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# Breaking Barriers: Unlocking the Demand for Charity Bonds

Exploring what is holding the market  
back – and how to move forward

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White Paper

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# Table of contents

<b>Executive Summary</b>	<b>3</b>
<b>Introduction</b>	<b>4</b>
<b>Sources of finance for charities</b>	<b>5</b>
<b>External finance and charity bonds</b>	<b>6</b>
<b>Charity Bonds vs Social Impact Bonds</b>	<b>7</b>
<b>Outline of the report</b>	<b>7</b>
<b>Charity Bond Case Study</b>	<b>9</b>
<b>Chapter 2: Demand vs Supply Side drivers</b>	<b>10</b>
<b>The Supply Side of the Charity- Issued Bond Market</b>	<b>10</b>
<b>Why are charities reluctant to issue bonds?</b>	<b>10</b>
<b>The Demand Side of the Charity- Issued Bond Market</b>	<b>11</b>
<b>Investors that could invest in bonds issued by charities</b>	<b>12</b>
<b>Background on the regulation of investments by charities</b>	<b>12</b>
<b>Obstacles to Investment in Charity Bonds by Charities-Roundtable Insights</b>	<b>13</b>
<b>Chapter 3: Charity Investment Advisors</b>	<b>14</b>
<b>The Role of Charity Investment Advisors</b>	<b>14</b>
<b>Survey of Charity Investment Advisors</b>	<b>14</b>
<b>Survey Results</b>	<b>15</b>
<b>Chapter 4: Impact Investment Policy of Charities</b>	<b>16</b>
<b>Chapter 5: Summary &amp; Recommendations</b>	<b>17</b>
<b>Appendices</b>	<b>19</b>

# Executive Summary

Charity issued bonds provide a focused and transparent way for investors to generate social impact for an objective of their choosing.

While charity bond issuance has been adopted by some of the largest non-profit organisations—such as the Wellcome Trust, universities, and housing associations—it remains relatively underused by the next tier of large charities. This report investigates the reasons behind this limited uptake, identifying key factors on both the demand and supply sides, and suggests potential ways these barriers might be overcome.

On the supply-side, many charities are discouraged from issuing bonds because charity trustees are concerned about the risks involved:

- the cost of issuing charity bonds might be unattractive as a result of
  - the small scale of the bond issue
  - the lack of a credit rating for the issuing charity
  - the lack of suitable collateral due to the type of charity concerned
- charity trustees feel that bond issuance will increase financial pressure which might divert attention from the charity's objectives

On the demand side, investors show limited interest in charity bonds due to several factors:

- Single-name investments are unattractive because of the small issue sizes, the significant due diligence required, and the associated idiosyncratic risks.
- Pooled investment vehicles may also avoid charity bonds for similar reasons—small issuance volumes, absence of credit ratings, and the resulting increased burden of due diligence.
- Charities themselves, while potential investors, face the same challenges as other investors and are similarly deterred by the complexity and risk profile of these instruments.
- Mission alignment is another barrier, as charities may be unwilling to invest in bonds that do not directly support their specific objectives.
- Investment policies of charities often prioritise financial returns over impact, further limiting appetite for these instruments.

We offer a range of policy recommendations to enhance the effectiveness and appeal of charity bonds. These include improving financial education for charity trustees, introducing third-party credit guarantees, and allowing for greater regulatory flexibility. Together, these measures could help scale up volumes and unlock the potential of this important segment of the market.

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# Introduction

Charity bonds are financial instruments issued by nonprofit organizations to raise funds for projects that directly align with their mission. The defining characteristic of charity bonds, setting them apart from other sustainable or social bonds, is that the issuer is always a nonprofit entity. This in turn dictates the use of proceeds which are directed toward specific charitable purposes. Beyond this distinction, charity bonds function like corporate bonds, offering investors a fixed return and clear terms.

For example, if an investor is investing in charity bonds issued by a housing trust for the purpose of building housing stock, they know exactly what the money will contribute to and the type of impact that will be generated.

Charity bonds are a relatively new financing tool in the nonprofit sector. The sterling-denominated charity bond was issued in 2006 by the Wellcome Trust, the largest UK charity and one of the world's leading funders of medical research. With an asset portfolio close to £40 billion, the Wellcome Trust has leveraged its financial strength to regularly raise funds for medical research through bond issuances. In 2015, the Trust issued its first Euro-denominated bond, and in 2018, it raised £750 million through a 100-year bond.

Despite this pioneering role, the Wellcome Trust remains an exception rather than the norm in the charity bond market. Although interest in socially responsible investments has surged post-COVID, charity bonds have not seen the same increase in adoption as other sustainable investment vehicles, such as Green Bonds and ESG funds. The market is still dominated by large charitable institutions, such as the Wellcome Trust and Housing Associations, which possess the scale, credit ratings, and financial resilience to cover the costs

of the issuance process. Notably, the Wellcome Trust holds a prestigious AAA rating from Moody's and S&P Global.

Other notable issuances include University College London (UCL), which in May 2021 issued the UK higher education sector's first Sustainability Bond worth £300 million aimed at supporting the University's ambition to green their estate.

However, since 2021, the charity bond market has experienced a slowdown due to challenging economic conditions and rising interest rates. Table 1 summarizes recent data on charity bond issuance in recent years

<b>Table 1. Recent trends in Charity Bond Issuance Year</b>	<b>2024</b>	<b>2023</b>	<b>2022</b>	<b>2021</b>
Number of Bonds	5	4	9	18
Total amount (£m)	1400	810	2635	4421
Proportion by Housing Associations	100%	99%	79%	75%
Proportion by Charities	0%	25%	29%	29%

Data: Allia C&C

Smaller charities have so far failed to appreciate the opportunity that charity bonds might offer as an alternative financing tool.

