BIG SOCIETY CAPITAL

Report and Financial Statements

31 December 2019


ROAR

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Contents

Image: Child Dynamix, which received investment from Social and Sustainable Capital

Image: YMCA Luton, which received investment from Funding Affordable Homes

Company Information

Directors

Sir Harvey McGrath [1,3] (Chair)
Chair of Governors Birkbeck College, Chair of Trustees of West London Zone, Heart of the City, Funding London and Icould. Former Chair of Prudential plc and Man Group plc.

Lesley-Anne Alexander CBE [1]
Chair Hertfordshire Community NHS Trust, Non-Executive Director Metropolitan Thames Valley Housing Trust and Meridian Water Regeneration Company, Advisor Institute for Apprenticeships and Technical Education and The MicroLoan Foundation.

Paola Bergamaschi Broyd [2]
Non-Executive Director of BNY Mellon International, Wells Fargo Securities International, ARCA Fondi SGR (Milan), SAMTI (Amsterdam) and Trustee of Fareshare UK.

Kieron Boyle [1]
Chief Executive of Guy's and St Thomas' Charity, Trustee of Design Council and of Catch22 and Advisory Board member of World Policy Institute.

Fiona Ellis [2]
Formerly Chair of the BBC Appeals Advisory Committee, Member of Durham University Council, Chair of St Cuthbert's Society and Trust Manager of the Millfield House Foundation.

Stuart Foster [2]
(Big Society Capital Director nominated by the shareholder banks) Managing Director of Institutional Banking and Depositary Services at RBS International.

Alan Giddins [3]
Formerly Managing Partner, Global Head of Private Equity at 3i Group and a member of its Executive Committee.

David Hunter [2]
Chair UCLB plc – University College London's technology spinout operation. Chair of the Investment Committee of the Care and Wellbeing Fund. Board member at Paragon Asra Housing Association. Trustee of Age UK. Governor at Motability. Non-Executive Director at Gresham House Renewable Energy VCT1 plc.

Christina McComb OBE [3] (Senior Independent Director)
Chair of OneFamily and Standard Life European Private Equity Trust plc and Nexeon Ltd. Trustee of Nesta.

Cliff Prior CBE [3]
Chief Executive of Big Society Capital, Non-Executive Member and Trustee of the Impact Investing Institute incorporating the UK National Advisory Board for Impact Investment. Trustee of International Venture Philanthropy Centre and Acumen Academy UK. Advisory Board member for the National Lottery Community Fund, and of the Beacon Collaborative on Philanthropy.

Anne Wade
Non-Executive Director of John Laing Group plc, Man plc and of Summit Materials. Trustee of the Heron Foundation, Partner of Leaders' Quest.

Chris Wright [1]
Chief Executive of Catch22, Trustee of Community Links, Only Connect, Launch22 and Catch22 Multi-Academy Trust. Non-Executive Director of Numbers for Good (until February 2019).

Secretary
Alastair Ballantyne

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[1] Member of the Nominations and Remuneration Committee (N&RC)
[2] Member of the Audit, Risk and Compliance Committee (ARCC)
[3] Member of the Investment Committee (IC)

Strategic Report

Strategy and purpose

Big Society Capital's overriding purpose is to improve the lives of people in the UK through investment with a sustainable return.

Big Society Capital exists to make a difference: to help create a fair society by improving the lives of people in the UK through investment.

Working with expert partners, the organisation seeks to understand people's needs first. Then, using its knowledge and capital, it collaborates and invests with fund managers and social banks who also want to create a better, sustainable future. They, and the social enterprises and charities they invest in, create the impact. Big Society Capital's role is to bring the most relevant experts from its network to the table, generating ideas and connecting capital to where it's most needed.

Big Society Capital is currently focusing its efforts on three areas where it believes social impact investment can be particularly effective: homes for people in need, supporting places and early action to prevent harm. In addition, it will continue to make capital available to opportunities outside these focus areas, including follow-ons from existing funds where it is seeing an impact or well-formed and highly impactful incoming propositions.

Big Society Capital's five corporate objectives cascade from this strategy and purpose. They guide team objectives and ultimately objectives for individual staff members.

Corporate objectives

1. **To support and invest in innovative models that use social impact investment to enable those in most need to live in affordable, safe and secure homes – while creating wider change in the market.**
2. **To support and invest in innovative models that use social impact investment to strengthen communities in disadvantaged areas, to build local solutions that improve people's lives.**
3. **To support and invest in innovative models that use social impact investment to help improve people's lives by tackling problems at an earlier stage.**
4. **To build and sustain a successful social impact investment market.**
5. **To grow Big Society Capital's impact, effectiveness, sustainability and reputation.**

Business model and trends

With other investors alongside it, Big Society Capital has made over £1.98 billion of new capital available to organisations with a social mission.

As a wholesale social impact investor, Big Society Capital invests in funds alongside others, rather than investing directly. The company aims to identify the sustainable business models that will create impact and improve people's lives, as well as achieving positive investment returns. The organisation focuses on those models that can attract other investors, as ultimately these will scale and have greater impact. By investing its capital, the company aims to build a thriving ecosystem which has strong impact-driven fund managers and more available finance from diverse sources. The company will judge its ultimate success by the growth and social impact of the broader environment it helps create, not just the direct impact of its investment capital.

Big Society Capital also acts as a market builder to increase awareness of, and confidence in, social impact investment. It does this by encouraging other organisations to engage with the market, developing research that builds understanding, improving the measurement of social impact, and advocating for an appropriate policy environment.

Big Society Capital's Principles are:

Independence: The Big Society Trust, an independent holding company that currently owns 65.6% of Big Society Capital's shares, was set up to ensure that the company is held 'on mission'. The company is not owned or controlled by Government, nor is it controlled by the banks that have invested in it, which have capped shares of 40%, and voting rights of 20%.

Transparency: Big Society Capital is committed to producing details of the financial and social impact of its investments. It acts as a champion for sharing information and expertise across the social impact investment sector.

Self-sufficiency: Over time, the company needs to cover its operating costs and any losses from the return on its investments, as well as earn a small financial return. This will demonstrate that the social impact investment model is sustainable.

Wholesaler: Big Society Capital acts as a wholesaler, deploying capital through fund managers and social banks, including organisations providing market infrastructure.

Big Society Capital has received equity capital from The Big Society Trust of £381 million. The source of the capital from The Big Society Trust is dormant bank accounts managed by the Reclaim Fund Limited (RFL). The RFL passes surplus funds to the National Lottery Community Fund, which then grants the English portion of the funds to The Big Society Trust for investment in enterprises domiciled in England. At the launch of the company it was expected that The Big Society Trust's shareholding would grow to £400 million over time, and in 2018 additional capital of up to £25 million from dormant bank accounts was announced. Big Society Capital has also received £200 million from the shareholder banks (Barclays, HSBC, Lloyds Banking Group and RBS) for investment across the UK, which represents their maximum commitment.

Principal risks and uncertainties

In order to achieve its mission, Big Society Capital is required to take risks from a strategic, financial return and social impact perspective.

During 2019, a Risk Appetite statement and key appetite criteria have been developed and integrated into the overall Risk Framework, to support the decision-making and risk assessment process. The note on Subsequent Events below also provides context on current crystallised risks. Big Society Capital considers the principal risks it is exposed to under four headings:

- Strategic Risks
- Performance/Investment Risks
- External Risks
- Operational/Preventable Risks

Further information on the nature of these risks and how they are managed by Big Society Capital is set out below.

Strategic Risks

The risks arising from the design and execution of Big Society Capital's business strategy or business model that may lead to financial loss, adverse social impact and reputational damage. Big Society Capital seeks to mitigate these risks through a strong governance framework and an active programme of engagement with key stakeholders.

Risk area
Strategic Risk – Reputation
Explanation of risk
Perception of Big Society Capital as it changes its brand, narrative and focus. Divergent expectations of different stakeholder groups. Risk of lost credibility due to impact failure. Risk of not being seen as credible at scale, perceived high cost of funds and not reaching sufficient frontline organisations.

Risk area
Strategic Risk – Governance
Explanation of risk
Big Society Capital suffers a failure in adequate governance. Governance structure fails to provide sufficient oversight of social mission or the investment process.

Risk area
Strategic Risk – Under-developed network of partners and business models in Big Society Capital's strategy focus areas
Explanation of risk
Greater degree of development and co-development required by Big Society Capital, resulting in slower progress from an impact and pipeline perspective. The company fails to deliver its mission in a broader and evolving impact investment market.

Performance/ Investment Risks

The risk of financial and social impact losses as a result of loss of value of social impact investments, failure of a counterparty to meet its obligations in accordance with agreed terms, and risk of reduced mobilisation of co-investment. These risks are mitigated through the Investment Committee and Valuation Committee frameworks, which consider investments from Financial, Social Impact and Systems Change perspectives and through concentration thresholds on fund managers and focus areas. In addition, Big Society Capital runs programmes to support and develop fund managers and seeks to develop wider institutional relationships to bring increased capital flows closer to its strategic focus areas.

As the social impact investment portfolio grows and diversifies, Big Society Capital has, during 2019, developed a portfolio allocation tool to assess relative financial, impact and system change expected performance, and risks for new and existing investments.

Further detail on the key financial risks facing Big Society Capital and the steps taken to manage them are outlined in Note 15 to the financial statements.

Risk area
Performance Risk – Financial and Portfolio Performance
Explanation of risk
Co-investment targets, especially where Big Society Capital is seeding, may not be achieved. Portfolio risk factors (concentration, manager risk, returns lower than originally targeted, slow deployment). Big Society Capital faces liquidity challenges as a result of delays to exits/refinancing.

Risk area
Performance Risk – Social Impact
Explanation of risk
Big Society Capital fails to effectively implement an internal social impact performance framework and demonstrate impact evidence. The company fails to respond to negative social impact, no systems change is achieved. Envisaged impact not being delivered by fund managers and frontline organisations.

External Risks

The risk of Government policy and/or regulatory changes and adverse macroeconomic trends impacting the performance of Big Society Capital's social impact investment portfolio and its pipeline. Such risks are often outside the organisation's direct control, with mitigation through the diversified nature of its portfolio and low correlation of elements of the portfolio with wider market performance factors.

Risk area
External Risk – Regulatory and Policy
Explanation of risk
Macroeconomic changes and political/policy risks.

Operational/ Preventable Risks:

The risk of direct losses resulting from inadequate or failed internal processes, people and key systems, or indirect losses resulting from relationships with third parties. Big Society Capital seeks to mitigate these types of risk by having policies, processes, controls and procedures in place, together with having suitably qualified and experienced staff to operate these. This framework is supplemented by a programme of external reviews to assess the adequacy and effectiveness of these mitigants.

Risk area
Operational/Preventable Risk – People
Explanation of risk
Big Society Capital experiences key reliance on individuals or excessive staff turnover and difficulty hiring.

Risk area
Operational/Preventable Risk – Regulatory Process
Explanation of risk
Conduct risk – failure to observe FCA regulatory requirements. Breach of State Aid requirements by fund managers.

Risk area
Operational/Preventable Risk – Processes and Key Systems
Explanation of risk
Financial loss from fraud. Accounting, valuation and reporting issues occur and go undetected. Operations are interrupted by a business continuity incident or cybercrime.

Subsequent Events: Uncertainties relating to the emergence of COVID-19

The rapid escalation of the COVID-19 pandemic in the UK in March 2020 has resulted in significant uncertainties for much of Big Society Capital's social impact investment portfolio, together with a small degree of volatility in its treasury portfolio.

