



Results analysis: Schroder BSC Social Impact

SBSI has demonstrated good resilience, yet the discount has widened...

Update
10 April 2024

- Schroder BSC Social Impact (SBSI) has released its interim results for the six months ending 31/12/2023. Over the period, the trust saw its NAV increase by 0.4% on a total return basis, which compares to an average total return of 2.4% for the AIC Flexible sector over the same period. The FTSE All Share Index, which is a comparator though not the formal benchmark, rose 5.2%.
- Assets are divided into ‘mature’ and ‘investment phase’ investments depending on their stage of capital deployment. The portfolio was split 68% to 23% respectively as at 31/12/2023. Investment phase assets contributed positively, adding 0.55% to NAV though this was offset by the mature investments which detracted 0.17%, most notably in the Bridges Evergreen portfolio which detracted in the period due to the sale of Agility Eco at below the previous book value, though SBSI’s overall return was 2.7x the initial investment. The mature investments overall have performed well since launch in absolute terms, delivering a total return of c. 10.6%.
- To minimise cash drag that could come from projects with staged capital deployment, the managers can allocate to liquidity assets, which represented 7% of NAV as at 31/12/2023, and contributed NAV returns of 0.55% over the six months.
- The positive NAV total return included a dividend of 2.3 pence per share, in-line with the updated guidance that shareholders should expect an increased yield on NAV of between 2% to 3%. Investment income was the biggest contributor to performance, particularly interest income from the Charity Bond and Charity Bank Co-Investment portfolios which were the two largest contributors to performance.
- The managers made a new investment in a renewable energy project with community benefits. This was funded through a partial disposal of a property letting fund in the first half of 2023 as well as scheduled debt repayments from a number of other investments.
- The share price total return over the six months was -4%, with the discount on the trust widening to 15.1% from 10.9% over the period. The board has been active with share buybacks with the aim of narrowing this, contributing 0.14% to NAV over the six months.

Analysts:

Ryan Lightfoot-Aminoff
Ryan@keplerpartners.com



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- Chair Susannah Nicklin commented on the outlook for impact investing, indicating that the “long-term effects of the recent economic instability are expected to continue... [which].. leads to continued and growing demand for the services that the Company’s investments are offering”.

Kepler View

Schroder BSC Social Impact (SBSI) owns a portfolio of investment projects that will deliver a meaningful impact to the most disadvantaged members of society. The portfolio has continued to demonstrate strong resilience over the past six months and delivered a modest increase in NAV total return. This has been primarily driven by strong investment income, including an increased contribution from floating rate loans in the higher interest rate environment. This in our opinion is a prime example of the portfolio’s resilience, showing the ability to offset some of the difficulties the higher interest rate environment has presented and even in some cases benefit from it.



The revaluation of the portfolio's assets has also contributed to performance. The managers categorise their projects into mature and investment phase depending on their level of capital deployment with the portfolio split 68% and 23% respectively as at 31/12/2023. That investment phase assets contributed positively at the same time as the mature assets marginally detracted from returns, demonstrates the diversification benefits of the trust and supports a less volatile performance profile.

Within the mature assets allocation, SBSI made a new investment into Community Energy Together Ltd (CETL) which provides renewable energy and community benefits. This investment was funded through the recycling of cash from a disposal and capital repayments from elsewhere in the portfolio. We believe this demonstrates prudent management and provides evidence that there remain many investment opportunities available in the impact investment space, especially in the current environment.

The strong investment income, in part due to higher interest rates, has contributed to the managers meeting their increased dividend guidance of between 2-3%. We believe this reinforces the fact that income is an important contributor to total returns going forward. The sale of Agility Eco at a level that is 2.7x SBSI's initial investment also demonstrates the strong return potential of the portfolio, in spite of the challenging backdrop. As such, we believe the period covered by the interim statement has reinforced the qualities of impact investing as an asset class.

Despite these positives, the trust's discount widened in the period. The board has continued share buybacks, though the discount has subsequently widened post period end to c. 25%, the widest level since the trust's inception. We believe this discount level overlooks the resilience of the portfolio and could offer an attractive entry point for long-term investors.

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