According to the Charity Commission in England and Wales there were approximately 170,056 charities at the start of April 2025. Only a few charities in the UK are large. Figure 1 shows that around 75 per cent of charities have income under £100,000 but at the other end of the spectrum and 1612 (0.94 per cent) of the have income above £10 million. Asset holdings are also concentrated across charities. At the end of 2023 assets of the charity sector were £255 billion of which nearly 50% of assets

was held by the top 100 wealthiest charities.

These figures exclude other non-profit organisations such as universities which have a charitable status but are exempt from registration with the Charity Commission, and Housing Associations most of which are non profit Registered Providers. According to gov.uk data there are currently 778 Housing Associations that are non-profit registered providers.<sup>1</sup>

The size distribution of charities has implications for the charity bond market as for the majority of charities bond issuance is not viable economically given the fixed cost nature of debt issuance costs.

Charities in the UK rely on a variety of financing methods to sustain their work, ranging from public donations to government grants and investment income.

### **Sources of finance for charities**

One of the most common ways charities are financed is through public donations. Many charities in the UK rely heavily on voluntary donations from individuals. For instance, in 2023 donations represented almost 70 per cent of the income generated by Cancer Research UK whereas for Macmillan Cancer Support donations represented almost 90 per cent of the charity total income.

For some of these charities, retail bond investment can be seen as a competitor to this money, whereas it is in fact a way of expanding funding opportunities by dipping both into the investment pot of donors as well as their charitable donation pot.

Another important source of funding for charities is government and local authority

grants. These grants are typically awarded to charities providing essential services, such as healthcare, education, or social support. For instance, NSPCC (National Society for the Prevention of Cruelty to Children) receives government funding to help deliver child protection services. However, government funding often comes with restrictions, requiring charities to meet specific performance criteria and has been substantially reduced over the last few years

Certain charities earn money from fees for providing services from both the government and the private sector. Such charities include care and support charities, education charities, heritage charities such as the Canal & River Trust and of course Housing Associations.

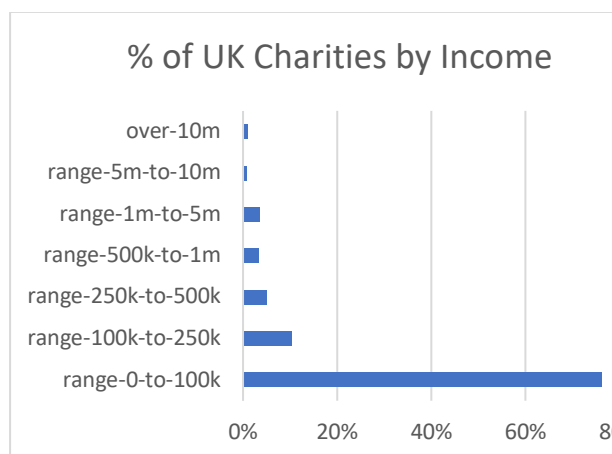
Many charities also form corporate partnerships to secure funding. Large businesses sponsor charities or donate a percentage of their profits to support social causes. For example, Macmillan Cancer Support partners with companies like Marks & Spencer and Boots, which raise money through product sales and customer donations. Corporate partnerships can be mutually beneficial, as businesses enhance their corporate social responsibility (CSR) while charities receive essential funding.

Another important source of income for charities is trading and social enterprises. Oxfam, for example, operates charity shops across the UK, selling donated clothes, books, and household items. Some charities also generate income through membership fees and subscriptions. Organisations like the National Trust and the RSPB (Royal Society for the Protection of Birds) charge annual membership fees, granting supporters access to historic sites, nature reserves, and exclusive content.

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<sup>1</sup> [List of registered providers – 16 May 2025 \(accessible version\) - GOV.UK](#)

Figure 1



Source: Charity Commission, 2025

Some large charities, especially foundations and trusts, fund their activities from their investment income as they manage large endowments and funds. Even among those charities however there is significant variation in the size of investments and the reliance on investment income. To illustrate this, we report in Table 2 investment income data for the 10 largest charities by investment size.

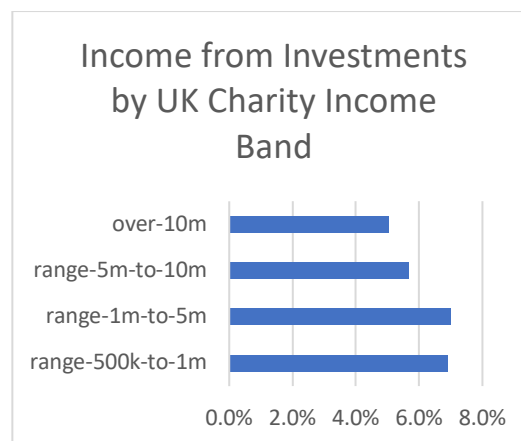
**Table 2: Income data for the largest charities by investment assets**

Charity name	AUM	income from investment	total income	Proportion of income from investment
WELLCOME TRUST	£39,312,267,692	475.32	542	0.877
GARFIELD WESTON FOUNDATION	£10,093,969,000	110.3	110.3	1.000
CHURCH COMMISSIONERS FOR ENGLAND	£9,967,545,216	188.27	192	0.980
THE CHILDREN'S INVESTMENT FUND FOUNDATION (UK)	£4,653,090,929	70.38	239	0.295
THE LEVERHULME TRUST	£3,756,459,000	98.93	98.93	1.000
TRINITY COLLEGE CAMBRIDGE	£2,460,390,000	83.23	108	0.774
SUTL CAZENOVE CHARITY	£2,384,076,000	50.82	50.82	1.000
MOTABILITY	£2,110,054,000	59.43	311	0.191
BRIDGE HOUSE ESTATES	£1,604,500,000	28.9	40	0.721
THE NATIONAL TRUST FOR PLACES OF HISTORIC INTEREST OR NATURAL BEAUTY	£1,575,550,000	13.71	724	0.019

Source: The Charity Commission

As we can see from Figure 2, depending on the income bracket, between 5-7% of the total income of charities comes from investment income.