The company is actively working with its fund manager partners to assess the financial and social impact risks arising from the pandemic across its social impact investment portfolio, with particular focus on the most vulnerable frontline sectors such as hospitality, care and small enterprises financed through debt funds, and on fund managers facing potential liquidity gaps. This assessment is also seeking to identify potential short-term funding solutions and other practical steps that Big Society Capital and its partners can take to ensure services can continue to be delivered and to determine how best Big Society Capital can support these frontline organisations in a highly uncertain and fragile economic environment. The company has also activated its business continuity plan and implemented several actions and policies to manage risk, support its employees and to ensure continuing operation of key business functions.

While the COVID-19 outbreak has not impacted the valuation of Big Society Capital's investments as at 31 December 2019, initial indications are that the consequences of the outbreak are likely to lead to a significant write-down of the social impact investment portfolio in 2020, although it is not possible at this stage to quantify the impact within a reasonable range. The company has, however, undertaken a preliminary assessment of the potential impact on its principal investment product types. The largest portfolio impact is likely to be on direct lending activities through debt funds, social banks and the CDFI sector, which represents 30% of the portfolio and supports organisations whose business models are either driven by footfall, directed at financial inclusion or can be fragile due to minimal reserves. In the company's social outcome and venture fund investments, 20% of the portfolio, the impact is likely to be lower and linked to the short-term operational challenges, such as staff sickness and shifts in financial markets resulting from the outbreak. Some investments in this group, for example those in the tech sector, could in fact see some benefit. Our renewable energy, property and charity bond investments, 50% of the portfolio, are expected to suffer less impact, as revenues are generally better protected. The duration of the pandemic and the speed of economic recovery will ultimately be significant drivers of the longer-term valuation impact of the current crisis.

Big Society Capital as a responsible business

Big Society Capital seeks to maximise its positive impact and demonstrate its values as a social organisation through how it runs its operations, its staff policies, its approach as an investor and its wider engagement with the social sector.

- During 2019, social enterprises and charities enjoyed 97 (2018: 101) hours of free meeting room space at Big Society Capital's offices.
- At the end of 2019, Big Society Capital had 25 (2018: five) social enterprises in its supply chain.
- The company encourages staff to undertake Trustee and other governance roles in social enterprises and charities, outside their work commitments and on a voluntary basis. During 2019, 43 (2018: 51) charitable organisations were supported by the company's staff in this way.

Image: Third Space Learning, which received investment through Clearly Social Angels

Directors' duties

The directors have a duty to promote the success of the company for the benefit of its members, while having regard to the following (s172(1)) requirements:

(a) the likely consequences of any decision in the long term;
(b) the interests of the company's employees;
(c) the need to foster the company's business relationships with suppliers, customers and others;
(d) the impact of the company's operations on the community and the environment;
(e) the desirability of the company maintaining a reputation for high standards of business conduct; and
(f) the need to act fairly as between members of the company.

Long-term decisions

As a leading social impact led investor, the directors are committed to the long-term success of Big Society Capital. All strategic decisions consider the interests of our key stakeholders, including fund managers and social banks, frontline organisations receiving investment, beneficiaries, shareholders and employees.

In 2019 the strategy, developed in 2017, with its focus on Homes, Place and Early Action, has been further developed, with 60% of new investment commitments in these areas.

Interests of the company's employees

Big Society Capital places considerable emphasis on supporting and developing its employees, and promoting a diverse and inclusive culture. During 2019, a comprehensive People Strategy has been developed with focus on recruitment, retention, learning and development, and wellbeing. The company's human resources function has also been strengthened to support these initiatives and a growing workforce.

Relationships with suppliers, customers and others

In 2019 Big Society Capital has further extended its sourcing of goods and services from social enterprise suppliers, as described above, and launched a 'Buy Social' initiative to promote this with its employees. Big Society Capital also operates an extensive programme of support for fund managers and their teams – this includes regular group training, peer learning networks and 1:1 bespoke support on topics such as team management, communications, impact management and fundraising. Working with third-party providers, Big Society Capital also offers subsidised NED recruitment and a leadership programme to its investees.

Community and environment

Big Society Capital's portfolio of underlying investments number over 1,200 individual charities and social enterprises located across England, Wales and Scotland, covering both rural and urban areas.

In terms of environmental focus and responsibility, Big Society Capital has played a leading role in the development of the UK community energy sector. Big Society Capital supported projects currently account for more than half (60%) of the total installed capacity of the sector. Big Society Capital fund managers have invested £108 million across 54 community renewable projects since 2012, primarily solar generation. These projects have delivered:

- 149MW installed capacity, promoting community engagement in local initiatives and in climate change adaptation and mitigation;
- £35 million in forecast community benefit funding (CBF); and
- 41,000 tons of CO_2 avoided annually, with additional savings from CBF supported initiatives (eg energy efficiency retrofits).

All investment agreements entered into by Big Society Capital contain a set of Responsible Business Principles which, inter alia, require investees to encourage efficient use of natural resources and promote the protection of the environment. Big Society Capital has not financed projects in the major carbon-emitting industries, eg coal-fired power stations or mining enterprises, however investees may be impacted by transitional risk from these through their supply chains and distribution networks.

Business conduct

Big Society Capital is party to a Governance Agreement with its majority shareholder, requiring it to adhere to a comprehensive set of Principles in respect of Investment, Responsible Business, Appointments and Remuneration.

Act fairly between members

Under its Governance Agreement, Big Society Capital is required to provide regular updates on its performance and strategy to its majority shareholder. In addition Big Society Capital meets regularly with its minority shareholders (the Shareholder Banks) to provide similar updates. The Shareholder Banks together also have the right to nominate one Director to the Big Society Capital Board and Board papers are shared with the Shareholder Banks for information purposes.

Business performance and key performance indicators

1. Financial performance

The Financial Statements on pages 33 to 59 outline the company's financial performance for the period.

The company has made a financial loss in the year of £2.1 million (2018: £6.5 million loss). The decrease in loss is driven by increased treasury and social impact investment returns, partially offset by increased administrative costs.

As noted in prior years, the company expects to see some volatility within the valuation of the social impact investment portfolio, given the nature of the company's early-stage investments, although expects there to be a general trend towards improved financial performance.

The company's investment portfolio is made up of a social impact investment portfolio and a treasury portfolio. The social impact investment portfolio comprises investments made to meet the company's objectives outlined above. The treasury portfolio represents capital held before it is drawn down into social impact investment.

Social impact investment portfolio

Overall, there was a loss in the year of £0.1 million (2018: £3.1 million loss) on the social impact investment portfolio. A key driver of the company's year-on-year financial performance is the extent of realised and unrealised valuation gains and losses in the social impact investment portfolio. The company's social impact investment portfolio is valued using accounting standards assessing the fair value of an asset at the measurement date, based on International Private Equity and Venture Capital Valuation guidelines. However, the valuations do not necessarily reflect the company's view of the long-term value of the investments, which are typically expected to be held for five to ten years. As is common practice with unquoted investments, a key metric of the financial success is the actual cash realised on an investment relative to its cost.

Income (comprising interest, fees and dividends) on the social impact investment portfolio has continued to increase, during 2019 by £1.9 million to £4.8 million (2018: £0.7 million increase to £2.9 million), resulting from the growth of the portfolio and the more established nature of some of the fund investments.

Image: Freedom Bakery, which raised investment using Social Investment Tax Relief

This was offset by other adverse movements (further breakdown is available in Note 3):

- adverse net valuation movements in the social impact investment portfolio of £0.9 million (2018: £1.8 million);
- management fees paid to fund managers £4 million (2018: £4.2 million). Management fees as a percentage of average committed social impact investments continued to decrease in 2019 (0.78%) compared to 2018 (0.91%). This decrease is largely due to the step down in fees on existing funds, due to the stage of investment, outstripping fees on new fund investments.

The small negative return on the social impact investment portfolio in 2019 is an improvement on prior-year performance, particularly driven by fund and loan income.

The negative movement in investment valuations reflects the nature and risk profile of the investments, and is due to a small number of write-downs within the portfolio outweighing write-ups. The material write-downs are largely due to impairments arising from performance issues on underlying investments, generally in line with fund manager positions. In 2019, fund and loan income was greater than management fees by £0.8 million (2018: lower by £1.3 million). The performance of the social impact investment portfolio was negative 0.02% in 2019 compared to negative 1.48% in 2018, based on overall returns and the average balance of the portfolio. Although there has been a reduction in net losses in 2019, upward and downward revenue volatility from valuation movements is likely to continue to be a feature of the company's performance in future years, as a result of applying the principles of fair value measurement.

Treasury portfolio

The largest portion of the treasury portfolio is governed by a mandate that only permits investments which have been successfully screened in accordance with a socially responsible investment process, while aiming for capital preservation. The remainder of the treasury portfolio is invested into social bond, equity and multi-asset funds. Total revenue from the treasury portfolio in 2019 was £5.7 million, approximately 96% higher than 2018, due to mark-to-market increases on the social bond, equity and multi-asset funds, reflecting strong bond and equity market performance during the year.

Administrative and other expenses

Administrative costs increased by £1.5 million to £7.4 million in 2019, and treasury management fees remained at £0.5 million. This increase reflects continued investment to support the delivery of Big Society Capital's strategy, and enable investment in the resilience and effectiveness of Big Society Capital, as the social impact investment portfolio continues to grow. It includes costs relating to: investment in recruitment to strengthen the team; boosting our impact management capability; one- off costs relating to the development of the company's brand and website; and higher external legal costs on new investments. Of the total administrative expenses it is estimated that approximately half relate to the company's social impact investment market building activities, including executing the engagement plan and pipeline development and origination, for which the company receives no reimbursement.

The longer-term objective is for the company to generate positive financial returns and social impact on a continuing basis, as the social impact investment portfolio becomes more mature and exits from earlier investments are realised. The generation of financial returns will also enable the company's operational and market building costs to be covered. However, it should be noted that, given the nature of the company's early-stage investment portfolio, the company expects to continue to see volatility in the net profit and in some years, particularly in the near term, the company may experience further net losses.

Future liquidity

As its level of overall commitments has increased to close to its committed share capital, Big Society Capital has developed a long-term liquidity model to assess future liquidity requirements, taking into account future expected realisations and expected drawdown profiles. Big Society Capital's cumulative gross signed to date commitments are £600 million, however some of these have been fully redeemed or cancelled and therefore are no longer outstanding. In order to manage the relationship between treasury balances and undrawn commitments, and to help ensure an appropriate balance between these, the Board has approved a policy whereby treasury balances should be at least 80% of the level of undrawn commitments.

As a result of the rapid escalation of the COVID-19 pandemic in the UK, Big Society Capital is actively exploring a number of potential short-term funding solutions, to support those organisations whose operations have been severely impacted by the pandemic. The company has also undertaken modelling of several different short, medium and longer-term liquidity scenarios. The company considers it has a number of potential liquidity levers at its disposal, to enable it to continue to operate in these uncertain times and to support this effort.

2. Social impact

Big Society Capital is committed to improving how it understands, manages and communicates the social impact it seeks to achieve.

The company has embedded impact in its investment process, decision-making and portfolio management. In this way, it ensures impact management and measurement run through everything it does. The approach to impact measurement and management continues to evolve.

During 2019, Big Society Capital has grown the Impact Team and enhanced its impact approach. Big Society Capital will be issuing an Impact Review later in 2020.

Impact measurement

Big Society Capital has three ways of measuring impact, each of which can help us understand how investors, funders, social enterprises and charities are making a difference to the people they serve.

a) Impact on people

This is the impact on people using the services and products created by social enterprises and charities, which have received investment from the fund managers or social banks that Big Society Capital invests in.

Image: Homes for Good, which received investment from Impact Ventures UK

The company uses the Impact Management Project impact dimensions to help define the change it wants to see in people's lives.

