



Social Impact Investment Portfolio - Investment Policy

Better Society Capital

July 2026

Executive Summary

Better Society Capital (BSC) is the UK's leading social impact investor. We were established with a mission to grow the amount of money invested in tackling social issues and inequalities in the UK. This Investment Policy sets out how we invest our own capital to deliver that mission.

Who We Are

BSC was founded with capital from English dormant bank accounts and the four main UK high street banks. Since 2012, we have helped grow the UK social impact investment market from under £1 billion to more than £11 billion. We are independent, regulated by the FCA, and guided by our social mission.

We invest through intermediaries (specialist fund managers and social banks) who channel capital into social purpose organisations creating real change in people's lives. Our role is to connect capital to where it is most needed, attract other investors to follow, and help build a market that continues to grow long after our involvement.

Where We Invest

Our 2026-30 strategy focuses on four areas where social need and investment opportunity are most closely aligned:

- **Housing:** Increasing the supply of safe, affordable and specialist housing for people who need it most.
- **Economic Opportunity:** Supporting access to finance, jobs, skills and financial resilience for underserved communities.
- **Climate and Energy:** Backing a just transition through community renewables, retrofit and green skills.
- **Health:** Improving access to healthcare and backing technology that improves outcomes for people and the NHS.

Our ambition is to positively impact 15-20 million lives over the next decade and help mobilise £20-30 billion into investible solutions to the UK's most pressing social challenges.

How We Invest

We hold ourselves to a high standard on impact. We target investments that reach people who are disadvantaged or underserved, meaning those facing the greatest barriers to good housing, work, health and financial security. And we expect every investment to meet our responsible investment standards, doing no harm to people or the planet.

We invest across a range of primarily private asset classes including property, debt and outcome contracts, renewables, and venture. Our investment approach is to back models with the potential to scale over the long term. We require other investors to invest alongside us, and we take a long-term view on attracting additional capital into each model.

We are long-term, patient investors. Our typical investment runs for 8-12 years, and we target a 3-5% annualised financial return from our portfolio to sustain BSC as an independent organisation and meet our corporate return target of 1% net over five years as agreed with our shareholders. We assess the financial risk-return of each investment with reference to strategy, asset class and market norms.

We will judge its success not just by what its own capital achieves but by the growth and social impact of the broader investment ecosystem it helps to create.

A. Overview

A1. Context of Better Society Capital

- A.1.1 Better Society Capital (BSC) is the UK's leading social impact investor. BSC was capitalised by English dormant bank accounts, and the four main UK high street banks (Barclays, HSBC, Lloyds Banking Group and NatWest Group). Alongside investing its proprietary capital, BSC provides investment advisory to clients. BSC is an independent financial institution with a social mission authorised and regulated by the Financial Conduct Authority (FCA).

A2. Our Mission and Strategic Approach

- A.2.1 BSC helps build an investment ecosystem that supports enterprises to improve people's lives. Its mission is to grow the amount of money invested in tackling social issues and inequalities in the UK. BSC operates at the intersection of policy, social demand and investment opportunity, investing itself while building markets, structures and partnerships that allow others to invest with confidence. Since 2012, it has helped to grow the UK social impact investment market by 13 times, to more than £11 billion, demonstrating how impact investing can scale when investment opportunity and social outcomes are aligned

BSC will judge its success by the growth and social impact of the broader environment it helps to create, not just by the direct impact of its own investment capital. As part of this, it must also prove that it is able to sustain itself independently as an organisation.

- A.2.2 Working with expert partners, BSC seeks to understand people's needs first. Then, using its knowledge and capital, BSC collaborates and invests with intermediaries (fund managers and social banks) who also want to create a better, sustainable future. They, and the social enterprises and charities the intermediaries invest in, create the impact. BSC's role is to bring the most relevant experts from its network to the table, generating ideas and connecting capital to where it is most needed, rather than investing directly in frontline organisations.

BSC uses three impact dimensions to help define the change it wants to see:

- Impact on people: specifically, the individuals who use the services and products created by social enterprises and charities that have received investment from the intermediaries BSC invests in.
- Financial sustainability: all its investments are made with the aim of developing financially sustainable structures and enterprises. This ensures the social impact continues to be generated, even after the investment has been repaid with a return. BSC aims for positive and competitive financial returns that will have the greatest chance of attracting other investors and ultimately achieving the greatest social impact.
- Impact on the system (or 'systems change'): this refers to the impact of BSC's investments and other market-building activities have on the broader investment ecosystem – including investors, policy makers, fund managers and other intermediaries – to ultimately increase the quantity and quality of capital and support to enterprises and charities that improve people's lives in the UK.

