems, such as financial inclusion, education, and health and wellbeing.
- **Social Outcome Contracts** – to help develop a system of social outcome based public service delivery that improves the lives of people with complex needs, creates better value, and targets prevention rather than crisis response.

Each area features a set of specific system change goals, underpinned by a set of strategies to achieve these goals, as well as a set of metrics to measure progress and change at the strategy and system level. Strategies are supported by cross-industry research and an extensive evidence base. They are being revised on a regular basis based on insights and learnings from both our annual "Market System Progress and Learning Workshops" and our annual Investment Performance Committee. We will undergo our next strategy development process in 2024.

Our capital allocation across our four investment market system areas takes into consideration the relative size of impact and systems change opportunity in each area, as described in BSC's strategy. For more information about our focus areas, please visit [here](#).

At the individual investment level, strategic alignment is ensured during pre-due diligence stage – the first stage in BSC's investment process – and confirmed at the decision stage. Specific impact (on people) and systems change theses and objectives, with relevant impact metrics, are defined and captured for each investment before investments are entered into.

Our investments are aligned with the UN Sustainable Development Goals. UN SDGs 1, 3, 7, 8, and 11 feature most prominently across our portfolio.

### **Further developments**

We continue to refine our evolving approach to System Change and Impact on Enterprises, based on ongoing learnings.

### **Principle 2: Manage strategic impact on a portfolio basis**

*The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.*

## Impact approach overview

BSC's impact management approach allows us to systematically establish strategic intent and alignment with our strategy, as well as monitor and manage impact performance of all our investments, across our multi-asset portfolio.

Our approach comprises both the intended and actual social impact of our investments, as well as the intended and actual impact on the broader system and systems actors. [We use the five dimensions of impact, as defined by the Impact Management Project \(IMP\)](#): What, Who and Where, How Much, Contribution, and Impact Risk to build a shared understanding of the intended and actual social impact and impact risks of our investments. We have developed our own frameworks to manage the impact of our investments on enterprises in terms of resilience and impact growth, as well as the contribution of our investments to broader system change.

Impact and systems change intent and performance are systematically captured and managed throughout the investment lifecycle, including the following process steps and tools:

*Pre-Due Diligence (pre-DD)*: to test alignment of prospective investments against strategic impact/systems change objectives, as well as portfolio allocation objectives. Our pre-DD template requires an initial view on the investment's target impact (based on IMP's dimensions of impact) and systems change thesis and risks, the fund manager's ability to deliver against such theses, as well as BSC's investor contribution (based on the IMP classification of investor contribution). It also identifies priority areas for further due diligence.

*Portfolio Allocation Tool*: to establish an investment's contribution to overall portfolio objectives. To do so, we assess an investment's expected impact, alignment with strategic systems change objectives, and financial returns as well as risks, against current portfolio allocations. This allows us to better understand, compare, and trade-off the risks and rewards associated with different opportunities.

*Due diligence (DD)*: to test whether the investment proposal lives up to the investment thesis identified in pre-DD. Our DD Toolkit provides for a number of specific tests for impact, system change, and financial thesis, as well as broader organisational and management DD. Our broader approach to DD also includes an ESG risk assessment (more under Principle 5) as well as an EDI assessment, which we tested in 2023 and will roll out for all new investments in 2024. The investment committee memo provides a succinct summary of findings to enable investment committee decision making.

*Impact Canvas*: BSC's primary tool to facilitate impact management and reporting at the individual investment level. To be agreed between BSC and the respective investee, the canvas explicitly documents the investee's impact and systems change thesis and sets formal expectations for impact and systems change measurement and reporting, including impact (output & outcome) KPIs/metrics, for which impact data is to be provided as per agreed measurement plan.

Impact metrics are defined in a participatory manner with the investee, bespoke to the specific impact theses, to maximise the value derived from impact measurement for all parties involved, including BSC's investees and frontline organisations to support ongoing performance management and learning. For new investments in "housing", we have started to require reporting against portfolio-wide impact KPIs, which we co-developed with a selected [group of housing equity investors and impact expert organisations as part of the Equity Impact Project \(more details here\)](#).