- What outcomes occur, who experiences them, and how much?
- What is the enterprise's contribution beyond what would have happened anyway?
- What are the risks that impact doesn't occur as expected?

b) Impact on the system
This is the impact investments have on the structures and institutions in society, that can often make social issues seem entrenched. These changes benefit enterprises, fund managers and investors.

c) Financial sustainability
All Big Society Capital's investments are aiming to develop financially sustainable structures and enterprises. This ensures the social impact continues to be generated, even after our investment has been repaid with a return. We aim for a positive financial return, as that has the greatest chance of attracting other investors and ultimately achieving the greatest social impact.

Key impact considerations and approaches for each of Big Society Capital's investment focus areas are set out below.

Investment Focus: Early Action

Many social challenges, from obesity to unemployment to preventing mental ill health, are best tackled by acting early to address the root causes. But too often, the systems and interventions that are in place are not set up that way, and instead try to pick up the pieces later. By then it is often too late, with issues becoming deeper and more complex.

Big Society Capital works with partners on issues where early action can make a difference. With them, it seeks to understand people's needs first, in order to bring the requisite range of skills, experience and resources to the table. Only then can it create ideas and investment solutions to address root causes and prevent issues from occurring or escalating.

The company develops new approaches with the potential to replicate and scale, and do so mainly through outcomes contracts and social ventures.

£81.8 million
Total invested by Big Society Capital

£187.3 million
Total invested by Big Society Capital and other investors alongside us

47,000
Number of people we expect to support through social outcomes contracts. *Example indicator**

Social impact key statistics

1,209

Number of social enterprises and charities receiving money from Big Society Capital and other investors alongside since 2012

* *Exemplary impact figures based on investments made. Beyond these figures, Big Society Capital collects a range of quantitative and qualitative impact information across various outcome areas for all its investments.*

Investment Focus: Homes

The housing market crisis is affecting people all over the UK. High-quality, affordable housing is in short supply, while there are rising levels of homelessness, people living in unsuitable accommodation and people unable to access the support they need. Home ownership is increasingly unaffordable, leaving many people in the private rental market with insecure tenancies.

Big Society Capital looks for housing ideas that both improve lives and help address the root causes of housing inequality, by changing the system. This includes unlocking greater amounts of impact-led capital from institutional investors and helping scale or replicate business models creating better outcomes.

The company invests in buying or developing homes for vulnerable and disadvantaged people, such as housing for people with learning disabilities or who are homeless. It also invests in social property funds, to increase the supply and quality of affordable and social housing in the private rented sector.

£78.8 million
Total invested by Big Society Capital

£644.3 million
Total invested by Big Society Capital and other investors alongside us

4,600
Number of vulnerable people that will be housed *Example indicator**

Investment Focus: Place

Where a person is born, should not affect their opportunity to live a happy and fulfilling life. But there are many areas in the UK that have experienced high levels of deprivation for many years, and even in relatively prosperous areas, there can be pockets that reveal huge levels of inequality.

Creating long-term social change is complex. One of the best chances of success comes from working in a place.

Big Society Capital collaborates with local networks and leaders from across sectors to understand local needs, and identify how it can bring the right range of skills, experience and resources to help. Together they generate ideas for how to connect capital to the enterprises that help the communities to flourish.

The company designs place-based investments around the needs and ambitions of places. It also invests to support community business models that empower local people, address local issues and generate long-term income for the community.

£152 million
Total invested by Big Society Capital

£244.4 million
Total invested by Big Society Capital and other investors alongside us

£31.2 million
Projected community savings and benefit funds from community renewable projects. *Example indicator**

73%

Percentage of social enterprises and charities receiving this money that are in the 50% most deprived areas of the UK

83%

Percentage of organisations operating nationally or outside London

Further information on Big Society Capital's approach to Impact can be found here:
bigsocietycapital.com/how-we-work/impact/

3. Market building activities

Big Society Capital continues to build awareness and understanding of social impact investment with social enterprises, charities and investors.

Market building in 2019 included developing closer relationships with potential partners (particularly investors), who can work with the company to develop ideas to make social impact investments that will enable social impact in the focus areas of housing, place and early action. Through on-going market building, the company continues to facilitate deeper understanding with specific investor groups, and to help address barriers to participation. Key activities in 2019 included:

- Providing 50% of the funding (matched by the Access Foundation) for the Good Finance website, to help social enterprises and charities navigate the social impact investment market through the provision of information and resources, alongside a comprehensive directory of social investors and advisers. By the end of 2019, over 100,000 unique users had visited the website.

- Investing in and supporting a range of outreach events nationally. Let's Talk Good Finance is aimed at engaging social enterprises and charities who want to learn more about whether social impact investment might be relevant to them, while Good Finance Live focuses on bringing investors and social sector organisations actively looking for capital, together. In addition, Big Society Capital provides support for trustees who are exploring social impact investment, by offering free mentoring through 'GET INFORMED – Social Investment for Boards'.

- Delivering a third GET SITR campaign on behalf of the Department for Digital, Culture, Media & Sport (DCMS), aimed at increasing awareness of Social Investment Tax Relief (SITR) and removing barriers to those seeking to raise investment using SITR. This was achieved through the provision of practical resources, case studies, free 1:1 surgery sessions to get advice, and the launch of a dedicated home for these resources www.getsitr.org.uk.

- Launching the Responsible Investment Network – Universities, formed by a group of higher education institutions aiming to implement social and responsible investment for their endowments. The founding members of RINU represent endowments of around £5.4 billion in total.

- Supporting the continued development of two key funders' networks (the Social Impact Investors Group of Foundations and the Venture Philanthropy Steering Group) with our partners at the Association of Charitable Foundations and the European Venture Philanthropy Association, so that more social impact investment is available across the funding spectrum.

- Continuing to support UK pension funds to navigate the impact investment market through a combination of channels, including 1:1 direct engagement with individual managers, speaking at conferences, and continued support of the Pensions for Purpose platform.

- Continuing engagement with investor groups through media and events, including supporting Worthstone's Social Investment Academy's inaugural Social Impact Awards, investor events convened by Toniic, GIIN, Pensions for Purpose and BVCA Impact Investment Advisory Group, and other investment events interested in showcasing impact.

- We are working with institutional partners to launch a multi-asset and multi-impact investment product that can simplify and widen access to high social impact investment opportunities in the UK.

4. Social impact investment activity and key performance indicators

Big Society Capital has a range of key performance indicators (KPIs) that it uses to evaluate both the social impact investment market and the organisation's performance. The figures below show the company's KPIs at 31 December 2019.

Capital available to social enterprises and charities

- Since launching, Big Society Capital has signed 93 (2018: 85) investments.

- The cumulative amount of investments signed by Big Society Capital and its co-investors is £1,978 million (2018: £1,721 million). When an investment is signed, the funds are then available for fund managers to invest into social enterprises and charities.

- Of this, £600 million (2018: £526 million) is Big Society Capital's own funds and £1,377 million (2018: £1,197 million) is from its co-investors.

Social impact investment portfolio

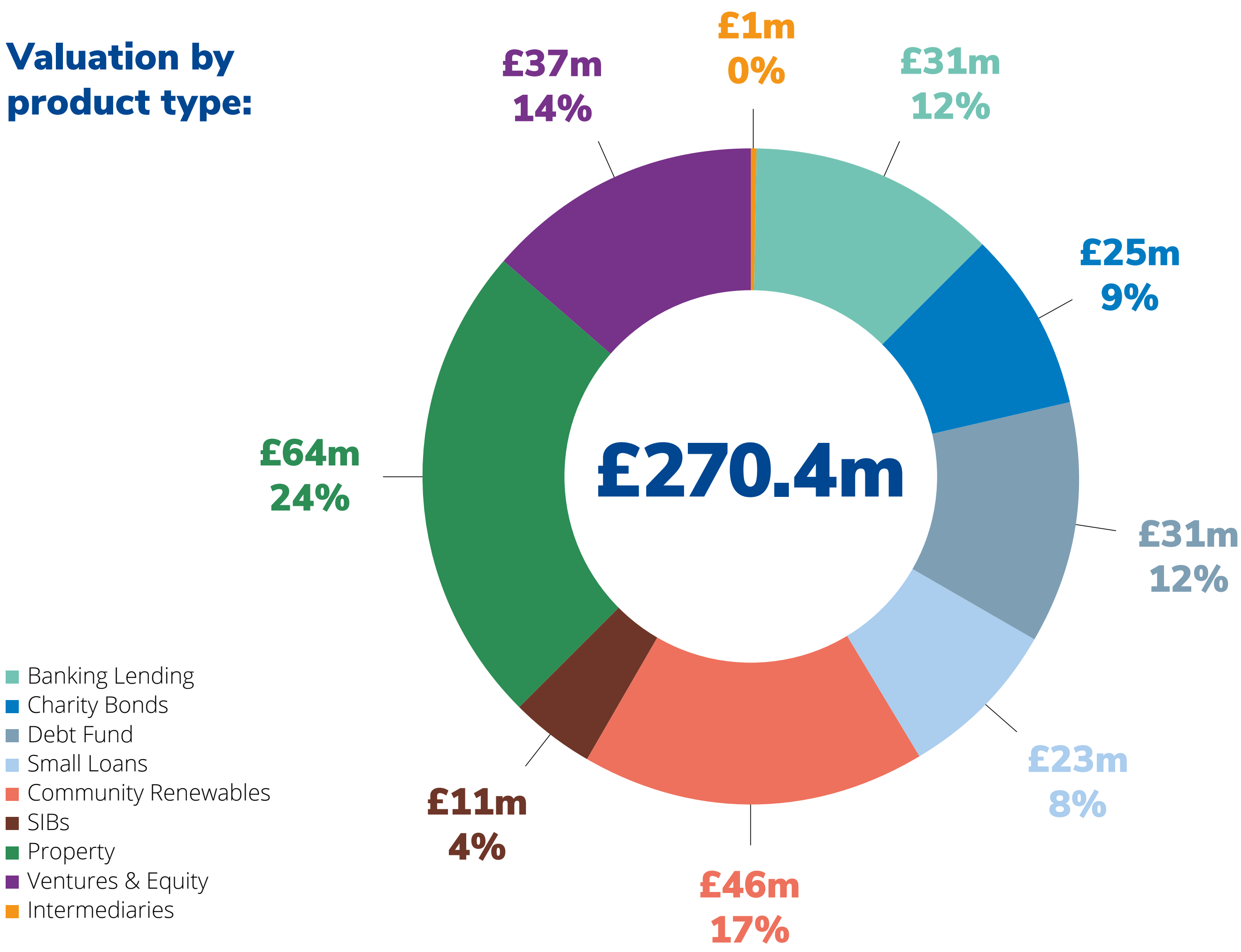
- In 2019 Big Society Capital signed new investments totalling £74 million (including four follow-on investments) in the following entities (2018: £92 million):

