A decorative graphic consisting of several blue lines of varying shades (light blue, medium blue, dark blue) that converge from the left side of the page. These lines form a threadneedle shape, with the needle part extending horizontally across the page. The needle part has a wavy, textured appearance, resembling a thread or a needle's eye.

THREADNEEDLE UK SOCIAL BOND FUND BRINGING THE MAINSTREAM INTO SOCIAL INVESTMENT

INTERIM SOCIAL PERFORMANCE REPORT
OCTOBER 2014

CONTENTS

Summary Highlights	2
Results for six month period ended 31 July 2014	2
Outlook.....	2
Introduction	3
Fund Objective	3
Big Issue Invest Goals	3
The Social Assessment Methodology	4
What's different about this approach?.....	4
Applying the Methodology.....	4
Overall Performance	6
Top 25 Bond Holdings (July 2014)	8
Map Showing a Selection of the Fund's Investments	9
Performance by Social Outcome	10
Affordable Housing and Community Services.....	10
Transport and Communications	11
Utilities and Environment.....	11
Employment and Training	12
Health and Social Care.....	13
Education, Learning and Skills.....	13
Financial Inclusion	14
Forward Look	15
Further information	16

SUMMARY HIGHLIGHTS

Fund Objective: To achieve both a financial return and positive social impact by investing in listed bonds issued by organisations that support socially beneficial activities and economic development, primarily in the UK.

The Fund invests in bonds that deliver social outcomes in eight areas: affordable housing, education, employment and training, health and social care, financial inclusion; community services; transport and communication infrastructure; utilities and the environment.

Results for six month period ended 31 July 2014

- **£28.1 million raised** from both retail and institutional investors.
- **59 bonds** from 46 issuers.
- **Social Performance:** 80% of bonds are rated 'high' and 'medium' in terms of their overall social performance above the target of 66%. Breakdown: 39% - 'high', 41% - 'medium' and 20% - 'low'.
- **Social Outcomes:** The Fund is well balanced by social outcome areas with a strong presence in Affordable Housing (28%), Transport and Communications (22%) and Health and Social Care (14%).
- **Social Geography:** The Fund has an inclusive and balanced geographical footprint. Breakdown: 33% of bonds focus on deprived communities and 70% favour regional development outside the Greater South East (London, South East and East of England). 40% of bonds are financing investment in the North of England.

Outlook

- Investor interest across institutional and retail investors is strong and growing.
- Threadneedle Investments and Big Issue Invest (BII) are actively engaged in developing the social bond market, including listed bonds issued by charities, local authorities and corporate social bonds.
- The Fund is helping mainstream social investment by providing a vehicle for retail and institutional investors to invest for both a financial and social return.

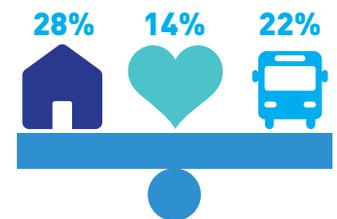
This report provides investors with transparent information about how their money is invested.

£28.1 million raised

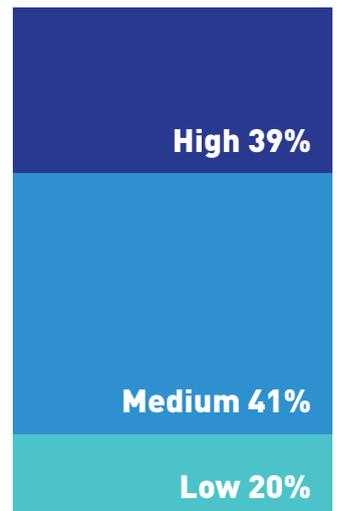
59 bonds from 46 issuers

33% of bonds focus on deprived communities

Balanced outcomes



Social performance



INTRODUCTION

This is the first Interim Social Performance Report on the Threadneedle Investments Social Bond Fund, covering the six month period since the Fund launched in January 2014. A more comprehensive Annual Social Performance Report will be published in 2015. These social performance reports are prepared by Big Issue Invest (BII). Threadneedle UK report separately on the financial performance of the Fund.

Fund Objective

The overarching objective of the Fund is to achieve both a competitive financial return and positive social impact by investing in listed bonds issued by organisations that support socially beneficial activities and balanced economic development, primarily in the UK. It is the UK's first social investment fund that offers daily liquidity.

