Filling a Gap in the Marketplace

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Esmee Fairbairn has acted as a catalyst in mission related investing. Along with a few other trusts (e.g. Tutor Trust, LankellyChase Foundation, City Bridge Trust, Trust for London, Friends Provident Foundation) they have lead the way filling a gap in the marketplace, supporting innovation. To date they have invested 3% of their assets in programme related investment.

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Background

Esmée Fairbairn Foundation is a large charitable trust with £827m of assets, making grants of about £35m and £4m-£5m of social investments each year. We have a target commitment of £35 million to reach £26 million of drawn down social investments and have made over 80 investments to date, totalling almost £30m. Although we started making loans in 1997, the majority of our investments were made after the launch of our social investment approach – the Finance Fund – in 2008.

Why social investment?

Our philosophy has been to focus on the mission first - the need or demand for investment from the charity or social enterprise, and the potential impact of the investment on that organisation, its beneficiaries and the wider sector. It is always that need and potential impact that drives our decisions and this has led us to do three things: to offer finance to charities and social enterprises as an alternative to or addition to a grant; to invest in intermediaries so that specialist teams would be available to serve the voluntary sector and draw in other funds alongside ours; and to help build a social investment sector so that the needs of charities and social enterprises could be better served in the long term. The result is a portfolio with a series of waves of investment which we have made in response to the needs of organisations working in our sectors of the arts, education, environment and social change.

The first wave: 1997-2005. During this time we aimed to meet the needs of charities for basic finance. Small to medium sized charities found it difficult to access mainstream bank finance. Banks were more used to dealing with small businesses, where they would take security over the director's house or other assets to lend against – not something the average charity trustee would see as part of their role. We invested in Investors in Society, which became Charity Bank, and in CAF Venturesome, so that they could provide straightforward loans to charities. As well as these intermediaries, we also made a handful of direct investments to charities, including Golden Lane Housing in their pioneering bond to support the purchase of property for adults with learning disabilities, and Cockpit Arts for their loan fund supporting the growth of designer-maker creative businesses.

The second wave: 2005-2007. As basic financial demand was better met, we started to be approached for a different kind of money. The lenders we supported were fine for asset purchase and cash flow, but what about long-term, patient capital, we were asked? What about the higher risk, sensible yet unproven income generating ideas? A different kind of money was needed. We spent two years piloting this area, working with Venturesome to work out what we might do.

From this came our third wave, from 2008 to 2012, during which we made the bulk of our social investments. In this phase, we moved from making mostly loans, to a portfolio where only a third of what we do is loans. Those loans might be secured, unsecured or subordinated; we also own bonds and offer quasi-equity facilities. We own industrial and provident society shares, private company shares, are limited partners in funds and are temporary land owners for biodiversity conservation up and down the country. We have also been working closely with a number of other trusts and foundations both to share our learning and experience and to co-invest. We have formed a network, the Social Impact Investors Group, to do this more productively.

Our Role in Social Investment

We see the role of a foundation in the social investment world in three ways.

First, to take the risk that the regular social investment intermediaries cannot. A good example of this is Praxis Language Gym. Praxis is a well-established charity in east London, working with refugees and migrants. They are starting up a subsidiary business to teach English in an innovative way: using technology, face to face and classroom teaching to reach groups of migrants that are not normally reached by conventional English language classes. It is hoped that the new start-up will help both deliver Praxis's charitable mission and, if commercially successful, provide a stream of unrestricted funds back to the parent charity. While Praxis is a well established charity, which has set up one successful subsidiary business already, most social investors see start-up risk as a barrier. Some were willing to lend, but only to the parent charity. Bar foundations, no one was prepared to take the risk of lending to the subsidiary. Yet it is exactly this risk that foundations can take on, transferring the burden of the risk to those who can best hold it. Trust for London and we were able to take the risk. Of course we hope to invest wisely, with as much diligence and care as any other investor, and Praxis are still responsible as they too are investing in their own subsidiary alongside foundation investors.

Secondly, to solve a structural problem for our grant-holders where there is a proposal or concept that can be tested through investment. This is what we are doing with our Arts Transfer Facility. The hypothesis is that when a subsidised theatre has a hit production which it wants to transfer to a West End commercial theatre, any financial benefit it might receive from a deal would be very limited unless the theatre could put up cash towards the costs of the transfer at the start. We therefore provide a facility to allow the transferring theatre the chance to have a seat around the table, put up a stake, fundraise and generally buy a piece of its own transfer. In doing this, we also hope to give the subsidised theatres a chance to work with commercial producers in a learning relationship.

We are doing something similar at a greater scale in the environment sector, working with three conservation organisations – the RSPB, Woodland Trust and the Wildlife Trusts – through our Land Purchase Fund. When a piece of conservation land comes up on the open market which one of these three organisations wishes to buy, we buy the land, immediately lease it on to the conservation organisation, and give them just under two years to fundraise to buy it back off us. As specialist and excellent conservation organisations, we have a high degree of confidence in their ability to identify appropriate opportunities and sites, execute the transactions successfully and fundraise quickly enough to buy the land from us. So far, we have made more than £10m in commitments and successfully completed a number of these transactions, securing important land for conservation up and down the UK.

Thirdly, to help the social investment market develop. We have supported new intermediary organisations, such as Buzzbnk, a crowd funding site which raises social investment as well as donations and Ethex, which showcases social investment opportunities to qualified investors and provides the bare bones of what a secondary market might look like. We have also backed new funds and provided funds to be invested by the new and emerging intermediaries. Though not large enough an investor to be a true cornerstone on these funds, we hoped that by adding a significant investment and our name and reputation we might be a help to their launch.

Since 2012 we have found ourselves in a new social investment landscape. The early intermediaries we supported, like Charity Bank which now lends over £50m to social sector organisations, and Venturesome or Bridges Ventures, are growing strongly and well. We also now have Big Society Capital as a wholesale funder and market developer to bring skills, expertise and funds at scale. Where in this changed context do foundations like us sit?

Ways foundations can still make a difference

We keep mission on the table. There are diverse pressures on investors, charities and social enterprises. Foundation interests will always centre on the charitable objectives being achieved and it can be helpful, if not vital, to have an investor round the table who can hold that ground.

We can take below-market returns, if the social impact justifies it. Every year we invest £35m in grants in organisations who will 'only' give back a social impact. For us, the financial return of a social investment is a way that the funds come back to us to be reused and any surplus can offset costs, losses and inflation, or be applied to our wider grant-making. As such, we have the potential to hold a space for investors that is genuinely social first. There is a small pool of investors prepared to invest where the financial return is below market, but this is one place we see a continued need for social investment: funds which can meet the challenge of a social enterprise or charity's growth where the social purpose cannot generate a fully commercial return. Our hope, and the early signs are looking positive, is that once the lead has been taken, and the risk of social investments have been demonstrated and understood, a slowly growing stream of funds from the commercial world can be drawn in.

We can also take reasonable and justifiable financial risks with our funding, in pursuit of our charitable objectives. Few other investors can take this lead. This gives us the capacity to be a catalyst, risk taker and leader.

Where next for Esmée Fairbairn and social investment? We have begun to capture what we have learnt and this has led us to focus more on our heartland – a little less on the intermediaries and building the social investment sector and a more on direct investments in the charities and social enterprises that resonate most closely with our mission – the Praxis, Global Action Plan, Wildlife and Woodland Trusts that work so hard to deliver impact on the ground.