Name	Commitment	Theme	Purpose
Zamo Capital 1 Limited Partnership	£15m	Portfolio	Managed account with Zamo Capital to provide growth finance and technical assistance to social investment intermediaries
City Funds LP	£5m	Place	Supporting Bristol's One City approach, a capital fund alongside grant, public assets and local resources to invest in enterprising solutions to some of Bristol's priority issues
BMO UK Residential Real Estate FCP-RAIF	£15m	Homes	A fund to address the UK housing shortfall by attracting long-term institutional investment through the delivery of flexible build-to-rent stock
Resonance SITR Top-Up Facility	£2.3m	Place	Place-based SITR funds to get them to a stage where they can launch funds, start investing and reach sustainability
British Gymnastics Funds	£3.3m	Early Action	Unsecured loan fund supporting the establishment and growth of local gymnastics clubs across the UK
Social and Sustainable Housing LP	£5m	Homes	Providing solutions to charities supporting vulnerable people through housing
Social Growth Fund 2	£8m	Place	Debt fund to invest in charities and social enterprises operating across Scotland, providing flexible and longer-term debt funding that they are otherwise unable to access
Bridges Social Outcomes Fund II LP	£1.2m	Early Action	A fund which will invest into two to three social prime contracting companies set up by Bridges to manage SIB contracts
Bethnal Green Ventures LLP	£1m	Early Action	Investment into the LLP to help 'tech-for-good' ventures launch and scale. 'Tech-for-good' being the use of technology to deliver a positive social or environmental benefit to society
Charity Bank Co-investment Facility	£15m	Portfolio	Co-investment facility to enable Charity Bank to make large loans that are currently out of scope in its mainstream operations (>£2.5m)
Connect Ventures III	£3m	Early Action	Fund 3 from established seed-stage venture manager with focus on backing purpose-led founders of tech-enabled ventures that build a better society
First Ark Invest for Impact (Access)	£0.5m	Portfolio	North West fund focused on providing blended loan/grant product under £150,000 to VCSEs

Social impact investment portfolio (continued)

- At 31 December 2019 Big Society Capital's social impact investment portfolio comprised investments in the following activities (% of portfolio by valuation):

Valuation by product type:



The major categories of co-investors include:

Pensions and Insurance:
30% (2018: 34%)

Funds & Fund of Funds:
13% (2018: 14%)

Social Bank Depositors:
12% (2018: 14%)

Individuals & Family Offices:
12% (2018: 13%)

Charity or Foundation:
12% (2018: 12%)

Other:
9% (2018: 3%)

Government bodies:
6% (2018: 5%)

Banks:
6% (2018: 5%)

Money reaching social enterprises and charities

- The cumulative amount drawn down from Big Society Capital and its co-investors is £1,201 million (2018: £1,004 million). Big Society Capital's expectation is that the average investment will typically take between one and six years to fully draw down.
- Of this £348 million (2018: £276 million) has come from Big Society Capital's own funds and £853 million (2018: £728 million) from its co-investors. In 2019, drawdowns by investee entities totalled £74 million (2018: £52 million).
- The drawdown has been utilised as follows (based on Big Society Capital's drawdown):

Cumulative drawdown by product type:

66% (2018: 65%) is capital for social enterprises and charities through funds and social banks.

17% (2018: 20%) is into property, mainly to help charitable service delivery.

4% (2018: 4%) is helping charities deliver services using social impact bonds.

5% (2018: 6%) is management fees paid to fund managers.

3% (2018: 3%) is capital for arrangers (investments into social impact investment advisers).

5% (2018: 2%) is cash balances in funds.

Cumulative drawdown by organisational form:

63% (2018: 68%) asset-locked social enterprises and charities.

18% (2018: 14%) non-asset-locked social enterprises.

4% (2018: 4%) social impact bonds.

2% (2018: 3%) other (eg Local Authorities as part of mixed funds).

3% (2018: 3%) is capital for arrangers (investments into social impact investment advisers).

5% (2018: 6%) is management fees paid to fund managers.

5% (2018: 2%) is cash balances in funds.

This report was approved by the Board on 3 April 2020 and signed on its behalf.

Cliff Prior
Director

Corporate Governance

Big Society Capital Limited (Big Society Capital) is a social impact investor, which exists to improve the lives of people in the UK through investment with a sustainable return. Big Society Capital's object is to act as a social impact investment wholesaler and to promote the development of the social impact investment marketplace in the UK.

Working with expert partners, we seek to understand people's needs first. Then, using our knowledge and capital, we collaborate and invest with fund managers and social banks who also want to create a better, sustainable future.

They, and the social enterprises and charities they invest in, create the impact. Our role is to bring the most relevant experts from our network to the table, generating ideas and connecting capital to where it's most needed.

The company is authorised by the Financial Conduct Authority (Firm Number: 568940).

Image: Homes for Good, which received investment from Impact Ventures UK

Big Society Capital

Big Society Capital obtains its capital from two streams: English dormant bank accounts (invested via The Big Society Trust which holds "A" shares), and four major UK high street banks: Barclays, HSBC, Lloyds Banking Group and RBS (which hold "B" shares).

The Big Society Trust acts as the majority shareholder of Big Society Capital, to ensure that it remains true to its mission.

The composition of the Big Society Capital Board reflects its purpose and includes directors with financial and/or social sector expertise. The Board comprises non-executive directors (including one who is nominated by the shareholder banks) and the CEO of Big Society Capital. The Board meets five times a year and there is an annual review of the effectiveness of the Board (including the Senior Independent Director feeding back on the Chair's performance).

Big Society Capital has two Board Committees, each comprising non-executive directors with external members providing specific expertise:

- The Nominations and Remuneration Committee (N&RC) – responsible for making recommendations concerning the appointment of directors, particularly for ensuring that there is: an even balance on the Board between individuals with the appropriate depth of experience and expertise in the financial and social sectors; and Board diversity. It also has responsibilities for setting levels of executive remuneration and monitors activities related to the company's People Strategy.
- The Audit, Risk and Compliance Committee (ARCC) – responsible for overseeing management processes and other arrangements to ensure the appropriateness and effectiveness of systems and controls, including risk management.

Big Society Capital has three other operational committees:

- The Executive Committee is chaired by the CEO and is responsible for the day-to-day running of Big Society Capital.
- The Investment Committee comprises Board, Executive Committee and (suitably qualified) other members responsible for making investments and for the performance of Big Society Capital's portfolio of investments, and reporting its activities to the Board. All investments over £10 million also require approval by the Board. It is chaired by the CEO of Big Society Capital or delegated to an alternative member of the Committee (normally the Deputy Chair of the Investment Committee).
- The Valuation Committee is responsible for determining valuations and assessing investment performance, including social impact. This includes identifying key risks and issues within Big Society Capital's investment portfolio. It is chaired by the CFO of Big Society Capital (who is not a member of the Investment Committee). Members of ARCC and the company auditors are invited to observe meetings of the Valuation Committee.

The Big Society Trust Limited

The Big Society Trust Limited (The Big Society Trust, BST) is the majority shareholder in Big Society Capital. BST's role, in relation to Big Society Capital, is to ensure that it remains true to its mission. Reflecting its strategic remit, The Big Society Trust Board represents a balance of social and financial experience, and comprises business and social sector leaders, a nominee of the Cabinet Office and a nominee of the National Lottery Community Fund.

In November 2019, BST took on new oversight responsibilities for entities receiving funding (designated for expenditure in England) under the Dormant Accounts Act. In addition to being the majority shareholder of Big Society Capital, BST also has responsibilities as the sole corporate member of: Access – the Foundation for Social Investment; Fair4All Finance; and Youth Futures Foundation. This resulted in changes to its Articles of Association (and a change in the composition of the BST Board to remove ex officio members – including the Chair of Big Society Capital) and a new Funding Agreement with the National Lottery Community Fund. As part of these changes, Dame Clare Tickell resigned as a BST Director and Chair of the Board on 21 November 2019, Robin Budenberg CBE became Acting Chair from 20 November 2019.

To fulfil its role, the BST Board historically met four times a year. For each board meeting, Big Society Capital provided information about its activities, and the Big Society Capital CEO presented on developments and strategic issues. Going forward, the BST Board will meet five times a year. Information will be provided about Big Society Capital's activities to each meeting, with a specific focus on developments at Big Society Capital once a year.

In addition, BST will be commissioning an independent Quadrennial Review, to examine the effectiveness of each of its subsidiary companies in delivering against its object as set out in its governance documents. The first of these reviews will be performed on Big Society Capital in 2020.

To enable it to carry out its role, The Big Society Trust has a controlling interest in Big Society Capital. It has 80% of the voting rights at shareholders' meetings. For important issues, such as any change to the company's Articles concerning its objects or powers, a consensus vote by The Big Society Trust Board is required.

Big Society Capital reports regularly to The Big Society Trust on its financial performance, its investments and Board and senior manager appointments. The Big Society Trust is not involved in making investment decisions or other operational issues.

Shareholder banks

Each shareholder bank (Barclays, HSBC, Lloyds Banking Group and RBS) has subscribed £50 million of Big Society Capital's shares. Their individual shareholdings will always be less than 10% of the paid-in capital, currently 8.6%.

The banks can vote at shareholders' meetings. Their votes are in proportion to their shareholding, but each is capped at 5% of the overall voting rights. The banks together have the right to nominate one director to the Big Society Capital Board. In addition to information provided to them by that director, the banks receive all Big Society Capital Board papers and quarterly and half-yearly reports. In certain circumstances the banks have the right to request a meeting with the senior management of Big Society Capital, to discuss its performance.

Big Society Capital Advisory Board

The Big Society Capital CEO has established an Advisory Board to advise on aspects of Big Society Capital's strategy or activities. The Advisory Board is made up of individuals with specific interest and involvement in social impact investment, including prominent practitioners from the sector. The Advisory Board is a consultative committee with no decision-making powers. Its membership is approved by the Big Society Capital Board.

Advisory Board members as at 31 December 2019

Richard Brass – Berenberg, IVUK, Arts Impact Fund
David Hutchison – Social Finance
Clara Barby – Impact Management Project
Jamie Broderick – Impact Investing Institute
Nick Temple – Social Investment Business
Mark Simms – P3
Sara Llewellin – Barrow Cadbury Trust
Carol Mack – Association of Charitable Foundations
Danyal Sattar – Big Issue Invest
Whitni Thomas – Triodos Bank

Image: Child Dynamix, which received investment from Social and Sustainable Capital

Remuneration Report

This report covers the 12 months ended 31 December 2019 and sets out the policy and disclosures in relation to the remuneration of the employees and directors of Big Society Capital.

The Nominations & Remuneration Committee (N&RC) is appointed by the Board of the company and makes recommendations on these issues to it.

The N&RC is responsible for establishing a formal and transparent procedure for setting the remuneration policy for the executive staff of the company, and for determining the remuneration packages of executive staff. It also leads the process for setting non-executive directors' fees.

The N&RC's responsibilities regarding remuneration are to:

- make recommendations to the Board of the company in relation to the remuneration of directors and senior executives;
- make recommendations to the Board of the company in relation to the identity and terms of appointment of independent consultants for the conduct of an independent salary survey, at least once every five years;
- establish the benchmark for remuneration packages for persons engaged in similar positions in the public, not-for-profit or charity sectors;
- review the on-going appropriateness and relevance of the company remuneration, pensions and employment benefits policies;
- determine the total individual remuneration package of senior executives in consultation with the Chair and/or CEO of the company, as appropriate;
- review on an annual basis the remuneration of non-executive directors;
- ensure that contractual terms on termination, and any payments made, are fair to the individual and the company;
- oversee any major changes in the nature of employee benefits provided by the company; and
- agree the policy for authorising claims for expenses from the directors.

Principles for executive remuneration

- Executive directors and the senior executive team will be paid a comparable remuneration package to persons engaged in similar positions in the public or not-for-profit sectors, as appropriate.
- The senior executive team will not be paid any bonuses.

Principles for non-executive remuneration

- Non-executive directors will be offered an equivalent sum paid by other comparable public bodies and not-for-profit organisations, such as housing associations.
- In 2019, the amounts were £8,055 (2018: £7,865) per annum for the service of acting as a non-executive director, £3,430 (2018: £3,350) per annum for chairing a Board Committee and £1,715 (2018: £1,675) per annum for acting as a non-chair member of a Committee. In addition, £5,275 (2018: £5,150) per annum is offered to a non-executive director who acts as a member of the Investment Committee. These amounts are reviewed by Big Society Capital annually in the light of inflation and non-executive remuneration levels at comparable organisations.
- Total non-executive directors' fees in 2019 were £77,575 (2018: £76,997).