Figure 2:



Source: Charity Commission, 2025

### External finance and charity bonds

When charities have a specific project that requires substantial upfront capital investment that cannot be funded from normal sources of income, then they may look to external sources of finance such as bank borrowing or issuing bonds. Costs of finance are likely to be more favourable if the charity has regular sources of income or if the charity can use assets as collateral when borrowing.

Charities can and do use bank finance.

For example, according to the Charity Finance group (CFG), a £5.9 million loan was recently made available by a UK-based bank to an educational training charity for those working with children with special educational needs and disabilities which had revenue of approximately £10 million, mostly derived from contracts with the state education sector. The loan was used to buy and redevelop a property and was secured against that property. The loan was repayable in instalments over 25 years. Bank loans are also a main source of funding for housing associations. According to data published by the Regulator for Social Housing, in 2024, private registered providers of housing in the UK (PRPs) raised around two-thirds of new finance in the form of bank loans

Charities can also choose to issue bonds. For example, in 2014 Golden Lane Housing (see Case Study on page 10), a registered provider of homes for people with learning disabilities, was the first to issue bonds in to raise £11 million. The funds were used to finance the development of much-needed affordable housing for vulnerable people. This model allowed the charity to access capital quickly, bypassing the typical restrictions of grant funding or donations, while also enabling the charity to meet its long-term goals of providing housing for people with disabilities. Another example of a charity bond issue is the 2017 Hightown Housing Association bond. Hightown raised £27 million through a charity bond to develop affordable housing projects in Hertfordshire, aiming to alleviate local housing shortages.

Therefore, some larger charities may be well-positioned to benefit from tapping into the charity bond market.

### **Charity Bonds vs social impact bonds**

Charity bonds issued by charities are regular bonds where the proceeds are used for charitable purposes and should not be confused with *Social Impact Bonds* which are financial contracts where the payoff to the bond purchaser is contingent on social impact.

Unlike traditional bonds, where repayment is based solely on financial performance, social impact bonds are directly tied to achieving specific social outcomes. Investors in these bonds receive returns only if the charity or social organization successfully meets predefined social goals. This model is designed to align financial incentives with measurable social benefits, ensuring that funds are directed toward impactful outcomes.

One of the earliest and most notable examples of a social impact bond in the UK is the Peterborough Social Impact

Bond, launched in 2010. Its goal was to reduce

reoffending among prisoners released from Her Majesty's Prison (HMP) Peterborough after serving sentences of less than twelve months.

Despite their innovative approach, social impact bonds are complex financial instruments with several inherent challenges. One of the primary difficulties lies in measuring social outcomes and agreeing on specific metrics that define success. For example, in the Peterborough case, the objective was to reduce reoffending by a set percentage. However, accurately measuring reoffending rates and directly attributing any reduction to the intervention proved difficult. Furthermore, the high level of risk associated with social impact bonds means they primarily attract institutional investors or those with a high-risk tolerance. As a result, social impact bonds may not be suitable for all charitable organizations or investors.

According to data from Indigo, there are currently 100 social impact bonds in the UK,

that have collectively raised £79 million. However, the growing variety of social impact investments may itself pose a challenge, as investors struggle to fully understand the differences between these financial instruments and to choose those that best suit their objectives.

### **Outline of the report**

The purpose of this report is to identify the barriers that prevent the wider charity sector from employing charity bonds more regularly as a funding tool and to discuss what can be done to overcome them.

This report is organised as follows. Chapter 2 focuses on the demand and supply side drivers. The supply-side

section of this chapter discusses obstacles and reasons why charities might not issue charity bonds while the demand side section of this chapter discusses the parties that might be interested in investing in charity bonds. It then examines why these bonds might not be attractive for investment purposes. We then zoom in on charity endowments that may also invest in these bonds. Using the feedback from a charity bonds roundtable held in 2025 at Bayes Business School involving decision-makers at various charity endowments in we discuss why these bonds might not be appealing to charity endowments.

Another third group that also strongly affect outcomes in this market are charity investment advisers and we discuss the results of our investment advisers survey in Chapter 3 which sheds light on why charity bonds are not recommended by investment advisers. Chapter 4 discusses the impact investment policy of charities and Chapter 5 concludes and makes policy recommendations.

## **Charity Bond Case Study Golden Lane Housing**

### **Social Challenge/Purpose**

There is a lack of appropriate supported accommodation for people with learning disabilities who often live in large institutions which are far away from home or stay with family members who are increasingly unable to cope.

### **Revenue Model**

Golden Lane Housing raised £11 million raised via Retail Charity Bond PIC. The bond was the first listed on the London Stock Exchange's Order Book for Retail Bonds targeting both wholesale and retail investors. The bond was launched on June 27<sup>th</sup> 2014 and the offer period was set to end on July 23 but closed early July 9<sup>th</sup>, due to strong demand.

The proceeds from the bond, which matured in 2021, were used to buy and adapt 30 properties which for people with learning disabilities. Rental income, including housing benefits, will be used to pay interest to investors and cover costs of management and maintenance.

### **Impact**

The charity invested £83 million + to buy or lease 700 homes for 1,320 people with learning disabilities to date. 90% of tenants report a high level of satisfaction with their homes and many have found a new lease of life as they are more confident and engaged in their local communities. The 2014 bond enabled Golden Lane Housing to provide supported housing in the community for a further 120 tenants

### **Key Statistics**

Product type: Charity bond; Investment Amount; £11 million; Maturity: 7 years  
Coupon: 4.375% semi-annual;  
Organisation Turnover: £20.72 million

Golden Lane Housing issued two more charity bonds through the same platform in 2017 for £15 million and in 2021 for £18million.

## Chapter 2: Demand vs Supply Side drivers

### The Supply Side of the Charity-Issued Bond Market

Given sources of money such as fundraising and grants, charities will only look to raise external finance if these are insufficient to meet their objectives. This is particularly the case if charities wish to make large upfront outlays. Bank finance may be a first port of call and may be simpler to implement than issuing bonds and bond finance will only make sense if the costs of raising finance are sufficiently cheaper than bank finance.

