Use of Subsidy in Social Investment:

Observations on Blending Debt and Grant Through the Growth Fund - Establishing the Portfolio and Early Activity

Summary data and analysis from the 16 Growth Fund funds at the time of each fund's initial establishment, a summary of our process for establishing the funds and an overview of the portfolio's early activity

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Access – The Foundation for Social Investment

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Delivered by

Summary/ Overview

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- Funds established over a period of 3 years & 8 months
- Wide range of investors, fund sizes, sectors, geographies and expected loan compositions
- It took on average 17.5 months to establish a fund then a further 5.9 months to their first investment
- Growth Fund fully committed, with small amount of grant left over for top-ups, restructuring or to address any gaps in provision. Small amount of restructuring already taken place, but report compares all funds at point of establishment.
- Funds collectively expected to reach peak-lending in 2019/20 – post-Growth Fund planning needed to ensure continued availability of capital and subsidy after this period

x16 funds

Loan from BSC/ co-investor

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Grant from NCLF in three parts: A, B & C

Social Investor

Grant A
Pot for **covering costs** of making small loans

Pot for **lending**

Loan layer gets repaid to BSC (or other lenders)

Grant B
Grant layer **allows for the fund to afford defaults**

Grant C
Pot for **making grants** to charities or social enterprises

Subsidy for investor's operating costs

- **£1.9m total Grant A**
- **Av. £120k per fund**
- **Av. 3.9% of total fund size**
- **9% of overall grant in GF**
- **Op costs predominantly funded by interest and fees**

- Capped at 10% of each fund's grant. Unclear at this stage whether this is sufficient.
- Slightly higher allocations provided to non-specialist social investors to reflect higher set-up costs, lower fund sizes and the funds' work reaching new organisations or sectors. Represents good value for money.

Loans to charities & social enterprises

- **£30m total debt (of which £28.2m BSC)**
- **Av. £1.9m per fund**
- **Av. 71% per lending pot**

+

- **£13m total Grant B**
- **Av. £811k per fund**
- **Av. 29% per lending pot (range 10-36%)**
- **61% of overall grant in GF**

- Grant B proportions driven by default assumptions
- Amount of Grant B related to a number of other factors, although not closely correlated with any one in particular
- Covers assumed defaults to enable social investors to repay BSC/ co-investors

Optional grant-making alongside loans

- **£6.4m total Grant C**
- **Av. £403k per fund**
- **30% of overall grant in GF**
- **Used in a range of different ways and given for a range of different purposes**

- Data suggests some weak correlation with investment size and use of Grant B, however difficult to distinguish between interplaying factors at this early stage

Charity or Social Enterprise

- Loan or loan + grant blend of under £150k. Current average less than half this.
- Unsecured
- For growth, to help with cash flow, to stimulate income generating activities
- Typically 3-6 year repayment
- Interest of 5-12% on the loan
- Largely to organisations with low turnover and FTE staff
- A number of investments to date made within more deprived areas of England by IMD decile data

Contents

This report is in five sections:

Further information & contact details can be found on the final page.

Section One:
Introduction

- Aims of the Growth Fund
- Structure of the Growth Fund
- Current position & scope of report

Aims of the Growth Fund

The Growth Fund is designed to provide **small scale affordable unsecured loans for charities and social enterprises**. The organisations intended to benefit are likely to be at early stages of growth or developing their trading income, and probably have not have taken on social investment before.

Access manages the Growth Fund in a **wholesale capacity**. That means that we **work through social investors**, which applied to us and which run funds and make loans and social investments to charities and social enterprises. Those **investments must be £150,000 or under** and may include a grant for the charity or social enterprise.

Across its portfolio as a whole, the Growth Fund has sought to achieve a **geographical spread** of users and end beneficiaries **across England**, as well as support a **range of social issues**.

Previously this type of finance had not been readily available, mainly because social investors had not felt able to afford to make these small loans. These investors are usually borrowing money themselves in order to on-lend, so they need to be confident they will get repaid. However lending of this type has been seen as too high risk. The operating costs of managing a high number of small loans is also expensive. Therefore many of these investors have tended to only offer larger investments.

The Growth Fund **tackles this availability gap by blending loan and grant funding for social investors**. The grant allows those investors to offer these smaller loans because it:

- Helps to contribute towards the costs of making lots of small loans; so that the social investor can afford the proportionally higher transaction costs that can often exceed interest/ fee income at this level (this use of the grant is a small proportion of the total grant amount) thus reducing the risk for them in managing the fund (we call this Grant A).
- Allows them to be able to afford for some of the loans to fail; by blending grant and debt in the fund the social investor can afford for the portfolio as a whole not to break even and therefore will be willing to take greater risk on the loans that they make, thus reducing the risk of the provider of debt in the fund not getting their money back (we call this Grant B).
- Allows them to offer grant along side loans to charities and social enterprises; this reduces the amount of loan finance required so that revenue streams are robust enough for repayment. (we call this Grant C).

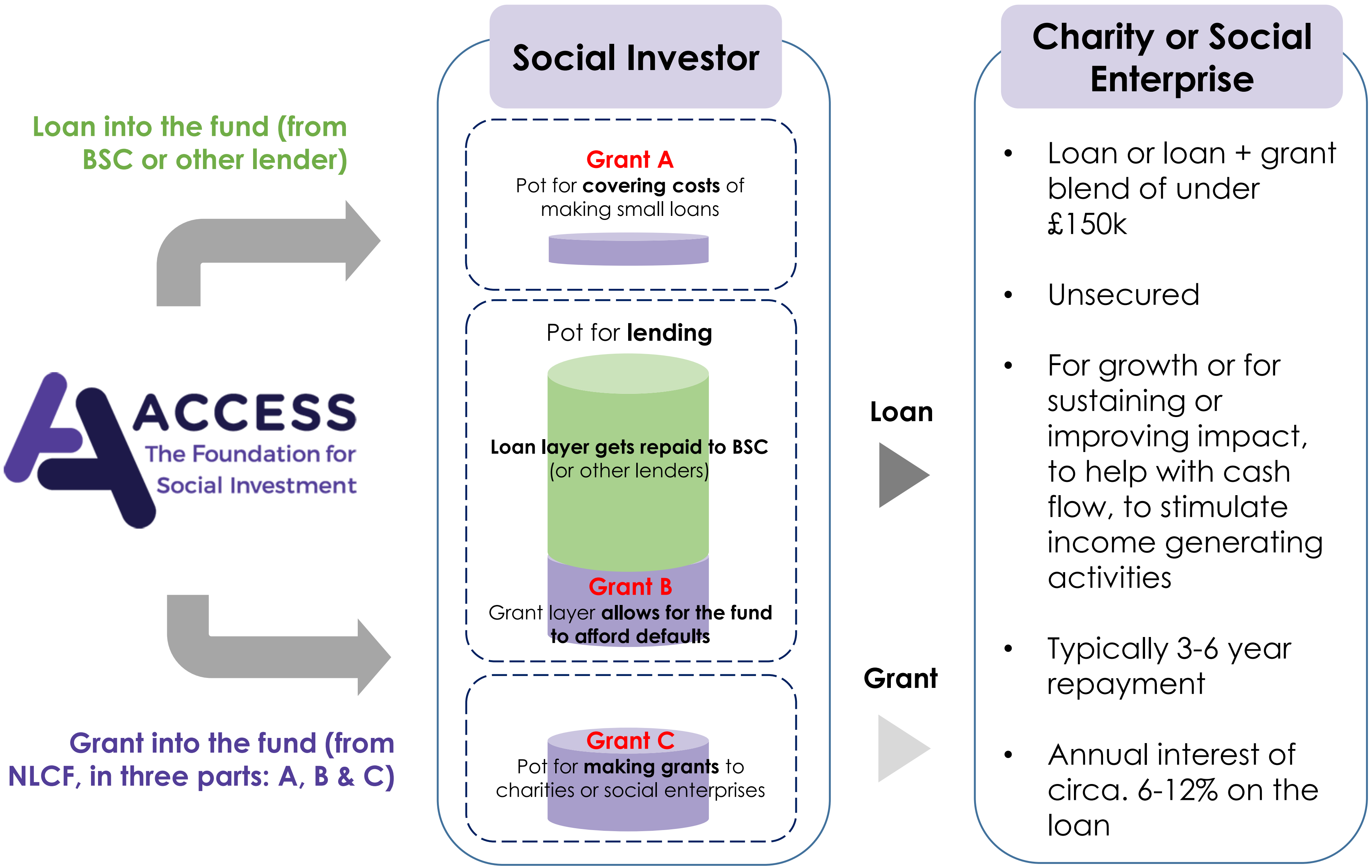
The grant must total less than 50% of the overall investment into the social investor.

The Growth Fund blends a commitment of **£22.5m of grant from the National Lottery Community Fund** with at **least £22.5m of loan funds from Big Society Capital** plus some additional loan funds from some other sources. Access manages the end to end programme.

In addition to providing relevant finance to over 600 organisations, Access's goals in delivering the Growth Fund are to make a significant contribution to the learning about how grant subsidy can best be used to develop the social investment market (our strategy is available here).

This report is a follow on from a previous report that we published in December 2016 (available here). It serves to provide an overview of the 16 funds that are operating within the Growth Fund to provide social investment for charities and social enterprises, and to look at how grant and debt has been blended to meet that demand. It will serve as a baseline against which we will report future patterns and trends that we observe across the portfolio over the next few years.

Structure of the Growth Fund



Current portfolio position & scope of report

In December 2016 we published a report summarising our initial observations from the 13 live applications of organisations applying to be Growth Fund investors. At that time, three funds had launched, five funds had received offers and five applications were in development or due diligence. The data was based on those 13 funds, with the provision that not all of the ones in development would necessarily make it through to launch. The expression of interest process for applying to the Growth Fund closed at the end of 2017.

At the end of 2018 we established what we expect to be the final four funds of the Growth Fund, taking the total to 16. A small amount of grant remains uncommitted and we expect this to be allocated to existing funds over the next year or two. It therefore feels like an appropriate time to update and expand on our earlier publication. Of the funds/ potential funds that we discussed in the 2016 report, two that were in the development/ due diligence stage at the time did not subsequently launch. Five of the funds that have now launched were not yet in the pipeline in 2016 so did not feature in the last report.

The first of the Growth Funds was established in July 2016. A further three funds were established that year, followed by seven in 2017 and five in 2018. Some funds formally launched a few weeks or months after their date of establishment, by which we refer to the date on which their contracts and loan agreements were signed. We use the 'fund established' dates throughout this report for consistency.

When funds were established, quarterly deployment targets were agreed through a forecast of anticipated activity. Whilst such targets are necessary, Access recognises that, particularly for new investors, assumptions and forecasts will not match reality. We therefore support the social investors to reforecast when necessary to ensure that targets remain useful and continue to feel achievable. Over the life of the Growth Fund we expect that most, if not all, funds will reforecast at one point or another, although many of these will be minor adjustments. Occasionally, if an investor is finding that actual demand for their product is varying significantly from initial assumptions, a more substantial re-profiling may be considered.

At the time of writing, three funds have been restructured significantly (two decreased in size and one allocated additional funds through a top-up). A further four have formally re-profiled (the amounts and proportions of allocated loan and grant funding have not changed, but the deployment profiles and/ or operating cost profiles have been reforecast and adjusted accordingly). In addition to one investor's fund being topped up, another (Big Issue Invest) has launched a second fund. However as it is a legally separate fund with a different composition, this is treated as a separate data-point throughout this analysis.

As shown later in Sections Two and Four of this report, at the time of writing (March 2019) some funds are more than two years into their deployment periods whereas others are very recently established, with one yet to make its first investment. Due to this variation, to compare the current position of all funds would not be comparing like-for-like. This is because older funds are more likely to have gone through a reforecast already whereas more recent ones will not have had cause to. In future reports we will analyse any trends that we observe in the timings and types of re-profiles and re-forecasts that are required. However for the purposes of this report we have presented a baseline position for each of the funds, collating and comparing their compositions as at the dates that they were each launched. This report therefore looks at the ratios and fund structures on set-up, demonstrating what we **expect** to happen but not necessarily what **will** happen. More information on the evolution of the portfolio is provided in Section Four.

Due to the significant variation in the current stage of each fund, this report does not seek to analyse the composition of investments made into charities and social enterprises so far by breaking it down per social investor or by type of investor/ fund. This is because at the moment the portfolio at this level is heavily skewed towards investments made by the first four funds that were established in 2016 and have therefore, as would be expected, undertaken the majority of lending to-date. However some aggregate data of investments made up to the end of 2018 are included in the final section of this report, in order to provide a sense of early activity. We also publish regular updates on the investments made through the Growth Fund on our quarterly dashboards and an independent evaluation of the Growth Fund, funded by National Lottery Community Fund and carried out by Ecorys, will also be publishing its findings.

Section Two:

The Growth Fund Portfolio

- Overview of funds
- Composition, duration & expected lending
- Organisation types, sectors and geographical coverage

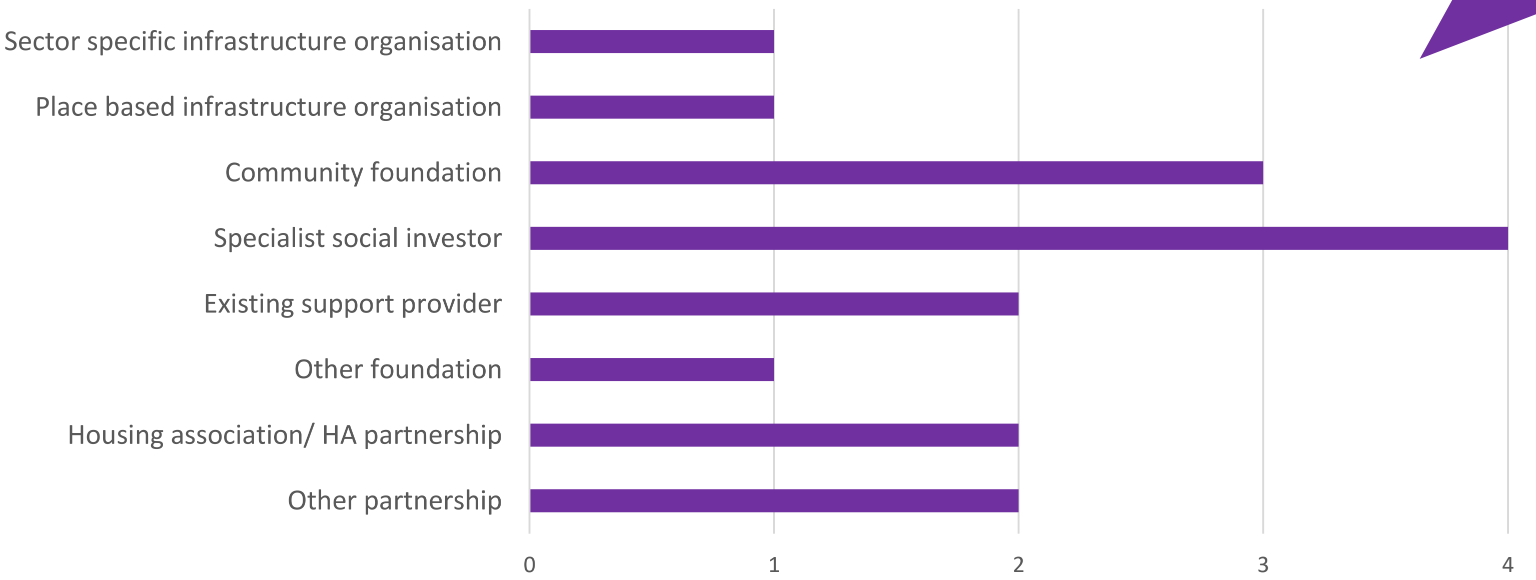
Social investors & their funds

Social Investor	Fund	Fund description/ remit	Date fund established
Resonance	Health and Wellbeing Challenge Fund	South West region and thematic focus on health and wellbeing	19/07/2016
Key Fund	Northern Impact Fund	North of England and Midlands regions with no thematic focus	19/09/2016
First Ark	Invest for Impact	North West region with no thematic focus.	11/10/2016
Big Issue Invest	Impact Loans England	England-wide remit with no thematic focus	20/12/2016
Homeless Link	Homeless Link Social Investment Fund	England-wide remit with thematic focus on addressing issues of homelessness	19/05/2017
Sporting Assets	Sporting Capital	National remit with thematic focus on sports organisations delivering social outcomes for communities	27/06/2017
Greater Manchester Centre for Voluntary Organisation (GMCVO)	GM Social Investment	Greater Manchester geographical area, no thematic focus	10/07/2017
Devon Community Foundation	Devon Social Investment Fund	Geographical focus on Devon, Plymouth and Torbay and all services except for health and wellbeing	21/07/2017
Somerset Community Foundation	Somerset Social Enterprise Fund	Somerset geographical area only with no thematic limit	17/08/2017
UnLtd	UnLtd Impact Fund	National remit with thematic focus on addressing barriers to employment and training	20/10/2017
Kent Community Foundation	Kent Social Enterprise Loan Fund	Geographical focus on Kent and Medway, no thematic focus	25/10/2017
Forward Trust & Social Investment Business	Forward Enterprise Fund	National remit with thematic focus on addressing issues of addiction recovery and/or supporting people who are ex-offenders with employment	23/04/2018
Nesta	Cultural Impact Development Fund	National remit with thematic focus on providing finance to socially-driven arts and cultural organisations	16/10/2018
Environmental Finance	Picnic	Nationwide remit with thematic focus on public parks, expected to focus on three city regions	30/10/2018
Big Issue Invest	Impact Loans England II	England wide remit and no thematic focus	02/11/2018
Orbit, Clarion Futures, L&Q and Peabody four-way partnership	Community Impact Partnership	England wide remit but targeted mainly on areas covered by the four partners (East Midlands, East, London and South East)	12/11/2018

Social investors: Organisation types

One of the aims of the Growth Fund was to achieve a balance of social investors - whilst some would bring prior experience, others would be enabled to run a social investment fund for the first time. Our hypothesis behind this is that certain types of organisation will have reach into areas of the charity and social enterprise sector which have not previously been aware of, or had access to, social investment, thereby enabling the Growth Fund to fulfil its aim of making small-scale social investment more accessible to those who it can benefit. Each of the social investors was chosen as a result of their own strengths. For some this was existing social investment experience and pipeline, for others it was their relationship with charities and social enterprises, knowledge of a particular geography, or their appetite and ability to trial a new approach. Whilst it could be argued that funding so many funds via the Growth Fund was not the most obviously efficient approach, we believe that this potential to expand reach justifies the approach. With such a wide-range of organisations taking part we expect to learn a great deal about the potential role that different types of organisations can most usefully play in the market.