Big Issue Invest Goals

Big Issue Invest developed this Fund in partnership with Threadneedle Investments to extend and support The Big Issue's mission which is to prevent and dismantle poverty and inequality. BII invests directly in socially-driven businesses that aim to create positive social impact in local communities (see box). This Fund supports our overall mission by providing finance to organisations and projects that support more balanced economic development and job creation in the UK.

Big Issue Invest has three objectives:

- To mainstream social investment by offering an attractive financial product that enables individual retail investors, as well as institutions, to invest for both a financial and social return. Individual investors with as little as £2,000 can access the Fund and it can be included in an ISA.
- To encourage more social bond issuance by charities, local authorities and corporates in order to increase the flow of capital to socially beneficial activities.
- To help finance the work of The Big Issue and Big Issue Invest through the Fund's fee sharing arrangement between BII and Threadneedle Investments.

About Big Issue Invest

The Big Issue magazine was established 23 years ago as a business solution to the social crisis of homelessness – it enables vendors to earn a living by selling a magazine on the street. The core philosophy of The Big Issue is about self-help – offering 'a hand up, not a hand out'.

In 2005, The Big Issue launched Big Issue Invest (BII) as its social investment arm with a mission to help tackle poverty and inequality by providing finance to socially-driven businesses focused on tackling the UK's most pressing social problems. To date, BII has raised and invested over £25 million in more than 300 social enterprises, charities and community organisations helping improve the lives of 1.8 million people in Britain's most disadvantaged communities.

THE SOCIAL ASSESSMENT METHODOLOGY

Big Issue Invest developed a unique Social Assessment Methodology for the Fund, with input from Threadneedle Investments' Governance and Responsible Investment (GRI) team. The Methodology provides 'filters' for portfolio investment decisions that maximise the social performance of the Fund – creating a bond portfolio that channels as much investment as possible to people and places with the greatest social need.

What's different about this approach?

The BII methodology differentiates this Fund from other listed funds which either focus on negative screening (e.g. SRI funds), one specific sector (e.g. green energy) or a set of beliefs and values upon which certain bonds are excluded (e.g. ethical bond funds). This Fund is a positively screened fund that is distinctive in three respects:

- It is social *outcome-driven* and designed to respond directly to the UK's social needs and challenges.
- It recognises that *social value is co-created* and social performance can be attributed to the Issuers, the Fund and Investors themselves.
- It takes into account the *varied geography of social need* and the different levels of social value creation (local, regional, national and supranational).

Applying the Methodology

The Methodology is applied through a three-step process.

1 The Fund Manager identifies bonds that potentially deliver social outcomes across eight areas: affordable housing; education; employment and training; health and social care; financial inclusion; community services; transport and communication infrastructure; utilities and the environment.

2 The Threadneedle Investments GRI team gives each eligible bond an overall social performance rating based on how the bond scores across the following five criteria:

i. Social Outcome: the primary and secondary effects of the bond. For example, the primary outcome area of a bond could be Transport, whilst its secondary outcome area could be Employment and Training.

ii. Social Geography: the geographical footprint of the bond within the most deprived local communities and lagging regions of the UK.

iii. Social Intensity: the equity or fairness of the bond: directly favours disadvantaged communities (*high; e.g. housing associations*); directly favours disadvantaged communities, but benefits are shared with society as a whole (*medium; e.g. hospitals and public transport*); and, indirectly favours disadvantaged communities in the form of job and training opportunities (*low; e.g. retail-led regeneration*).

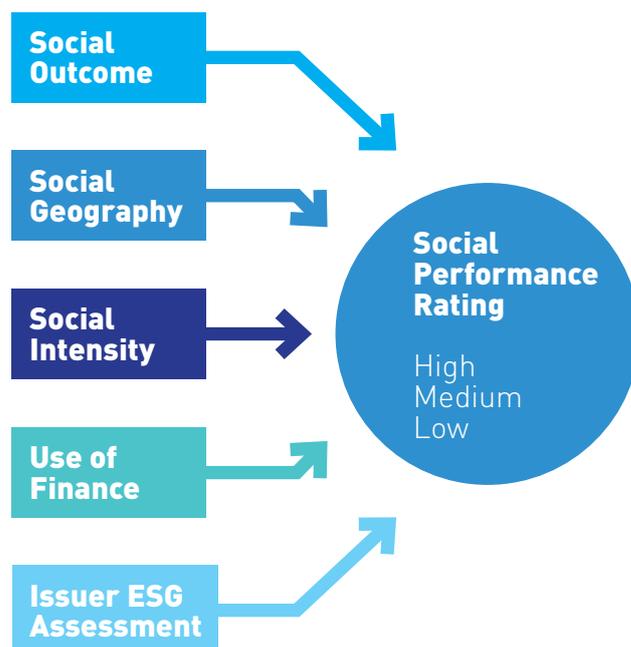
iv. Nature of Financing: bonds are rated more highly where proceeds are used for directly financing a specific project, compared to bonds issued for general corporate purposes. BII's goal is to maximise the proportion of specific and new bond issues in the portfolio.