A3. Policy Purpose

- A.3.1 The Investment Policy outlines BSC's approach to investing its proprietary capital and sets out key criteria relating to its mandate and financial, impact and systems change parameters. The internal Investment Manual document supports the application of this Investment Policy.
- A.3.2 BSC manages its proprietary capital across two distinct, yet interconnected portfolios:
- 1) BSC's Social Impact Investment Portfolio drives BSC's overall capital management approach and is the principal way it delivers the greatest impact and systems change for its mission while achieving its financial risk-return requirements.
 - 2) BSC's Treasury Portfolio supports the effective management of BSC's liquidity, helps achieve BSC's portfolio risk and return financial goals and at a minimum 'do no harm' to people and the planet to enable BSC to prioritise impact and systems change through its social impact investments.

The scope of this Investment Policy is focused on the Social Impact Investment Portfolio (SIIP). The Treasury Portfolio is guided by a separate Treasury Portfolio Investment Policy.

A4. Policy Sponsor and Maintenance

- A.4.1 This Investment Policy has been approved by the Board of Better Society Capital. BSC's Chief Investment Officer is the sponsor for this Policy and oversight of its implementation is provided by BSC's Investment and Performance Committee. BSC's Audit, Risk and Compliance Committee additionally oversees investment and portfolio risk.

All members of the Investment Team are responsible for implementing this Investment Policy when assessing and managing investments. BSC's Head of Investment Management is responsible for the maintenance and review of this Policy annually.

B. Investment Approach and Objectives

B1. Investment Philosophy

- B.1.1 BSC improves the lives of people in the UK by connecting social impact investment to social purpose organisations. BSC believes that investment can play a significant role helping to deliver solutions to some of the most entrenched social challenges but that it is not appropriate to assist with all social needs.
- B.1.2 BSC's work is focused on building an understanding of the intersection of social issues, the sustainable business models that can bring about change and the fit with investor needs. It focuses on impact business models that can deliver good risk-adjusted returns and attract other investors, as ultimately these will scale to deliver the greatest systems change and positive impact on people's lives.
- B.1.3 A universe of sustainable business models exists in social purpose organisations that are often misunderstood and underdeveloped. Some of these opportunities provide an opportunity for specialist investors to deliver high quality risk-adjusted returns, with low correlation to mainstream markets while generating significant positive social impact. Other areas may deliver high impact alongside higher financial risk and lower returns, requiring guarantees or blended grants to fit investor portfolios. In both these areas, BSC believes there is an

opportunity to be at the forefront of product and intervention innovation which provides significant positive impact as these solutions scale.

- B.1.4 To maximise impact, BSC targets market leading managers who can attract significant capital alongside high quality financial and impact returns. During due diligence and throughout portfolio management, BSC takes an active investor approach by engaging closely with fund managers and intermediaries on performance, practice and wider market building. Where possible, BSC embeds these expectations from the outset, establishing clear provisions that underpin long-term impact delivery.

B2. Investment Objectives

- B.2.1 BSC makes and manages its investment to:
1. Support its strategic goals and organisational mission to build an investment ecosystem that supports enterprises to improve people's lives.
 2. Support it to be a financially sustainable organisation and deliver its corporate target of 1% net return over a 5-year rolling period.

B3. 2026-30 Strategic Focus

- B.3.1 Across the UK, millions of people struggle to access housing, good jobs, healthcare and the benefits of a greener future. These barriers create deep social need and long-term structural demand for solutions. Often, where there is a need, there is a chance for investment to create durable, long-term investment opportunities for capital seeking both impact and attractive returns.
- B.3.2 BSC believe there are four areas where this opportunity is strongest to align between social need and investment opportunity: housing, economic opportunity, climate and energy, and health. In each, there is both a significant unmet need and a clear opportunity to scale what's already working or nurture new models that can deliver. In many cases, these also align with long-term government priorities.
- B.3.3 BSC's ambition is to positively impact 15-20 million lives over the next decade by mobilising £20-30 billion into investible solutions addressing the UK's most pressing social challenges. By bringing together capital, government, and social purpose organisations, we are uniquely positioned to deliver positive outcomes for society and investors.

C. Financial Parameters

C1. Objective and Return Requirement

- C.1.1 The Social Impact Investment Portfolio targets a 3-5% annualised return to deliver BSC's corporate return target integrating costs and treasury returns.