*On-going impact reporting*: investees are expected to report on actual impact, as defined and agreed in the impact canvas, at least on an annual basis. For investments made prior to introducing the canvas

in 2019, BSC's investees were required to report against at least one target social outcome metrics for each of their own investees, in a manner and format of their choice.

*Performance Committee Meetings:* to establish how BSC's portfolio of investments is performing against the original (or updated) social impact, systems change, and financial theses at the time of the investment committee decision. The Performance Committee also discusses required actions to manage investment performance, including impact and systems change, as well as broader learnings across the portfolio. The committee meets on an annual basis.

*Portfolio Review Days (PRDs):* a meeting between the investee and BSC investment committee members, for the former to provide an update on how investments are performing (financial, social impact, systems change) against plan, any issues of concern, opportunities and plans for the future. Fund managers and intermediaries are expected to participate in PRDs on a regular basis, every 1-2 years.

*Annual Impact Conversations (AICs):* a deep dive meeting with the investee to discuss and review on an annual basis impact performance, as well as the current state of impact practice. AICs are also an opportunity to review and agree on BSC impact management support to the investees, where needed and appropriate.

*Impact evaluations:* bespoke impact evaluations may be conducted in partnership with third party experts, such as universities or impact consultancies, to evaluate the social and systems change impact of larger, strategically important BSC investments. In such circumstances, more rigorous and systematic impact insights are required to inform and support BSC's broader market building plans. We have also undertaken or commissioned research since our inception on the state of the social impact investment market, different types of social investment, and specific social issues (please see the "[Our research](#)" section on our website more details).

Our impact approach has changed significantly over the years and continues to evolve. We recognise that best in class impact management is a moving goal post and as such commit to continuous learning and improvement.

### **Impact management responsibilities & incentives**

Impact is core to BSC's mission and organisational culture. We recruit people with a passion and commitment to solving some of the most entrenched social issues in the UK. Understanding the social sector in the UK is instrumental to what we do, and we encourage all staff to find both frontline volunteering and trustee roles.

Impact is embedded in our core staff development resources, such as our [Learning & Development \(L&D\) framework](#), which requires our team to build a fundamental understanding of social issue areas and relevant business models, as well as social impact management over time. During our annual Performance & Development Review discussions, we then assess progress against previous L&D priorities and define new ones for the coming year.

Other relevant impact resources include our induction program, for new joiners to BSC and our intermediaries, which covers the foundational knowledge about social impact investing as well as ongoing staff trainings and a newly launched online Learning Hub, which hosts key impact resources and recorded teach-ins across relevant impact themes and disciplines. These provide the team with additional, ongoing capacity building support.

While we do not align incentives directly with financial and impact performance to avoid potential unintended effects, impact and systems change practice and expertise are considered qualitatively in our assessment of staff including decisions on pay and promotion. As a market builder, part of our role is to test new investment opportunities for creating impact and returns, which implies the need for managed risk taking.

### **Further developments**

In 2024, we will develop and test an advanced impact and system change scoring methodology to enable greater understanding and comparability of the impact achieved within and across our market systems and overall BSC investment portfolio. We will also conduct an internal review about the effectiveness of our Impact Canvas tool to date.

## ORIGINATION AND STRUCTURING (PRINCIPLES 3, 4, 5)

### Principle 3: Establish the Manager's contribution to the achievement of impact

*The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.*

#### Building the investment ecosystem

Helping to build an investment ecosystem that supports enterprises to improve people's lives in the UK, is core to BSC's mandate and mission. We do so through a broad range of strategies and interventions that are defined in our BSC Strategy and Annual Business Plans and reviewed on an annual basis through our Market System Progress and Learnings workshops, and other fora.

These strategies include:

- Developing and investing in financial products that bridge the needs of investors and enterprises across our four market system areas.
- Engagement, awareness, and capacity building of investors, intermediaries and fund managers, enterprises and charities, and policy makers.
- Driving innovation in addressing social issues through business models, in partnership with other organisations.
- Building and contributing to social infrastructure organisations.
- Driving good sector practice in priority areas, such as impact management and equality, diversity, and inclusion.