v. ESG Rating of the Issuer: the bond should have an Issuer with a good Environmental, Social and Governance (ESG) rating.

Each bond's overall social performance rating is based on combining its scores for the five different assessment criteria. The Fund's portfolio includes a mix of bonds with High, Medium and Low social performance ratings. The overall objective is to build a portfolio that dynamically optimises social and financial returns by balancing the three dimensions of social performance, liquidity and yield.

3 The BII acts as Social Advisor to the Fund through the Social Advisory Committee which comprises an independent Chair (John Hale, former manager of investment affairs at the Association of British Insurers), three BII members (Nigel Kershaw, Executive Chair of The Big Issue, Sarah Forster, Deputy CEO and Development Director, BII and Mark Hepworth, Head of Research and Policy BII) and two Threadneedle Investments' members (Iain Richards, Head of Governance and Responsible Investment and Simon Bond, Fund Manager). The role of the Committee is to advise, review and challenge individual bond social assessments and the overall social performance of the Fund. The Committee meets on a quarterly basis.

How the five criteria feed into social performance rating



OVERALL PERFORMANCE

As of July 2014, the Fund had raised and invested £28.1 million in 59 bonds from 46 issuers across the UK (see map). The Fund has performed well by:

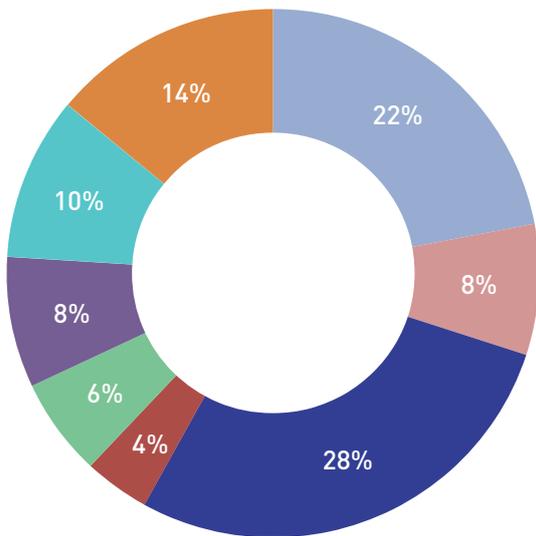
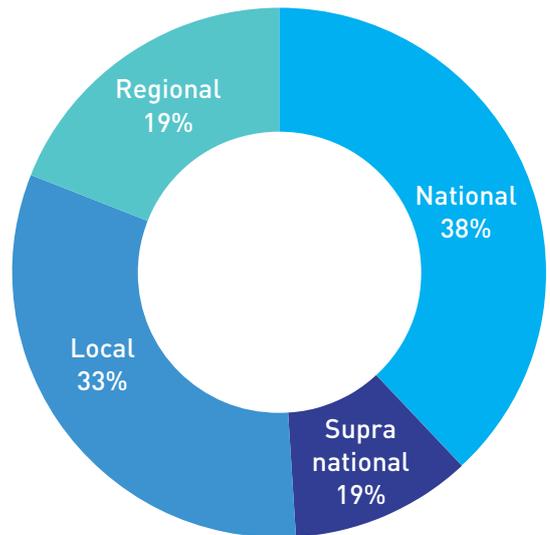
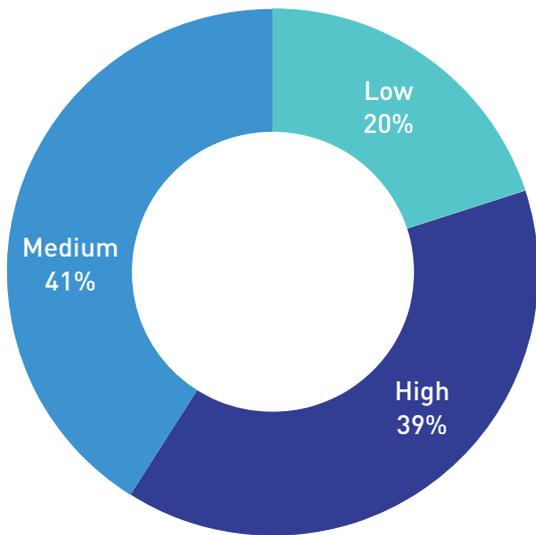
i. Social Performance: 39% of the bonds fall into the High social performance category, 41% into Medium and 20% were rated as Low. This is above the Fund's expectation of having two-thirds of the portfolio in High or Medium social performance bonds.