Funds by type of delivery organisation



NB: The three specialist social investors (one of which is operating two funds) are not the only organisations in the portfolio to have invested before. Whilst this is new activity for the majority of the other organisations, some have carried out some social investment previously. However this was supplementary to their wider activity so they would not be classed as specialist social investors.

The organisations delivering funds have been classified as such:

Sector specific infrastructure organisation:
- Homeless Link

Place based infrastructure organisation:
- Greater Manchester Centre for Voluntary Organisation

Community foundation:
- Devon CF
- Somerset CF
- Kent CF

Specialist social investor:
- Resonance
- Key Fund
- Big Issue Invest (two funds)

Existing support provider:
- Sporting Assets
- UnLtd

Other foundation:
- NESTA

Housing association/ HA partnership:
- First Ark
- Orbit & partners

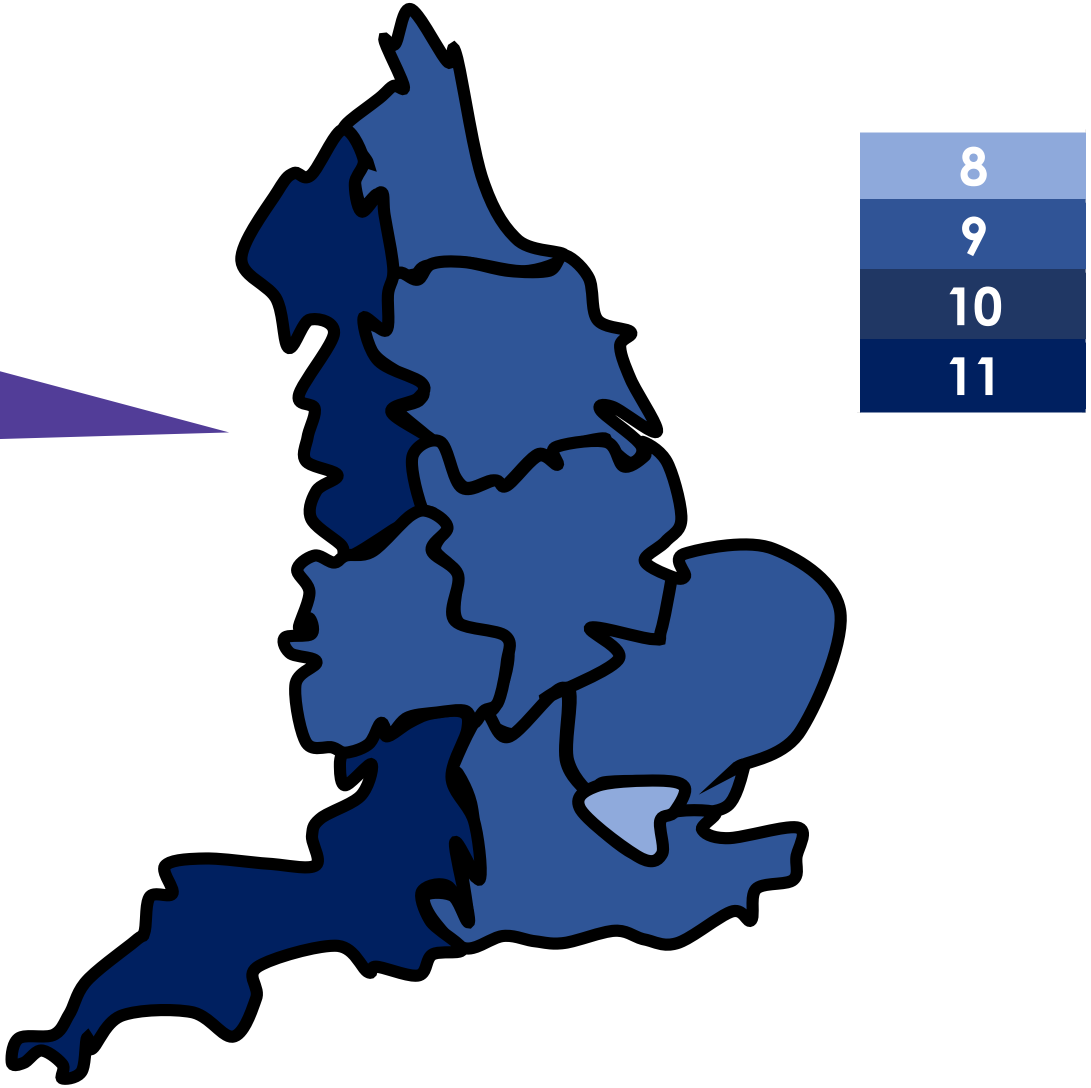
Other partnership:
- Social Investment Business & Forward Trust
- Environmental Finance (& National Trust)

Social investors' funds: Geographical coverage

The majority of Growth Fund funds are open to charities and social enterprises across the whole of England.

Of the 16 funds:

- Eight cover the whole of England
- One of these is a new fund which expects to focus only on three-five places, currently to be selected
- Six are focused on only one region:
  - Three in the South West
  - Two in the North West
  - One in the South East
- Two cover five regions each



Coverage by number of funds is broadly even across England, but with highest coverage in the South West and North West and lowest coverage in London.

Social investors' funds: Sector coverage

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Beneficiary groups being supported through the Growth Fund:

- People experiencing long term unemployment
- Homeless people
- People living in poverty and/or financial exclusion
- People with addiction issues
- People with long-term health conditions/life threatening or terminal illness
- People with learning disabilities
- People with mental health needs
- People with physical disabilities or sensory impairments
- Voluntary carers
- Vulnerable parents
- Vulnerable children (including looked after children)
- Vulnerable young people and NEETs
- Older people (including people with dementia)
- Ex/offenders
- People who have experienced crime or abuse

Growth Fund social investors are targeting charities and social enterprises that operate in a range of sectors.

Some are **targeting a specific impact area**. For example:

- UnLtd's fund has a thematic focus on addressing barriers to employment and training
- Resonance's fund has a thematic focus on health and wellbeing
- Homeless Link supports organisations working to tackle homelessness
- Social Investment Business & Forward Trust's fund has a thematic focus on addressing issues of addiction recovery and/or supporting people who are ex-offenders with employment

Others are **targeting impact through a certain type of activity/ organisation**. For example:

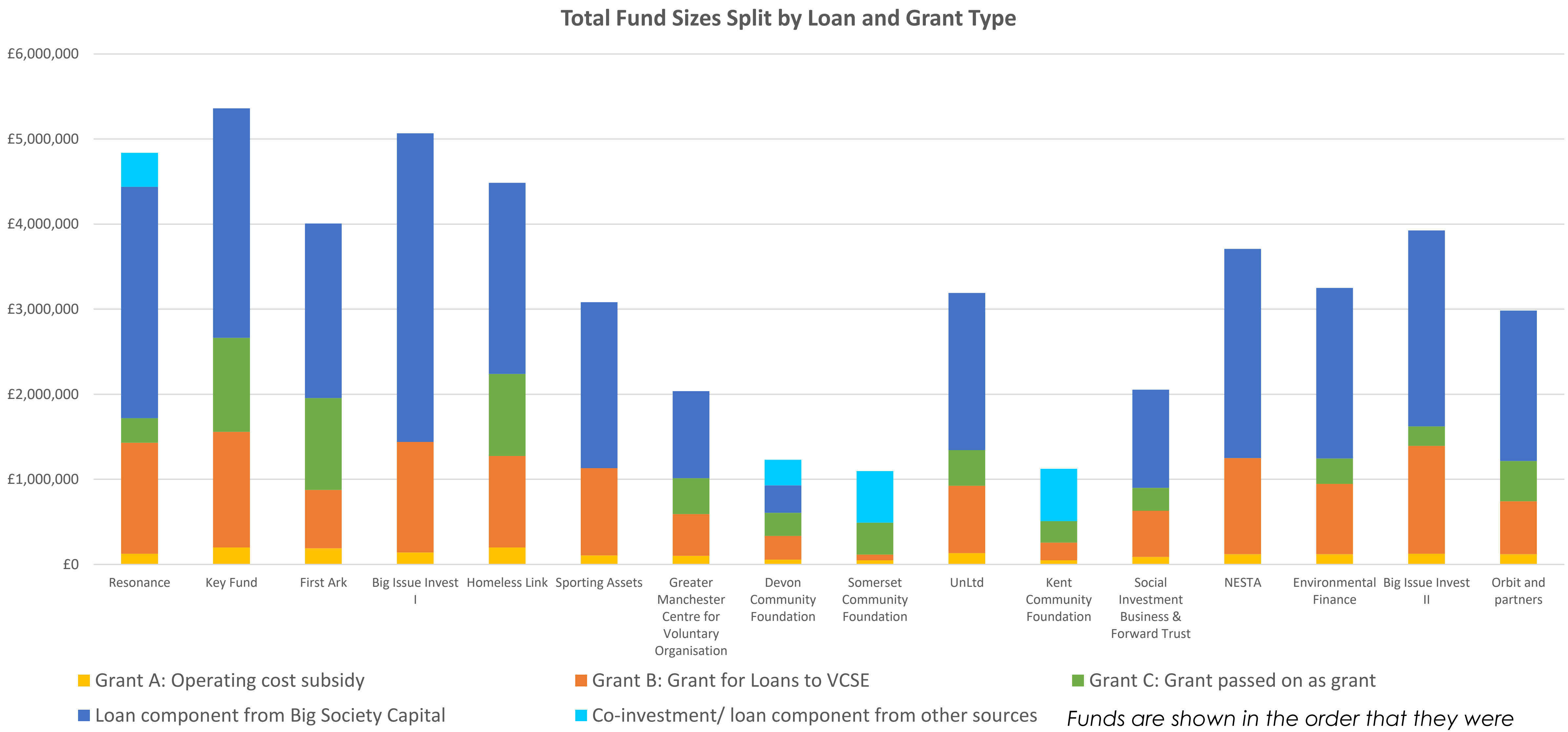
- Environmental Finance (with National Trust)'s fund will have a thematic focus on public parks, supporting organisations based in or around these
- Sporting Assets' fund has a thematic focus on sports organisations delivering social outcomes for communities
- Nesta's fund has a thematic focus on providing finance to socially-driven arts and cultural organisations

Others have no particular thematic focus, although some do have particular impact goals. For example focusing on supporting broader equalities groups at investee and/ or investee' beneficiaries levels, or supporting predominantly newer ventures or first time users of social investment.

Categories of activity/ outcomes being supported through the Growth Fund:

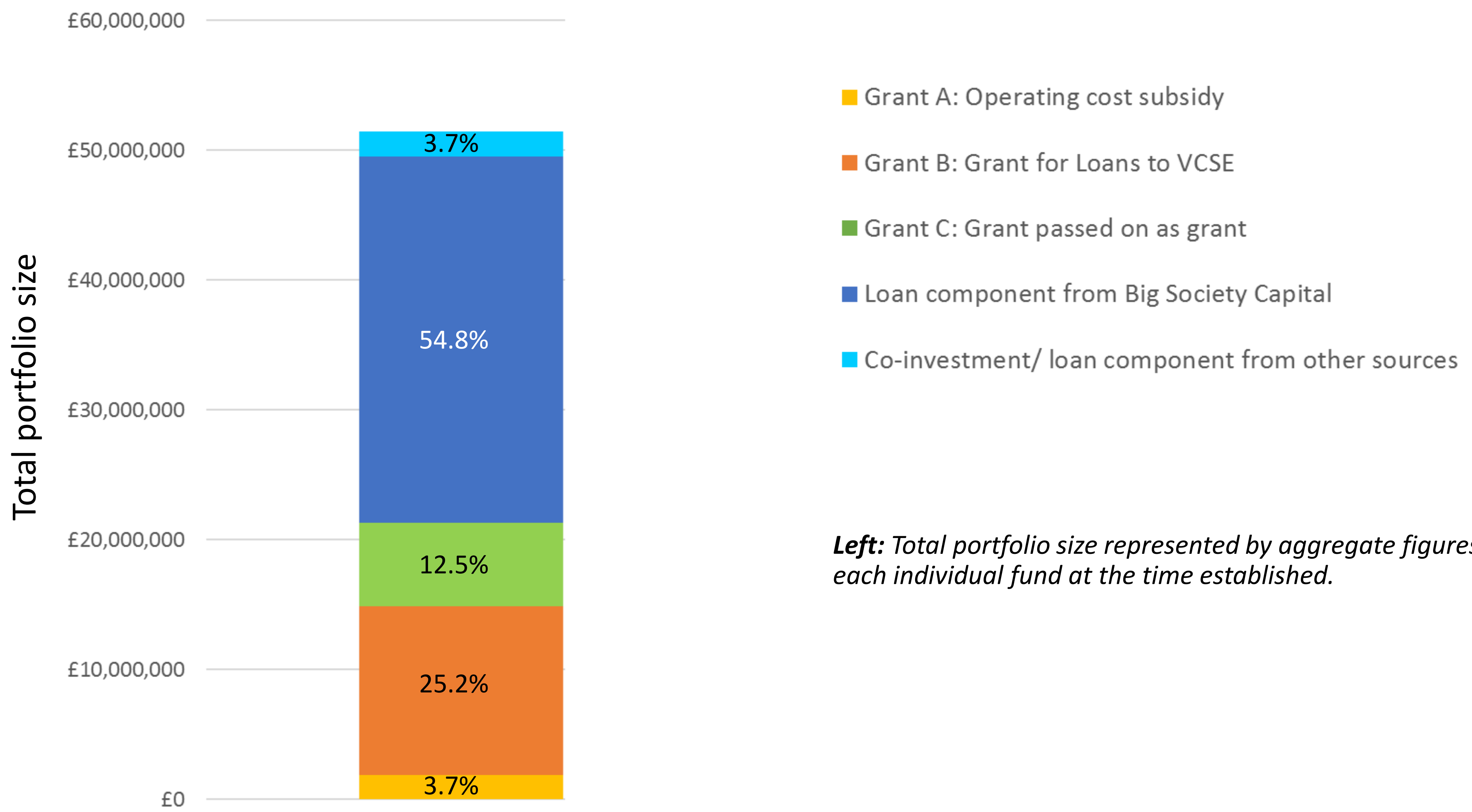
- Employment, education and training
- Housing and local facilities
- Income and financial inclusion
- Physical health
- Mental health and well-being
- Family, friends and relationships
- Citizenship and community
- Arts, heritage, sports and faith
- Conservation of the natural environment
- Other

Range of fund sizes and grant/ loan composition



Funds are shown in the order that they were established, from earliest to most recent.