C2. Financial Risk Tolerance

- C.2.1 BSC invests along a risk-return spectrum that reflects a range of proven to unproven investments into business models, social issue areas, products, and managers. Therefore, it is expected that investment will have different return dispersions. BSC manages its financial risk through its approach to asset allocation (see Section G) and ongoing monitoring of factor risk exposure.

- C.2.2 BSC has low tolerance for overall capital loss. New investments will be made with the reasonable expectation that invested capital is returned in line with its risk-return profile.

There is an expectation that a significant portion of the portfolio will continue to have debt-like characteristics with capped upside; in these cases, BSC actively manages loss given default and aggregate Value at Risk (VaR) through appropriate sizing of investments within its asset allocation approach given the effect on overall portfolio performance.

It invests in blended finance structures which have some downside risk mitigation from a third party, often using concessionary capital such as guarantees or 'first loss' grant. The level of downside risk mitigation required will be determined by the nature of the investment and BSC's strategic goals.

BSC aims to create some capacity in its asset allocation for investments with outsized impact and systems change potential but highly uncertain and/or material downside skewed financial returns. Given limited capacity for these investments while delivering its financial goals, we expect this allocation to be highly competitive (see Section G.2.3).

- C.2.5 As a long-term investor, BSC has a moderate tolerance for portfolio volatility, accepting P&L fluctuations between 5-10% of balance sheet value.

The exception is shorter-than-average duration investments (see Section C.3 Time Horizon) where BSC aims to manage efficient capital allocation with a low tolerance for volatility.

C3. Time Horizon

- C.3.1 New investments are expected to have a term of between 8 to 12 years.
- C.3.2 In exceptional circumstances, an investment may have a longer term outside the upper bound of the typical range (as outlined in C.3.1) if the following four conditions are met:
- i. the risk-return is appropriate
 - ii. there is strong alignment with our strategic goals
 - iii. if the investment does not materially skew our average duration
 - iv. it is appropriate given our portfolio liquidity position.
- C.3.3. BSC may make investments with a shorter term than the lower bound of the typical range (as outlined in C.3.1) to:
- i. Improve the liquidity profile of the overall portfolio,
 - ii. and/or to support our strategic goals if there is an appropriate risk-return opportunity.
- C.3.4 BSC will not typically invest in evergreen structures unless there is a clear and credible route to exit within the typical term range (as outlined in C.3.1).

C4. Geographical restrictions and FX approach

- C.4.1 BSC focuses on generating social impact in the UK, primarily investing in UK-domiciled funds using GBP (Great British Pounds).
- C.4.2 Investments that have their own imposed geographic restrictions or focus within the UK will be assessed during due diligence and monitored during portfolio management to ensure there is sufficient diversification within the specific investment and overall BSC's portfolio.

As per A.1.1, BSC is capitalised by English dormant bank accounts and four main UK high street banks. As a result, it can invest in the United Kingdom outside of England (Scotland, Wales and Northern Ireland) subject to its non-dormant asset allocation capacity (see Section GC). BSC will aim, where possible, to mitigate the risk of an independence event through the structuring and terms of the investment.

- C.4.3 BSC can invest in non-UK domiciled funds where there is a credible strategy-aligned reason for doing so and it meets the requirements set out in the Responsible Investment Policy. Where these funds also use non-GBP denominated currency, BSC will subscribe in the foreign currency as required and will not hedge the FX risk given the likely cost and complexity, and that these investments do not constitute a material proportion of BSC's portfolio.
- C.4.4 BSC has the appetite to invest in funds that invest across multiple jurisdictions where it believes these funds will support its strategic goals and at least 2x its commitment will be invested in the UK to support UK social impact. Exposure to non-UK investments will be monitored.

It is expected that multiple jurisdiction funds will principally be focused on developed markets with similar macro risk factors to the UK. In exceptional circumstances, BSC can invest in multiple jurisdiction funds with exposure to emerging markets where it can adequately assess and monitor the risks and mitigants.