ii. Social Outcomes: the Fund is balanced across all eight social outcome areas: Affordable Housing (28%), Transport and Communications (22%), Health and Social Care (14%), Financial Inclusion (10%), Utilities and Environment (8%), Employment and Training (8%), Education, Learning and Skills (6%) and Community Services (4%). Employment and Training outcomes are under-stated because the figures relate to primary rather than secondary outcomes.

iii. Social Geography: 33% of bonds are localised to deprived communities. 70% of bonds favour regions outside the high-performing Greater South East - the North (40% of bonds), the Midlands (15%) and Wales (10%). Thus, the Fund's geography is strongly aligned with the Government's social ambition for inclusive and balanced economic development.

"39% of the bonds fall into the High social performance category, 41% into Medium.... This is above the Fund's expectation of having two-thirds of the portfolio in High or Medium social performance bonds."

Social Performance by Number of Bonds, Geography and Outcomes by Value



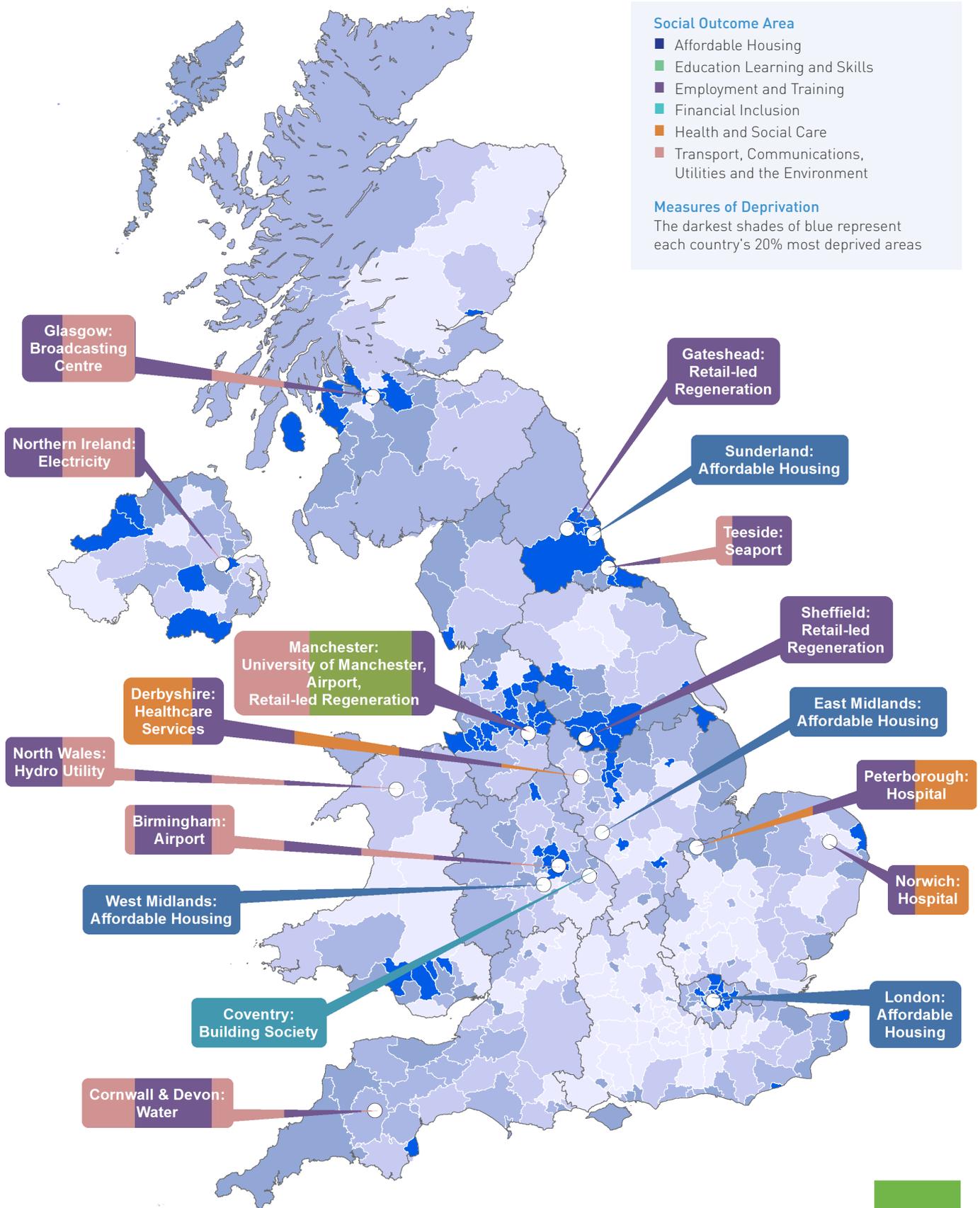
- Key:**
- Affordable Housing
 - Community Services
 - Education Learning and Skills
 - Employment and Training
 - Financial Inclusion
 - Health and Social Care
 - Transport and Communications
 - Utilities and the Environment