In seeking to influence impact practice and support the development of new initiatives and communities of practice, we incubated and launched ImpactVC. ImpactVC is a community of VCs accelerating impact within venture. Through sharing best practices, high-quality resources and delivering training programmes, it aims to unlock the impact potential of venture capital and help solve world problems.

Some of our previous achievements across these strategies are documented in our last three impact reports in [2017](#), [2020](#) and [2023](#) as well as in our latest [Quadrennial Review Report](#), an independent review of BSC's performance against our mandate, published by the Oversight Trust, formerly known as The Big Society Trust.

#### Supporting fund managers and intermediaries

Helping to build effective intermediaries has been a particularly important part of our investment ecosystem strategy. Beyond our capital and close engagement throughout the investment and portfolio management process (as outlined under Principle 2), we have been providing a range of one on one and group capacity building support to our fund managers and intermediaries.

Following the launch of our new 2025 strategy, outlined above under Principle 1, we have started to revise our approach to fund manager support accordingly to focus on:

- Dedicated support in areas of access to capital and talent to enable impact specialist funds to scale
- Dedicated support to fund managers to improve impact practice (including ESG and EDI), where relevant
- Broader one-to-many support service offerings across our portfolio



This will continue to include, among other activities:

- *Bespoke support in accessing capital and developing talent:* including fundraising support, investor introductions, recruitment support, and other services.
- *One on one impact practice advisory support and tools development*
- *BSC investee training support offer:* a bi-annual induction course on social impact investment for new starters and other training courses as per our fund managers' needs.
- *Organisational and people development support:* BSC offers access to talent development support (through a consultant) to develop teams. In 2024 we will also pilot an impact coaching offering in impact venture to support tilting the broader ecosystem – VCs and founders – towards impact.
- *Non-exec network:* BSC provides its intermediaries/fund managers and their front-line organisations with access to a non-exec network for individuals interested in supporting social impact managers.
- *Leadership programs:* our current leadership development support to the broader sector is currently under review. Based on learnings to date, we will seek to develop a revised approach, aligned with our upcoming, new post-2025 strategy.

We seek ongoing feedback from our fund managers and intermediaries on the value of these and continue to evolve our support offerings.

### **Considering investor contribution in our specific investments**

The ways in which we intend to contribute to specific impact and systems change across our four market system areas, is laid out in our BSC strategy. On that basis, we then consider our specific financial and non-financial contribution to impact and systems change for each achievement.

Our “signal, engage, grow, and provide” framework, based on the [Impact Management Project's investor contribution strategies](#), captures our intended contribution during pre-due diligence phase. The system change section of the investment committee memo further describes our contribution to the target changes to the behaviours and relationships between investors, fund managers, enterprises and business models, policy makers and other key stakeholders.

We review our systems change performance and extract learnings as they relate to our investor contribution to impact and system change through our Performance Committee meeting, and since 2022, also through our Annual Market System Progress and Learning Workshops. More information provided under Principle 8.

### **Further developments**

We are exploring opportunities for BSC to more clearly 1) link our investor contribution strategies, as previously defined by the Impact Management Project (and now part of the Impact Norms, managed by Impact Frontiers), with our investments' contributions to system change, 2) articulate the outputs and outcomes of such broader contributions at investment decision stage, and 3) monitor performance during portfolio management.

### **Principle 4: Assess the expected impact of each investment, based on a systematic approach**

*For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who*

*experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations.*

*In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.*

### **Approach to assessing expected social impact and systems change**

BSC assesses the expected impact of each investment through a systematic approach, building on the [IMP 5 dimensions of impact](#): What, Who, How Much, Contribution, and Impact Risk. In terms of impact risks, BSC applies [IMP's 9 risk categories](#) to its ex-ante risk assessments, focusing on those risks considered most material to the investment. In addition, BSC assesses the expected impact on systems change and system change risks for each investment, to the extent relevant.