C5. Liquidity and Leverage

- C.5.1 BSC predominately invests in buy-to-hold illiquid private investments. These investments have no or limited liquidity options due to there being no, or an underdeveloped, secondary market.
- C.5.2 BSC actively manages the pace of new SIIP commitments to ensure the Funding Rule is maintained: this rule requires the Treasury Portfolio to be equal or greater to 80 percent of gross outstanding commitments. This ensures BSC has sufficient liquidity to manage its investor drawdown obligations.
- C.5.3 Given BSC's high weighting of illiquid investments, it will actively seek to increase liquidity options in its asset allocation through establishing structures where it has the discretion to easily increase or decrease its commitment to actively manage its liquidity, for example co-investment facilities or managed accounts.
- C.5.4 BSC can warehouse investments in the SIIP which may be used for its Client Investment Management activities where there is high conviction that these investments will be sold within one year and would not materially affect BSC's short-term liquidity position or Strategic Asset Allocation. This will be made explicit at the point of an investment decision, including setting out the risk and portfolio implications and confirmation that any transfers will be made at fair value.
- C.5.5 BSC does not have the appetite to actively leverage its capital to enhance performance, however it has the appetite to take on debt to provide short to medium term liquidity to enable target commitment levels to be maintained given some uncertainty on the timing of distributions from its portfolio.
- C.5.6 Leverage at the fund level will be considered for each investment separately and monitored as part of portfolio risk reporting and stress testing. Leverage between asset classes will differ with

Social and Affordable Property most likely to see leveraged portfolios; in these cases, it is expected the typical leverage will be between 30% and 40%.

C6. Tax

- C.6.1 BSC aims to structure and manage its SIIP with due consideration of the tax implications, with the objective of optimising post-tax returns within the applicable legal and regulatory frameworks. It will consider the anticipated tax treatment of income, gains, losses and distributions, the structural characteristics of underlying vehicles, and the timing of cash flows.
- C.6.2 BSC may seek to utilise available tax reliefs, exemptions, and structuring approaches where consistent with its mandate. It will not undertake arrangements that are contrived, artificial or primarily tax-driven in nature.

C7. Subsidy

- C.7.1 All investments must abide with the UK subsidy control regime as defined by the Subsidy Control Act. BSC assesses each investment to determine whether the investment could be deemed a subsidy. Where there is a subsidy, BSC will inform the investee of the implications and, if required, will log the subsidy on the government subsidy register¹.

D. Systems Change Parameters

D1. Systems Change Objective

- D.1.1 BSC aims to achieve lasting systems change to increase the quantity and quality of capital and support to enterprises and charities that improve people's lives in the UK.

D2. Systems Change Risk Tolerance

- D.2.1 BSC has a high-risk appetite for systems change and recognises that there is a high dependence on externalities to deliver its systems change goals.

D3. Systems Change Approach 2026-30

- D.3.1 During the 2026-30 strategic period, BSC's strategic systems change focus includes the following areas:
 - Housing – Safe, Affordable Homes for All: BSC invests in models that not only increase the supply of safe and affordable housing but do so with sustainable financial and tenant outcomes. This includes social and affordable housing, transitional and supported housing for people with complex needs and housing for people who are experiencing or at risk of experiencing homelessness.
 - Economic Opportunity – Pathways to Prosperity: BSC invests where traditional finance does not reach enabling lending to local businesses and social enterprises; using blended finance and outcomes-based contracts to support skills and employment pathways; and backing ventures that improve financial resilience and deliver education and training solutions.

¹ For further information, see Subsidy Control Guide (2023). Available at: https://bettersocietycapital.com/documents/322/Subsidy_Control_Guide.pdf

- Climate and Energy – A Just Transition that Benefits Everyone: BSC invests in community-owned renewables that give people a stake in their energy future; retrofit programmes prioritising disadvantaged areas to reduce bills and improve health; nature based solutions to build climate resilience; and green skills pathways for workers transitioning from traditional industries.
- Health – Building a Fairer Health System: BSC backs health technology ventures that improve health outcomes and NHS efficiency. BSC mobilising investment into funds that support community-based organisations, charities and social enterprises to improve access to healthcare in local communities, including through innovative commissioning models such as outcomes-based contracts.

D.3.2 To deliver its challenge areas, BSC expects to invest in opportunity areas which are the most promising for investment. These may change over the strategy period. BSC expects to make three types of investments:

- Seeding: these will typically have high potential for systems change and impact but a more uncertain path. They may have less proven business models and/or significant external dependencies such as government policy to unlock the potential; therefore, BSC has moderate conviction on the dependencies coming through in the next two years.
- Scaling: these will typically be more proven business models and returns with significant potential for systems change and impact in the next five years given the strong evidence of support from other investors and partners.
- Sustaining: these will be high impact areas typically focused on enabling access to social investment for smaller social purpose organisations. There will often be less potential for major growth and new capital, with a higher dependency on BSC's capital and which may not directly align with the strategic challenge areas.

D4. Investee Requirements

D.4.1 To adhere to the requirements set out in the Dormant Bank and Building Societies Act 2008, BSC is required to act as a wholesaler by providing capital and support to social investment intermediaries.