Top 25 Bond Holdings (July 2014)

* SPR = Social Performance Rating

%	Name	SPR*	Social Outcome Focus
4.76	European Investment Bank Green Bond	■ Medium	Renewable energy and sustainability
4.48	Motability Operations Group PLC	■ High	Mobility for the disabled
4.45	A2Dominion Funding PLC	■ High	Affordable housing for low-income people
4.44	Places for People Homes Ltd	■ High	Affordable housing for low-income people
4.17	Wellcome Trust Finance PLC	■ High	Global health and well-being
4.02	Nationwide Building Society	■ Low	Access to mortgage finance for first time buyers
4.01	Manchester Airport Group Funding PLC	■ Medium	Gateway to the North West economy
3.96	Octagon Healthcare Funding PLC	■ Medium	Healthcare
3.86	BUPA Finance PLC	■ Medium	Affordable health in developing countries
3.53	Circle Anglia Social Housing PLC	■ High	Affordable housing for low-income people
3.10	BBC Pacific Quay Finance PLC	■ High	Regeneration and culture in Glasgow
2.96	UPP	■ Medium	Student housing
2.70	Golden Lane Housing	■ High	Housing for those with learning disabilities
2.64	Peterborough Progress Health PLC	■ High	Acute healthcare
2.33	Lloyds ESG	■ Low	SME finance and employment
2.20	Derby Healthcare PLC	■ Medium	Tackling mental health and learning disabilities
2.09	Sanctuary Capital PLC	■ High	Affordable housing for low-income people
2.06	Community Finance (GLA)	■ Medium	Transport and economic development
2.05	THFC	■ High	Affordable housing for low-income people
2.02	Housing Association Funding PLC	■ High	Affordable housing for low-income people
1.97	Northern Ireland Electricity (NIE) Finance	■ Medium	Northern Ireland electricity provider
1.77	THPA Finance	■ Low	Tees and Hartlepool seaport
1.76	Transport for London	■ Low	Public transport in London
1.67	Pennon (South West Water)	■ Low	Water and sewerage service provider
1.63	University of Manchester	■ High	University education and cancer research

Map Showing a Selection of the Fund's Investments



Contains Ordnance Survey data © Crown copyright and database right 2014



PERFORMANCE BY SOCIAL OUTCOME



Affordable Housing and Community Services (15 holdings)

The UK is in the midst of a housing crisis with a severe shortage of affordable housing, particularly for those on low incomes. The Department for Communities and Local Government has forecast the number of households in England alone will grow to 24.3 million by 2021 - an increase of 2.2 million (10%) over 2011. In England, 1.7 million households are on local authority waiting lists for social housing, an increase of 65% since 1997.¹ The housing challenge today is great and perhaps greater than it has been for 40 or 50 years.