#### Why are charities reluctant to issue bonds?

There are three key reasons why charities may be hesitant about issuing bonds: risk, cost and competing funding opportunities. First, trustees of charities may be reluctant for the charity to take the risk involved when issuing a bond as there is a chance that if the charity's income is insufficient that the charity could fail to meet its financial obligations.

A second reason why charities might not choose to use bond finance is because they may not be able to get finance on reasonable terms. This may be because the issue size is too small which raises the fees in bond issuance if there is a fixed component to the fees charged. This may also be because as charities do not have credit ratings typically, investors have greater uncertainty when investing in these bonds and therefore charge a greater risk premium and spread when lending to charities. This greater uncertainty also imposes a larger cost on lenders as they need to do a greater amount of due diligence when investing in these instruments than they would have to do if these bonds had a credit rating.

Indeed, to date, most charity bonds have been issued by credit rated organisations. Financing terms can also be tied to whether borrowers have collateral. As not all charity borrowers have collateral, this can be an obstacle to charities raising external bond finance on attractive terms. It should be recognised however that not having collateral is not a deal breaker when it comes to charities raising bond finance as there have been a number of charity bond issues by charities where collateral has not been pledged.

A third reason why charities might choose not to issue bonds is because charity trustees are concerned about the financial pressure that issuing a bond will generate on the charity itself and impact of that pressure on the subsequent conduct of the charity. For example, if charities are forced to pay for bond interest rather than channelling money into ventures that align with the charities' objectives then this might not be desirable for charities.

Another reason why charities might not want to issue bonds is if they are primarily funded by donations then they may be worried that people will switch from giving donations to buying bonds and issuing bonds will result in less donations being given by the public.

In summary, most charities will not need external finance unless they are making major investments into revenue generating assets. However, in the event that external finance is required the main barriers to raising external bond finance are perceptions about the risks involved, the lack of collateral, issue size and credit ratings which make financing terms unattractive and also because trustees may be concerned about the conflicting objectives of paying for external finance and their charities' missions.

## The Demand Side of the Charity-Issued Bond Market

For charity issued bonds to have an impact, there needs to be a sufficient volume of investors willing to invest in these bonds. We begin by discussing potential parties that might be interested in investing in these bonds.

### Investors that could invest in bonds issued by charities

#### *Retail*

One potential group of investors in charity bonds is individual retail investors. These are retail investors who want to support charitable causes while earning an acceptable return. One of the reasons for targeting retail investor in the UK, is that they can put the bonds in their ISAs and SIPPs. Charity bonds often appeal to ethically minded investors who prefer their money to contribute to social good rather than purely profit-driven ventures. For example, when Golden Lane Housing, a charity providing housing for people with learning disabilities, issued bonds, many individual investors participated due to their interest in supporting social housing initiatives. Unfortunately a recent FCA consultation has proposed a simplified regime for 'non-complex' listed bonds but charity bonds are excluded from this route and instead classified as complex instruments which clearly represents a missed opportunity.

#### *Institutional*

At the non-retail level, parties that could invest in charity issued bonds include institutional investors such as asset managers, high-net-worth individuals (HNWIs) and family offices and lastly government backed or quasi-public investment funds such as local authority pension funds and charities or social impact investors.

Institutional investors may purchase charity bonds which include pension funds, insurance companies, and asset managers that may invest in these bonds as part of their broader portfolios. These institutions often have mandates to allocate a portion of their funds to socially responsible investments, making charity bonds an attractive option. For instance, the Rathbone Ethical Bond Fund, which focuses on ethical and social investments, has included charity bonds in its portfolio.

Government-backed or quasi-public investment funds can also invest in charity bonds. Entities like the UK government's Impact Investment Fund or local authority pension funds may include charity bonds in their portfolios to support social infrastructure projects. Such investments align with public sector goals of improving housing, healthcare, education, and other community services.

High-net-worth individuals (HNWIs) and family offices may also invest in charity bonds as part of their ethical investment strategies. Charity bonds provide a way for them to combine philanthropy with investment returns. For example, some high-net-worth investors participated in the Alzheimer's Society charity bond, which raised funds for dementia research and care services.

Finally, government-backed or quasi-public investment funds can also invest in charity bonds. Entities like the UK government's Impact Investment Fund or local authority pension funds may include charity bonds in their portfolios to support social infrastructure projects. Such investments align with public sector goals of improving housing, healthcare, education, and other community services.

Other charities, social impact investors and philanthropic foundations could be another group of investors to invest in charity bonds. These investors may also prioritize the social or environmental

impact of their investments over purely financial returns. Organizations such as Better Society Capital, which was set up to support social enterprises and charities, invest in charity bonds to help finance projects that align with their mission.

### **Background on the regulation of investments by charities**

#### *Regulatory Framework Governing Charity Investments*

Charity trustees in England and Wales are guided by the Charity Commission's investment guidance, known as CC14. This guidance outlines trustees' duties when making investment decisions, emphasizing the need to:

- **Act in the Charity's Best Interests:** Trustees must ensure that all investment decisions align with the charity's purposes and benefit its beneficiaries.
- **Comply with Legal Duties:** This includes adhering to the Trustee Act 2000, which mandates duties such as the standard of care, the need for diversification, and obtaining appropriate advice.
- **Develop an Appropriate Investment Policy:** Trustees should establish a clear policy that reflects the charity's objectives, time horizons, and risk tolerance.

The guidance also distinguishes between financial investments, which aim to generate the best financial return within an acceptable level of risk, and social investments, which directly further the charity's aims and may offer a mix of financial and social returns.

### **The Butler-Sloss Case and Its Implications**

In April 2022, the High Court delivered a significant judgment in the case of *Butler-Sloss v Charity Commission* [2022] EWHC 974. The trustees of two environmental

charities sought legal clarity on whether they could adopt an investment policy that excluded investments not aligned with the Paris Agreement on climate change, even if such a policy might result in lower financial returns.