D.4.2 In line with the same legislative requirements, the intermediaries BSC invests into (fund managers and social banks) must in turn provide financial or other support to Third Sector Organisations which 'exist wholly or mainly to provide benefits for society or the environment'. These Third Sector Organisations are referred to as "social purpose organisations" throughout this document.

BSC's Governance Principles² articulate its interpretation of the above requirements in relation to organisations that are not regulated social purpose organisations (regulated organisations include for example charities, community interest companies). BSC typically require all intermediaries who receive investment from BSC who are on-investing into organisations that are not regulated social purpose organisations to embed all clauses of the Governance Principles in the constitutional and/or legal documents of the qualifying investee.

In certain circumstances, BSC can make investments that on-invest into social purpose organisations that do not adopt and apply the Governance Principles where it has high conviction the target social purpose organisations will meet all the following conditions:

² Better Society Capital, Governance Principles. Available at: <https://betersocietycapital.com/about-us/governance/key-documents/governance-principles>

- Established and mainly operating and creating (or intending to create) positive impact in the United Kingdom
- Whose purpose is to contribute to solutions that create positive outcomes,
- Over time enable and evidence strong impact performance through impact practice, and
- Whose success over time will contribute to BSC's object to promote and develop the social investment marketplace in the UK.

These investments will in aggregate not exceed available non-Dormant Asset capacity (see Section G.4).

- D.4.3 BSC can make co-investments direct into social purpose organisations subject to an intermediary (fund manager or social bank) making the investment decision on its behalf. This will typically involve investing alongside BSC with its own capital or fund, which BSC may have invested into.

In cases that support BSC's systems change goals, BSC can make co-investments direct into organisations and make the investment decision subject to:

- The organisation having previously received investment from a fund BSC is invested in; and,
- Not exceeding the available non-dormant asset capacity (see Section G.4).

D5. Match Investment

- D.3.1 To support BSC's systems change goal to increase the quantity and quality of capital for impact, it requires match investment alongside its investment commitment of at least 1x on a like for like basis but will often be seeking a higher match based on BSC's overall strategic goals.
- D.3.2 In exceptional circumstances, BSC may invest unmatched, at a lower than 1x match or where the match is subordinate (such as in blended finance structures) where it has high conviction across the following dimensions:
- The manager has a credible route to successfully fundraise to meet the minimum fund size by a set time.
 - The investment will materially contribute to BSC's systems change or impact objectives.
 - The risk of being unmatched over the long term can be sufficiently mitigated and does not materially affect the performance of BSC's overall portfolio.

Where this occurs BSC will seek risk mitigated features in the structure or legal teams, for example making part of BSC's commitment contingent on securing match that will otherwise be cancelled if the milestone is missed.

- D.3.3 BSC will not typically invest where the match is only senior to its investment as this will not generally be consistent with its systems change goals of growing the market and BSC's requirements around subsidy control (see Section C.7.1).

E. Impact Parameters

E1. Impact Objectives

- E.1.1 When defining BSC's impact intent and objectives, it prioritises:
- Important life outcomes, as defined by the BSC Outcomes Matrix³.
 - People and communities in the UK who are both underserved and disadvantaged
 - Investments that either deliver significant scale or depth of impact; BSC equally values and aims for a balance of both dimensions across our portfolio.
 - Investments where a product or service is expected to lead to a significant improvement in the outcome versus the status quo.
- E.1.2 In BSC's 2026-30 strategy period, it is delivering its impact intent through four high potential challenges: housing, economic opportunity, climate and energy, and health.

E2. Impact Risk Tolerance

- E.2.1 BSC has a high-risk appetite for impact risk while ensuring the investment meets the 'does no harm' to people or the natural environment.

E2. Impact Approach

- E.3.1 BSC makes investments with the intent to have a positive impact on people. It defines 'who' the people it targets as:
- People who are *underserved* that are experiencing outcomes below a threshold considered necessary for well-being.
 - People who are *disadvantaged* from experiencing an outcome due to personal circumstances or systemic barriers. BSC focuses on three groups:
 - People at particular risk of harm, disadvantage or discrimination
 - People living in the UK's most deprived areas (as defined by the bottom 40% of IMD)
 - People on low incomes (as defined by the bottom 40% of income distribution).

Investments may feature different configurations of impact profile across these dimensions based on our strategic priorities and asset class characteristics.