Higher-paid employees

The total number of employees, including directors, with annual remuneration of £60,000 or more and employed as at the period end were as follows:

	2019 Number	2018 Number
£60,000 – £69,999	9	10
£70,000 – £79,999	9	3
£80,000 – £89,999	1	1
£90,000 – £99,999	1	1
£100,000 – £109,999	2	1
£110,000 – £119,999	3	2
£150,000 – £159,999	1	1

24 of these employees participate in the company pension scheme. Employees make a contribution of up to 8% of salary to the pension scheme. The company matches the employee contributions and pays an additional 3% of salary.

The total number of employees at 31 December 2019 was 71 and at 31 December 2018 was 52.

The ratio of highest salary to lowest salary is 6.68 (2018: 6.52).

Gender pay data

Big Society Capital has published its gender pay gap data on its website: bigsocietycapital.com/about-us/careers/gender-pay-gap-2018/

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2019.

Directors

The following persons served as directors during the year:
Sir Harvey McGrath (Chair)
Lesley-Anne Alexander CBE
Paola Bergamaschi Broyd
Kieron Boyle
Sir Ronald Cohen (resigned from the Board 6 June 2019)
Fiona Ellis
Stuart Foster
Alan Giddins (appointed to the Board 9 December 2019)
David Hunter (appointed to the Board 12 June 2019)
Christina McComb OBE
Cliff Prior CBE
Anne Wade
Danielle Walker Palmour
(resigned from the Board 6 June 2019)
Chris Wright

Dividends

The directors do not recommend the payment of a dividend for the year (2018: £nil).

Directors' indemnity

The company arranges directors' and officers' liability insurance to cover certain liabilities and defence costs.

Pillar III disclosures

The company makes disclosures on its website – **www.bigsocietycapital.com** – setting out the company's capital resources, risk exposures and risk management processes.

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to Auditors

Each person who was a director at the time this report was approved confirms that:

- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This report was approved by the Board on 3 April 2020 and signed on its behalf.

Cliff Prior
Director

Independent Auditor's Report

Opinion

We have audited the financial statements of Big Society Capital Limited ("the company") for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and related notes, including the accounting policies in Note 1.

In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis, as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate, or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Other information

The directors are responsible for the other information, which comprises the Strategic Report, the Directors' Report, Corporate Governance and the Remuneration Report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the other information;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 29, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Richard De La Rue
(Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor

Chartered Accountants
15 Canada Square
E14 5GL

3 April 2020

Financial Reports

Image: Giroscope, which received investment from Social and Sustainable Capital

Statement of Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 £ 000	2018 £ 000
Income		8,141	6,392
Investment losses	2	(2,470)	(6,547)
Total Revenue	3	5,671	(155)
Other income	4	144	137
Administrative and other expenses	5	(7,947)	(6,441)
Operating loss		(2,132)	(6,459)
Loss on ordinary activities before taxation		(2,132)	(6,459)
Tax credit on loss on ordinary activities	7	6	1
Loss for the financial year		(2,126)	(6,458)
Other comprehensive income		–	–
Total comprehensive loss for the year		(2,126)	(6,458)

The results above relate to continuing operations.
The notes on pages 38–59 form part of these Financial Statements.

Statement of Financial Position

As at 31 December 2019

	Notes	2019 £ 000	2018 £ 000
Fixed assets			
Intangible assets	8	25	45
Tangible assets	9	111	133
Investments	10	270,443	220,196
		270,579	220,374
Current assets			
Debtors	11	684	451
Investments	12	269,166	320,633
Cash at bank and in hand		16,274	17,251
		286,124	338,335
Creditors: amounts falling due within one year	13	(889)	(768)
Net current assets		285,235	337,567
Total assets less current liabilities		555,814	557,941
Provisions for liabilities			
Deferred taxation	14	(23)	(24)
Net assets		555,791	557,917
Capital and reserves			
Called-up share capital	17	581,345	581,345
Profit and loss account	18	(25,554)	(23,428)
Total equity		555,791	557,917

The notes on pages 38–59 form part of these Financial Statements.
Approved by the Board on 3 April 2020 and signed on its behalf

Cliff Prior
Director

Company registration number: 07599565

Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital £ 000	Share premium £ 000	Other reserves £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2018	501,395	–	–	(16,970)	484,425
Loss for the financial year	–	–	–	(6,458)	(6,458)
Shares issued	79,950	–	–	–	79,950
At 31 December 2018	581,345	–	–	(23,428)	557,917
At 1 January 2019	581,345	–	–	(23,428)	557,917
Loss for the financial year	–	–	–	(2,126)	(2,126)
At 31 December 2019	581,345	–	–	(25,554)	555,791

The notes on pages 38–59 form part of these Financial Statements.

Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 £ 000	2018 £ 000
Operating activities			
Operating loss		(2,132)	(6,459)
Adjustments for:			
Depreciation and amortisation		127	116
		(2,005)	(6,343)
(Increase)/decrease in debtors		(155)	74
Increase/(decrease) in creditors		122	(2)
		(2,038)	(6,271)
Returns on fixed asset investments		6,596	7,633
Returns on current asset investments		(4,423)	(2,632)
Foreign exchange (losses)/gains		(359)	175
Corporation tax received		5	4
Cash used in operating activities		(219)	(1,091)
Investing activities and interest			
Payments to acquire tangible and intangible fixed assets		(85)	(102)
Payments to acquire fixed asset investments		(74,308)	(47,680)
Payments to acquire current asset investments		–	(69,373)
Repayment of loans		13,958	14,707
Proceeds from sale of fixed asset investments		3,454	–
Proceeds from sale of current asset investments		39,871	35,500
Cash used in investing activities		(17,110)	(66,948)
Financing activities			
Proceeds from the issue of shares		–	79,950
Cash generated by financing activities		–	79,950
Net cash used			
Cash used in operating activities		(219)	(1,091)
Cash used in investing activities		(17,110)	(66,948)
Cash generated by financing activities		–	79,950
Net cash used		(17,329)	11,911
Cash and cash equivalents at 1 January	19	45,179	33,268
Cash and cash equivalents at 31 December		27,850	45,179
Cash and cash equivalents comprise:			
Cash at bank		16,274	17,251
Current asset investments			
(Maturity less than 3 months from the date of acquisition)		11,576	27,928
	19	27,850	45,179

The notes on pages 38–59 form part of these Financial Statements.

Notes

Notes to the Financial Statements

For the year ended 31 December 2019

1. Summary of significant accounting policies

Basis of preparation
The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland.

Use of judgements and estimates
The preparation of the financial statements in conformity with applicable UK GAAP requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis.

The most significant area of judgement is the determination of fair values for investments. This is discussed below, in the accounting policy 'Basic financial instruments – iii) Fair value measurement'.

Going concern
The financial statements have been prepared on the going concern basis. The company has incurred cumulative losses since inception of £25.6m, including a loss for the year of £2.1m. The company had cash and current asset investments of £285.4m at the year end, having been capitalised with £581.3m of equity investment since inception. The directors have reviewed the company's future liquidity projections in the light of the impact of the emergence and spread of COVID-19 and potential implications of this on future company operations. While there are significant wider market uncertainties which may impact portfolio investments, the directors do not believe these will significantly impact the overall liquidity of the company over the next 12 months and that the company has sufficient existing treasury balances to enable it to meet its investment and other obligations and to continue in operational existence for the foreseeable future. Further information on this is set out in the Strategic Report on page 10. For this reason, the Directors have adopted the going concern basis in preparing these financial statements.

Image: YMCA Luton, which received investment from Social and Sustainable Capital

Revenue
Revenue comprises income and gains/losses on the social impact investment and treasury portfolios. Revenue is recognised on an accruals basis throughout the year, when it is probable that the economic benefits will flow to the company.

Foreign currency
Transactions in foreign currencies are translated to the company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are translated to the functional currency (pound sterling) at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income.

Associates held as part of an investment portfolio
The company has investments which may be regarded as associated undertakings, which might require these to be consolidated using the equity method of accounting. As these investments are held as part of an investment portfolio, they have not been consolidated in the accounts of the company, and are measured at fair value with changes in fair value recognised in profit or loss in accordance with FRS 102 14.4B.

Government grants
Government grants are included within deferred income in the Statement of Financial Position and credited to the Statement of Comprehensive Income over the expected useful lives of the assets to which they relate or in the period in which the related costs are incurred.

Interest
Interest income is recognised either using the effective interest method or on an accruals basis, depending upon whether the financial asset is measured at 'amortised cost' or whether it has been designated upon initial recognition as at 'fair value through profit or loss'.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument to the carrying amount of the financial instrument. When calculating the effective interest rate, the company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

Net gains or losses from financial assets designated as at fair value through profit or loss

Net gains or losses from financial assets designated as at fair value through profit or loss includes all realised and unrealised fair value changes, but excludes interest income.

Basic financial instruments

i) Recognition and initial measurement

Financial assets designated as at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in profit or loss. Financial assets or financial liabilities not at fair value through profit or loss are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition or issue.

Investments within the social impact investment portfolio, in which the company has significant influence, are held as part of an investment portfolio, rather than qualifying as associates. The company recognises its investments within the Statement of Financial Position, on the date on which investments are signed and drawn down. Additionally, the company discloses commitments at two distinct stages: commitments contracted but not drawn down, and in principle commitments. Details are set out in Note 21 – Capital commitments.

ii) Classification

The company classifies its basic financial instruments into the following categories:

Financial assets at fair value through profit or loss:
- Designated as at fair value through profit or loss – debt, equity, fund and social impact bond investments and derivative financial instruments.

Financial assets at amortised cost:
- Debt investments meeting the conditions set out in FRS 102.11, cash at bank and in hand, cash deposits (included in investments held as current assets), and other debtors.

Financial liabilities at amortised cost:
- Creditors.

Financial liabilities at fair value through profit or loss:
- Derivative financial instruments.

Note 15 – Financial risk management and financial instruments, provides a reconciliation of line items in the Statement of Financial Position to the categories of financial instruments.

iii) Fair value measurement

As described in Note 16 – Valuation of financial instruments, the company uses a three-level hierarchy for fair value measurement disclosure. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

In determining a fair value using Level 3 valuation techniques, the company applies the principles included in the 'International Private Equity and Venture Capital Valuation Guidelines' (2018 edition):

- Where an investment has been made recently, or where there has been subsequent, significant new investment into the company, a more accurate valuation is not available and there is no evidence to suggest that the unadjusted Price of Recent Investment is no longer relevant, the company may apply the Price of Recent Investment, for a limited period following the date of the relevant transaction. Where it is felt that there has been a change to the milestones or benchmark, then the company will use the Price of Recent Investment adjusted to reflect milestone/benchmark analysis.

- Where appropriate and reasonable earnings or revenue multiples are available for comparable businesses, the company will apply the Multiples valuation technique to derive a value for the investment.

- If industry benchmarks can be applied to the investment to derive a fair value, these will be applied.

- If future cash flows can be reasonably estimated, and it is felt that the risks, due to the high level of subjectivity, involved in applying the Discounted Cash Flow method do not render the method insufficiently reliable, this will be applied.

- Where a regular Net Asset Valuation is available for the investment, the company will assess this for reasonableness and consider whether the investment can be valued on the basis of the underlying fair value of its assets, rather than its earnings. If this is considered appropriate, the company will apply the Adjusted Net Asset Valuation method.