Total portfolio size and grant/ loan composition



***Left:** Total portfolio size represented by aggregate figures of each individual fund at the time established.*

Summary data of the 16 funds: Composition and duration

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	Average	Min.	Max.	Notes
Total fund size…	**£3,214,515**	£1,095,784	£5,359,489	
…of which Grant A (subsidy to help cover operating costs)	**£120,010**	£49,000	£200,000	
…of which Grant B (subsidy to blend with loan for lending, to cover losses in the fund)	**£811,045**	£67,178	£1,358,589	
…of which Grant C (grant made available to charities & social enterprises alongside loan)	**£402,625**	£0	£1,104,000	
…of which loan (for on-lending to charities and social enterprises)	**£1,880,836**	£604,606	£3,626,594	
Grant A as a % of total fund size	**3.9%**	2.6%	4.9%	Capped at 10% of total grant amount, which in turn is capped at 50% of total fund size.
Grant B % in lending pot	**29%**	10%	35.5%	
Expected total operating costs	**£653,988**	£134,800	£1,218,585	Expected to be funded through interest and fees generated by the fund. Some social investors are subsidising some related activity outside of this, through their wider organisation.
Expected average annual operating costs…	**£82,046**	£18,747	£163,030	Figures represent individual funds' averages across the investment and period and repayment period. Costs are generally forecast to be higher during the former and to decrease throughout the latter.
…as a % of total fund size	**2.7%**	1.2%	6.5%	
Funds' investment period (years)	**3.25**	3	5	
Funds' repayment period (years)	**4.75**	3	6	
Funds' total life (years)	**8**	6	10	

Summary data of the 16 funds: Expected lending

	Average	Min.	Max.	Notes
Total value of loans expect to deploy	**£3,212,813**	£750,000	£7,885,000	Excluding Grant C. Includes expected re-deployment of recycled capital.
Number of loans expect to make	**48**	18	138	
Expected average loan size	**£69,813**	£28,000	£100,000	Excluding Grant C.
Proportion of investments expected to include a grant (C)	**62%**	0%	100%	Includes three funds which chose not to offer Grant C.
Proportion of grant (C) those investees are expected to receive	**21.1%**	9.1%	33.3%	Excludes the funds not offering Grant C.
Expected average interest rate	**7.8%**	5%	11.5%	Social investors are charged 5% interest on BSC loan. These figures include interest rates charged by two investors who have obtained their lending capital entirely from other sources. The lowest interest charged by a social investor on-lending BSC loan is 6.5%.
Expected arrangement fee	**2%**	0%	8%	
Expected probability to default	**21.4%**	10%	32%	Proportion of investment made expected to be lost through default.
Expected period to default (quarters)	**6.1**	1	12	
Expected loss on default	**94.9%**	75%	100%	

NB: All of the above figures on these two pages represent the average, minimum and maximum expected values **per individual social investor fund** (not per charity/ social enterprise loan across the Growth Fund as a whole). The number of loans made by each of the 16 funds will vary significantly, as shown above, and these averages have not been weighted to reflect that. This is because this data are provided to demonstrate the range of similarities and differences between individual funds operating under the Growth Fund.

Due to not using BSC loan, one fund was modelled slightly differently and so has been excluded in a few of the above averages where a corresponding value did not exist in it’s original model.

Section Three:

Use of Subsidy

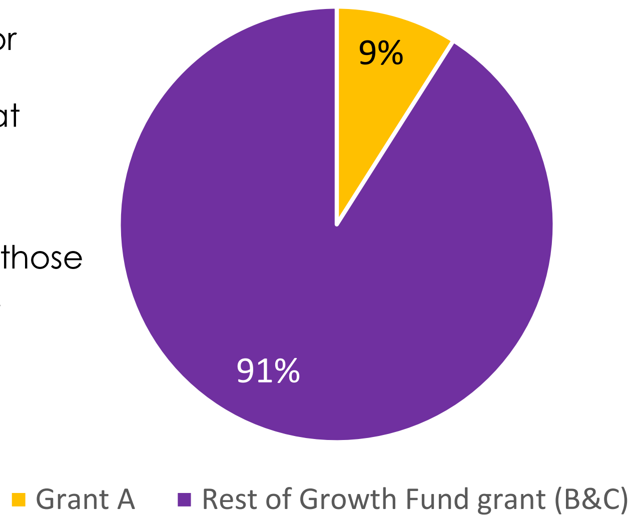
- Operating costs & investors' grant subsidy
- Role of grant subsidy in blending with debt
- Role of grant for providing to investees alongside loans

Operating costs & grant subsidy (Grant A)

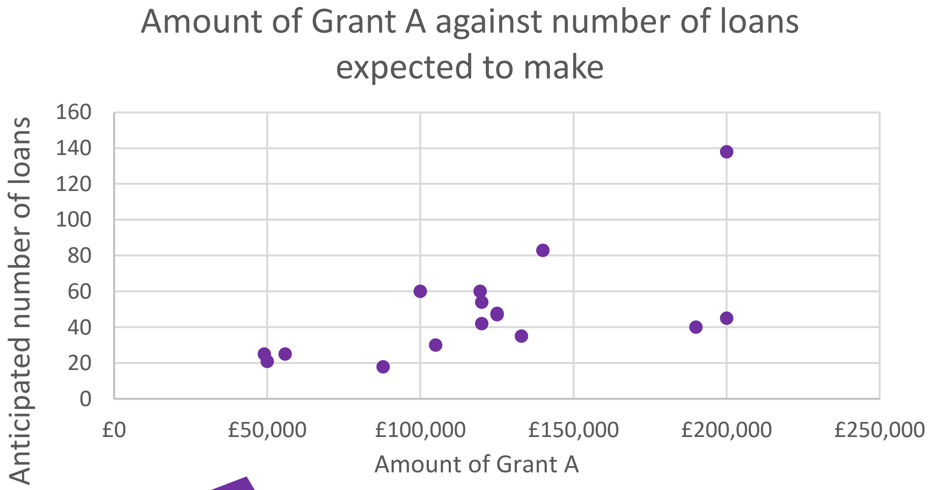
GROWTH FUND HYPOTHESIS: Providing social investors with a small level of operating cost subsidy will help cover the relatively high cost of making small loans and thereby enable them to invest at the sub-£150k level.

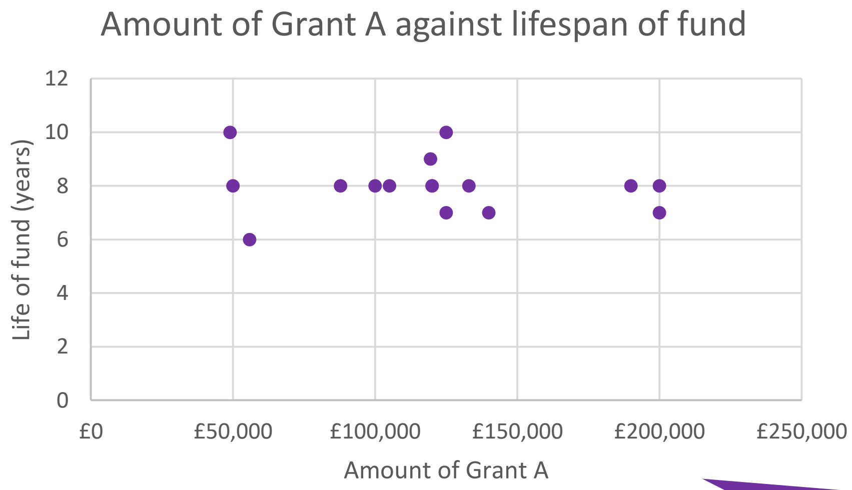
The structure of the Growth Fund allows for a direct subsidy into each fund's operating costs in its early months. Each fund has an agreed schedule of forecast operating costs, representing the maximum amounts that the social investor may draw down from the fund for this purpose during each quarter. The majority of this income is generated through interest and any fees which the social investors charge on the loans that they make. However, Access recognises that building and managing portfolios of small loans is expensive and requires additional support, in particular in the early months of running a fund before sufficient income is generated.

The Growth Fund therefore offers a grant to provide additional support for the operating costs of running the fund in those early months. We call this Grant A. Across the 16 funds, Grant A ranges from £49k to £200k, with an average of £120k.



Above: *Of the £21.3m allocated in grant across the Growth Fund, just 9% has been given to social investors to subsidise their operating costs. The vast majority (91%) of grant subsidy is passed on to charities and social enterprises as loans and grants.*





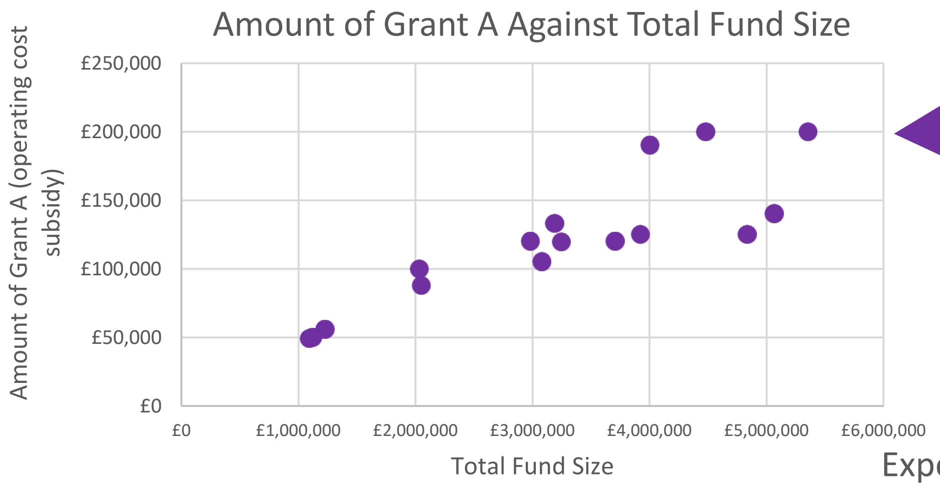
There is a slight trend towards funds that are expecting to make more loans receiving larger amounts of Grant A.

There does not appear to be a correlation between the amount of Grant A provided and the lifespan of the fund (investment & repayment period combined). This is likely because funds, regardless of lifespan, are modelled with the aim that they become self-sufficient on operating costs after the first few quarters by generating these through interest and fees.

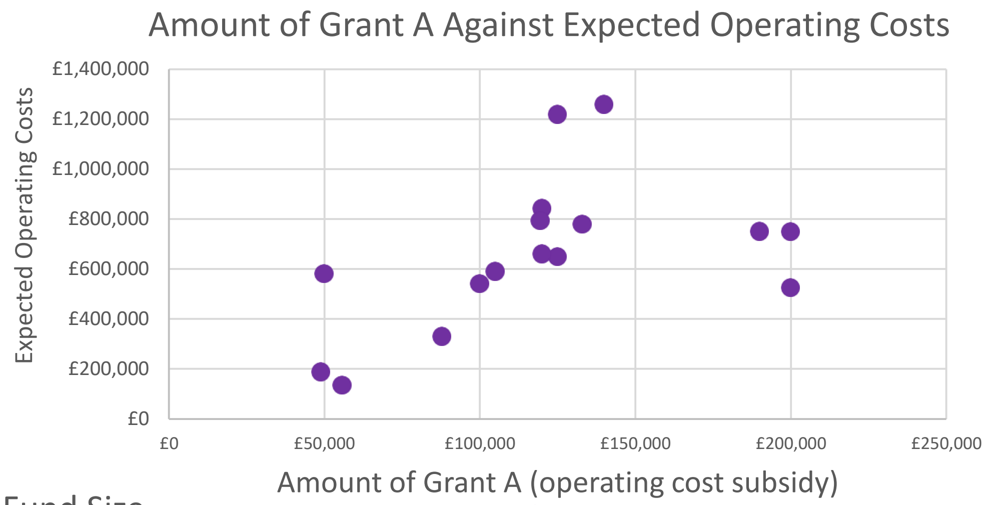
Operating costs & grant subsidy (Grant A)

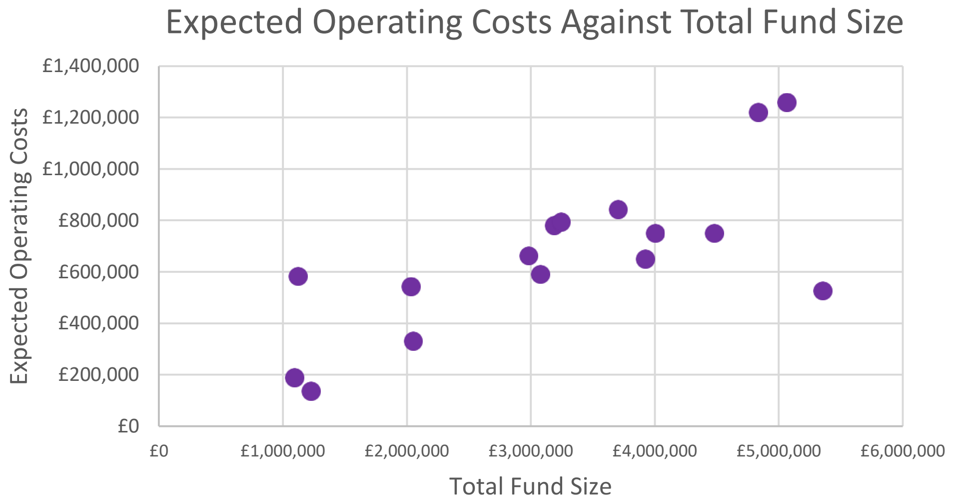
Grant A is capped at 10% of the total grant that the social investor receives through the Growth Fund. This threshold was not based on a body of evidence, but rather was based on funding constraints. Through anecdotal evidence so far, Access believes that this threshold may be lower than what is required in some cases. We understand that a number of investors may be additionally subsidising their lending activity through other parts of their business. The independent evaluation of the Growth Fund is looking at this in more detail.

In the 16 funds (as they were originally approved) we see Grant A as an average of 9.24% of the total grant amount (range 7.27% to 9.98%) and 3.91% of the total fund size (range 2.58% to £4.91%).



There is a clear correlation between total fund size and the amount of Grant A. This is not unexpected since Grant A is capped at 10% of total grant, which in turn is capped at 50% of overall fund size.





There is a less pronounced but still present correlation between total fund size and expected operating costs. In general larger funds are modelled on higher operating costs, although there is variation in this pattern.

The correlation between expected total operating costs and amount of Grant A subsidy appears least significant of the three trends. Although there appears to be some positive correlation, the three funds with the highest amount of Grant A subsidy are not those with the highest operating costs.

Operating costs & grant subsidy – specialist investors

One of the aims of the Growth Fund is to enable new social investors to enter the market. As described on page10, there are a number of different types of organisation running funds. We hope that the Growth Fund will enable each social investor to bring its own experience, expertise and reach into the sector, offering a wider range of opportunities for more charities and social enterprises to be able to utilise social investment.

Four of the 16 funds are run by a specialist social investor: Resonance, Key Fund and Big Issue Invest (who launched a second fund two years after their first). (These are not the only three investors who have lent before, but are the ones for whom it is their organisation's main purpose). It is interesting to consider the operating costs and grant subsidies required by these investors and whether this differs at all from the wider group. All data is at the time of each fund's launch:

Average of…	Total fund size	Operating costs			Grant A operating cost subsidy		
	Total fund size	**Expected total op costs**	**Expected average annual op costs…**	**…as a % of total fund size**	**Amount of Grant A provided…**	**…as a % of total fund size**	**…as a % of maximum allowed (threshold is 10% of each funds' total grant)**
Funds run by a specialist investor (4)	£4,797,571	£911,993	£114,889	2.4%	£147,500	3.1%	80.5%
Funds not run by a specialist investor (12)	£2,686,830	£577,678	£72,483	2.8%	£110,846	4.2%	96.3%
All funds (16)	**£3,214,515**	**£661,257**	**£83,085**	**2.7%**	**£120,010**	**3.9%**	**92.4%**

The table shows that, on average, specialist investors have significantly larger funds. One may therefore expect them to have higher operating costs and therefore to require more Grant A subsidy. We see that this is the case: on average per fund their operating costs were modelled at £912k vs. £578k for non-specialist investors, and they will receive on average £148k of Grant A per fund vs. £111k per fund for non-specialist investors…

…However when considered in proportion to the amount of lending that the funds expect to do, one might expect specialist investors to require less. Again we see that this is the case: on average per fund total operating costs are modelled to be 2.4% of total fund size for specialist investors vs. 2.8% for others, and Grant A subsidy is 3.1% for specialist investors vs. 4.2% for others.

Operating costs & grant subsidy – specialist investors (cont.)