- E.3.2 BSC may make investments that also focus on Enterprise Level Impact which relates to the change that occurs at the level of the social purpose organisation to in turn deliver positive impact on people. It focuses on two specific types of interconnected, but distinct, Enterprise Level Impacts:
- Enterprise growth: the growth of an enterprises' impact-generating activities
 - Enterprise resilience: an increased financial self-resilience which enables a greater ability to plan, withstand short-term shocks and seize on long-term trends and opportunities. This in turn allows the enterprise to sustain, preserve or mitigate a reduction in impact-generating activities.
- E.3.3 BSC will not target investments whose sole impact outcome is environmental; however, to the extent that an investment meets its targeted positive impact on people, it may make investments that actively support environmental and climate outcomes.

³ BSC (2026), *Outcomes Matrix*. Available at: <https://www.goodfinance.org.uk/measuring-social-impact/outcomes-matrix/app>

E4. Equity, Diversity and Inclusion (EDI) Factors

- E.4.1 BSC exists to reduce inequality and to build a fairer society and therefore wants to ensure that EDI is at the heart of how it uses its capital and builds the social impact investment market.

It does this by seeking to consistently make investment decisions considering EDI. It also contributes towards improving the EDI policies and practices of its fund managers and for more capital to flow to diverse-led social purpose organisations that were previously underserved.

- E.4.2 In line with BSC's EDI Action Plan, BSC will consider an investment's contribution towards portfolio level Key Performance Indicators, including:
- By the end of 2026, 100 percent of intermediaries in our portfolio have and maintain 26-50% women representation and 1-25% racialised representation across UK-based staff.
 - By the end of 2030, 50 percent of intermediaries have 26-50% women representation and 1-25% racialised representation in Board or Investment Committee, and senior leadership.

E5. Environmental, Social and Governance (ESG) Factors

- E.5.1 BSC believes it is critical to invest responsibly by considering environmental, social and governance (ESG) risks and impacts, and acting to avoid harm to people or the planet as it seeks to contribute to positive solutions.
- E.5.2 All investments must meet the requirements set out in the BSC Responsible Investment Policy⁴ including adopting the Responsible Business principles and adhering to the exclusion criteria.

E6. Mixed Funds

- E.6.1 BSC may invest in funds where only a portion of the portfolio is focused on impact into social purpose organisations and contribute to our systems change objectives. This is subject to:
- A high conviction there is a clear, demonstrable commitment from the fund manager.
 - BSC can adequately assess the drivers and risk of the non-impact portfolio of the portfolio.
 - At least 2x our commitment is invested into social purpose organisations; this may be higher depending on the nature of the investment.
 - The inclusion of non-social purpose organisations in the fund portfolio is essential to the economic viability of the fund.

In these instances, BSC will ensure the structure and the terms appropriately direct capital towards our impact objectives.

F. Investor Contribution

- F.1.1 Through its investments, BSC aims to have a positive investor contribution which relates to how it contributes to the outcomes of an investment. This is distinct from 'investor influence' which relates to the actions taken by an organisation outside of specific investments.

Investments are expected to have one or more of the following types of investor contribution to support BSC's investment objectives:

- Capital allocation: where BSC allocates capital that other investors would not have otherwise provided either at the same quantum or on the same terms.

⁴ Responsible Investment Policy (2023). Available at: <https://betersocietycapital.com/our-approach/esg-approach/>

- Capital mobilisation: where BSC allocates capital with the intention of influencing other investors' decision to invest in a specific business model, impact area or business model in line with our systems change goals to scale solutions.
- Engagement: where BSC actively engages on investment-specific issues to influence process, practice and approach, such as impact management, including providing access to our expertise, networks and partnerships. BSC's approach to engagement is detailed in our Engagement Policy.

G. Asset Allocation

G1. Asset Allocation Approach

- G.1.1 BSC seeks to build its portfolio to deliver the greatest impact and systems change while achieving its financial risk-return requirements.

For our Social Impact Investment Portfolio (SIIP), BSC does this by:

- Prioritising which investments to make through its impact and systems change goals, including the investment's ability to crowd in significant capital to scale impact and build the market.
- BSC then sizes investment allocations to deliver its overall portfolio financial goals, including its SIIP financial return target and diversification of factor risk including liquidity.

BSC's Treasury Portfolio helps it achieve our corporate financial return targets alongside effective liquidity management and at a minimum 'do no harm' to people and the planet – this enables BSC to prioritise impact and systems change through its social impact investments.