The court affirmed that trustees could prioritize investments aligning with their charity's purposes, including ethical considerations, provided they do not significantly compromise financial returns. This judgment underscored the principle that trustees have discretion to balance financial return with the charity's aims, especially when ethical considerations are integral to its mission.

#### *Revised CC14 Guidance Post-Butler-Sloss*

Following the Butler-Sloss judgment, the Charity Commission undertook a comprehensive review of its investment guidance, resulting in a refreshed CC14 published in August 2023. The updated guidance provides:

- **Clarified Definitions:** A clear distinction between financial investments and program-related investments, aiding trustees in understanding the spectrum of investment options.
- **Enhanced Decision-Making Frameworks:** Tools and examples to assist trustees in balancing financial returns with the charity's purposes, including considerations of environmental, social, and governance (ESG) factors.
- **Emphasis on Documentation:** Guidance on the importance of recording the rationale behind investment decisions, ensuring transparency and accountability.

The revised CC14 aims to empower trustees to make informed investment decisions that align with their charity's objectives, providing flexibility to incorporate ethical and mission-related

considerations without breaching fiduciary duties.

In summary, the regulatory framework governing charity investments has evolved to offer trustees greater clarity and flexibility, enabling them to align their investment strategies with their charitable purposes while maintaining prudent financial management.

### **Obstacles to Investment in Charity Bonds by Charities-Roundtable Insights**

To shed light on these obstacles, a roundtable was hosted at Bayes Business School where experts involved in social impact investing were invited. This included Tom Bennett, Social Impact Investment adviser to the Robertson Trust, Caron Bradshaw, CEO of the Charity Finance Group, Andrew Gnaneswaran, Chief Investment Officer at Dunhill Medical Trust, and David Rowe, Honorary Treasurer of the SSAFA, who shared their expertise on the barriers to adoption and the potential solutions. The panel highlighted the following obstacles to investment in these instruments by charities.

First, trustees of charities are normally risk averse and are therefore cautious about the use of charity bonds. Due to this risk aversion they are also averse to investing in innovative assets.

Second, trustees of charities can lack financial training and as a result may lack confidence to make investment decisions themselves.

Third, single name issues are typically small, illiquid and issuers mostly do not have credit ratings. Charities may be reluctant to invest in these single issues as their investments will be undiversified and hence risky. This is compounded by the fact that charities may not have the resources and their trustees may not have the financial education to make

judgements about the riskiness of particular individual issues.

Fourth, there is a lack of pooled charity investment bond funds. This may be because of the viability of running a charity investment bond fund that includes small unrated charity bond issues. We therefore face a chicken and egg problem where the lack of pooled charity bond vehicles due to a shortage of large charity bond issues holds back charities from issuing charity bonds.

While not all the obstacles to charities investing in charity bonds apply to asset managers many of still do. In particular, the lack of issue size, lack of credit rating and low liquidity make including these bonds in an investment fund unattractive.

# Chapter 3: Charity Investment Advisors

## The Role of Charity Investment Advisors

In the UK, charities often seek the expertise of investment advisers and investment managers to manage their financial assets, ensuring that their investments align with their social objectives while generating sustainable returns. Charities have a unique set of investment needs, including ethical considerations, long-term growth, and the ability to fund their mission-driven activities.

Charity investment advisors can provide a combination of advisory and management Services. Investment firms may either offer:

- A discretionary service where the firm manages a client's portfolio of investments in line with a risk profile agreed with them beforehand. The firm can manage the charity portfolio without checking with the client before making routine alterations.
- An advisory service involves the firm advising the charity about what to do requires the firm to check with the charity when any changes to the portfolio are undertaken.
- An execution only service involves the firm only executing what the charity wants and not providing investment ideas to the charity

Appendix 1 shows a list of AUM of UK asset management firms and provides details of their charity assets under management and administration

- Only a few large firms e.g. Cazenove, Sarasin and Rathbones Group that advise and manage the

lion's share of money that charities invest.

- Most charity money is managed using a discretionary service as often investment firms suggest that the advisory service is often too slow to react to financial market price movements.

## Survey of Charity Investment Advisors

We conducted a survey of charity investment advisers to understand the role that they play in the charity issued bond market and whether they contributed to the lack of traction of the charity issued bond market.

### Methodology

We contacted a number of investment advisors that advise charities regarding how to invest their funds. Appendix 2 contains details of the investment advisors that were contacted. Most offer advice and management services.

We sent them a questionnaire asking about whether they advise on charity issued bonds and the type of advice they give. Of these advisors 6 completed the survey. One additional advisor Rob Agnew of ISIO kindly allowed us to interview him. He was extremely helpful and not only answered the questions in the survey but gave us further insights regarding investment advice on charity bonds. Before we sent out the final survey we sent the survey to Rachel Titchen of Broadstone who kindly gave us feedback about the survey and how it could be improved to increase the level of participation.

### Respondent characteristics

The respondent advisory firms work with between 15 and 45 charities each. The total number of charities advised by all the respondent is 144 charities. Of the charities the advisors work with 10 to 50% are endowed. Client assets sizes for these advisors range between £1 million and

£2bn. Charity investment advisers normally report to their clients on a quarterly basis.

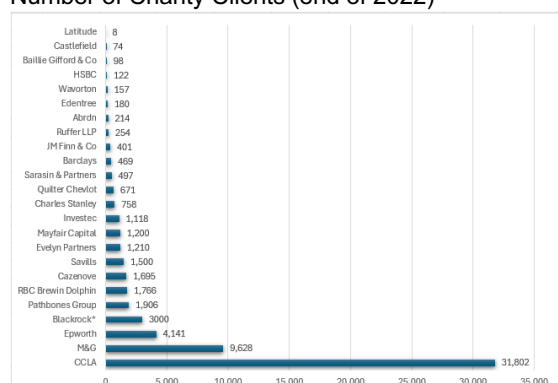
### Survey Results

According to investment advisers investment for social impact is rare among charities with around 10% of charities engaging in social impact investing.

