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Demystifying social impact investing in UK social infrastructure

This insight:

- Unpacks the terms 'Social', 'Impact Investing' and 'Social Infrastructure'.
- Makes sense of jargon by distilling social impact investing into four easy to remember themes.
- Brings these key impact themes to life by using examples in health-related real estate.

What is social, impact investing and social infrastructure?

'**Social**' is about people and places contributing to net positive outcomes for those who receive and deliver (essential) services, and wider stakeholders such as their families and communities.

The Global **Impact Investing** Network (GIIN) defines 'impact investing' as investments made with the intention to generate positive, measurable, social and environmental impact alongside a financial return.

Our interpretation of 'Social infrastructure' encompasses three core sectors: health, housing, and education, which form the three pillars of AlphaReal's social impact investment strategy.

PILLAR 1
Health

- Elderly care
- Primary & secondary care
- Treatment clinic
- Specialist care

PILLAR 2
Housing

- Extra care
- Homelessness & supported living
- Key worker & social housing
- Student (university let)

PILLAR 3
Education

- Day nurseries
- Primary & secondary
- College & university faculty
- Special educational needs

AlphaReal commissioned research[1] with UK Local Government Pension Scheme (LGPS) fund professionals which revealed that 98% of LGPS fund professionals agree that investing in social infrastructure is a route to providing positive social impact whilst still generating attractive returns.

A 'Check**LIST**' for social impact investing in social infrastructure

Having framed the terms 'social', 'impact investing' and 'social infrastructure', we now turn to distilling the key themes within the space.

Atul Gawande's 'The Checklist Manifesto' extols the virtue of distilling the complicated into simple minimum steps and has been widely applied from medicine to aviation.

We illustrate how such a check**LIST** can help investors more easily understand social impact investing in social infrastructure by applying the tool to examples in the health sector.

‘L’ is for levelling up

The UK Government’s levelling up white paper (2) identifies 12 key missions to be achieved by 2030 with the collective objective to facilitate equal opportunity within communities geographically dispersed across the UK.

Private market capital, especially from institutional investors, will be vital in plugging the gap between public funding allocations and delivering the concept of levelling up.

For real estate, there is a wide range of investible opportunities across social infrastructure available to contribute to each of these missions. For example, investing in social infrastructure could directly contribute towards three of the 12 missions (within the focus areas of health, housing, and education). The natural links between the levelling up missions enables investments to deliver a wider contribution. For instance, social impact infrastructure indirectly contributes to the delivery of the mission focus areas of ‘living standards’, ‘well-being’, and ‘pride of place’.

Investments into health assets can have indirect contributions towards levelling up, in addition to contributing to the specific health levelling up mission. For example, in primary care, accessible, suitable future-fit practices will typically have outcomes of improved mental and physical wellbeing. The causal link between physical and mental wellbeing is well documented. Illness prevention, early detection and/or support can lessen anxiety and depressive illness improving overall well-being.

The 12 levelling up missions

	Mission focus area	Social infrastructure contribution
1	Living standards	Indirect
2	Research and development	
3	Buses and trains	
4	Internet and mobile phone connections	
5	Education	Direct
6	Skills	
7	Health	Direct
8	Well-being	Indirect
9	Pride in place	Indirect
10	Housing	Direct
11	Crime	
12	Local leadership	

‘I’ is for independent verification (and measurement)