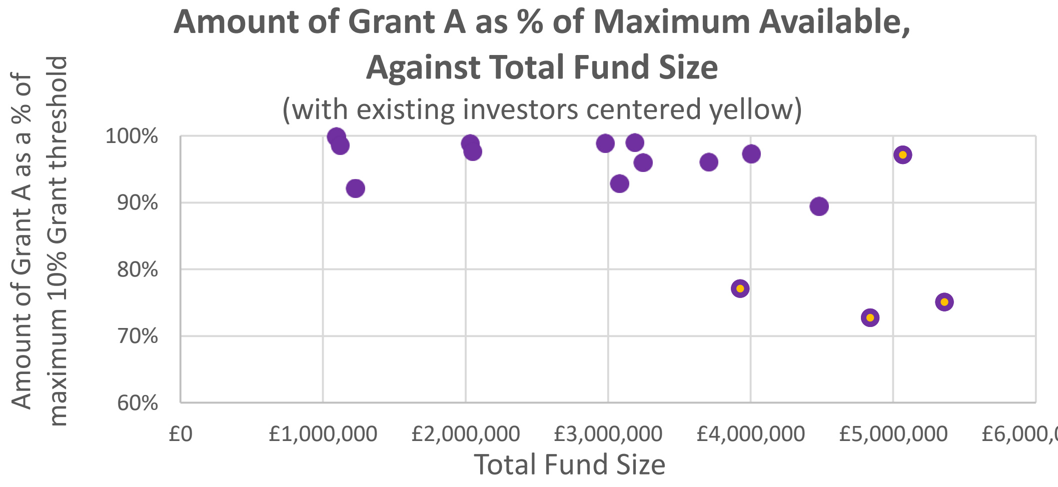
It is interesting that, when specialist and non-specialist investors' funds are compared, the difference in proportion of Grant A is much more significant than the difference in proportion of average annual operating costs (as a % of total fund size).

It is worth bearing in mind that the amounts of both operating costs and of Grant A that have been allowed for within each fund's model are based on predictions and assumptions about what is required, which may turn out to be incorrect. However, if the allocated amounts do prove to be broadly what is needed, it may suggest that the impact of investor-specialism on a fund's set-up costs is much greater than it's impact on ongoing operating costs (because Grant A provides subsidy for the first few quarters before a fund becomes self-sustaining, whereas operating costs are a measure of what is needed across the whole life of the fund - although the latter may of course also be impacted by economies of scale due to the specialist investors' larger fund sizes.) However we will learn more about this throughout the life of the Growth Fund.

When Grant A subsidy is considered as a percentage of the maximum amount that could have been available to each investor based on the 10% of total grant threshold that was set for the Growth Fund, the amount of grant deemed necessary for specialist investors is much lower (80.5% vs. 96.3% of the maximum). This again suggests that non-specialist investors do require more subsidy up-front, although it is difficult to separate the effects of investor-experience and fund-size on this need because the two factors are clearly correlated.

Although the data do suggest differences, the additional subsidy required by the non-specialist social investors is relatively minor when considered in terms of total fund size (potentially partly because of the 10% cap and other restrictions in place). Because we know anecdotally that at least some funds are subsidising operating costs through their wider organisational activity, it could be hypothesised that specialist investors are more likely/ able to do so due to their existing infrastructure and expertise, which could be skewing the perception that these figures give about what subsidy levels are needed for both groups.

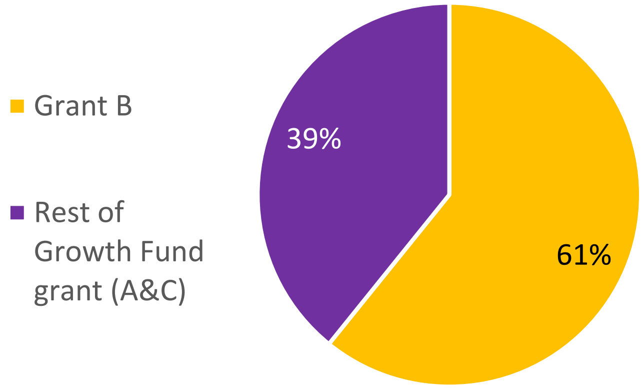
However even if this were not the case, and it were simply that specialist investors were able to deliver and/ or set-up funds in a slightly more cost-effective way, Access believes that the use of subsidy in supporting non-specialist, and often new, social investors into the market may prove a good use of this resource. Each investor was selected due to the strengths that they could bring to the Growth Fund – whereas for some this was experience and immediate efficiency, for others this was their sector experience, knowledge and reach, and/ or new-approach to delivery, which we hope will enable the right kind of investment to reach charities and social enterprises which may not previously have had access to it, thereby fulfilling the Growth Fund's main aim. The value of our investment must be measured in terms of enabling greater reach into the charity and social enterprise sector, and we will be analysing this and collecting evidence to share over the life of the Growth Fund.



The graph suggests that, although existing investors are running four of the six largest funds, fund size alone cannot explain the proportion of operating cost subsidy required.

Role of grant in blending with debt in the fund (Grant B)

GROWTH FUND HYPOTHESIS: To be able to make loans to charities and social enterprises which can benefit from taking on social investment but which lack security or a track record, the social investor needs to have the capacity to bear losses.



Left: *Of the £21.3m allocated in grant to the 16 funds collectively, the majority of this (61%) will be used as Grant B.*

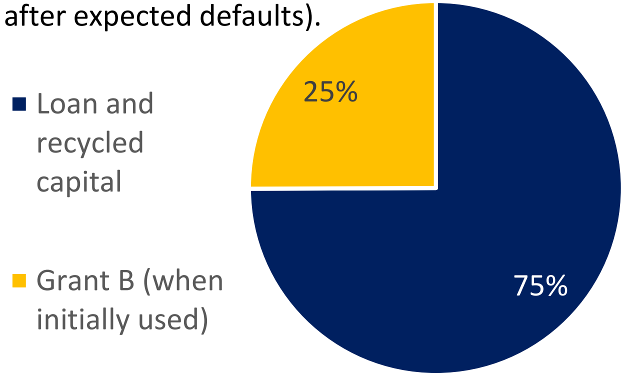
The Growth Fund blends Grant B with the debt from Big Society Capital (and/or co-investors) to finance the loans which the social investor makes. Loans made by the social investors comprise a proportion of Grant B, allowing the portfolio as a whole to be able to make small scale, unsecured high risk investments at affordable rates of interest and to bear losses when default occurs. The proportion of Grant B and BSC loan is largely driven by default assumptions and is awarded per fund based on the individual business plan reviewed by the Joint Investment Committee. These default assumptions vary depending on the market being targeted by the social investor.

Each individual fund has a fixed proportion of Grant B and Loan. The social investors drawdown loan and Grant B from BSC and Access in their fund's fixed ratio whenever they need it to make new loans. They are often therefore lending in this same proportion, however the social investors will also recycle capital by relending some of what is repaid to them from earlier loans that they made within their fund. The amount of recycling will vary between funds depending on their lending profile, however each fund's Grant B ratio accounts for this in addition to a range of other factors.

Note that some funds include other co-investors or alternative investors investing on the same terms as BSC. These additional loans have been grouped together for the purposes of this report. BSC's return is fixed at a maximum of 5%.

On averaging the 16 funds, the pots for lending provided to the social investors are comprised of 29% Grant B and 71% BSC loan. The highest proportion of Grant B (against loan) in any fund is 35.5% and the lowest is 10%. The median for the 16 funds is 30.5%. When weighted to account for the different size of funds, the average Grant B as a proportion of total Grant B plus Loan provided for the collective lending pot is 30.1%, and the average for Grant B as a proportion of the total amount that the social investors expect to lend to charities and social enterprises (when recycling is also included) is 25.1%. These figures all exclude Grant C.

It is anticipated that the amounts of Grant B awarded to each investor will enable them to receive back sufficient capital and investment return to enable them to repay BSC (and/ or their other investors where applicable) with a 5% interest at the end of their fund and to have a small Grant B buffer left over (typically expected to have a 5% buffer after expected defaults).



Left: *Of the approximately £51.8m that social investors expect to collectively deploy to charities and social enterprises as loan, 25% will be made up of Grant B and 75% of loan taken on by the social investors (inclusive of re-lending of some of this recycled capital.*

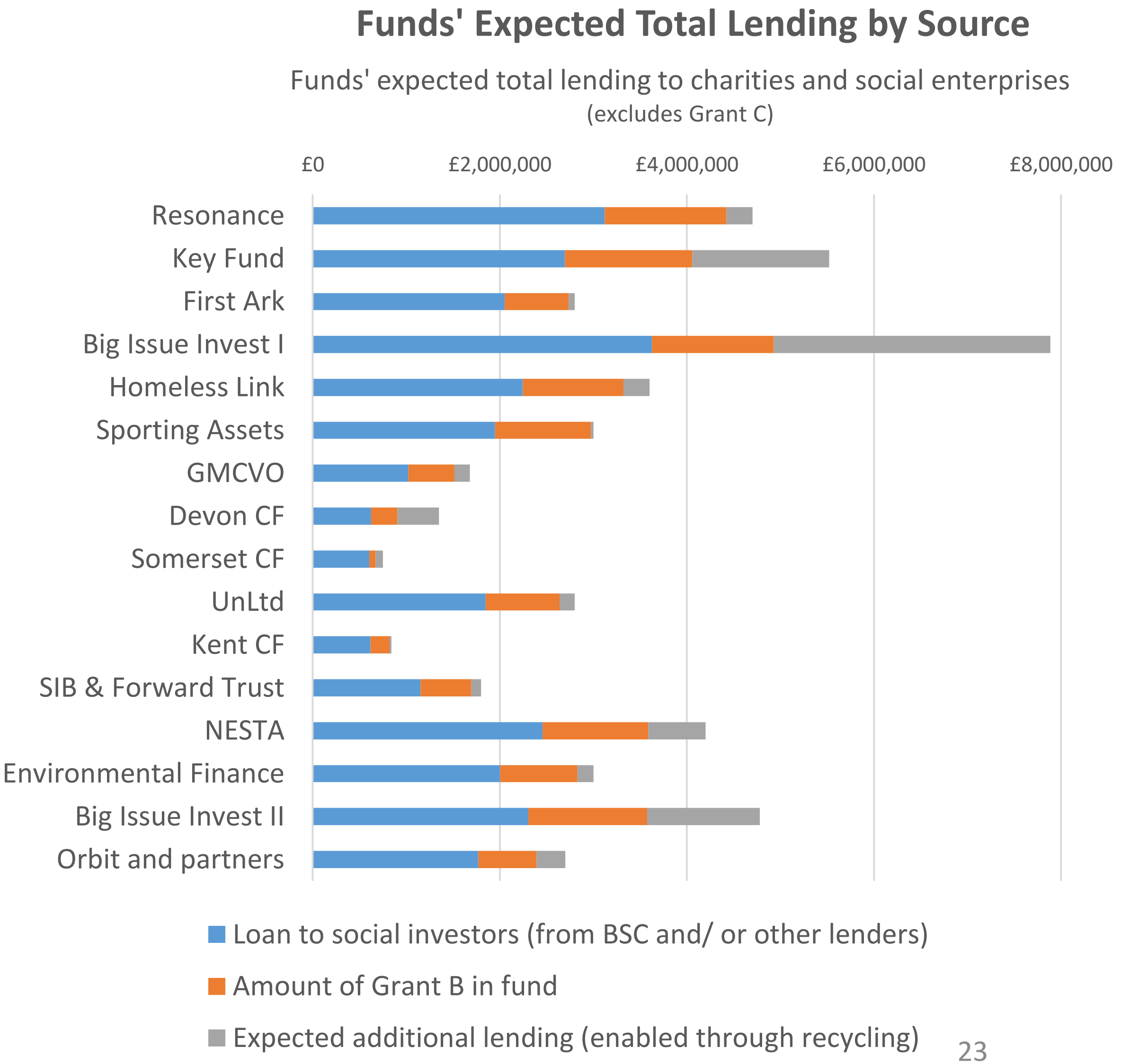
Role of grant in blending with debt in the fund (Grant B)

Whilst the amounts of BSC loan and Grant B provided to each individual fund are fixed (subject to any re-profiling agreed during the fund), the amount of overall lending that each fund expects to make to charities and social enterprises is an estimation (via. detailed financial modelling of each fund). This is because overall lending will depend on how much capital is recycled (the relending of repayments from earlier loans).

The amount of recycling that a fund expects to do and actually does will be affected by a number of factors. For example:

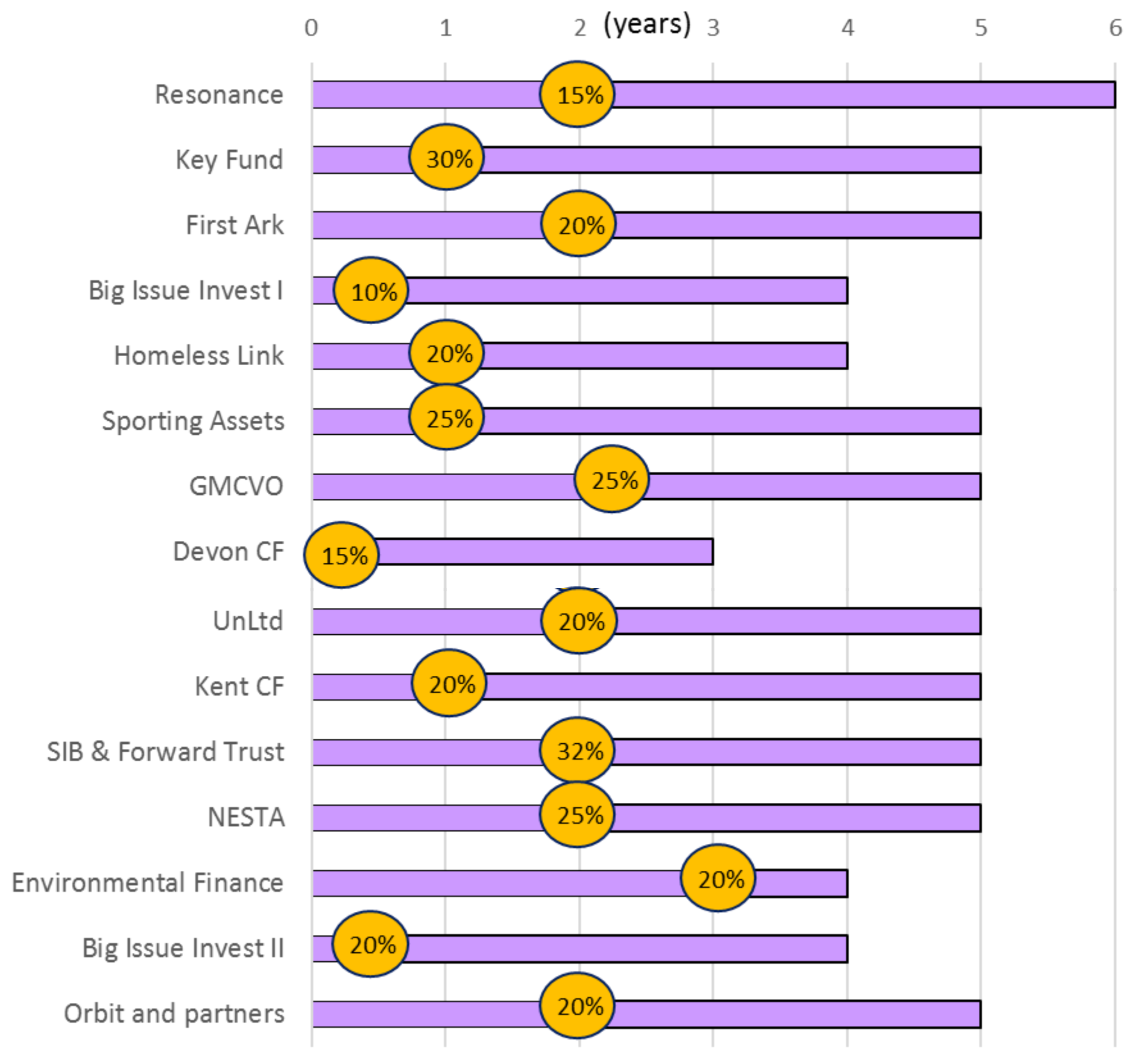
- **Lending profile:** Each fund has a limited period in which to make loans, so in order to be recycled capital must be lent early enough in the fund for it to be repaid and relent before the fund's deployment period comes to an end. Each of the funds has an agreed quarter-by-quarter deployment forecast included in its financial model. Broadly speaking, deploying more capital than expected earlier in the fund could enable more recycling, whilst funds which fall behind on their targets early-on may find that they end up recycling less than they had hoped.
- **Lending terms:** Funds can choose to offer capital repayment holidays to their investees, either at the start of the loan term as standard and/ or later on at their discretion if an investee experiences unforeseen circumstances and is struggling with repayment. Each fund's expected use of capital repayment holidays is built into its modelling, but any increase in practice could impact how quickly repayments are received and therefore if/ when these are available to relend.
- **Default rates**: All of the funds expect a certain level of default, and Grant B is provided to enable a certain level of loss. Each fund's default assumptions include estimations of the likelihood of default, time to default and expected loss on default. If defaults occur at a higher rate than expected and/ or earlier on than expected, the level of repayments coming into the fund will be less than forecast so funds will be less likely to be able to recycle.