Most social and affordable housing in the UK is provided by independent, non-profit distributing housing associations. Charities also play a role in providing specialist accommodation for those with special needs, for example people with disabilities or the elderly with care needs. Issuing bonds is an important means for these organisations to raise finance. By July 2014 the Fund had 14 investments supporting both new build and existing affordable housing, including direct investments in eight housing associations which together provide 511,000 affordable homes across the UK. The portfolio also includes Golden Lane Housing (see box).

The social benefits of these organisations include not only on the provision of housing but also the provision of training and employment opportunities to residents, money advice, support for credit unions, dealing with anti-social behaviour and improving the overall quality of life in the local community.

Golden Lane Housing

Golden Lane Housing (GLH) was established by the charity Mencap to provide supported housing for people with a learning disability, to help them build more independent and fulfilled lives. Golden Lane Housing has a 16 year track record of managing and maintaining properties for people with a learning disability. They have a strong asset base and stable Government-backed rental income flow. Since inception they have transformed the lives of over 1,300 people with a wide range of needs in more than 500 properties across England and Wales.

Having successfully raised two private placement bonds, in June 2014 GLH became the first charity to issue a listed bond through the Retail Charity Bond plc, a company established to facilitate the issuance of listed charity bonds. The Fund invested in the bond which raised £11 million in less than two weeks in an oversubscribed offering.

The funds raised by the Bond will enable GLH to invest in buying and adapting 30 high quality homes for over 100 people with a learning disability in their local communities. Golden Lane Housing reports annually on their social impact using Mencap's "What Matters to Me" framework, which enables teams to assess and report on the difference the move has made to people in terms of their quality of life, confidence and independence.

1. Source: Department for Communities and Local Government Live Table 600: number of households on local authorities' housing waiting lists 1997 - 2013.



Transport and Communications (10 holdings)

There is a large infrastructure investment gap between London and the South East and the rest of the UK, which undermines progress towards balanced and inclusive economic development. Research by the Institute for Public Policy Research North (IPPR North) revealed that £2,700 of public and private investment combined is spent per person in London on transport projects, compared with £5 per head in the North East of England.² The main difference is the lack of private investment in the North of England.

The Fund seeks to help address this regional inequality in private investment by investing in transport and communications infrastructure projects that are important to support local regeneration and more balanced regional economic development. The bond investment in the BBC's development of the new headquarters for BBC Scotland in Glasgow received a High social intensity rating as it is part of the Creative Clyde regeneration project, which provides a physical focus for new media, technology and creative businesses in Glasgow and West Central Scotland. Glasgow has the highest rate of workless households (30%) in the UK. Around 2,500 people are employed at Glasgow's The Hub at Pacific Quay which includes the BBC headquarters, providing a significant boost to local employment.

The Fund's portfolio also includes bonds issued to finance the seaport in Teeside, as well as both Manchester and Birmingham Airports. The Manchester Airport 2030 Plan states *"We are passionate about helping to make the North West a better region in which to live, work and do business. We want to help make the Manchester City Region one of the most dynamic and prosperous in the UK"*, while Birmingham Airport is described as a 'global gateway' for the West Midlands manufacturing economy.

2. IPPR North, 2014: "Transformational Infrastructure for the North: Why we need a Great North Plan".



Utilities and Environment (10 holdings)

The Fund also invests in utilities and environmental bonds. These fall into two main categories – bonds issued by utilities and 'green bonds' issued to finance renewable energy projects. When assessing investments in utility companies, the Social Advisory Committee pays particular attention to utility companies' strategies to address fuel poverty: a household is said to be in fuel poverty when its members cannot afford to keep adequately warm at reasonable cost, given their income. In 2012 the number of households in fuel poverty in England was estimated at around 2.28 million, representing approximately 10.4 per cent of all English households.³

Electricity North West which owns, operates and maintains the North West's electricity distribution network, connecting 2.4 million properties and more than 5 million people in the region to the National Grid, received a High social rating in part due to its proactive approach to tackling fuel poverty *"We know we have a part to play in helping to address this issue and so have plans in place to help our customers. We are engaged with National Energy Action (NEA) and asked them to incorporate energy efficiency messages in our programme. We are also working with councils in the North West in order to insulate and improve social housing. This improvement will reduce energy consumption and therefore reduce customers' bills"*.