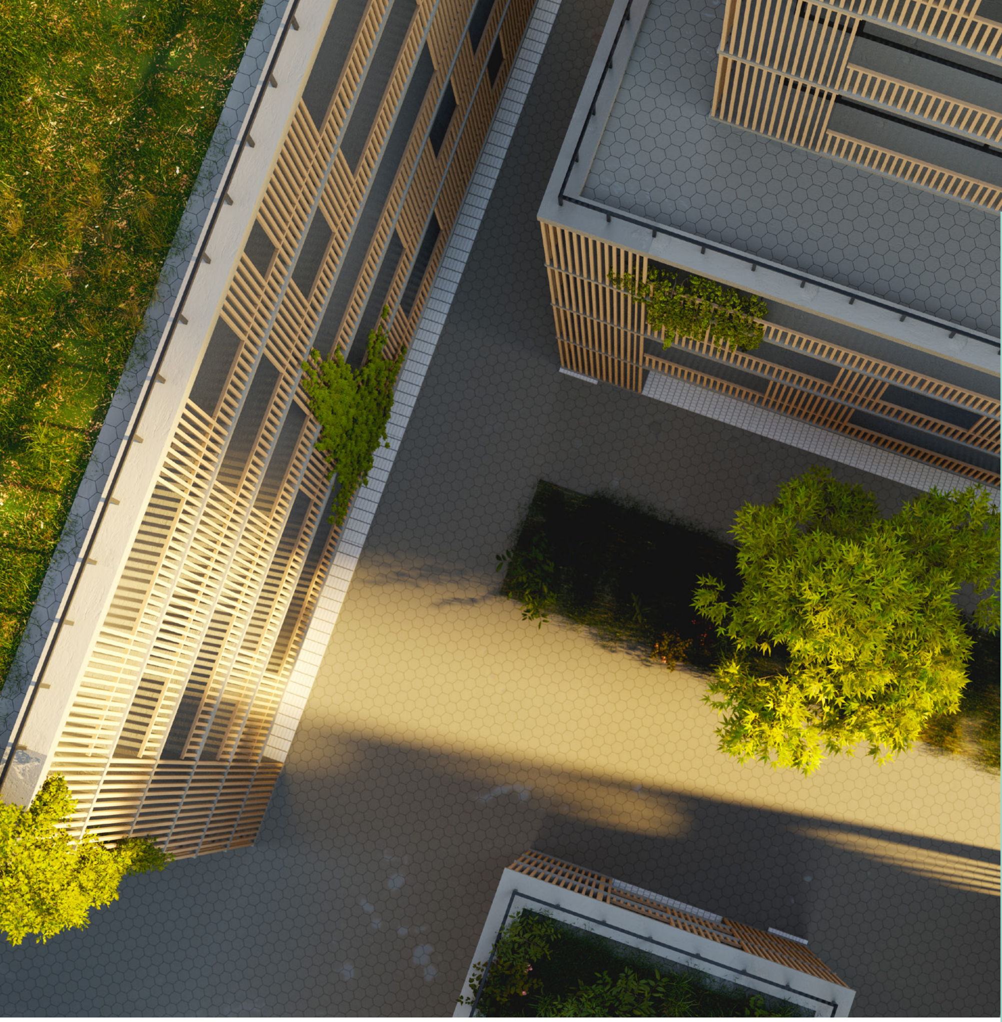
Independent verification is an area which is still evolving for social, the ‘S’ in ESG.

Progress towards understanding the environment ‘E’ has been addressed through, among other things, the establishment of GRESB as a globally recognised tool and the Task Force on Climate-Related Financial Disclosures (TCFD). Turning to ‘G’, Governance, there is established independent regulation, for example health in England is governed by the Care Quality Commission, which has raised standards.

However, for ‘S’, social, there is still no agreed standard of independent verification although consensus is building around an approach utilising cost benefit analysis, which is supported by the Treasury.

The key is for managers to positively engage with third party verification and measurement providers to work together to develop widely accepted tool/s that can readily be applied to social infrastructure where investors’ capital has enabled impact.

Below we have summarised two organisations providing additional detail on how managers can define, measure, and monitor impact investments in line with the GIIN definition of impact investing.



Impact Management Project (IMP)

The IMP is a forum for building global consensus on how to measure and manage impact. In coordination with the insight from stakeholders in the industry, the IMP found that understanding impact performance requires collecting data across five dimensions of impact:

1. **What**
2. **Who & how**
3. **How much**
4. **Contribution and**
5. **Risk**

Operating Principles for Impact Management (OPIM)

This comprises 9 principles to support the integration of impact considerations across the investment lifecycle from acquisition, day to day management and exit with a focus throughout on verification.

The Impact Management Project guidance helps support managers to work within the operating principles especially in relation to strategic intent and origination & structuring.

The remaining principles are spread across the areas of 'portfolio management', 'impact on exit' and 'independent verification'.

Portfolio management
Social infrastructure managers using the GIIN definition of impact will be familiar with the building blocks to determine whether their strategy is considered impact through Financial (market) return + Intentionality + Contribution + Measurement.

Impact at exit
Social impact investment in social infrastructure is typically focussed on long-term relationships with tenants and investors. However, all assets in a portfolio should be reviewed on a periodic basis to consider their continued suitability to the fund's objectives. Whilst an asset may ultimately be sold, if it is acquired by the existing tenant or another investor who keeps the lease in place, then the impact may continue. It is simply that the investor's capital in the fund may be returned and/or re-deployed to enable impact once again.

Managers will periodically review the achieved impact rather than wait for an exit event. Managers can routinely adjust decision frameworks (such as investment committee terms of reference or ESG scorecards) and day-to-day property, asset and fund management processes based on regularly monitored achieved impact and lessons learnt.

https://www.impactprinciples.org/9-principles

Independent verification (and measurement) is an area for more work in relation to the quality of the real estate. For example, in elderly care homes, third-party measurement tools do not differentiate between older buildings where bedrooms may still have sinks in cupboards versus modern purpose-built homes with full ensuite wet-room facilities. We believe this is important because future-fit elderly care assets better allow for infection control and dignity, improving health outcomes.

Here we have applied the 5 IMP dimensions to our health examples.