The graph to the right shows the total lending (excluding Grant C grant-giving) that each fund expects to make over its life, broken down into BSC loan and Grant B provided and then showing the expected additional lending through recycling.



Role of grant in blending with debt in the fund (Grant B)

Funds' Average Loan Term for Investees, Showing Default Expectations



(Somerset CF is was modelled differently due to not using BSC loan and so is not included in the above.)

The graph to the left shows each fund's average expected loan term as a bar – these range between three and six years (some including a capital repayment holiday at the start). Loan terms that each social investor gives to their individual investees can vary depending on the charities and social enterprises' need – the only restriction is that the term of an individual loan cannot exceed the overall life of the fund (so that investors have been repaid in time for them to repay their own loan to BSC).

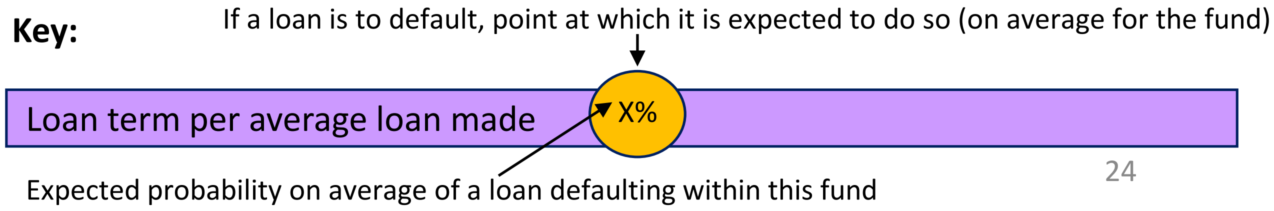
Each fund's default expectations are comprised of two main metrics:

- **Period to default**: The point at which default, when it takes place, is expected to occur on average. This is represented in the graph by the position of the yellow circle along the X axis. Factors affecting this will include the occurrence/ length of an initial capital repayment period and the type of business models.
- **Probability of default**: The expected likelihood of a loan defaulting (cumulative over the life of the fund). This is represented in the graph by the percentage figure in the yellow circle. This will be determined largely by the riskiness of the lending that the social investor expects to do –funds primarily targeting smaller or more recently established charities and social enterprises, those in more challenging financial situations, or those organisations/ sectors completely new to investment may be more likely to experience higher defaults.

Some funds' modelling also incorporates an **expected loss on default**: The expected amount of capital lost when a default occurs (cumulative over the life of the fund). In the majority of cases this is assumed to be 100%. These values are not shown in the chart.

The interplay of these factors and others within each fund's financial model determine the amount of Grant B required.

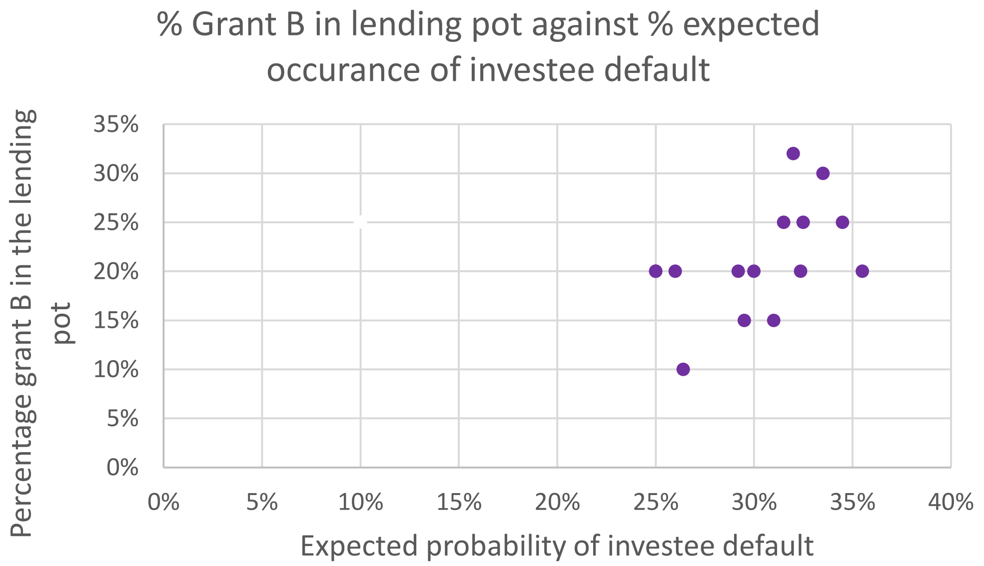
Key:



Role of grant in blending with debt in the fund (Grant B)

Of the three grant types used in the Growth Fund, Grant B is by far the most complex in terms of determining the amount needed within a fund.

As would be expected, when the proportion of Grant B in the lending pot (excluding recycling) is plotted against the expected probability of charity and social enterprise investee default within each fund, there does appear to be a positive correlation, with social investors that are anticipating higher rates of default in their funds having access to a higher proportion of Grant B compared to their BSC loan.



However given that Grant B is provided for the purpose of protecting against defaults (and enabling the fund to be able to afford its costs despite these), the correlation is not as strong as may have been assumed.

This may be partly due to probability of default being just one of the three default expectation metrics (as described on the previous page) rather than all three. However there are a number of other factors will also be contributing to the overall picture but which do not themselves show a correlation when plotted against funds' proportions of Grant B. These include:

- **Amount of recycling:** Grant B and BSC loan are only lent in the funds' fixed ratios initially – once repayments come in, anything available to relend (after fund's operating costs are met) cannot be easily distinguished in terms of original source. When a fund is financially modelled it can be difficult to separate cause and effect here: a higher amount of Grant B may enable more recycling, however more recycling may necessitate a higher amount of Grant B.
- **Interest rate and fees charged by funds: I**f higher could make the loan less affordable and increase risk of default; if lower could result in less defaults enabling more recycling)
- **Average loan size and total fund size**
- **Use/ amount of Grant C:** Depending on restrictions/ use, having additional grant may make the loan repayments more affordable and so reduce the risk of default
- **Expected residual Grant B** left at end of fund

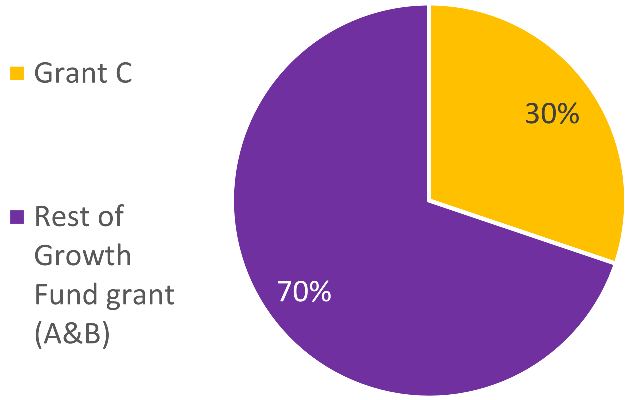
Grant B serves as a first-loss source of capital within the funds. If default levels are as forecast within a fund, the social investor will still have enough capital left over at the end of their fund (after defaults and operating costs) to repay in full BSC's capital and their required 5% (compounded) interest.

Since the modelling is based on a number of assumptions, an extra buffer is also built in in case defaults are higher than expected. This means that funds are modelled to have a certain amount of Grant B left over at the end of the fund once BSC have been fully repaid. The amount of residual Grant B expected in each fund (as a percentage of the amount of Grant B provided to that fund) range between circa. 12-32%.

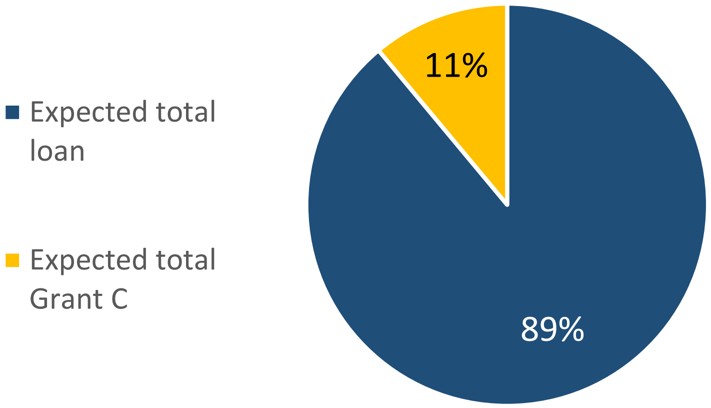
In summary, funds were each given the amount of Grant B that they were forecast to need based on their financial model. The models were based on a number of inter-connected variables and assumptions, and so whilst we will be monitoring default rates closely throughout the funds' lives it is not until the end of the repayment period that we will really know whether the Grant B assumptions and allocations turned out to be correct.

Role of grant for investees alongside loans (Grant C)

GROWTH FUND HYPOTHESIS: Enabling social investors to provide charities and social enterprises with a small amount of grant alongside their loan will encourage these organisations to take on investment, will reduce the risk to the borrower and make the loans more affordable.



Left: *Of the £21.3m allocated in grant to the 16 funds collectively, 30% will be used as Grant C and passed on to charities and social enterprises by the social investors directly as grant.*



Left: *Of the approximately £58.2m that social investors expect to collectively deploy to charities and social enterprises throughout the Growth Fund as loan and grant C, 11% will be given as grant and 89% as loan.*

Charities and social enterprises which could benefit from taking on social investment but who have not borrowed before may be reluctant to do so or be concerned about affordability. The Growth Fund offers social investors the ability to make grants alongside loans to charities and social enterprises to reduce the risk for the borrower and make the loans more affordable. We call this Grant C. The loan to the charity or social enterprise must always be larger than the grant, and the total of the loan and any grant must be less than £150k.

Grant C is awarded to social investors based on the need demonstrated in their application, and they are able to choose whether to offer Grant C to all, some or none of their investees. Six of the funds plan to give an element of Grant C with every investment. Seven plan to provide Grant C to some investees, and three opted not to offer Grant C at all. The average amounts of Grant C expected to be awarded per grant per fund (when offered) range from £7k to £30k and from 9% to 33% of the anticipated investment amounts. The variation is based on what each investor believes is needed within their target market.

One of the funds not using Grant C is Impact Loans England I. This was one of the earliest to launch and the fastest to deploy, so aggregate figures for early quarters' deployment (as reported in our quarterly dashboards) were lower than what is expected for the portfolio overall.

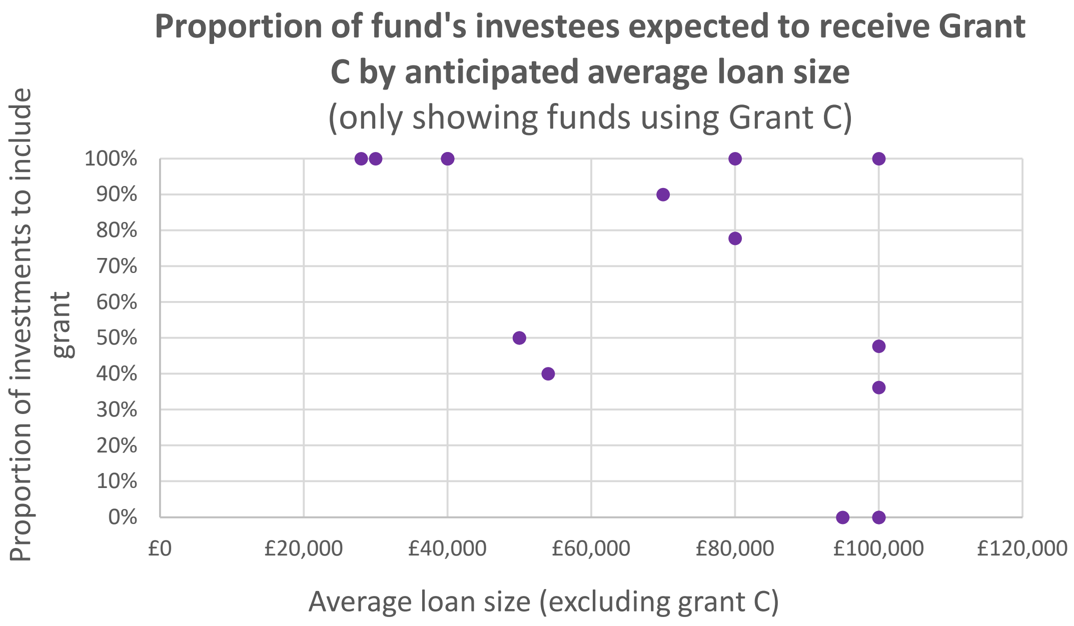
In addition to significant variation between social investors/ funds as to how much Grant C they are providing to charities and social enterprises as part of their investment offer, the use that they are putting this too also varies.

Uses of Grant C:

Individual social investors' intended use of Grant C include one or multiple options from:

- A grant alongside every loan
- A discretionary grant alongside some loans
- A grant in a relatively fixed proportion to the loan size
- A grant in an entirely discretionary proportion to the loan size
- A grant for a specific purpose as distinct from the purpose of the loan
- A grant to make the loan offer more attractive
- As patient capital/ repayable grant depending on outcomes
- To support the development of capacity within the investee organisation
- To assist if an investee gets into financial difficulty

Role of grant for investees alongside loans (Grant C)



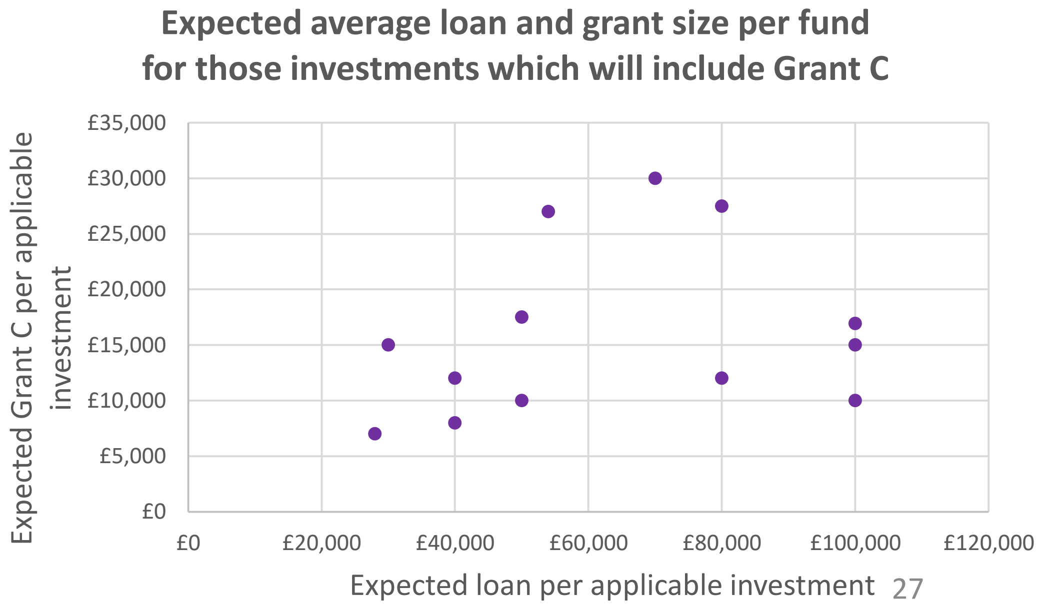
There is no obvious trend between the proportion of investees to whom social investors plan to pass on some grant and the expected average loan size per fund.

This may suggest that there is not a simple relationship between the size of a loan and the amount of additional grant subsidy required in order to make it attractive. However it may simply be that there are a number of other factors at play here which may be contributing to and/ or cancelling each other out – such as the size of investee organisation, purpose of the loan, level of risk, or amount of Grant B. With the exception of the latter, these factors will vary within as well as between individual funds.

There is however potentially a slight trend between expected loan and grant amounts, with the graph suggesting that when using Grant C social investors are awarding a higher proportion of grant alongside larger loans.

However it should be noted that this graph only tells us the expected averages per individual fund. Many investors are varying Grant C proportions between investees, but our data cannot yet tell us whether individual investors are awarding more Grant C alongside larger investments that they make.