The company may decide to use a combination of the mentioned methods, or other methods that are considered more appropriate to derive the fair value of its investments.

iv) Impairment

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(s), and that loss event(s) had an impact on the estimated future cash flows of that asset(s) that can be estimated reliably.

v) Derivative financial instruments

The company holds derivative financial instruments to manage its exchange risk exposure from its USD and EUR denominated financial assets. Derivatives are recognised initially at fair value with any attributable transaction costs recognised in the profit and loss account as incurred. After initial recognition, derivatives are measured at fair value and changes recognised in the profit and loss account as incurred; the fair value reflects the estimated amount the company would receive or pay in an arm's length transaction. This amount is determined based on observable exchange rates.

vi) Offsetting

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under UK GAAP eg for gains and losses arising from a group of similar transactions, such as gains and losses from financial instruments at fair value through profit or loss.

Investments held as current assets

The company classifies investments (cash deposits or other debt securities) that cannot be readily realised within 24 hours, but can be realised within 12 months as investments held as current assets.

Intangible fixed assets

Intangible fixed assets are measured at cost less accumulative amortisation and any accumulative impairment losses.

Amortisation is provided on all intangible assets to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

Software development	over 3 years

Tangible fixed assets

Tangible fixed assets are measured at cost less accumulative depreciation and any accumulative impairment losses.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Leasehold land and buildings	over the lease term
Fixtures, fittings and equipment	over 3 years

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date and that are expected to apply to the reversal of the timing difference.

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015 and an additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

Pensions

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

2. Investment gains/(losses)

	2019 £ 000	2018 £ 000
Social impact investment portfolio		
Net gains/(losses) from financial assets designated as at fair value through profit or loss:		
Realised	4,104	1,686
Unrealised	(8,909)	(7,744)
Net gains/(losses) from financial assets carried at amortised cost:		
Realised	(279)	–
Unrealised	315	111
Total net losses from financial assets	(4,769)	(5,947)
Net foreign exchange losses from financial assets designated as at fair value:		
Unrealised	(53)	(13)
Total social impact investment losses	(4,822)	(5,960)
Treasury portfolio		
Net gains/(losses) from financial assets designated as at fair value through profit or loss:		
Current asset investments – realised	611	618
Current asset investments – unrealised	1,066	(1,030)
Net gains/(losses) from financial assets carried at amortised cost:		
Realised	263	(13)
Total net gains/(losses) from financial assets	1,940	(425)
Net gains/(losses) on currency forward derivatives – realised	2,776	(2,307)
Net gains/(losses) on currency forward derivatives – unrealised	38	(34)
Net gains/(losses) on currency forward derivatives	2,814	(2,341)
Net foreign exchange (losses)/gains from financial assets designated as amortised cost:		
Realised	(258)	713
Unrealised	(2,144)	1,466
Net foreign exchange gains/(losses)	412	(162)
Total treasury gains/(losses)	2,352	(587)
Total investment losses	(2,470)	(6,547)

During 2019, the company made investments in foreign currency denominated assets. As outlined in Note 15 – Financial risk management and financial instruments, the foreign exchange risk is managed with currency forward derivative contracts. Any gains/losses on the revaluation of foreign denominated assets offset the corresponding gains/losses on the currency forward derivatives to the extent that the derivatives match the underlying currency exposure. Following changes in the mix and return profile of foreign exchange denominated assets in the treasury portfolio during 2019, the exchange loss on foreign currency denominated debt securities was £2.4 million (2018: gain of £2.2 million), which was offset by a gain on the currency forward derivatives in 2019 of £2.8 million (2018: loss of £2.3 million), resulting in a net foreign exchange gain of £412,000 (2018: loss of £162,000).

3. Total revenue

	2019 £ 000	2018 £ 000
Social impact investment portfolio		
Fixed asset investments:		
Interest income on financial assets designated as amortised cost	750	495
Interest income on financial assets designated as at fair value through profit or loss	3,784	2,311
Dividend income from financial assets designated as at fair value – through profit or loss	139	74
Fees received	111	15
Income	4,784	2,895
Net (losses)/gains from financial assets designated as at fair value through profit or loss:		
Management fees and expenses paid to fund managers	(4,000)	(4,175)
Valuation changes and income relating to underlying investments	(805)	(1,883)
Net foreign exchange losses from financial assets	(53)	(13)
Net (losses)/gains from financial assets designated as amortised cost:		
Valuation changes and income relating to underlying investments	36	111
Investment losses	(4,822)	(5,960)
Total revenue from social impact investment portfolio	(38)	(3,065)
Treasury portfolio		
Interest income on financial assets designated as amortised cost	3,357	3,497
Income	3,357	3,497
Net gains/(losses) from financial assets designated as at fair value through profit or loss:		
Current asset investments	1,677	(412)
Net gains/(losses) on currency forward derivatives	2,814	(2,341)
Net gains/(losses) from financial assets carried at amortised cost	263	(13)
Net foreign exchange losses/gains from financial assets designated as amortised cost	(2,402)	2,179
Investment gains/(losses)	2,352	(587)
Total revenue from treasury portfolio	**5,709**	**2,910**
Income		
Social Impact investment portfolio	4,784	2,895
Treasury portfolio	3,357	3,497
	8,141	6,392
Investment (losses)/gains		
Social impact investment portfolio	(4,822)	(5,960)
Treasury portfolio	2,352	(587)
	(2,470)	(6,547)
Total revenue	**5,671**	**(155)**

Total revenue increased significantly in 2019, primarily as a result of increased returns from the treasury portfolio together with higher income within the social impact investment portfolio and lower net write-downs. As described in the Strategic Report on pages 5 to 21 the income and valuation movements on the social impact investment portfolio reflect the continued growth of the portfolio and the current stage of the company's social impact investments, as these move to a more mature, fully invested position, as well as the expected volatility due to the nature of the investments and the use of fair value accounting to value them. As described in Note 16 – Valuation of financial instruments, one of the valuation techniques applied is to value the investments on the basis of their Net Asset Valuation. This results in the recognition of set-up costs, management fees and other expenses paid to fund managers, as they are incurred by the investee.

The management fees paid to fund managers allow them to employ high-quality teams to deliver the social and financial returns required. In this way, the fees represent the cost of delivering the company's investment objectives and of building the capacity of the social impact investment sector to deliver returns for all social investors. Management fees as a percentage of average committed social impact investments were 0.71% in 2019 (2018: 0.87%).

4. Other income

	2019 £ 000	2018 £ 000
Government grants received	66	59
Other income	78	78
	144	137

During 2019, five grants were received totalling £58,060. DCMS provided three grants, £20,000, £10,000 and £13,560 covering SITR II, Good Finance and SITR III projects respectively. £1,000 was received from Centre4Ageing. £3,500 was received from The Wellcome Trust, which was additional funding for Research to Venture Mental Health Programme.

5. Administrative and other expenses

	2019 £ 000	2018 £ 000
Wages and salaries	3,630	2,775
Non-executive directors' fees	78	77
Social security costs	427	372
Pension costs	324	245
Staff-related costs, including recruitment, training and travel	686	534
Premises	698	651
General and administrative expenses	451	352
Consultancy	157	216
Marketing, including events, sponsorship and website development	322	231
Research	–	41
Amounts receivable by the company's auditor (see below)	114	105
Other professional costs	205	149
Depreciation of owned fixed assets	107	100
Amortisation of intangible assets	20	16
Investment-related expenses, including legal fees	190	88
Total administrative expenses	7,409	5,952
Treasury management fees	538	489
Total other expenses	538	489
Total administrative and other expenses	7,947	6,441

	2019 £ 000	2018 £ 000
Amounts receivable by the company's auditor and its associates in respect of:		
Auditors' remuneration for audit services	100	89
Taxation compliance services	14	16
	114	105

Average number of employees during the year	2019 Number	2018 Number
Investment	28	20
Senior Management	3	3
Communications	4	4
Operations	13	10
Social & Finance Sector Engagement	8	5
On Purpose and 2027 Interns	3	2
	59	44

A breakdown of the total number of employees, including directors, with annual remuneration of £60,000 or more and employed as at the period end is disclosed in the Remuneration Report on page 27.

6. Directors' and key management personnel emoluments

	2019 £ 000	2018 £ 000
Directors' emoluments		
Emoluments	233	228
Company contributions to money purchase pension schemes	16	16
	249	244
Highest-paid director:		
Emoluments	155	151
Company contributions to money purchase pension schemes	16	16
	171	167

Number of directors to whom retirement benefits accrued:	2019 Number	2018 Number
Money purchase schemes	1	1

Key management personnel emoluments*	2019 £ 000	2018 £ 000
Emoluments	717	706
Company contributions to money purchase pension schemes	73	77
	790	783

*Key management personnel includes one executive director.

7. Taxation

	2019 £ 000	2018 £ 000
Analysis of charge in period		
Current tax:		
Adjustments in respect of previous periods	(5)	(4)
	(5)	(4)
Deferred tax:		
Origination and reversal of timing differences	(1)	3
	(1)	3
Tax credit on loss on ordinary activities	(6)	(1)

Factors affecting tax charge for period

The differences between the tax assessed for the period and the standard rate of corporation tax are explained as follows:

	2019 £ 000	2018 £ 000
Loss on ordinary activities before tax	(2,132)	(6,459)
Standard rate of corporation tax in the UK	19.0%	19.0%
	£ 000	**£ 000**
Loss on ordinary activities multiplied by the standard rate of corporation tax	(405)	(1,227)
Effects of:		
Income not taxable and/or expenses not allowable for tax purposes	681	889
Capital allowances for period in excess of depreciation	(2)	6
Utilisation of tax losses	(274)	–
Adjustments to tax charge in respect of previous periods	(5)	(4)
Tax loss not recognised as deferred tax asset	–	332
Deferred tax – origination and reversal of timing differences	(1)	3
Current tax credit for period	(6)	(1)

8. Intangible fixed assets

	Software development £ 000
Cost	
At 1 January 2019	61
Additions	–
At 31 December 2019	61
Amortisation	
At 1 January 2019	16
Provided during the year	20
At 31 December 2019	36
Carrying amount	
At 31 December 2019	25
At 31 December 2018	45

9. Tangible fixed assets

	Land and buildings £ 000	Fixtures, fittings, tools and equipment £ 000	Total £ 000
Cost			
At 1 January 2019	330	287	617
Additions	–	85	85
At 31 December 2019	330	372	702
Depreciation			
At 1 January 2019	250	234	484
Charge for the year	65	42	107
At 31 December 2019	315	276	591
Carrying amount			
At 31 December 2019	15	96	111
At 31 December 2018	80	53	133

10. Fixed asset investments

Social impact investment portfolio	Total £ 000
At 1 January 2019	220,196
Additions	74,308
Repayment of loans	(13,958)
Redemptions	(3,454)
Profit and loss – unrealised*	(6,649)
At 31 December 2019	270,443

*Profit and loss – unrealised is predominantly a combination of management fees and expenses paid to fund managers and fair value adjustments on social impact investments.