The portfolio includes the European Investment Bank's (EIB) Green Bond which provides finance for environmental and alternative energy projects in the UK's more remote rural and coastal economies and communities, as well as investment in a hydro-electricity provider in Wales.

3. Department of Energy and Climate Change, Fuel Poverty Statistics, June 2014



Employment and Training (7 holdings)

Employment and training is more prominent as a secondary rather than a primary social outcome of the bond portfolio. Employment outcomes are particularly associated with the Fund's investments in retail-led regeneration projects (5 bond holdings), all of which have been given a Medium rating in our social assessment.

Around 3 million people work in the UK retail sector. Retailers spend more on skills and training for their employees than companies in many other sectors and they are amongst the largest providers of apprenticeships. The Fund has holdings in three bonds issued by Trafford Centre Finance (TFC) that were used to develop the Trafford Centre in Greater Manchester. The Centre employs 8,000 people and attracts 30 million visitors annually. It is an integral part of a major economic and housing regeneration scheme: Trafford Quays Leisure Village. The Fund also includes Sheffield's Meadowhall Centre, built in the 1990s on a disused steelworks.

In the case of regional shopping and leisure complexes, the risk is the decline of surrounding town centres, as traditional 'hubs' of local employment, community life and independent shops. This is our rationale for assigning a Medium rating to all of the Fund's retail sector bonds.



Intu Group

The Fund includes three bonds issued by Intu Group, the developer-manager of regional shopping and leisure complexes in Manchester (Trafford Centre) and Gateshead (Metro Centre). The primary rationale here is that retail-led regeneration on this scale has significant employment and training outcomes. Consultants Nathaniel Lichfield (2013) estimated that Intu and its retailers generate 82,000 jobs directly and a further 25,000 jobs indirectly across the UK as a whole. Intu's Retail Gold scheme is recognised as a world-class career and training scheme for young people. Employee engagement and 'business in the community' performance levels are also outstanding.

Employment and training tend to be secondary outcomes of bond investments in 'social overhead capital' such as hospitals, utilities and transport and other infrastructure. Here, we have assigned a High social intensity rating to major infrastructure investments located in urban regeneration areas and lagging regional economies of the UK. The BBC's Pacific Quay bond in Glasgow was assigned a High social rating for its employment impact as discussed in the Transport and Communications section. Another example of a High rated bond investment is Electricity North West (ENW), (2 bond holdings), which opened a major training academy in Blackburn East Lancashire in October 2013. The unemployment rate in East Lancashire had increased to nearly 10% by March 2014. The new ENW academy will deliver a £2.6bn investment programme and create local job opportunities and apprenticeships, providing the next generation of technicians and engineers needed to maintain the North West's electricity supply.



Health and Social Care (6 holdings)

Improving the quality and accessibility of health and social care is an important investment area for the Fund. The portfolio includes bonds issued to develop new hospitals in Peterborough and Norwich and mental health services in Derbyshire; the latter being increasingly recognised as important to labour market inclusion and participation (stress-related illnesses and mental health have become an increasing cause of worklessness). Through its investment in the bond of the charity Wellcome Trust, the Fund is also supporting world class research to further improvements in human health.

It is expected that the Fund will invest predominantly in UK bonds, however, international bonds may be included if they have a High social impact. In July, the Fund had a small holding in the International Finance Facility for Immunisation bond, commonly known as the GAVI bond. IFFIM was set up in 2006 to rapidly accelerate funding and implementation of vaccination schemes to immunise children against known diseases, particularly in Africa. As of July 2013, GAVI was reaching 19.3 million children with life-saving vaccines.

The portfolio also includes BUPA, which beyond its provision of health insurance in the UK, received a Medium social intensity rating for its Access to Health programme in developing countries, including India.



Education, Learning and Skills (4 holdings)

Current bond holdings in this social outcome area cover educational publishing and learning materials (Pearson Group), development of on-campus university accommodation and the expansion plans of Manchester University, which were given a High social rating (see box overleaf). Today's knowledge economy demands higher levels of education, learning and skills – for access to the labour market as well as occupational and career mobility.