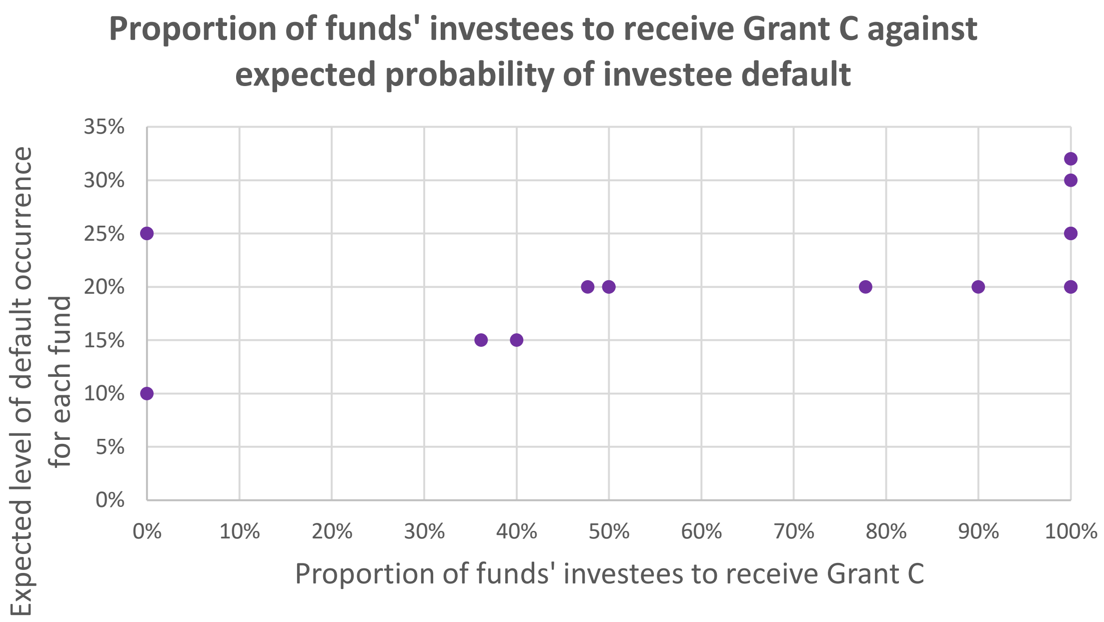
The points on this graph represent each investor's expected average **for investments that they will make which include Grant C**. i.e. if an investor is planning to give some Grant C to half of their investees, the total Grant C figure for their fund has been divided by **half** the number of investments that they expect to make in order to obtain the average shown.

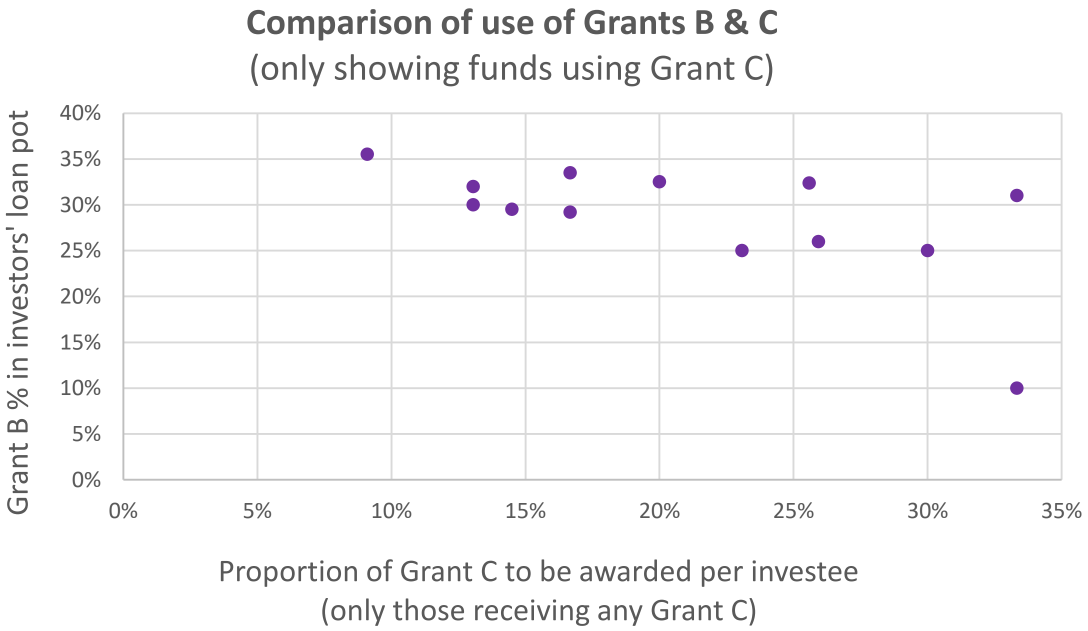


Role of grant for investees alongside loans (Grant C)

There is potentially a very slight correlation between probability of default and use of Grant C, with the social investors that are expecting the highest occurrence of default planning to give out Grant C to a larger proportion of investees.

(This graph shows the data for all 16 funds, however some of the data points are identical and overlap resulting in the appearance of fewer data points)





The data suggest that investors that have a higher proportion of Grant B in their lending pot will, where using Grant C, be awarding less Grant C on average to each charity/ social enterprise which is given a grant.

This suggests that there could be some interplay between the use of these two grant types. However, it must be remembered that each fund was limited to 50% total grant (A+B+C) under the Growth Fund cap, so it could be that those funds requiring larger proportions of Grant B had to limit their use of Grant C more than others, which may have had an impact here.

Note: This graph shows the average proportion of Grant C each investor expects to award **to those investees who receive any**. E.g. if a fund were only planning to award Grant C to 50% of their investees, the graph shows the average proportion that each of **those** investees would receive as a proportion of their investment.

Section Four:

Setting Up Funds & Early Activity

- Process, demand and timelines for setting up new funds
- Early and forecast activity of the Growth Fund
- Ongoing evolution of the portfolio

Setting up the funds: Process

Below: Average time (number of days) spent at each stage for the 16 successful applications

Initial EOI to full application	Application to JIC (Rd 1)	JIC (Round 1) to Approved	Fund Approved to Fund Established
128	25	182	206

Initial EOI to full application

To submit an EOI, social investor organisations (existing or aspiring) completed a short form on our website summarising the key aspects of their initial proposal.

Once an EOI was received and confirmed as eligible, applicants were required to work up a full business plan to submit to Access. This included a detailed written proposal outlining and evidencing the need that the fund would serve to address and how the applicant organisation/ partnership would go about doing so. We provided the template for a detailed financial model for completion alongside the application. Access was on hand to provide support with the completion of these documents where required and to feedback on initial drafts/ areas when requested.

The 16 successful funds spent between 1 and 419 days between these two stages. The median was 93.

Application to JIC (Rd 1)

Once a full application was received, this was reviewed and discussed further with the applicant organisation where necessary. Sometimes applicants were asked to review parts or make amendments. Once satisfied, Access prepared a short, two-page summary of the application to present to the Joint Investment Committee (JIC) at Round 1.

The 16 successful funds spent between 8 and 154 days between these two stages. The median was 14.

JIC (Round 1) to Approved

The JIC was comprised of two voting members from each of the three funding partners: Access, Big Society Capital and National Lottery Community Fund (NLCF, known as 'Big Lottery Fund' at the time), who would jointly decide whether to progress applications to 'Round Two' of the selection process.

Applications that were successful at this initial stage went through to full due diligence. This process was led by Big Society Capital. Access and BSC would spend approximately 1-2 days with the organisation in addition to time spent reviewing a range of procedure and process documents and evidence of potential pipeline.

Access and BSC jointly compiled a detailed paper to present to the JIC at Round 2, along with a recommendation. The JIC then decided whether to approve the application, reject the application or, on occasion, request additional information prior to a second Round 2 review.

Sometimes organisations spent significant time at this stage due to a stop-start process as a result of internal changes or new leadership which, in once case, led to requiring a second approval due to time lapsed. As far as possible we allowed flexibility so that investors could proceed at their own pace.

The 16 successful funds spent between 42 and 532 days between these two stages. The median was 151.

Fund Approved to Fund Established

Once the JIC approved an application, a formal offer was issued to the social investor. On acceptance of the offer, initial drafts of the required legal documentation was provided.

These included an External Delegation Agreement (EDA) with NLCF to cover the grant funding; a Loan Agreement with Big Society Capital (and/ or any other/ co-investor); a Share Charge with BSC and a Service Level Agreement between the social investor and their new company; plus other documents as applicable.

The social investor was also required to complete the conditions of the offer which generally included: setting up their new subsidiary company; appointing an investment manager (where required); establishing an Investment Committee; plus any other conditions that the JIC had assigned to the offer. Again, different funds were able to proceed at different speeds.

These legal documents often went through several iterations. Once the final versions were agreed by all parties they were signed and the fund formally established.

NB: Some social investors formally announced or 'launched' their funds at slightly later dates. However the 'fund established' dates used throughout this report are the dates on which the contracts were signed.

The 16 successful funds spent between 90 and 368 days between these two stages. The median was 204.

(Access produced guidance documents for applicants which provide further details on each stage of the process and remain available on our website here: https://access-socialinvestment.org.uk/blended-finance/the-growth-fund/)

Setting up the funds: Demand

Access opened the Growth Fund to Expressions of Interest (EOIs) on 5th May 2015, and closed to new EOIs on 31st December 2017.

During this period Access received significant levels of interest, including 65 formal EOIs. 53 of these met the basic eligibility criteria and were invited to apply. The majority of those ineligible were applications from charities or enterprises who were seeking an investment for themselves.

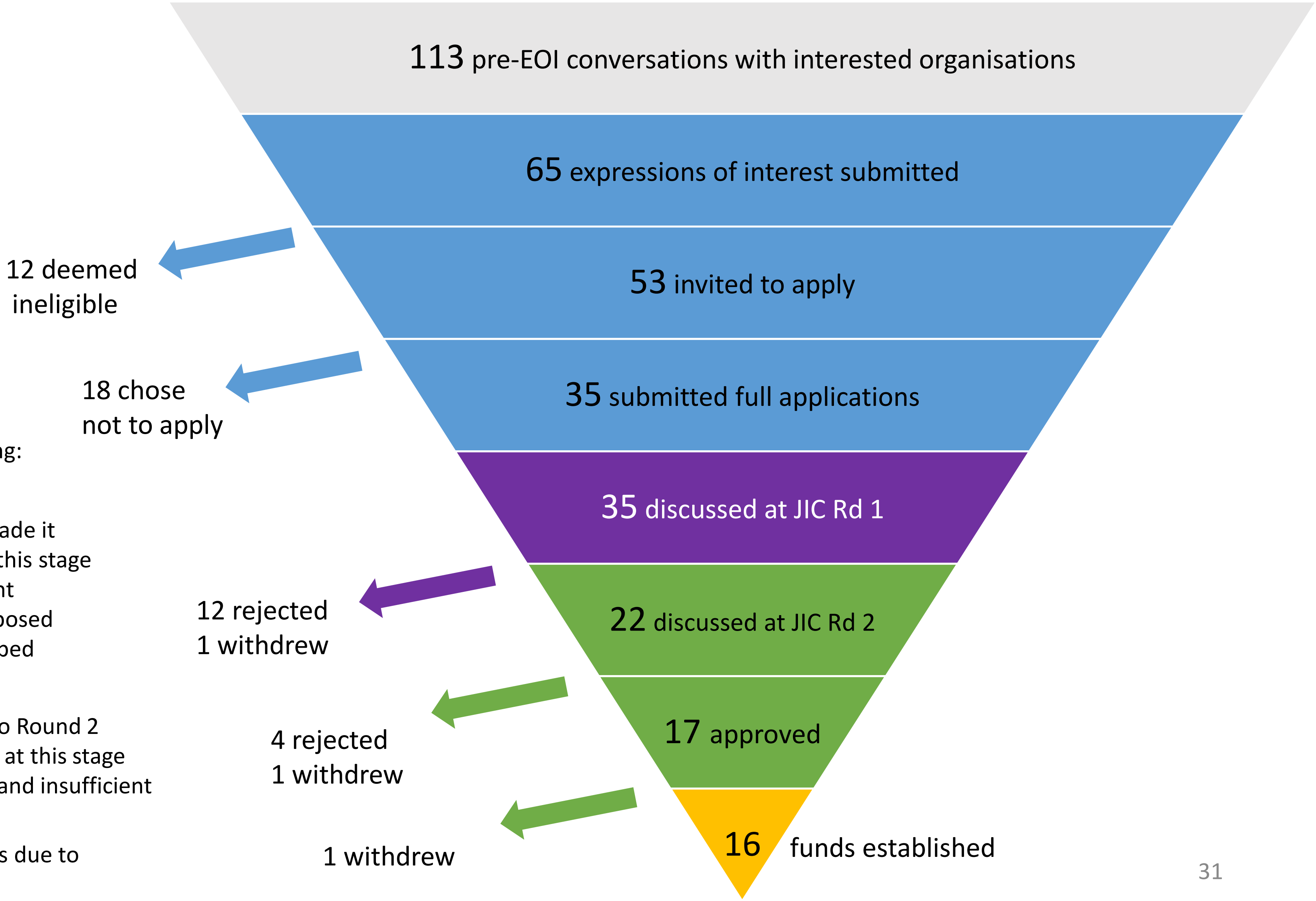
All applications received were presented to the Joint Investment Committee.

A small number of applicants withdrew after applying: only one at each stage of the process.

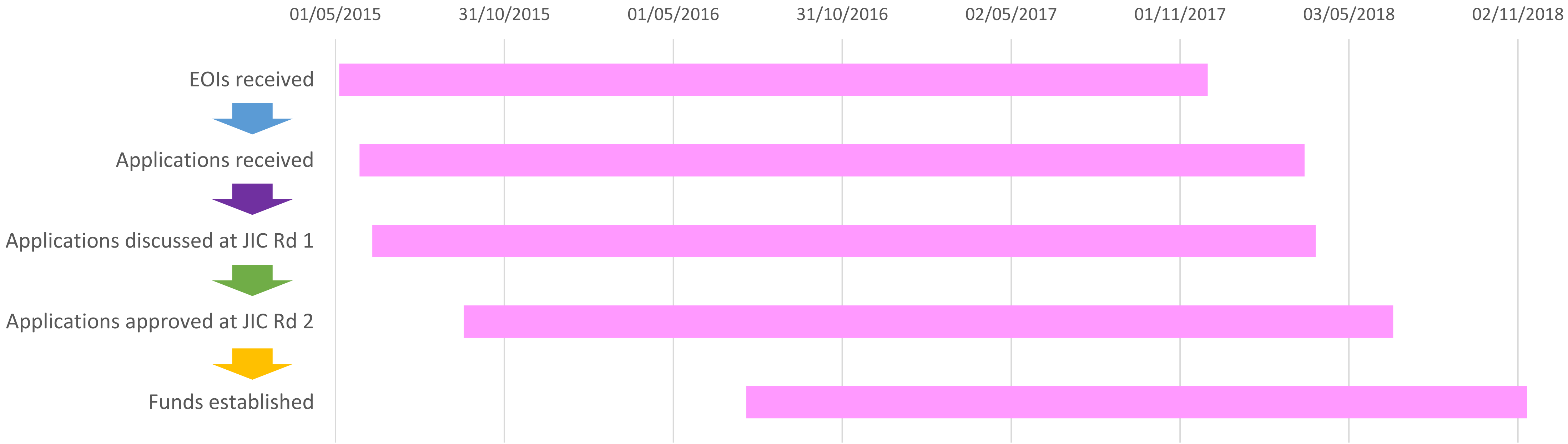
Approximately two thirds of Round 1 applications made it through to Round 2. Some reasons for rejections at this stage included unclear market demand unclear; insufficient demonstration of potential pipeline; unsuitable proposed loan product for target market; insufficiently developed proposal; concerns over value for money.

The majority of applications that were put forward to Round 2 went on to be approved. Some reasons for rejection at this stage included insufficient operational capacity/ resource and insufficient demonstration of market.

One applicant chose to withdraw post-offer. This was due to uncertainty around it's core-business post-Brexit.



