Results analysis: Schroder BSC Social Impact

SBSI offers an attractive, well-backed income, whilst trading at a wide discount...

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- **Schroder BSC Social Impact (SBSI) has released its annual results for the year ending 30/06/2024. Over the period, the trust saw its NAV increase by 1.5% on a total return basis, which compares to an average total return of 8.1% for the AIC Flexible sector. The FTSE All Share Index, which is a comparator though not the formal benchmark, rose 13% over the same period.**

- **The portfolio is categorised into three asset classes: debt and equity for social enterprise, high impact housing, and social outcome contracts. Furthermore, the portfolio contains liquidity assets, for capital that is committed to projects, but not yet required. This is designed to limit cash drag. As at 30/06/2024, these areas totalled 39%, 47% and 3% respectively, with a further 11% in liquidity assets. High impact housing has risen the most, from 40% at the same point in 2023, with social outcome contracts falling from 5% as capital was returned.**

- **The biggest positive to performance was investment income, which added 4p per share to NAV. This was supported by higher rental income as a result of its inflation-linkage. Whilst there were some positive valuation gains, most notably through capital returns from social outcome contracts, these were not enough to offset valuation write downs, primarily to the Bridges Evergreen holding mentioned in the interim results. Overall revaluations detracted 1.49p per share from NAV.**

- **There were two new investments in the year, into a renewable energy project, and an affordable homes project. The trust's capital is now either fully invested or allocated to projects, though the managers highlight an attractive pipeline of opportunities.**

- **The portfolio has developed over the year, with over two-thirds now considered mature and the remainder still in its investment phase. Whilst the trust is only three years old, a third of the assets are from a 2013-2016 vintage. As the newer projects mature, they are expected to contribute to valuation gains and increasing income.**

- **The board announced a dividend of 2.94p per share. This marks a 28% uplift on the previous year and represents a yield of 3.6% based on the closing share price as at 23/10/2024. The dividend guidance is for between 2% to 3% of NAV and therefore SBSI is at the top end of its range.**

- **Despite the resilient NAV performance, the share price failed to keep up, leading to the discount widening to 22%. The board has shown support in the year through c. 1.6m share buy backs, equivalent to c. 2% of the opening share count. These share buybacks have added 0.27p per share to NAV in the year, and have continued in the period post results.**

- **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

We believe these results show the resilience of **Schroder BSC Social Impact's (SBSI)** portfolio and asset class. The managers have weathered a very challenging economic period, whilst still delivering positive NAV returns and improving the trust's income profile. The managers highlight features such as high impact housing having very low correlation to GDP and a growing pipeline of opportunities as this area becomes a focus of the new government as reason for optimism.

Over half of the portfolio involves projects that are inaccessible to new investors, with further significant allocations to projects which are not easily available to others. We think this contributes to SBSI being a unique proposition for investors, as does investing in an asset class that benefits from reliably backed income sources, including the government, and its strong focus on impact outcomes which means the trust should appeal to investors for whom this is a significant factor.

These well backed revenues mean the dividend outlook for the trust continues to look strong, in our opinion. This year's dividend has grown significantly by c. 28% meaning the trust is now at the top end of its income goal. This goal was increased just last year which we believe shows the strength of the income picture. We understand that investment income could continue to strengthen too due to the lagged nature of inflation-linked rents still to come through, as well as several assets moving from the investment to mature phase, adding to the trust's income potential.

These positive factors are not reflected in the trust's current rating in our opinion, with the discount widening to 21.6% as at 23/10/2024. This level is significantly wider than at the beginning of the financial year, and one of the widest points in the trust's short history. We understand the board is exploring multiple options for how to rectify this, and has been undertaking share buybacks over the financial year, and in the period beyond, which have been accretive to NAV. We believe this could present an attractive entry point for long-term investors whilst also enabling them to invest in a portfolio that has shown good resilience and generated differentiated and highly defensive income.

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