- G.1.2 The drivers of BSC's Strategic Asset Allocation include:
- Its mandate: it is guided by core mandate requirements determined at the point of being founded, agreed by its Board over time and/or agreed with its Shareholders.
 - Liquidity and risk appetite: It meets its liquidity requirements, including its Funding Rule (as outlined in Section C5) and all other risk parameters set by the Board including appropriate diversification across key factor risks.
 - Our existing portfolio: it expects its existing portfolio will be the key driver of portfolio mix over the 2026-30 strategy period.
 - The future opportunity set: it is informed by the indicative future opportunity set to deliver the strategy but will be responsive and flexible throughout the strategy period.
- G.1.3 BSC acknowledges that its asset allocation approach has a degree of cross-subsidy whereby it expects its investments in higher-risk adjusted return assets (often scaling more proven areas) will in part subsidise lower-risk adjusted return assets (often Seeding and Sustaining type investments as noted in Section D.3.2). This allows BSC to best meet its Investment Objectives.
- G.1.4 When allocating its capital, BSC is intentionally aiming for a portfolio mix of income-generating assets alongside those generating returns through capital appreciation. And in the case of the latter, it aims for a balance between asset-backed investments and enterprise-linked investments to manage its exit and downside risk.

G2. Asset Allocation and Future Commitments

- G.2.1 BSC's 2026-30 Strategic Asset Allocation (SAA) best balances the portfolio to achieve its investment objectives. It brings together a bottom-up view from its strategic review of the 2026-30 opportunity

set and portfolio performance, together with a top-down view to ensure sufficient diversification and management of risk across its portfolio including across models, manager and factor risk.

The following portfolio mix is expected by the end of 2030 based on valuations at that time plus remaining legal commitment:

Asset Class	Description	2030 Portfolio Mix
Property	Principally funds investing into general needs affordable housing and specialist housing tackling areas such as homelessness and domestic abuse.	30-40%
Debt and Outcomes Contracts	Funds providing loans to charities and social enterprises, charity bonds and social outcome contracts	25-35%
Renewables	Project finance into community renewable projects.	5-15%
Bank Equity	Social bank equity positions.	5-10%
Venture	Funds providing early-stage capital to impact ventures	15-25%
Growth Equity	Funds providing growth equity capital.	0-10%
Other	Principally our holdings in the Schroders BSC Social Impact Trust and direct intermediary investments.	0-10%

- G.2.2 BSC aims for a sustainable commitment rate that tracks the Funding Rule over the long run. We have an assumed investment capacity of £60-80 million per annum or £350 million total over the 2026-30 strategy period. However, this could change year-on-year depending on the realisation of the portfolio and the mix of investment opportunities that deliver BSC's strategic goals. An indicative view is provided below.

Asset Class/ Allocation	Total 2026-30 £	Total 2026-30 %
Property	£75-125 million	25-30%
Debt	£50-100 million	20-25%
Social Outcome Contracts	£25-75 million	12-17%
Venture	£50-100 million	20-25%
Renewables	£25-75 million	12-17%
Pathfinder	£0-5 million	0-2%

- G.2.3 BSC has a dedicated "Pathfinder" allocation to support a small number of early-stage propositions with the potential for transformational systems change and/or significant impact on people to advance BSC's 2026-30 strategic goals that do not fit within its asset class allocations primarily due to financial risk-return. For these investments, it is expected there will be a high dispersion, and portfolio returns of capital preservation or below.

Investments considered as a Pathfinder, must at a minimum satisfy the following conditions:

- Path to deliver impact at scale: the potential to support impact on people, particularly disadvantaged or vulnerable groups, through innovative high-impact, scalable business models or new ways of financing existing high-income, scalable business models.

There is likely strong potential for:

- Path to delivering investment at scale: a credible hypothesis to achieve investment at scale including appetite of the likely investor base. This may involve demonstrating the financial

risk-return traditional investors will find acceptable, attracting concessionary capital at scale based on the evidence of impact and systems change, and/or enabling the unlocking of subsidy required to scale.

- Credible delivery route to scale: demonstrable evidence that the manager and/or delivery partnership is preparing to deliver the proposition at scale.

G3. Investment Commitment Size

G.3.1 The typical commitment size will differ by asset class but are expected to be between £1 million and £15 million per investment across the portfolio. The following factors will be considered and balanced when determining the size of the investment:

- The risk-return profile and its contribution to overall expected portfolio performance
- The expected systems change and quantum of capital BSC need to commit to influence its desired outcomes
- The expected impact on people
- Conviction in the manager
- Overall asset allocation to maintain diversification and manage portfolio risk.

In exceptional circumstances, BSC can exceed this where it believes there is a strong case in line with its Investment Objectives and there would not be any adverse effect on market dynamics or disproportionate changes to the risk-return profile of BSC's portfolio.