Through BSC's portfolio allocation tool, we rate each investment against its level of expected impact (top tier, strong, or clear impact) and impact risk (low, medium, high, very high), as well as level of alignment with relevant strategic system change objectives (bullseye, strong, and clear fit) and systems change risks (low, medium, high, very high).

In terms of process, the expected impact and systems change is first identified during pre-due diligence stage. It is then tested and assessed during due diligence (using BSC's DD toolkit), before a final impact and systems change thesis is presented in the investment committee memo and captured in the impact canvas, together with a set of impact metrics for ongoing impact monitoring and reporting.

To date, with a focus on validating the specific impact thesis of each investment and maximising the value of impact measurement for impact performance management across our impact chain, we have taken a participatory and less directive approach to determining impact metrics. So far, fund managers and intermediaries have been able to identify their preferred impact metrics for impact reporting. In certain thematic investment areas, such as housing, we have started to identify portfolio wide indicators that we now apply across our various housing investments going forward. We continue to identify such indicators in a participatory way, also considering the specific investment context to ensure metrics are relevant and meaningful, as well as alignment with international standards (e.g. IRIS+), where relevant.

### **Further developments**

We will explore ways of strengthening our impact approach in this area, by considering:

- Developing, where useful and value enhancing, internal and external guidance on indicator development, including best practice for selection (e.g. SMART/SPICED) and alignment with industry standards.
- Sharing with industry standard setting organisations our own experience of developing context specific impact indicators (e.g. in housing in the UK).
- Developing and testing an advanced impact scoring methodology to enable greater understanding and comparability of the expected and actual impact of our investment portfolio.

## **Principle 5: Assess, address, monitor, and manage potential negative impacts of each investment**

*For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.*

BSC's approach to managing ESG risks is based on our [Responsible Investment Policy](#), underpinned by nine core Responsible Business Principles and an exclusionary negative screen. These Principles form the basis of our current ESG risk, identification, assessment and management approach which is detailed in BSC's ESG Framework. The approach is aligned with the Principles for Responsible investment, which we have now formally joined as a signatory in 2023.

The framework is operationalised by a set of bespoke, internally developed tools, including an ESG DD Questionnaire and an ESG checklist which is an integrated part of BSC's DD toolkit. The Policy and ESG tools are intended to complement BSC's existing impact (risk) management and due diligence approaches, such as our organisational due diligence tests, which already capture a range of relevant ESG related risks.

Where we may encounter market system specific ESG risks, we draw upon additional, external ESG frameworks (e.g. [VentureESG](#) for venture) or expand our own market system specific ESG risk management approach.. For example, in Social Property, we piloted a new, Property specific ESG due diligence questionnaire, which has allowed deal teams to better identify material ESG risks in the property sector and provide reference points for ESG best practice.

Where identified during due diligence, material ESG risks are assessed based on the likelihood of the negative impact occurring and the severity should that negative impact occur. Significant risks and proposed mitigations are reported to the Investment committee, as part of the Investment committee memo. We follow up on identified risks and mitigations, as well as identify new ESG risks that may emerge during portfolio management, through our various engagement channels with intermediaries, such as our Annual Impact Conversations and annual Portfolio Review Day meetings. At portfolio level, we are monitoring material ESG risks and impacts at our annual Performance Committee meeting.

Fund managers (with respect to the fund(s) that Big Society Capital invests in) and other financial organisations that receive investment from Big Society Capital will be required to adopt and adhere to, and will be required to ensure the charities, social enterprises, and other businesses they in turn invest into adopt and adhere to, the Responsible Business Principles contained in this policy or a statement of business principles similar in form and substance. Similarly, they are required to either adopt the list of exclusions or to demonstrate sufficiently that there is a low risk in practice of investments being made, or activities undertaken, that contravene the negative screen.

Similarly, regarding BSC's treasury portfolio, we ensure that our fund managers' approach to ESG is robust and aligned with BSC's ESG approach and sector-wide best practice. This includes managers' ESG framework, exclusion list, and stewardship approach. In 2023, we updated our Responsible Investment Policy to reflect the specific differences in process required for the Treasury portfolio.