Setting up the funds: Timeframes

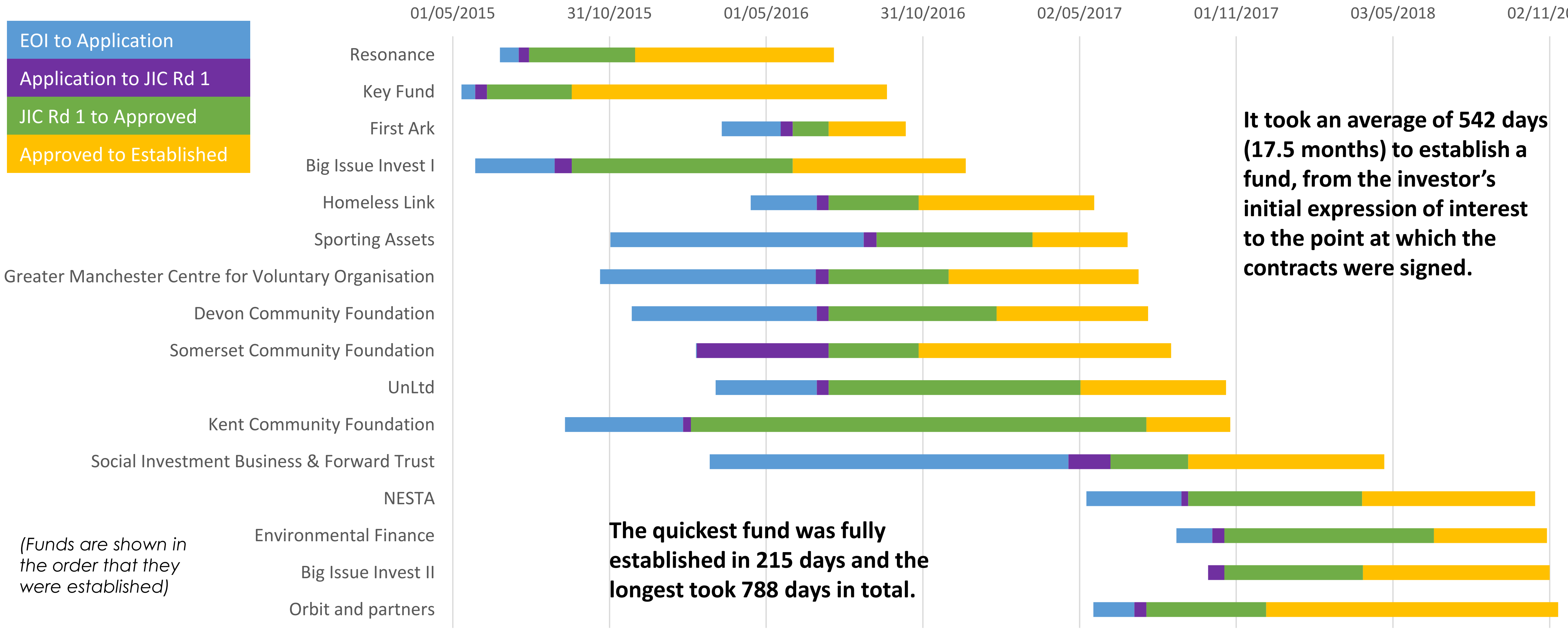


This graph represents the development of the Growth Fund portfolio over a period of three years and eight months. It shows the timeframes over which each stage of activity took place. This includes data for the full 65 organisations which submitted EOIs.

As shown, there were significant overlap periods in each of the activity areas. Between mid-2016 and late-2017 Access was managing a number of organisations at each stage of the process. At times, due to our small staff team, this necessitated prioritising activity at a portfolio level.

The graph on the following page shows the overlap between the various stages of successful applicants. In terms of funds being launched, although not planned as such, this activity can be split roughly into three groups: a first group (four) in mid-late 2016; a second group (seven) in mid-late 2017; and a third group (four) in late-2018. One fund launched in April 2018, between groups two and three.

Setting up the funds: Timeline



(Funds are shown in the order that they were established)

It took an average of 542 days (17.5 months) to establish a fund, from the investor's initial expression of interest to the point at which the contracts were signed.

The quickest fund was fully established in 215 days and the longest took 788 days in total.

Averages for the 16 successful funds:

Range: 1 – 419 days
Median: 93

Range: 8 – 154 days
Median: 14

Range: 42 – 532 days
Median: 151

Range: 90 – 368 days
Median: 204

Portfolio: New funds' early activity

Once a social investor had established their new fund, the next step was for them to begin their investment activity. The graph on the next slide shows the number of days between fund establishment (contract signing) and the deployment of each social investors' first loan. This data is shared in order to give an indication of the work involved for new funds to reach this point of activity. However the data should be understood in the context of a number of contributing factors:

The position funds were in when they signed their contracts varied. Some had key staff and an Investment Committee (IC) in place and had already begun approving investments, which they then deployed shortly after their Growth Fund contracts were signed. Others were in the process of recruiting an Investment Manager or IC and/ or did not yet have a pipeline of potential investees. Some held a formal launch event and/ or made press announcements within a few days of establishing their funds, which others did so a few months later.

In some cases the position the social investor was in at the point of signing may have been at least partly a result of the time taken to agree and sign the contracts. Some investors' legal agreements were more complex, for example those operating in partnerships, and therefore sometimes took longer for all the offer conditions to be satisfied. Also some investors were keen to get contracts agreed and signed as quickly as possible, whereas some were balancing this activity with other competing priorities within their wider organisations. The time taken to complete the contracts process was also affected by volume of activity within Access and our funding partners. Funds that were established later in the Growth Fund process benefitted from the learnings we had gained from going through the process with earlier funds, which enabled us to operate and resolve issues more quickly. However funds which were established in the middle of the process, when Access's pipeline was at peak-activity and we were managing applicants at all stages of the process within our small staff team, may have been slightly disadvantaged if their aim was to establish their fund as quickly as possible.

It is also worth noting that each social investor's contract includes quarterly deployment targets which are based on an agreed forecast. Some were due to start deploying from the quarter in which their fund was established, whilst others had given themselves up to a year to build pipeline before they were expected to deploy their first loan.

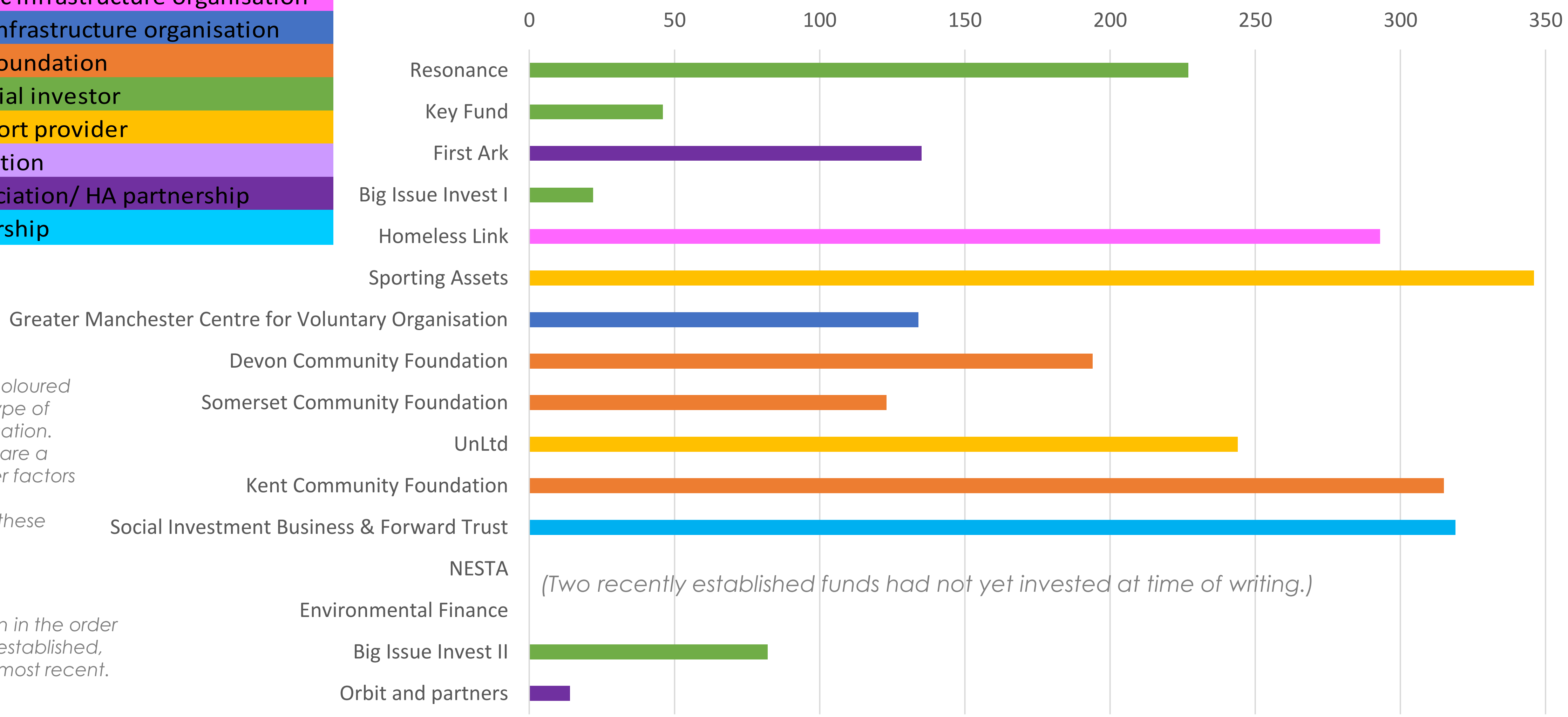
Therefore, in light of the reasons outlined above, it should not be assumed that investors that took longer to deploy their first investment were performing less successfully that those which did so more quickly. It is also important to remember that the data here shows each investors' first deployment only, and does not differentiate between those which deployed several investments at once and those which had a significant gap in time between their first and second investments.

However, in order to provide an indication of the period from fund establishment to first deployment: The average number of days from fund established to first investment deployed (for the 14 funds which had made their first investment at time of writing) was **178 days (5.9 months)**. The average for the four funds that are run by a specialist investor was 94 days (3.1 months). Although the sample size is small so conclusions should be drawn with caution, it is perhaps unsurprising that this is lower. However, interestingly this was not the quickest group: housing associations/ partnerships' average was 75 days (2.5 months). In the case of the housing association partnership, this is likely to be influenced by the longer amount of time taken to establish the contracts due to the complexity of a four-partnership approach, which provided the with more time to set up processes and build pipeline prior to the fund being formally established.

Portfolio: New funds' early activity

Organisation type:
- Sector specific infrastructure organisation
- Place based infrastructure organisation
- Community foundation
- Specialist social investor
- Existing support provider
- Other foundation
- Housing association/ HA partnership
- Other partnership

Fund established to first investment deployed (days)



NB: Funds are coloured according to type of investor organisation. However there are a number of other factors which will have contributed to these values.

Funds are shown in the order that they were established, from earliest to most recent.

Portfolio: Ongoing evolution

All data stated in Sections Two and Three of this report represents each fund's position at the point it was established. We have collated the data this way in order to compare the older and newer funds in a like-for-like way.

Social investors' deployment is tracked against their initial forecast/ targets (within a threshold of flexibility), and they are encouraged to reforecast if deployment is varying significantly from those targets or if they feel it would otherwise be helpful to do so. Reforecast proposals must be agreed by funding partners, at which point the new forecast replaces the initial one in terms of deployment targets that the social investors are expected to meet. Reforecasts to date have generally meant re-profiling deployment schedule (with occasional extension of the deployment period), and sometimes adjusting the amount and/ or schedule of operating costs. Over time, as funds deploy and learn more, we may also see more changes to factors such as expected average loan size, expected default rate, etc.

Occasionally a re-profile may be more substantive than a simple reforecast. On occasion, a social investor, Access and our funding partners may agree that a reduction in fund size would be prudent to ensure that each investor's deployment targets remain feasible. In other cases, social investors may find that demand is exceeding the funds that they have available, in which case top-ups may be offered, in a limited number of cases and at the Joint Investment Committee's discretion.

We expect to learn a lot from monitoring what changes are needed and when. It's too early to draw any meaningful conclusions from what we've seen so far because a number of funds are still in the very early stages and too few have reforecast. However to give an indication of what's happened so far, at the time of writing (March 2019):

- Four funds have completed reforecast
- Two funds have restructured and downsized
- One fund has restructured and been topped-up (this is in addition to a different investor who has launched a second fund, which has been included independently in the analysis for this report)

Of the four funds to have reforecast without a change in overall fund size, the reforecast was agreed an average of 15 months after the fund was initially established. Both funds which downsized did so after 18 months. Both the top-up of one investor's fund and the launch of another investor's second fund took place 22 months after each respective investor had first established a fund, although work towards both had begun significantly prior to these points.

Of the four funds to have reforecast, alongside changes to deployment schedules, one has increased operating costs significantly, one has decreased them significantly and two have decreased them more marginally.

Of the two funds that have downsized, overall fund size has decreased by an average of 33.4% or £1.55m.

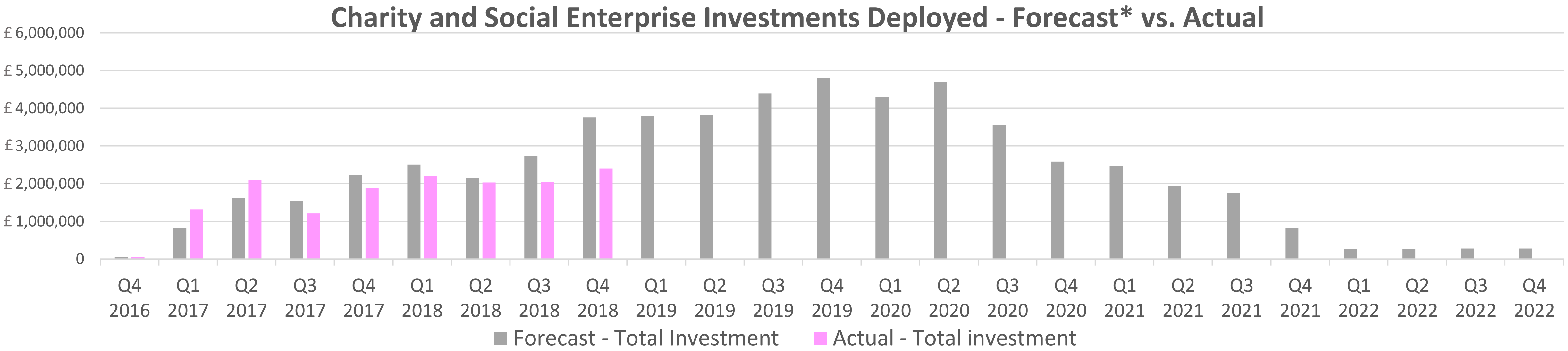
At the time of writing (March 2019) there are a further two reforecasts and one potential restructure in progress.

Portfolio: Overall activity against forecasts

As previously described, each fund has an agreed forecast which serves as deployment targets for each quarter. When aggregated, these 16 forecasts give an expected profile of deployment activity across the Growth Fund throughout its six years. This is an aggregation of all funds' deployment forecasts as at March 2019. For the majority of funds these are the targets that were agreed on establishment of the fund. For those which have reforecast to date (see previous page for further details) these updated figures are included. Although the differences are very small at this level, we have chosen to use the most up-to-date data for this graph (as opposed to aggregating each fund's data at the point of establishment as we have done throughout this paper) as the data shown above serves to demonstrate when we currently expect the Growth Fund's deployment to peak and to tail off.

The Growth Fund was set up to meet a demand that was previously largely unmet: access to small scale, unsecured finance for charities and social enterprises needing to borrow up to £150k. As shown above, we expect the majority of the Growth Fund's investments to be available during 2019 and 2020. With the 16 funds having an average investment period of 3.25 years at their point of launch, these two years are the overlap period between the majority of the earlier and more recent ones to establish.

As shown, aggregate deployment has been slightly below forecast in most quarters, particularly in recent ones. This is likely due to the timing of funds' establishing, as the majority have taken a little longer than originally forecast to reach certain levels of deployment. Although the forecast will continuously fluctuate slightly as individual funds carry out reforecasts, we do still expect this pattern and peak to broadly materialise.



Given the timeframes involved for each stage of the process, we believe it is vital for the sector to start planning now for what will come after the Growth Fund, if we are to avoid a potential situation post-2021 where sub-£150k investment demand from the charity and social enterprise sector cannot be met.