The company holds 20% or more of the share capital of the following undertakings:

Investments	Country of incorporation/ Principal place of business[1]	Shares held class	% As at 31 December 2019	Aggregate capital and reserves of the entity[2] £000	Aggregate profit (loss) for the year of the entity[2] £000
3SC Capitalise Limited	UK	Ordinary	50.00	–	–
Triodos New Horizons Limited	UK	Ordinary	30.00	3	–
Children's Support Services Limited	UK	Ordinary	26.60	1,266	–
The Charity Bank Limited	UK	Ordinary	63.80	26,903	811
It's All About Me Scheme LLP	UK	Partnership Interest	25.00	18	–
Social Stock Exchange Limited	UK	Ordinary	31.60	(300)	(30)
Bridges Social Impact Bond Fund LP	38 Seymour Street London W1H 7BP	Partnership Interest	37.78	Holding less than 50%, no public filing required	
Impact Ventures S.A., SICAV-SIF	Luxembourg	Registered Shares	41.58	Holding less than 50%, no public filing required	
North East Social Investment Fund Limited Partnership	Maybrook House Grainger Street Newcastle	Partnership Interest	48.75	Holding less than 50%, no public filing required	
Nesta Impact Investments 1 Limited Partnership	58 Victoria Embankment London EC4Y 0DS	Partnership Interest	45.46	Holding less than 50%, no public filing required	
Real Lettings Property Fund Limited Partnership	The Great Barn 5 Scarne Court Hurdon Road Launceston Cornwall PL15 9LR	Partnership Interest	25.07	Holding less than 50%, no public filing required	
The Community Investment Fund L.P.	4th Floor Reading Bridge House George Street Reading RG1 8LS	Partnership Interest	40.00	Holding less than 50%, no public filing required	
The Third Sector Loan Fund LLP	UK	Partnership Interest	50.00	8,477	(1,884)
Shared Lives Investments LP	131-151 Great Titchfield Street London	Partnership Interest	37.93	Holding less than 50%, no public filing required	
Social Growth Fund LLP	UK	Partnership Interest	50.00	6,187	(1,171)

10. Fixed asset investments (continued)

Investments	Country of incorporation/ Principal place of business[1]	Shares held class	% As at 31 December 2019	Aggregate capital and reserves of the entity[2] £000	Aggregate profit (loss) for the year of the entity[2] £000
Bridges Social Interim LP	38 Seymour Street London W1H 7BP	Partnership Interest	99.98	9	(914)
Social Finance Care and Wellbeing Investments LLP	UK	Partnership Interest	50.00	2,753	(238)
Funding Affordable Homes SICAV SIF S.A.	Luxembourg	Registered Shares	27.08	Holding less than 50%, no public filing required	
Big Issue Invest Social Enterprise Investment Fund II L.P.	113-115 Fonthill Road London	Partnership Interest	62.98	11,813	223
National Homelessness Property Fund Limited Partnership	42 St Thomas Road Launceston Cornwall	Partnership Interest	46.06	Holding less than 50%, no public filing required	
Cheyne Social Property High Impact (1) Fund	Bay P.O. Box 1348 Grand Cayman Ky1-1108 Cayman Islands	Partnership Interest	100.00	1,155	(63)
Bridges Evergreen Capital LP	UK	Partnership Interest	50.00	19,817	662
Bethnal Green Ventures LLP	UK	Partnership Interest	24.54	1,946	(504)
BII Outcomes Investment Fund LP	113-115 Fonthill Road London	Partnership Interest	85.00	2,339	(231)
Fair by Design Venture Limited Partnership	The Council House Victoria Square Birmingham West Midlands B1 1BB	Partnership Interest	44.78	Holding less than 50%, no public filing required	
Bridges Social Outcomes Fund LP	38 Seymour Street London W1H 7BP	Partnership Interest	35.70	Holding less than 50%, no public filing required	
City Funds LP[3]	Narrow Quay House Narrow Quay Bristol BS1 4QA	Partnership Interest	50.00	–	–
Community Owned Renewable Energy LLP	UK	Partnership Interest	50.00	17,099	544

The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 requires that:

1 for unincorporated undertakings, the address of its principal place of business is stated; and

2 for all undertakings where the company's holding is 50% or greater, and for undertakings where the company's holding is 20% or greater and the undertaking is required by any provision of the 2006 Companies Act to deliver a copy of its balance sheet, the aggregate amount of the capital and reserves of the undertaking as at the end of its relevant financial year, and its profit or loss for that year, is also stated.

3 Aggregate capital and reserves and profit or loss not available, as first financial year end falls after 31 December 2019.

11. Debtors

	2019 £ 000	2018 £ 000
Other debtors	55	17
Prepayments	436	248
Accrued income on treasury portfolio	–	74
Accrued income – grant	3	–
Treasury portfolio – derivative financial instrument	190	112
	684	451

12. Investments held as current assets

	2019 £ 000	2018 £ 000
Treasury portfolio – cash deposits	12,574	32,715
Treasury portfolio – listed debt securities	225,158	257,621
Treasury portfolio – social bond/equity/multi-asset funds	31,434	30,297
	269,166	320,633

Investments held as current assets can be realised within one year, but not within 24 hours. Social bond/equity/multi-asset funds are open-ended investment companies, and are held as part of the social impact investment allocation within the treasury portfolio, as described in the Strategic Report on pages 5 to 21.

Listed debt securities include items with a fair value of £760,000 (2018: £130,000), which have been pledged as collateral for a contingent liability on foreign exchange forward contracts. The collateral is adjusted daily to reflect any contingent liability arising as at the prior day close of business and is subject to a minimum transfer threshold of £250,000. The collateral can be replaced by a range of agreed alternative financial assets. The company retains the risks and rewards of ownership.

13. Creditors: amounts falling due within one year

	2019 £ 000	2018 £ 000
Trade creditors	222	123
Other taxes and social security costs	129	94
Other creditors	37	26
Accruals	501	501
Deferred income	–	24
	889	768

14. Deferred taxation

	2019 £ 000	2018 £ 000
Accelerated capital allowances	23	24
Adjustment in respect of prior period	(561)	(102)
Tax losses carried forward	(977)	(1,812)
Tax losses not recognised as a deferred tax asset	1,538	1,914
Provision for deferred tax	23	24

Provision for liabilities	2019 £ 000	2018 £ 000
At 1 January	24	21
Credited to the profit and loss account	(1)	3
At 31 December	23	24

15. Financial risk management and financial instruments

Introduction

The Board is responsible for overall corporate governance, which includes ensuring that there are adequate systems of risk management. The systems and processes aim to identify, measure and report risks. Risk is controlled through a system of procedures, checks, reports and responsibilities. The Audit, Risk and Compliance Committee examines management processes and other arrangements to ensure the appropriateness and effectiveness of systems and controls, including risk management.

As described in the Strategic Report on pages 5 to 21, the company's investment portfolio comprises a social impact investment portfolio and a treasury portfolio.

The social impact investment portfolio comprises unlisted equity investments, loans, investments in unlisted funds and investments in social impact bonds. All social impact investments are approved by the Investment Committee (which has been delegated authority by the Board to operate within set parameters).

The treasury portfolio comprises bank and building society cash deposits, certificates of deposit and listed and unlisted debt securities, social bond/equity/multi-asset funds, and represents capital held before it is drawn down into social impact investment. The treasury portfolio operates using a socially responsible investment process.

15. Financial risk management and financial instruments (continued)

Categories of financial instrument

Financial instruments as at 31 December by category are shown below:

2019

	Financial instruments measured at fair value through profit or loss £ 000	Financial instruments measured at amortised cost £ 000	Non-financial instruments £ 000	Total £ 000
Assets				
Tangible and intangible fixed assets	–	–	136	136
Fixed asset investments	254,103	16,340	–	270,443
Debtors	190	58	436	684
Investments held as current assets	48,845	220,321	–	269,166
Cash at bank and in hand	–	16,274	–	16,274
Liabilities				
Creditors: amounts falling due within one year	–	(889)	–	(889)
Deferred taxation	–	–	(23)	(23)
	303,138	252,104	549	555,791

2018

	Financial instruments measured at fair value through profit or loss £ 000	Financial instruments measured at amortised cost £ 000	Non-financial instruments £ 000	Total £ 000
Assets				
Tangible fixed assets	–	–	178	178
Fixed asset investments	207,142	13,054	–	220,196
Debtors	112	91	248	451
Investments held as current assets	41,830	278,803	–	320,633
Cash at bank and in hand	–	17,251	–	17,251
Liabilities				
Creditors: amounts falling due within one year	–	(768)	–	(768)
Deferred taxation	–	–	(24)	(24)
	249,084	308,431	402	557,917

The financial instruments not accounted for at fair value through profit or loss are assets and liabilities whose carrying amounts at the period end approximate fair value.

15. Financial risk management and financial instruments (continued)

(Categories of financial instrument continued)
Gains and losses recognised in the profit and loss account during the period to 31 December by category are shown below:

2019

	Financial assets measured at fair value through profit or loss £ 000	Financial derivatives measured at fair value £ 000	Financial assets measured at amortised cost £ 000	Other income and expense £ 000	Total £ 000
Interest income	3,784	–	4,107	–	7,891
Fee and dividend income	223	–	27	–	250
Investment gains/(losses)	(2,951)	2,814	(2,333)	–	(2,470)
Other income	–	–	–	144	144
Administrative and other expenses	–	–	(538)	(7,409)	(7,947)
Tax on loss on ordinary expenses	–	–	–	6	6
	1,056	2,814	1,263	(7,259)	(2,126)

2018

	Financial assets measured at fair value through profit or loss £ 000	Financial derivatives measured at fair value £ 000	Financial assets measured at amortised cost £ 000	Other income and expense £ 000	Total £ 000
Interest income	2,311	–	3,992	–	6,303
Fee and dividend income	89	–	–	–	89
Investment gains/(losses)	(6,483)	(2,341)	2,277	–	(6,547)
Other income	–	–	–	137	137
Administrative and other expenses	–	–	(489)	(5,952)	(6,441)
Tax on loss on ordinary expenses	–	–	–	1	1
	(4,083)	(2,341)	5,780	(5,814)	(6,458)

Credit risk

Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due. The company is exposed to credit risk principally from debt securities held, loans and receivables and cash deposits.

Investments in unlisted funds and loans included in fixed asset investments are all social impact investments. Debt securities, showing as current asset investments, are held within the treasury portfolio. Cash deposits are held for operational purposes or as part of the treasury portfolio. Cash deposits that can be withdrawn at any time without notice and without penalty or that have a maturity or period of notice of not more than 24 hours or one working day are shown as cash at bank and in hand; all other deposits with a maturity of up to one year are shown as investments held as current assets.

Within the treasury portfolio, the company has set a maximum exposure limit for each counterparty. The treasury policy seeks to minimise the exposure to counterparties with perceived higher risk of default by specifying an average credit rating for the portfolio. The treasury portfolio is managed externally and counterparty exposure limits and average credit rating are monitored by the external managers. The company receives monthly treasury reports.

The company's maximum credit risk exposure at the Statement of Financial Position date is represented by the respective carrying amounts of the relevant financial assets in the Statement of Financial Position, with the exception of listed debt securities designated as at amortised cost, for which the credit exposure and the carrying value are shown below. The carrying value includes amortisation of the premium at purchase and does not include any market revaluation, and therefore does not represent the current credit risk.

The company uses foreign exchange forward contracts to manage its exchange risk exposure from holdings of non-GBP denominated financial assets. Collateral is exchanged on open foreign exchange forward contracts representing the unrealised gain (receipt of collateral by the company) or loss (pledge of collateral by the company) on a daily basis.

Credit risk arises from changes in the value of the open foreign exchange forward contracts being insufficiently covered by collateral received (to cover unrealised gains), if the counterparty to the contract does not complete the exchange of currency on the contracted settlement date. This is mitigated by utilising standard credit support agreements with a limited number of mainstream financial institutions and reliance upon the collateral management processes at the investment manager.