## **Further developments**

Going forward we will:

- Further develop our approach to material ESG risk identification and monitoring, as part of our Annual Impact Conversation and Performance Committee meeting. Further build out a systematic fund manager engagement and influencing approach, as we increasingly refine our investor contribution and value add to each portfolio investment.

## PORTFOLIO MANAGEMENT (PRINCIPLES 6)

### Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately

*The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.*

The impact canvas is BSC's key tool to capture the agreed impact and systems change theses, develop an agreed measurement plan (that defines measurement methods, responsibilities, and frequencies of measurement), and impact metrics for ongoing data collection and reporting. Prior to introducing the impact canvas in 2019, BSC investees were required to report at least against one key outcome of the impact thesis per underlying enterprise or charity, based on impact metrics of their choice.

Impact data (quantitative and qualitative) is collected for all our investments through various channels, including formal impact performance reporting on at least an annual basis. We also collect impact insights through less formal reporting channels, such as quarterly meetings with our fund managers and intermediaries. For specific investments of strategic importance that are intended to test a broader market building thesis, BSC works in partnership with others to conduct multi-year third-party impact evaluations to provide more rigorous, in-depth impact insights.

Based on impact information received, we then compare each investment's actual impact and systems change performance against its original impact and systems change thesis at the point of investment. We do so through our annual Performance Committee meeting, which also assesses impact and systems change performance at an aggregate, asset class level, distils key learnings for our respective areas of work, and stipulates actions for further impact and systems change performance management, in response to such learnings.

Impact and systems change performance is also discussed with each fund manager or intermediary in the context of our Annual Impact Conversations, which we introduced in 2019. These conversations also provide an opportunity to discuss and respond to specific impact performance challenges that a fund manager or intermediary might encounter.

For our Venture portfolio, where an improvement of impact practice often forms part of our investment impact thesis, we have developed bespoke tools, such as the Impact Practice Roadmap, to assess and monitor improvements in our fund managers' impact practice.

#### **Further developments:**

We are currently working on an impact practice assessment tool for our Social Property portfolio, which we have tested in 2023 and will develop further in 2024. The framework will provide the foundation for a shared systematic understanding of our fund managers' impact practice, as well as discussing further improvements.



## IMPACT AT EXIT (PRINCIPLES 7 & 8)

### Principle 7: Conduct exits considering the effect on sustained impact

*When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.*

Given the diverse and multi-asset nature of our investment portfolio, exits and associated impact risks vary across BSC's investments and asset classes. Similarly, risks of sustained impact are also driven by the nature of the underlying enterprises that receive our investments through our intermediaries and fund managers. Private debt investments into well-established, clearly mission driven and regulated charities and social enterprises, used for asset acquisition, refurbishments, working capital, or refinancing arguably constitute lower impact risks, compared to equity investments in early-stage ventures at the beginning of their growth journey. As such, the importance and nature of post-exit impact considerations also vary across BSC's investment portfolio.

Across all our investments, as part of our due diligence work, we test the alignment with a prospective fund manager or intermediary across a number of factors, considered for sustained impact post-BSC exit. These include the (social) mission and strategy of the fund manager, its governance structure (incl. decision making), people, and culture, as well as impact being considered throughout the investment and portfolio management process. Where relevant, we also inquire the need for post-investment support and exit plans.

At the point of exit, investment leads are required to prepare a decision paper which is submitted to the BSC investment committee for approval. Depending on circumstances, a final impact assessment is being conducted, comparing impact performance at point of exit with the original thesis, and risks to sustaining the investment's impact at point of exit, as well as BSC strategies and actions to influence such sustained impact are being considered. The investment committee discusses and determines required actions with regard to any issues arising related to the continued impact of the investment.

#### Further developments

The topic of conducting exits and their effects on sustained impact is a developing area in the industry. We intend to explore ways in which we can strengthen our approach to managing impact risks at the point of exit, by considering existing best practice and guidance among other impact investors and market builders.