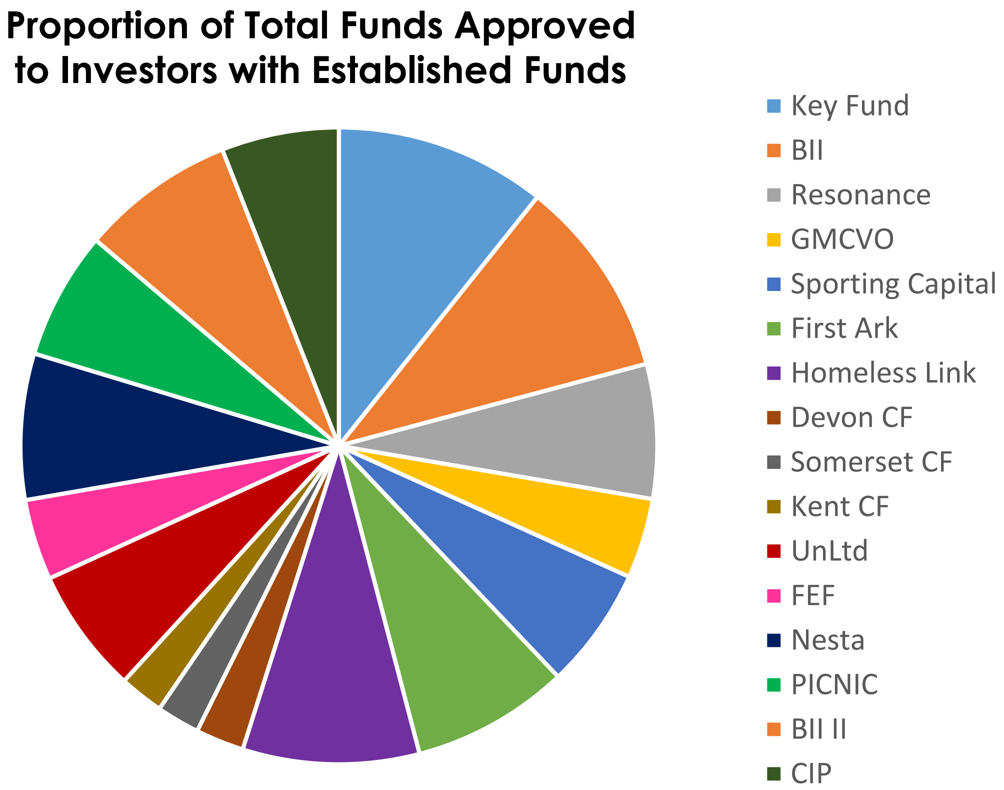
Section Five:

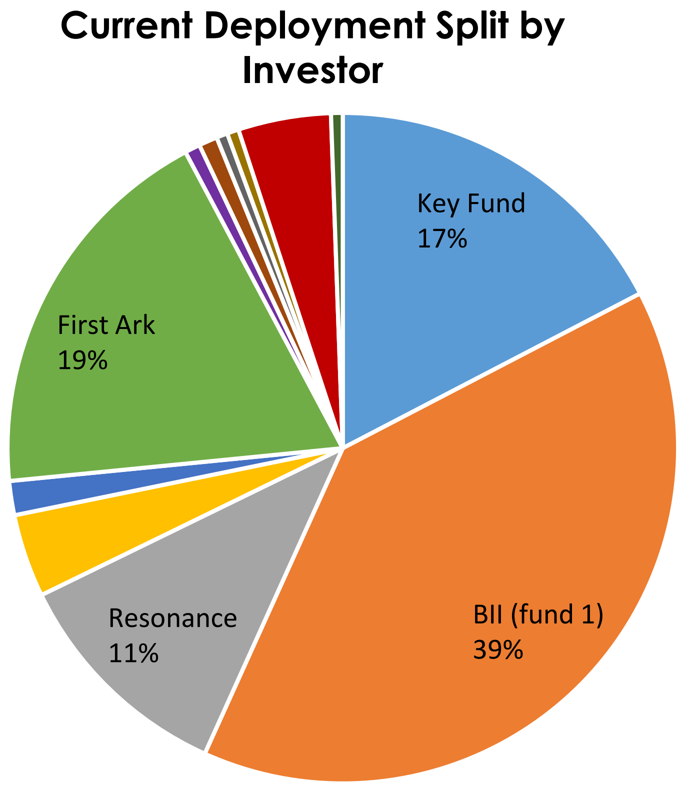
Portfolio Early Activity: Funds' Investments to Date

- The portfolio's current investments to 31st December 2018
- Latest quarterly dashboard
- Mapping investments against IMD data

- Further information & contact details

Current portfolio summary





The graph to the left shows total funds committed to investors across the Growth Fund's 16 funds. The graph to the right shows the proportion of VCSE investment deployed to date per social investor.

As outlined in previous sections, there is significant variation across the Growth Fund funds in terms of fund size, date of launch and planned deployment profile. This second chart therefore is not an indication of the relative performance of individual funds, but simply provides some context for the information in the following slides. At present, the majority of VCSE investments through the Growth Fund have been made by the first four funds to launch (labelled), which have all been deploying since late 2016/ early 2017. The proportion of Growth Fund investments made by different social investors will continuously change over the life of the Growth Fund as more recent funds reach their peak deployment and newer funds also begin to lend. As the funds have different deployment focuses in terms of VCSE average-investment size, geography, sector and a range of other factors, this will likely lead to significant variation in the aggregate and average Growth Fund VCSE investment stats and figures over time.

All data is as of 31 Dec 2018

Quarterly Dashboard to 31 Dec 2018: GROWTH FUND

Social investments made by investors into charities and social enterprises

INVESTMENTS MADE

at 31st Dec 2018 - totalling **£15.2m**

CLICK HERE to view interactive map

Of the **239** investments made into charities and social enterprises by the social investors to date…

£64k
Average investment

47 months
Average loan term

5 FTE
Median investee employees

7.37%
Average interest rate

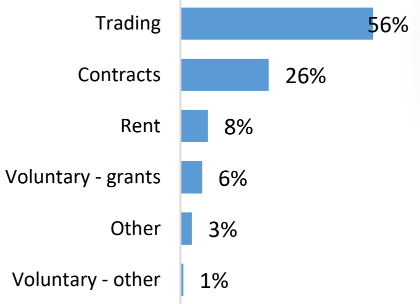
£234k
Median turnover of recipients

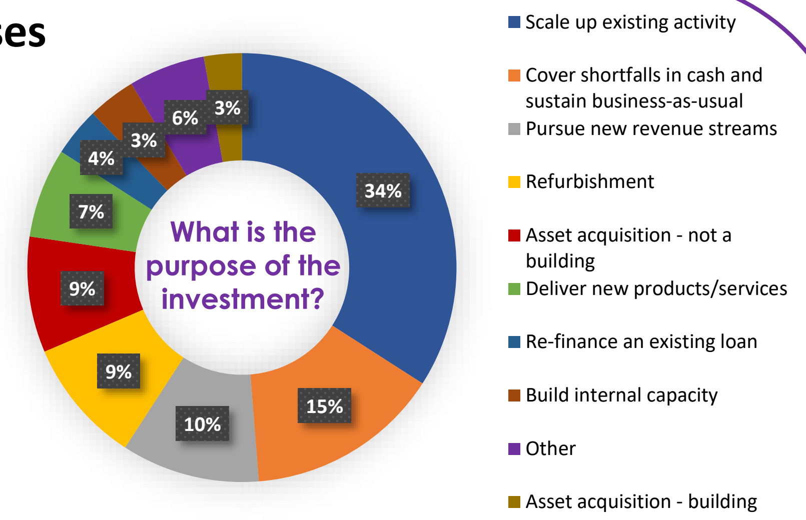
55%
Loan recipients also received a Growth Fund grant

26%
Borrowers that received Reach Fund or other capacity building support

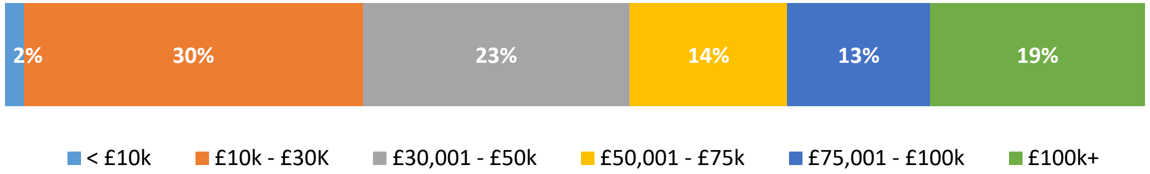
12%
Of total investment given as grant

What is the primary source of income of investees?



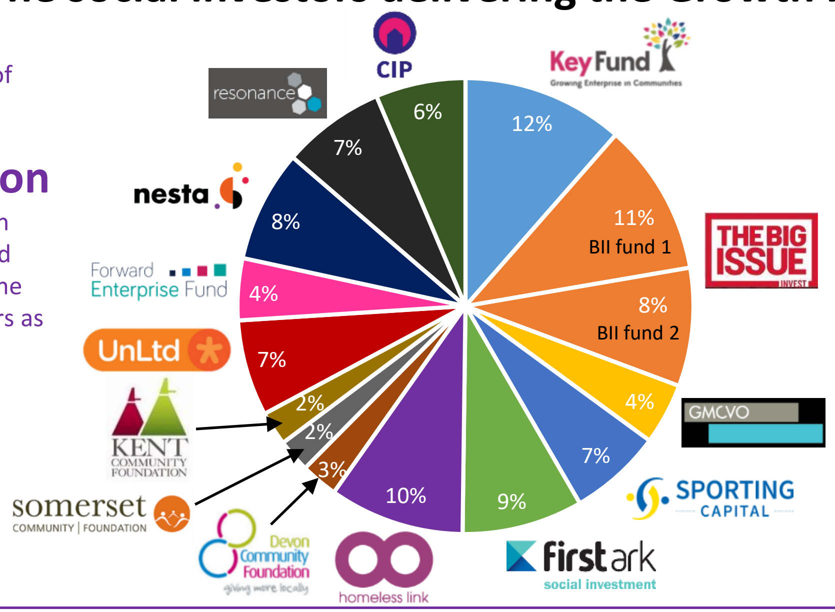


What is the spread of the investment size?



The social investors delivering the Growth Fund

A total of **£47 million** has been allocated across the providers as follows:



With one additional fund approved and set to launch in early 2019.

We publish updated dashboard figures on our website each quarter – click here for latest dashboard

Mapping the Growth Fund against IMD data

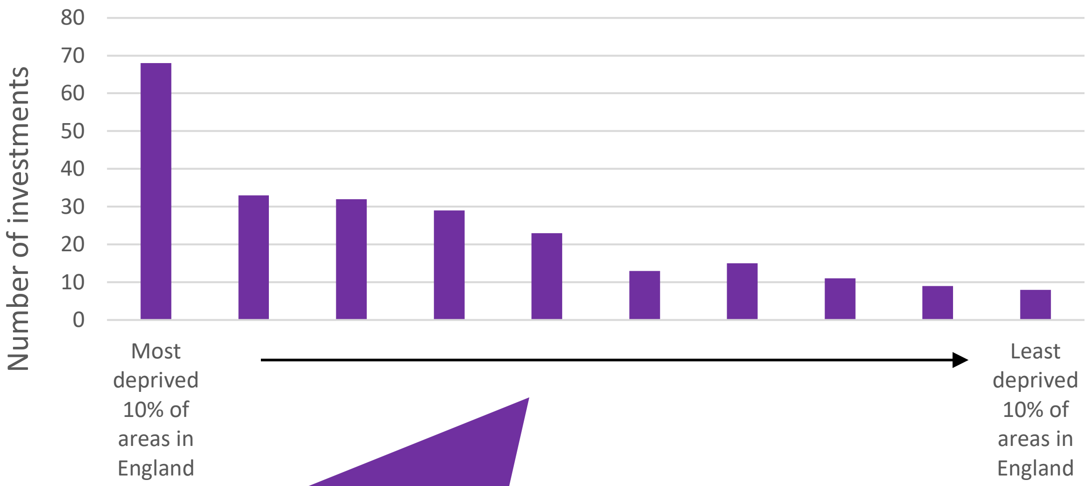
The VCSEs invested in have a geographical reach across all nine regions of England. Postcodes of our 239 investments were mapped and compared to Deciles data from the Index of Multiple Deprivation (IMD) 2015 dataset, which ranks 32,844 small areas in England from most to least deprived and then divides them into 10 equal groups.

The Growth Fund set out to achieve a good geographical spread and to reach those organisations which require this type of small-scale investment, rather than to target England's most deprived areas specifically. However when the datasets are compared we do see some encouraging cross-over.

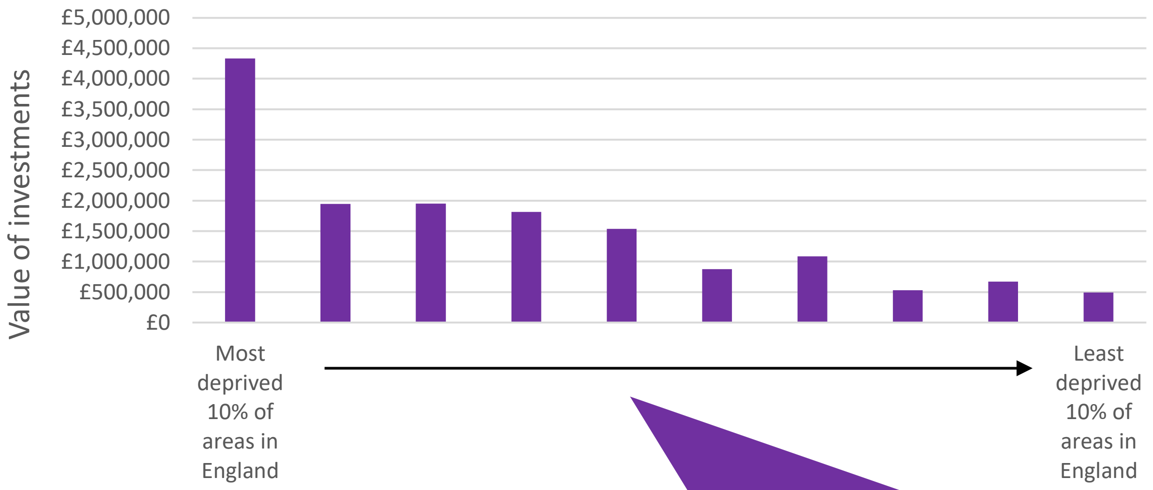
NB: Investment locations are based on the organisations' headquarters, the locations of which serve as a proxy for where the impact is focussed but may not in all cases capture this fully.

All data is as of 31 Dec 2018

Number of Growth Fund investments in each IMD decile category



Value of Growth Fund investments in each IMD decile category



The Growth Fund appears to be reaching charities and social enterprises based in the most deprived areas of England, with 77% of investments having been made into areas ranked as within the most deprived 50% of areas.

There appears to be a strong correlation between amount invested and more deprived areas, with 76% of the amount invested having been provided to VCSEs based in areas ranked as within the most deprived 50% of areas.

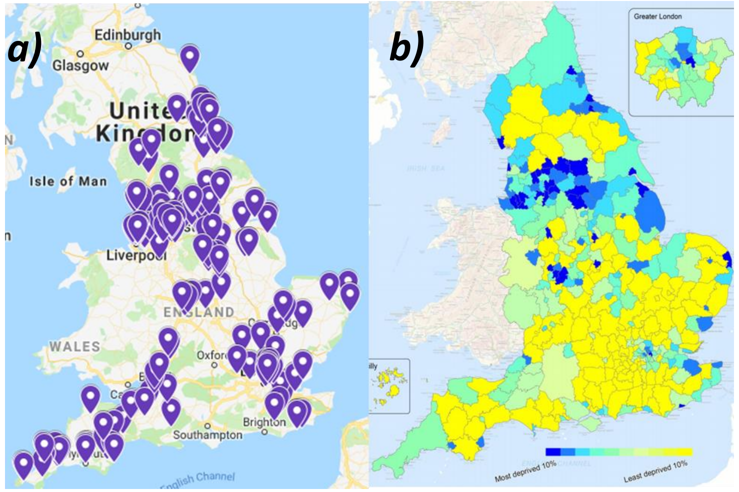
Mapping the Growth Fund against IMD data

ACCESS The Foundation for Social Investment

Right:

a) *Growth Fund investments to date*

b) *The IMD ward-level data (with most deprived areas represented in blue)*



Most deprived 10% of areas in England

Least deprived 10% of areas in England

- 1 - 1 (68)
- 2 - 2 (33)
- 3 - 3 (32)
- 4 - 4 (29)
- 5 - 5 (23)
- 6 - 6 (13)
- 7 - 7 (15)
- 8 - 8 (11)
- 9 - 9 (9)
- 10 - 10 (8)

All data is as of 31 Dec 2018

***Far left:** Growth Fund investments mapped with the area's Index of Multiple Deprivation Decile ranking against the scale to the right.*

Lighter blue shows investments into VCSEs based in areas ranked as more deprived, whilst darker blue shows investments into VCSEs based in areas ranked as less deprived.

[View the interactive map here]

Further information

- For information on how the Growth Fund operates and links to guidance documents for each stage of the process: https://access-socialinvestment.org.uk/blended-finance/the-growth-fund/
- For links to the Growth Fund investors' websites and fund-specific information: https://access-socialinvestment.org.uk/blended-finance/the-growth-fund/growth-fund-investors/
- For the latest Growth Fund data and investments, plus data from our other programmes, see our quarterly dashboards: https://access-socialinvestment.org.uk/learning/quarterly-dashboard/
- To read our earlier report from December 2016, of which this paper is a follow-up: https://access-socialinvestment.org.uk/wp-content/uploads/2017/02/Lessons-from-the-Growth-Fund-so-far-V4.pdf
- For information on social investment and the wider market of social investors visit Good Finance: https://www.goodfinance.org.uk/

As with all of our programmes, we will continue to share data and learnings as these develop over time. In future reports we will look to share our observations on the evolution of the Growth Fund portfolio as funds ramp up their investing, reforecast when needed, and learn how closely their demand, activity levels and types of investees align with their initial assumptions and forecasts.

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