Social impact investing is avoided because of a number of factors including concerns about lower returns, higher risk, concerns about measuring the actual social impact and the lack of alignment with the aims of the charity concerned. More commonplace for charities are stock screens and ESG tilts. Stock screens involve screening out companies from particular industries. Around 90% of charities employ stock screens in their investment policy and 70% employee ESG tilts.

From our discussion with charity investment advisers we found out that there is a lack of competition and a concentration of advice and management services among a few large firms. This results in a lack of innovation and a focus on minimising the price charged. Charity bonds require more due diligence and have higher transaction costs and so are avoided and typically not recommended.

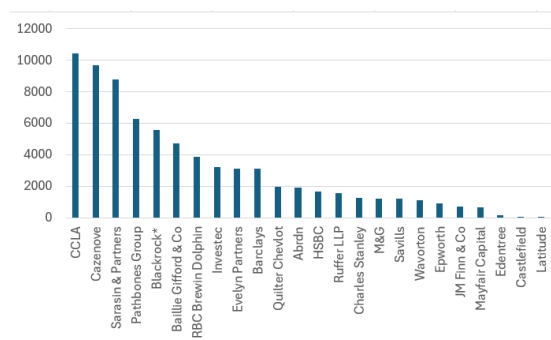
Figure 3: Top Charity Investment Managers by Number of Charity Clients (end of 2022)



Source: Charity Intelligence

or

Figure 4: Top Charity Investment Managers by AUM (end of 2022)



Source: Charity Intelligence

When asked specifically about charity bonds, the adviser survey revealed that investing in these instruments is rare, with only one adviser among those surveyed having ever advised on such an investment. This limited exposure is largely due to the cautious approach of charity investment trustees, who tend to avoid non-standard assets. A significant factor behind this reluctance is a lack of familiarity and expertise. Half of the advisers surveyed admitted they would require specialist support to effectively advise on charity bonds.

Notably, all the investment advisers surveyed reported being comfortable advising on green bonds and ESG-focused bonds. This reflects the fact that these securities have now become more mainstream, benefiting from greater market recognition, standardized frameworks, and established investor demand. In contrast, charity bonds remain an underused product.

When asked why charity-issued bonds are rarely recommended, advisers identified three primary reasons: first, the absence of pooled portfolios for these bonds, which limits diversification options; second, the lack of reliable credit ratings, making it difficult to assess risk; and third, concerns that specific charity bond issues may not align with a charity's objectives or mission.

## Chapter 4: Impact Investment Policy of Charities

To better understand whether charities can be encouraged to invest more in charity bonds, we analyzed the investment policies of the largest charities in the UK (based on assets under management). Appendix 3 provides more details of how the largest charities in the UK (based on AUM) invest and their investment policies.

Most charities in the UK invest in a variety of asset classes including equity, fixed income and cash. As regards fixed income, as charities' investment filings often group certain asset classes together, the fraction invested in bonds is not always clear. However what is evident from their investment policy documents is that most charities are open to investing in bonds although they tend to represent a small part of their investments.

Another key finding from examining charity investment filings is that the primary objective for most charities when investing is return generation, rather than impact. For example, the Leverhulme Trust's investment policy explicitly states:

*"investment decisions are predominately driven by economic return "*

Similarly, the Wellcome Trust's policy emphasizes maximizing financial returns: *"We...aim to maximise returns over the long term to spend on our charitable activities."*

It appears therefore that most charities do not consider their investments as a tool to achieve their mission objectives. The Wellcome trust states this explicitly:

*"we do not deliver our mission through these investments.."*

It is unclear why this is the case, This raises an important question: Why are most

charities primarily focused on maximizing returns rather than aligning their investments with their mission? Understanding this disconnect is essential for exploring how to encourage greater adoption of charity bonds. and why the focus of charities when making their investments is returns.

Another notable trend among UK charities is the integration of ESG considerations, particularly environmental ones, into their investment policies. Many charities, including Trinity College Cambridge, commit to sustainability goals, such as achieving a carbon net-zero portfolio by 2050.

Ethical screens are also common, as seen with the Church Commissioners of England and the Children's Investment Fund Foundation (CIFF), which exclude investments in sectors like defense and tobacco.

More recently, some charities have begun to allocate a portion of their investment funds specifically for impact investment—dedicated to directly supporting their charitable mission. However, this approach remains relatively rare. Among the largest charities, only the City Bridge Foundation has explicitly set aside impact funds, with £9 million specifically allocated for social and impact purposes.

To summarise, charities typically have a willingness to invest in bonds but invest mainly for return generation rather than for impact. They also frequently invest in a way that is tilted towards the ESG friendly investment and often include ethical screens.

## Chapter 5: Summary & Recommendations

Charity bonds have the potential to become a powerful tool for unlocking long-term capital for nonprofit organizations, but their full potential remains untapped. Expanding the charity bond market beyond the largest institutions will require targeted efforts to make these financial instruments more accessible to a wider range of charities.

On the supply side, the fundamental challenge is that most charities lack credit ratings and tangible collateral and stable revenue stream. As a result, only a narrow subset of asset-rich charities—primarily in the housing sector—can access bond markets at viable pricing. This means issuance is concentrated within a small group of organisations, limiting both the diversity and volume of the charity bond market.

One of the key barriers preventing the wider adoption of charity bonds is the lack of credit ratings for many issuing charities. In a market where credit ratings serve as a critical signal of financial health and reliability, the absence of such ratings severely limits investor confidence. This issue is particularly pronounced for smaller charities, which often lack the financial resources or scale to secure a rating from established agencies like Moody's or S&P Global.

To address this challenge, one potential solution could be to establish some credit enhancement mechanisms, where a third-party guarantor provides partial guarantees on the bonds, improving their creditworthiness.