### Principle 8: Review, document, and improve decisions and processes based on the achievement of impact and lessons learned

*The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.*

At BSC we believe that building a learning culture, driving open decision making, is key to our success and mission of building an investment ecosystem that effectively supports enterprises to improve people's lives in the UK. We do so, in different ways, including open decision-making forums, such as:

- Open investment committee (IC) meetings: all BSC staff are invited to attend IC meetings.

- Decisionator: all BSC staff are responding to brief survey, pre-IC meetings, to share their views and feedback on investment prospects, presented to IC for final decision. Staff comments and suggested votes are shared with IC members before the respective IC meeting. IC papers are shared with all BSC staff in advance.
- Challenge Forum: a post IC meeting among BSC staff (IC members invited to join) to debrief and debate IC discussions and decisions; minutes of each challenge forum meeting are attached to IC meeting minutes and shared with all IC members.
- Other ongoing learning opportunities, such as an extensive, ongoing internal training program, and regular enlightening elevenses sessions organised by BSC staff on a range of mission relevant learning topics.

At the organisational level, strategy and business plan development is always underpinned by an assessment of key learnings to date. To date we have conducted a comprehensive review of our strategy every three years (with previous strategy cycles spanning from 2014-2017, 2017-2020), with regular updates on an annual basis. Our current strategy extends to 2025, at which point we will conduct a more comprehensive assessment of progress made against our overarching strategic goals. Revisions and updates take into considerations our impact and learnings across our investment portfolio and asset classes, as well as other market building activities, such as our engagement with investors, broader social sector, and policy makers, as well as broader communication and awareness building efforts. We share our learnings externally through a range of channels, including our BSC impact reports, published in [2017](#), [2020](#) and [2023](#).

At an investment level, as outlined in previous sections, we collect impact performance data at least on an annual basis through various channels, including formal impact reporting, Annual Impact Conversations, Portfolio Review Day meetings, and more quarterly catch ups. Our main forum for formally reviewing impact and systems change performance at an investment and asset class level are our annual Performance Committee meetings, as well as since 2022 our annual Market System Progress and Learning workshops, where key learnings and their implications for future investment and strategic decision making are captured and discussed. Designated Impact Leads, supporting BSC's Market System Leads are responsible for such learning processes in their respective Market System areas. Our portfolio review days are similarly intended to capture and feedback learnings, specifically relevant to each fund manager and investment.

We regularly share key insights and learnings from our work with external stakeholders, and have recently started to post some of our most important publications on our website under "[Our Research](#)". Over the last year, key publications capturing BSC's progress and learnings include our [BSC 2023 Impact Report](#), the [Schroders Big Society Capital Impact Trust \(SBSI\) Annual Impact Report](#), and our "[10 Lessons from growing a market by 10x in 10 years](#)" Report.

In 2023, we also further built out our internal BSC Learning Hub, which includes videos and guiding documents on "how to invest and manage for impact at BSC", as well as documentation of a broader set of learnings based on BSC investments and other market building activities.

### **Further developments**

We will continue to improve our broader learning infrastructure so we're able to not only capture but also better use learning in a user-friendly way across our investment activities. This will include reviving BSC's Learning Data Base, which is intended to serve as our internal repository of lessons learnt.



## INDEPENDENT VERIFICATION (PRINCIPLE 9)

### Principle 9: Publicly disclose alignment with the Principles and provide regular independent verification of the alignment

*The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for an independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.*

This Disclosure Statement lays out the alignment of BSC's impact management systems with the Impact Principles and will be updated on BSC's website on an annual basis.

In 2021, BSC engaged BlueMark, a wholly owned subsidiary of Tideline Advisors, LLC, as its external, independent advisor. The latest [independent verification report](#) from 2021 on the alignment of BSC practices with the Operating Principles for Impact Management, as well as further information on BlueMark, is available on [BSC's website](#).

We plan to conduct independent verifications of our impact management systems in alignment with our current strategy cycles. Our next independent verification is planned for Q1 2025.

#### Disclaimer:

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