15. Financial risk management and financial instruments (continued)

(Credit risk continued)
Credit risk exposure as at the Statement of Financial Position date comprises:

Credit risk exposure	2019 £ 000	2018 £ 000
Fixed asset investments	270,443	220,196
Other debtors	55	17
Accrued income	3	74
Social bond/equity/multi-asset funds – investments held as current assets	31,434	30,297
Cash deposits – investments held as current assets	12,574	32,715
Listed debt securities*	225,158	256,305
Cash deposits – cash at bank and in hand	16,274	17,251
Maximum exposure to credit risk as at the Statement of Financial Position date	555,941	556,855

* Included within listed debt securities:	Credit risk exposure £ 000	Carrying value £ 000
Listed debt securities designated as at amortised cost	225,158	256,305
	225,158	256,305

As at the year end, cash at bank and in hand and investments held as current assets were held at institutions rated as follows by Standard & Poor's Investor Services:

	Rating	2019 £ 000	2018 £ 000
Social bond/equity/multi-asset funds investments	Not rated	31,434	30,297
Listed debt securities	AAA	47,444	40,050
Listed debt securities	AA	51,137	43,880
Listed debt securities	A	90,865	117,484
Listed debt securities	BBB	30,373	42,956
Listed debt securities	Not rated	5,339	13,251
Cash deposits – investments held as current assets	AA	998	–
Cash deposits – investments held as current assets	A-1	11,576	28,922
Cash deposits – investments held as current assets	A-2	–	501
Cash deposits – investments held as current assets	Not rated	–	3,292
Cash deposits – cash at bank and in hand	A-1	16,274	17,251
		285,440	337,884

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations. The company's policy is to ensure it has sufficient funds to fulfil liabilities as they fall due, including investment commitments approved by the Investment Committee (see Note 21 – Capital commitments, for details of investment commitments).

The company's financial assets include loans, unlisted equity investments, investments in unlisted funds and investments in social impact bonds, which are generally illiquid.

The company's investments in listed debt securities are considered to be readily realisable, as they are actively traded. All cash deposits held as current assets have a maturity of less than 12 months.

The company's overall liquidity is monitored on a daily basis. The company expects to receive quarterly capital inflows to meet its social impact investment commitments and other obligations.

15. Financial risk management and financial instruments (continued)

(Liquidity risk continued)

An analysis of contractual creditor balances, by maturity is shown below:

2019	Carrying amount £ 000	Contractual cash flows £ 000	6 months or less £ 000
Creditors: amounts falling due within one year	889	889	889
	889	889	889

2018	Carrying amount £ 000	Contractual cash flows £ 000	6 months or less £ 000
Creditors: amounts falling due within one year	744	744	744
	744	744	744

Market risk

Market risk is the risk that changes in market prices, such as interest rates and credit spreads (not relating to changes in the issuers' credit standing) will affect the company's income or the fair value of its holdings of financial instruments.

The company has interest rate exposure. The company currently has £285.4 million in cash or current asset investments that earn interest at a variety of rates. Any reduction in interest rates will reduce the interest income on these deposits. A reduction of interest rates by 1% would result in a reduction in returns of £2.8 million.

Foreign exchange risk

The company is exposed to foreign currency risks on assets and liabilities as a result of changes in exchange rates. The company invests in foreign currency denominated bonds through its treasury portfolio and a foreign currency denominated fund in the social impact investment portfolio, and so has foreign currency risk exposure on those assets. The company mitigates the risk on the bonds by putting in place matching currency forward derivative contracts. When a foreign currency denominated bond is purchased, a spot trade and a forward are executed, and these are rolled forward every three months. The spot trade buys foreign currency and sells GBP (originally to fund the bond purchase), and a new forward contract is then executed to sell foreign currency and buy GBP, creating a foreign currency liability that offsets the investment. Currently the size of the company's investment in the foreign currency denominated fund is too low for a similar process to be cost-effective due to the associated fees; the fund also holds GBP denominated assets which partially mitigate the exposure. The exposure continues to be monitored and the company has the ability to implement a similar procedure to the bonds when/if required.

Regulatory risk

The company is authorised and regulated by the FCA. It is required to regularly assess the amount of capital needed for operations and will hold liquid capital in excess of this amount.

The company has, at all times during the period under regulatory supervision, held sufficient capital to meet its regulatory capital requirement.

16. Valuation of financial instruments

The determination of fair value for basic financial instruments for which there is no observable market price requires the use of valuation techniques as described in Note 1 – Accounting policies, 'Basic financial instruments – iii) Fair value measurement'.

The company uses a three-level hierarchy for fair value measurement disclosure, as follows:

- Level 1. The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2. Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.
- Level 3. Inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

In determining a fair value using Level 3 valuation techniques, the company applies the principles included in the 'International Private Equity and Venture Capital Valuation Guidelines' (2018 Edition):

- Where an investment has been made recently, or where there has been subsequent, significant new investment into the company, a more accurate valuation is not available and there is no evidence to suggest that the unadjusted Price of Recent Investment is no longer relevant, the company may apply the Price of Recent Investment, for a limited period following the date of the relevant transaction. Where it is felt that there has been a change to the milestones or benchmark, then the company will use the Price of Recent Investment adjusted to reflect milestone/benchmark analysis.
- Where appropriate and reasonable earnings or revenue multiples are available for comparable businesses, the company will apply the Multiples valuation technique to derive a value for the investment.
- If industry benchmarks can be applied to the investment to derive a fair value, these will be applied.
- If future cash flows can be reasonably estimated, and it is felt that the risks, due to the high level of subjectivity, involved in applying the Discounted Cash Flow method do not render the method insufficiently reliable, this will be applied.
- Where a regular Net Asset Valuation is available for the investment, the company will assess this for reasonableness and consider whether the investment can be valued on the basis of the underlying fair value of its assets, rather than its earnings. If this is considered appropriate, the company will apply the Adjusted Net Asset Valuation method.

The company may decide to use a combination of the mentioned methods, or other methods that are considered more appropriate to derive the fair value of its investments.

The fair value hierarchy of financial assets and liabilities as at 31 December can be analysed as follows:

Financial assets/(liabilities) held at fair value:

	2019 £ 000	2018 £ 000
Financial assets/(liabilities) held at fair value:		
Level 1		
Investments held as current assets	–	–
Level 2		
Investments held as current assets	48,845	41,830
Derivative financial instruments	190	112
Level 3		
Fixed assets – investments	254,103	207,142
	303,138	249,084

There have been no changes in classification of assets held at each level.

Level 3 financial assets held at fair value	**Financial assets held at fair value through profit or loss £ 000**
Balance at 1 January 2019	207,142
Purchases	68,749
Sales	(14,728)
Total investment returns	(7,060)
Balance at 31 December 2019	254,103

All Level 3 financial assets held at fair value are investments held within the social impact investment portfolio.

17. Share capital

	Nominal value	2019 Number	2019 £ 000	2018 £ 000
Allotted, called up and fully paid:				
Ordinary A shares	£1 each	381,345	381,345	381,345
Ordinary B shares	£1 each	200,000	200,000	200,000
			581,345	581,345

During the year The Big Society Trust Limited subscribed nil (2018: 79,950,000) additional shares at par.

18. Profit and loss account

	2019 £ 000	2018 £ 000
At 1 January	(23,428)	(16,970)
Loss for the financial year	(2,126)	(6,458)
At 31 December	(25,554)	(23,428)

19. Cash and cash equivalents

Cash and cash equivalents comprise:	2019 £ 000	2018 £ 000
Cash at bank	16,274	17,251
Current asset investments (maturity less than 3 months from the date of acquisition)	11,576	27,928
Cash and cash equivalents per cash flow statement	27,850	45,179

As described in Note 12 – Investments held as current assets, investments held as current assets can be realised within one year, but not within 24 hours. For cash flow purposes those investments that have a maturity or period of notice of less than three months from the date of acquisition are included as cash and cash equivalents. A breakdown of investments held as current assets is provided below:

	2019 £ 000	2018 £ 000
Cash deposits (maturity less than 3 months from the date of acquisition)	11,576	27,928
Cash deposits (maturity greater than 3 months from the date of acquisition)	998	4,787
Listed debt securities	225,158	257,621
Social bond/equity/multi-asset funds investments	31,434	30,297
Investments held as current assets per Statement of Financial Position	269,166	320,633

20. Events after the reporting date

As described in the Strategic Report on page 10, the company is assessing the financial and social impact implications of the COVID-19 pandemic on its social impact investment portfolio. The COVID-19 pandemic is considered a non-adjusting post-balance sheet event and as a result the valuation of the company's social impact investment portfolio as at 31 December 2019 has not been re-assessed. Big Society Capital's initial assessment is that the consequences of the COVID-19 outbreak are likely to lead to a significant write-down of the social impact investment portfolio in 2020, although it is not possible at this stage to quantify the impact within a reasonable range. The company has, however, undertaken a preliminary assessment of the potential impact on its principal investment product types.

The largest portfolio impact is likely to be on direct lending activities through debt funds, social banks and the CDFI sector, which represents 30% of the portfolio and supports organisations whose business models are either driven by footfall, directed at financial inclusion or can be fragile due to minimal reserves. In the company's social outcome and venture fund investments, 20% of the portfolio, the impact is likely to be lower, and linked to the short-term operational challenges such as staff sickness and shifts in financial markets resulting from the outbreak. Some investments in this group, for example those in the tech sector, could in fact see some benefit. Our renewable energy, property and charity bond investments, 50% of the portfolio, are expected to suffer less impact, as revenues are generally better protected. The duration of the pandemic and the speed of economic recovery will ultimately be significant drivers of the longer-term valuation impact of the current crisis.

There are no other significant events to disclose since the reporting date.

21. Capital commitments

The company recognises investments and potential investments at three distinct stages of the investment process:

1. **Investments signed and drawn down** – legal agreements are completed and signed and funds (in total or partial) have been drawn down. The amounts drawn down are recognised as financial assets in the Statement of Financial Position, and the balance of the commitment is disclosed below.
2. **Investments signed, commitment undrawn** – legal agreements are completed and signed and funds (in total or partial) have not been drawn down. These are not recognised within the Statement of Financial Position, but are disclosed below.
3. **In principle commitments** – the commitment has been approved in principle by the company's Investment Committee, legal agreements and deal terms are in the process of being prepared. These are not recognised within the Statement of Financial Position, but are disclosed below.

As at 31 December, there were capital commitments, in respect of investments signed, commitments undrawn, of:

	2019 £ 000	2018 £ 000
Commitments contracted, undrawn fully or partially and not provided in the Financial Statements	237,240	248,512

As at 31 December, there were in principle commitments of:

	2019 £ 000	2018 £ 000
In principle commitments (approved by the Investment Committee, subject to legal documentation)	42,000	24,000

22. Other financial commitments

Total future minimum lease payments under non-cancellable operating leases:

	Land and buildings 2019 £ 000	Land and buildings 2018 £ 000
Falling due:		
within one year	368	358
within two to five years	1,489	76
in over five years	80	–
	1,937	434

23. Related party transactions

During 2019, The Big Society Trust, being the parent company, purchased £nil (2018: £80 million) of £1 Ordinary A shares in Big Society Capital Limited. During 2019 Big Society Capital Limited incurred £30,000 of costs (2018: £nil) on behalf of The Big Society Trust. This amount was outstanding at 31 December 2019 (31 December 2018: £nil).

During the period Access – The Foundation for Social Investment, being a member of The Big Society Trust group, paid £78,400 (31 December 2018: £78,400) to Big Society Capital, in respect of a licence fee for the use of its offices. As at 31 December 2019 there was an outstanding balance of £6,500 (31 December 2018: £6,500). The transactions were made on terms equivalent to those that prevail in arm's length transactions.

Directors' and senior management emoluments are disclosed in Note 6 – Directors' and key management personnel emoluments, and the Remuneration Report on page 27.

24. Controlling party

The directors consider that the immediate parent undertaking and the ultimate controlling party of this company is The Big Society Trust, a company incorporated in the UK and limited by guarantee.

The consolidated financial statements of the group are available to the public and may be obtained from Companies House.

25. Presentation currency

The financial statements are presented in Sterling.

26. Legal form of entity and country of incorporation

Big Society Capital Limited is a limited company incorporated in England.

27. Principal place of business

The address of the company's principal place of business and registered office is:
New Fetter Place, 8–10 New Fetter Lane, London EC4A 1AZ

www.bigsocietycapital.com
Registered number 07599565