G.3.2 Investments made through the Pathfinder allocation will be smaller and are expected to be between £0.5 million and £1 million.

G4. Diversification and Concentration

G.4.1 BSC is a private markets' investor that typically holds investments to maturity with no or limited ability to exit investments early. Therefore, BSC has limited ability to materially adjust the mix of its portfolio through existing investments and instead must focus on risk management. BSC will not dispose of any investments or rebalance its portfolio because of a change in the valuation of an investment holding.

The portfolio mix is regularly monitored, and rebalancing and diversification is considered in the context of new investments and their interaction with the existing portfolio.

G.4.2 Through BSC's asset allocation and the asset classes and business models it invests into, BSC is aiming for low to non-correlated risk-returns by diversifying its portfolio. BSC aims to diversify its portfolio across its financial, impact and systems change goals to best deliver our investment objectives.

G.4.3 BSC aims not to exceed 10 percent gross assets (excluding any client funds that we hold or advise on) in any one intermediary which aligns with the guidance of its State Aid Exemption. Exposure is calculated based on amount of drawn capital plus any remaining legal commitment less any distributions and realised losses.

There is an acknowledgement that in some cases, BSC may exceed this limit due to external factors (such as mergers) where it will typically not make further commitments until the manager is within the 10 percent threshold again.

- G.4.5 BSC will not exceed the quantum of non-Dormant Asset shareholder funds in the following types of investments, which are not mutually exclusive:
- The proportion of a fund that is on-invested in social purpose organisations located and/or operating in the UK outside of England (Scotland, Wales and Northern Ireland).
 - Where a fund is not investing in registered social purpose organisations and does not subscribe to the Governance Principles.
 - Where BSC makes co-Investments direct into a social purpose organisation alongside an existing intermediary, but where BSC are making the investment decision.
 - Where BSC makes an investment under the “Commercial Venture Allocation Carve-Out” that invests on a commercial basis into emerging venture capital fund managers to support our systems change goals (see Appendix 1 for full criteria).
- G.4.6 The BSC Board requires a maximum of 40 percent of our gross portfolio assets (excluding any client funds that we hold or advise on) in property investments. Exposure is calculated based on amounts of drawn capital plus any remaining legal commitment less any distributions and realised losses.
- G.4.7 There is an acknowledgement that there may be a concentration risk on a look through basis where multiple intermediaries have invested in the same social purpose organisation investee. BSC does not have set parameters on frontline concentration or restrictions on intermediaries; however, it regularly collects data on underlying investees and undertake enhanced monitoring where aggregate investment in an underlying investee exceeds £10 million.

Appendix 1: Commercial Venture Allocation Carve Out

The following criteria will be applied to the £20 million 'Commercial Venture Allocation Carve-Out'. As outlined in the Investment Policy, this is a distinct carve out of our 2026-30 investment venture allocation to invest in a commercial basis into emerging venture capital fund managers. It aims to achieve superior venture capital financial returns alongside the delivery of positive social impact outcomes.

The following criteria will be applied to determine the suitability of an investment for this Commercial Venture Allocation Carve-Out.

- **Financial return objective:** The allocation is targeting a 15%+ IRR (above BSC's overall venture allocation target of 10%+ IRR) over a rolling five-year period – with the intention that this allocation is a positive contributor to BSC's portfolio-wide rolling five-year return targets. It target returns consistent with top-quartile venture fund performance.
- **Financial risk tolerance:** The allocation has a high-risk tolerance for illiquidity and volatility, and low tolerance for permanent loss of capital.
- **Impact objective:** The allocation aims to have a positive impact on people in line with BSC's strategic goals and mission. All eligible funds for the allocation must align with BSC's mission to reduce social inequalities through investment in funds that invest in tech-enabled, user-centric business models. In addition, the fund must have sufficient alignment with one of BSC's four investing themes: health, economic opportunity, climate and energy, and housing.
- **ESG objective:** All eligible funds must meet the requirements set out in the Responsible Investment Policy.
- **Geographic focus:** All eligible funds for the allocation must demonstrate a strong commitment to invest in the UK, with a minimum threshold of at least 2x BSC's commitment deployed into UK impact companies as defined by BSC.
- **Manager track record:** BSC seek exposure to emerging managers that can strongly demonstrate actual or potential delivery of strong net returns, value creation and impact.
- **Manager incentives:** BSC requires strong alignment of interests between the manager and LPs through appropriate, market-standard fee structures and GP commitment.