Letters of credit are frequently used by US non profit organisation when issuing bonds. The development of a standardized charity bond framework, with clear guidelines for issuance, transparency, and reporting, could

enhance market confidence and attract a broader range of investors.

From the demand side, investors face several obstacles. Charity bonds are often small in size, unrated, and issued sporadically, making them difficult to include in diversified portfolios. Most investors are reluctant to take on single-name exposure in a market that lacks liquidity and sectoral breadth. At the same time, charity bonds may fall outside of standard fixed income or impact investing frameworks, as they require additional due diligence and lack consistent reporting formats. Better financial education of charity investment trustees regarding how to assess investing in charity bonds could certainly help here.

To overcome these challenges, pooled investment vehicles could offer a promising path forward. Multi-issuer charity bond funds or umbrella issuance platforms could help reduce concentration risk, lower transaction costs, and make the market more investable for a wider range of participants. Previous examples, such as the Charity Bond Support Fund, have demonstrated how aggregation can support deal flow and improve investor confidence. Further development of such vehicles—possibly with first-loss capital from government or philanthropic sources—could play a catalytic role in stimulating demand.

Regulatory clarity and flexibility will also be key to supporting growth. Trustees remain cautious about investing in charity bonds, often due to concerns over fiduciary duty and risk management. The Charity Commission's updated CC14 guidance (2023) offers greater confidence that impact-focused investments, including charity bonds, can be consistent with a trustee's responsibilities. Further promotion and case-based clarification of this guidance could encourage more endowments and foundations to consider charity bonds as part of a balanced investment strategy.

Market visibility and infrastructure must also improve. The recent FCA consultation (CP25/2) on changes to public offers and admission rules has proposed a simplified regime for 'non-complex' listed bonds. However, charity bonds—typically issued by special purpose vehicles or non-listed entities—are excluded from this route and instead classified as complex instruments. This represents a missed opportunity. Charity bonds, often simple fixed income products with no derivative features, could benefit from a proportionate and tailored listing framework that balances investor protection with accessibility. A more accommodating regime would reduce issuance costs and raise the profile of these instruments.

While charity bonds may not be suitable for every charity, they have the potential to serve a much larger spectrum of organizations. By addressing barriers on both the supply and demand sides and implementing targeted reforms — such as greater regulatory alignment, clearer investment guidance, and smart structuring solutions - the charity bond market can become an integral part of the social finance ecosystem, ensuring that this innovative tool serves a broader segment of the charity sector, unlocking capital where it can create the greatest impact.

## Appendix 1: List of investment advisors

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<b>Firm</b>
Aon
Apex Group
ARC
Barnett Waddingham
Bfinance
Broadstone
Cambridge Associates
Charity Intelligence
Hymans Robertson
Independent Investment Reviews
Isio
JTFM
Lane Clark & Peacock
Mercer
PMCL Consulting
Portfolio Review Services
Redington
Stanhope Consulting
XPS Group
Yoke and Co

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## Appendix 2: Investment policy of the Largest UK Charities by AUM

Charity Name	Investment Policy	ESG Considerations	Other Relevant Notes
<b>Wellcome Trust</b>	No investment in tobacco/vaping sectors. Some sustainability considerations. However charity mission not delivered through these investments. Main objective remains return maximization in the long term.	Yes – clear ESG strategy in development, focus on net zero by 2050 for investments. Active engagement with fund managers on climate and sustainability	Requires investees to uphold a 'social licence to operate' and demonstrate sustainable business models; active participant in ESG Data Convergence Initiative.
<b>Garfield Weston Foundation</b>	No specific criteria Conservative investment strategy to preserve real (inflation-adjusted) value, managed within Charity Commission guidelines.	Yes – Trustees monitor fund managers' ESG policies and emphasize responsible business practices in core holdings like Associated British Foods plc.	79.2% of Wittington Investments Limited, a company registered in England. Wittington Investments is the ultimate holding company of Associated British Foods plc, which is listed on the LSE.
<b>Church Commissioners for England</b>	Screens of companies involved in thermal coal, oil sands, tobacco, and weapons. Portfolio carbon footprint reduction to net zero by 2050.	Yes – extensive ethical investment strategy aligned with Christian values. ESG focus includes climate change, biodiversity, social inequality	Issued a Sustainability Bond in 2023; active use of portfolio hedging and thematic ESG frameworks.
<b>Children's Investment Fund Foundation (CIFF)</b>	Mission-aligned investment strategy with \$5.9bn endowment; focuses on climate action, public health, and child protection. Strong impact investing orientation. Screens out tobacco market breast milk substitutes, fossil fuels, arms.	Yes – deep integration. Active funding of global climate initiatives (e.g., COP28, Africa Climate Summit, ReNew2030), and exclusion of fossil fuels, arms, tobacco, and unethical infant formula marketing.	Developing 1.5°C-aligned climate transition plan; trains grantees on ESG disclosure and corporate sustainability compliance. Equities portfolio significantly outperforms carbon benchmarks.
<b>Leverhulme Trust</b>	Engagement in a broad set of extra-financial considerations – including ESG issues. Investment decisions predominately driven by economic return. Two main investments- Core holding in Unilever plc and diversified portfolio with Partners Capital.	NO	Portfolio value £3.76bn as of Dec 2023. Investments diversified across asset classes including global equities, property, private equity, and absolute return strategies.
<b>Trinity College (University of Cambridge)</b>	Long-term investment strategy through the Trinity College Endowment Fund (TCEF), globally diversified and managed internally. Trinity commits to achieving a carbon net zero portfolio before 2050. Divestment from fossil fuels in 2021.	Yes – ethical, environmental, and reputational risks considered by the Investment Committee; ESG integrated into long-term sustainable strategy.	N/A