The Medium rating of the two bonds for student housing development require an explanation. Between 1994 and 2012 Britain's undergraduate population grew by 45% to 1.8 million. In autumn 2013 Chancellor George Osborne lifted the cap on how many students each university could take with the effect of intensifying competition in the higher education (HE) sector. As of 2014 there are 2.5 million students in UK higher education. Traditionally students lived in halls of residence or shared private houses, but an increasing number of private companies are building and managing bespoke accommodation blocks for students. Data returns from universities to the Higher Education Statistics Agency (HESA) show that the number of students living in halls owned by the private sector has more than doubled since 2007, from 46,000 to 102,000. Savills Estate Agents predicts £2.5bn will be spent on student housing schemes in 2014/15, significantly more than the Homes and Communities Agency invests in affordable housing.

There are strong economic and social equity arguments for investments in student accommodation. Universities are flagships for the UK's city economies – particularly in the North of England – and student housing quality is now a factor in university rankings. Equally, widening participation to students from less well-off backgrounds requires access to affordable housing, particularly given the burden of student loans and higher course fees. Student housing schemes are also seen as vehicles for urban regeneration and service jobs. The risk is that student housing providers may be poaching sites that could have been used for affordable housing, hence our low social rating of this investment area.

Manchester University

In July 2013, Manchester University issued a £300 million bond to be used towards the financing of its campus master plan to help fulfil its vision to become one of the top 25 research universities in the world by 2020. Bond proceeds will go towards building new teaching facilities and a Cancer Research Centre, in partnership with Cancer Research UK and The Christie NHS Foundation Trust. In addition to these educational and health outcomes, the University's growth – particularly in the Life Sciences – is important to economic development in Manchester and the North West region. It is also key to the region's ambition to build a world-class knowledge economy that will create graduate employment and career opportunities. The University of Manchester's 2014 Widening Participation report showed that 27.4% of students come from low income households (less than £25,000 per annum), the 3rd highest share in the leading Russell Group of English universities.



Financial Inclusion (4 holdings)

Unlike most corporate bond funds, this Fund has only a small exposure to the financial sector. The Fund invests in mutual and regional building societies that are owned by and accountable to their customers. The main financial sector holding is in Nationwide Building Society, including Portman Building Society (which it acquired in 2006). This is a traditional mutual which met the Fund's social screen due to their commitment to helping 750,000 people buy their first home by 2017, which is aligned with the Fund's aim of increasing access to affordable homes.

FORWARD LOOK

Our objective in launching this Fund was to bring the mainstream into social investment. Within six months of launch the Fund is already proving attractive to both retail and institutional investors, including individual investors, foundations and local authorities. 'Mainstreaming' social investment appears to be underway.

We also have a shared commitment with Threadneedle Investments to take a leadership role to educate and encourage the market for social bond issuance, particularly by charities, local authorities, development finance organisations and corporates. The more bonds there are available for the Fund, the bigger the investable universe becomes, and the more investment will flow into activities that tackle social challenges. Threadneedle Investments worked hard behind the scenes to support the launch of the Retail Charity Bond platform developed by Canaccord and Allia. This reduces the barriers and costs of bond issuance and enables smaller charities to consider issuing listed bonds. We were delighted to see the Fund invest in the first bond issue from this platform by Golden Lane Housing.

We have a strong working partnership with Threadneedle Investments. Our sincere thanks to all the team at Threadneedle Investments for their commitment and efforts, with particular thanks to Simon Bond, the Fund Manager, for his active management role and appreciation of the social objectives of the Fund.

Looking ahead, BII is collaborating with Threadneedle Investments' GRI team to improve the process of measuring and reporting on social outcomes. We are also exploring the possibility of creating more accountability for social impact data reporting among bond issuers. BII will also prepare more in-depth case studies to illustrate the social impacts of the Fund. These efforts will support the first Annual Social Performance Report (forthcoming 2015).

We see this Fund as an important market development initiative for social impact investing. We hope it will achieve a dual role of both increasing the social responsibility of mainstream savings and investment in the UK and also enable BII to support the growth of more social enterprises delivering on The Big Issue mission of preventing and dismantling poverty and creating opportunity for everyone.

FURTHER INFORMATION

This report was written by [Mark Hepworth](#) and [Sarah Forster](#) from Big Issue Invest (BII).

If you have any queries about the social performance of the Fund, please contact Sarah Forster, Big Issue Invest on [020 7525 3447](tel:02075253447) or via email at sarah@bigissueinvest.com



BIG ISSUE INVEST
1-5 Wandsworth Road
London, SW8 2LN
T: 020 7526 3434
www.bigissueinvest.com