1	What	Understanding the outcomes the activity is contributing to and how important the outcomes are to stakeholders.	• Improved health outcomes through better access to more appropriate facilities, for example, reduced social isolation, reduced emergency admissions, increased mental and physical wellbeing, illness prevention or early detection.
2	Who & how	Understanding which stakeholders are experiencing the effect and how underserved they were prior to the activity's effect	• **Who** - The general public with identified needs. • **How** - Prior to the effect there may have been longer waiting times for appointments or provision, or sub-standard facilities.
3	How much	Understanding how many stakeholders experienced the outcome, what degree of change they experienced, and how long they experienced the outcome.	• **Additionality through number of end users**, for example., beds in elderly care home, patient list for primary care. • **Degree of change** - tenant engagement or access to end user feedback (For example., friends & family scores). • **Duration of outcome** - lease lengths or duration of care/ service per user.
4	Contribution	Assessing whether an activity resulted in outcomes that were likely better than what would have occurred otherwise.	• Investors capital has 'enabled' the impact. Without this, what is the prospect of the tenant being able to fund the scheme themselves or source another suitable counterparty/ transaction?
5	Risk	Assessing the likelihood that impact will be different than expected.	• **Variability of actual occupancy / service user numbers**

'S' is for sustainability

The measurement and monitoring of sustainability is likely the area of social impact investing that is most developed. Below we summarise the two most prominent initiatives.

United Nations Sustainable Development Goals (UN SDGs)

Investment in social infrastructure is closely aligned to supporting UN SDGs. Many managers identify multiple SDGs with which their products are aligned. However, what is perhaps most useful for investors is to differentiate between the core and ancillary SDGs towards which their products contribute.

Sustainability Disclosure Requirements (SDR)

The Financial Conduct Authority ('FCA') launched a consultation which closed in January 2023 on SDR and investment labels. The FCA's stated intention is to publish its Policy Statement in Q3 2023. The FCA is ultimately seeking for consumers to be able to trust sustainable investment products through managers demonstrating good conduct in the marketing of products.

As currently proposed, the SDR product labels comprise three labels: 'Sustainable focus', 'Sustainable improver' or 'Sustainable impact'. Together they seek disclosures where managers are stating their product either meets standards, will improve or where they have positive measurable contribution to sustainable outcomes to provide solutions - in all cases related to environmental and/or social outcomes.

For example, investing in health such as elderly care, most obviously aligns with SDG 3. Good health and wellbeing. This would be the core SDG. Here the focus is to ensure healthy lives and promote well-being for all at all ages.

Two ancillary SDGs could be SDG's 8: Decent work and economic growth; and 10: Reduced inequalities.

SDG 8: Decent work & economic growth

Here the goal is to reduce inequality within and among countries.

How can investment in health contribute towards, for example, decent work and economic growth?	Health is an employment sector where there is a need for a high ratio of staff to user compared to other non- service sector industries such as retail. This is important for social impact outcomes.	Managers can look to partner with tenants such as specific care home operators whose contributions include the provision of living wages, quality training and development and/or no zero-hours contracts and avoid operators who do not have those policies.

'T' is for Theory of change

Theory of change concerns how and why a desired change is expected to happen in a particular context and is a key concept when it comes to impact investing (it is mentioned under the FCA's SDR for sustainable impact fund labelling).

It comprises three core elements – 'Activities', 'Outputs' and 'Outcomes' – which can be applied to, for example, a fund which invests in social infrastructure.

Activities	**What the fund is doing**
Raising capital from investors seeking a dual strategy delivering **real returns and real impact.**	Parties investing with patient capital and seeking to make long-term sustained positive outcomes whilst meeting with fiduciary duties.
Identifying strategic tenant partners.	Healthcare operators providing long term community services and focused on quality of both care and environment ('future-fit' assets).
Forward funding of new build assets and/or change of use of assets to health.	Use investor capital as an enabler.
Demanding strong environmental performing assets.	Use an ESG scorecard in the underwrite of all investment decisions.

Outputs	**The direct results of the Fund's actions**
Additionality for end users, specifically in locations where there is an identified excess need (demand).	A new 80 bed elderly care home in a location where there is under provision of market standard beds (purpose built, ensuite wet room)
Buildings with strong environmental performance delivered through new construction or conversions.	Assets to provide high EPC ratings and low energy in use costs.
High quality real estate let to quality operators with strong governance.	Independent regulator score for the operator across their existing services. Care Quality Commission for care in England.

Outcomes	**The changes that directly impact on people, places, and the planet**
Improved health outcomes for local resident populations, which tracks back to the Impact Management Project's (IMPs) five dimensions focus on outcomes.	

Key takeaways

- Further institutional capital will be critical in enabling social impact, supporting a just transition.
- Social impact investing is an investment or strategy delivering the dual focus of financial (market) returns alongside quantifiable positive social and environmental outcomes.
- This is a fast-evolving space but can be distilled into key themes where investors can focus.
- Quantification of social impact remains the key challenge today, highlighting the importance for industry stakeholders to continue to collaborate.

What's next?

See our Market Insight...***'It's time to focus on the health sector'***, for more information on the opportunities available in the health sector and how these investments can deliver social impact.

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(1) AlphaReal commissioned the market research company Pure Profile to survey 100 LGPS fund professionals. Interviews . (2) Levelling up in the United Kingdom White Paper (page 20-21) https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1052708/Levelling_up_the_UK_white_paper.pdf