<p><b>Motability Foundation</b></p>	<p>Diversified long-term investment approach via Motability Enterprise Trustees; ESG engagement emphasized with fund managers and inflation-aligned return targets.</p>	<p>No - Some environmental considerations but not specifically applied to their investment policy</p>	<p>Invests in socially inclusive transport innovations; supports inclusive EV charging standards; risk managed via MET with tight control on manager's concentration and FX exposure.</p>
<p><b>City Bridge Foundation</b></p>	<p>Since 2024 considerations other than financial ones e.g. ESG can be considered when making investments. Total investments roughly of £850.2m out of 1.7bn (the rest invested properties) Investment Strategy Statement integrates SDGs and ethical oversight.</p>	<p>Yes – Targets net zero in operations by 2027 and in their investments by 2040. Aligns investments with UN SDGs (9, 10, 11, 13); active materiality assessment for ESG alignment.</p>	<p>£7.8m in impact investments and £1.2m in social investments. Flagship programs include Anchor Programme and Suicide Prevention Programme.</p>
<p><b>National Trust</b></p>	<p>Investment strategy focussed on financial considerations mostly. The goal is to achieve an inflation plus 3.5% return in the long term. Effort to work towards a net zero portfolio by 2030 (as it is doing for the organisation as a whole).</p>	<p>Yes – Major ESG programs: Save Our Wild Isles, habitat and tree planting, carbon accounting. Net zero target by 2030. Portfolio emissions cut by 70%. - Investment Policy: 4% of portfolio in Carbon Removers.</p>	<p>4 pillars Climate Change Strategy: 1. Explicit divestment from fossil fuels 2. Impact investment in their private equity portfolio. 3. Decarbonisation by 2023; 4. Collaborate and Engage.</p>

**Appendix 3: List of Charities that have set up an impact investment funds**


<b>Charity Name</b>	<b>Impact Investment Fund Details &amp; purpose</b>
<i>Guy's and St Thomas' Foundation</i>	In 2017, Guy's and St Thomas' invested £5Mil in the Real Lettings Property Fund 2 (RLPF2). The fund has created 325 homes and helped house 550 individuals. This helps G & St achieve their charitable objective of reducing health inequality. You can read more about their impact investments <a href="#">here</a> .
<i>The Aegis Trust</i>	Aegis Trust has two social impact investments: Discover Rwanda and the White Rose Shops. The former is a tour operator and hospitality firm that contributes to AT's mission by providing employment to young victims of human right's abuses. The latter is a shop chain which provides affordable clothing throughout the UK. There are more details <a href="#">here</a> .
<i>Oxfam &amp; EDP</i>	Oxfam has partnered with Enterprise Development Programme (EDP) to invest in high impact social enterprises throughout the developing world through a combination of loans and grants. This has helped pull thousands out of poverty and provided employment for women. A prominent example of this work is MFPI, a women led cooperative of soy farmers in Rwanda. You can read more about Oxfam and EDP's partnership <a href="#">here</a> and their business ventures <a href="#">here</a> .
<i>Barrow Cadbury Trust</i>	The BCT is a prolific social impact investor who provide capital for projects that address the following issues: criminal justice, gender justice, racial justice and economic justice. One of their portfolio members is Thrive Renewables, a portfolio of renewable energy projects, including wind, hydro-electric and solar sectors. You can read more about their social investment <a href="#">here</a> and see their portfolio <a href="#">here</a> .
<i>Dunhill Medical</i>	Dunhill have set aside £5mil for social investments and have begun investing Zinc2 fund, a socially responsible investment management firm. One of Zinc's missions is to provide products and services for the elderly which directly aligns with Dunhill's charitable objectives. An example being Cogni.dx, an electronic tool that accelerates the diagnosis of dementia. You can see their responsible investment policy <a href="#">here</a> and Zinc's portfolio <a href="#">here</a> .
<i>Esmée Fairbairn Foundation</i>	EFF conduct extensive social and social impact investment. This includes their Land Purchase Facility, a scheme which has purchased £10m worth of land for conservation by the RSPB, the Wildlife Trusts and the Woodland Trust. They are then given the option to pay back for the land with a small amount of interest. You can read about EFF's social investment <a href="#">here</a> , impact investment <a href="#">here</a> and the Land Purchase Facility <a href="#">here</a> .
<i>Thirty Percy</i>	Thirty Percy is grant giving and social impact charity that gives towards educational, sustainable development and environmental causes. One of their portfolio members is The Renewables Infrastructure Group, an investment company whose portfolio members consist of renewable energy firms. Their responsible investment policy is <a href="#">here</a> and TRIG's website is <a href="#">here</a> .
<i>Friends Provident Foundation</i>	FPF's social impact investments focus on the climate crisis and decarbonising the economy. As part of this, they have invested £100K in a community share of Egni Solar Co-op, which is in the process of installing solar panels on community buildings across Wales. FPF's ethical investment approach and portfolio can be found <a href="#">here</a> .
<i>Nesta</i>	Nesta social impact investments operate in 5 distinct spaces: "improving school readiness at age 5 and secondary school attainment, tackling obesity, reducing household carbon emissions and improving productivity." They have invested £2.65m into Third Space Learning since 2015. TSL provides one-to-one maths tuition online. An overview of their investment strategy can be found <a href="#">here</a> and their portfolio <a href="#">here</a> .
<i>Places Foundation Group Charity</i>	PFGC is the charitable arm of the property development firm Places for People. They carry out a wide array of impact investment, including Big Issue Invest. BII in turn invested in Blankfaces, the first UK fashion label dedicated to eradicating homelessness. They do this by challenging perceptions of homelessness by soliciting designs for their cloths from them. One can view PFGC's portfolio and impact <a href="#">here</a> .
<i>Social Impact Investment   The Robertson Trust</i>	Our Social Impact Investment (SII) plan was approved by our Board in March 2023, creating an additional set of tools and resources to help us achieve our mission. The SII plan enables us to commit up to £20M in investments with a strong social impact which align to our mission and priority themes. Significantly, the plan does not have an expiry date so we can move at the pace that is right, driven by the strongest opportunities we find.

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