

1) Introduce, EPC what we do how we raise money

SLIDE 1 – EP logo picture and short description of what we do

We are what I like to call a community for change. By that I mean an organisation that brings people together with the aim of creating change in society.

I suppose the best example of a community for change would be a campaign organisation – say Friends of the Earth or War on Want. Their work is very different to a charity that is providing, say food aid to the developing world. They are bringing socially-committed people together with the aim of changing government policy, of taking a key political issue like biodiversity or climate change from the political shallows into the mainstream.

But I think the model applies to many social businesses too.

At Ethical Property, we bring together social change organisations so that they can share ideas and work together, strengthening their operations and their profile.

Like FoE, we also bring together ethical investors so that they can pool their resources to acquire property in a way that would not be possible on their own.

We are also helping to mainstream a marginal issue, by demonstrating that an ethical approach to property is possible. We see ourselves as setting a benchmark for society, providing a model of best practice showing that it is possible to rent property in a more ethical way.

However I believe a “Community for Change” is an even more powerful tool in the hands of a social business than it is in the hands of a campaign group.

This is because creating the community, or we could even say club, creates a committed market for new product – product that is targeted at solving a social or environmental problem, and furthermore that customer base is a highly committed one. A community brought together by shared values, willing to advocate on behalf of the business and move it forward.

Bringing people together also gives a social business the chance to work at scale, bringing all the benefits of greater purchasing power, cost saving through economies of scale, shared learning and so forth.

So by creating these two communities, Ethical Property has a unique business advantage that is simply not available to purely commercially driven organisations.

2) Not all social businesses are C4Cs, for example if they run contracts on behalf of government or only provide services.

But of course the Ecology building society is one. It has brought you together today as investors, as well as proving that it is possible to live more sustainably. CafeDirect is one too, and so are other fairtrade and community wind power businesses, and much of the cooperative movement.

What I want to talk to you about today is the extent to which the social businesses that are built as C4Cs can benefit by working together - and to suggest that the right platform for that is some kind of social stock exchange.

3) Each of the businesses I mentioned has two communities – its customers and its investors. The customers are very diverse – Soc cha orgs, eco-house builders, African farmer co-operatives – But the investors are very much of a kind. People like you, people like me. We share many values. We all have a similar market profile -

Dinkys, empty nesters, Guardian readers and so on. , We get on well.

- 4) To what extent can all these ethical investors be built into one community? What would that community look like? And what sort of force for change would that be?
- 5) The value of building an ethical investment community is demonstrated by the success of businesses like the Ecology Building Society. These investors, if brought together, can provide patient and supportive finance , finance that is very different to that provided by the more commercially aggressive banks or venture capital trusts, capital that over time can build a social business into a powerful FORCE FOR CHANGE
- 6) *I have been running a workshop – first at AGM then exploring this idea with a wider audience. This has turned out to be an excellent way to get people to think about their ethical investment decisions. We give people £5,000 in monopoly money and then get them to choose how they would like to invest it in a choice of 5 companies*

SLIDE 2 The logos of the 5 companies with a statement of their expected return, one line on what they do and a ‘risk rating’ from 1 to 5

Investing for Change

		Return	Risk
Charity Bank	Lending to UK’s disadvantaged areas	5.5%	Low
Ethical Property	Centres for social change groups	4%	Medium
Cafédirect	Importing fairtrade coffee	1%	Medium
Ecology Building	Lending for eco-renovation	1%	Low

Society			
Zaytoun	Importing Palestinian produce	0%	High

7) What would you do? Would you invest it all for the best financial return, or all for the social return? Or a mix?

Explain the investments. EBS always popular!

We have found that some put most of their money in a safe bet investment like Ecology, and the rest with a high risk strong social purpose business like Zaytoun. While others see Zaytoun as a gift, and focus only on the financial return, arguing that this means that they will have more money to give away to people like Zaytoun.

We ranked all the investments by financial return. This was easy, but when we came to rank them by social return, this proved much harder.

How do you see the relationship between social and financial returns? Is it as simple for you as a trade off - investing for a lower return to generate a greater good? This is how the mainstream financial community sees it - the more financial return you get, the less social return there is. It is the dominant paradigm. We need to find a way to challenge that view.

Is Zaytoun giving the most social benefit and Charity Bank the least? It's not that easy is it.

But as I see it, that the fact that people find it hard to rank investments by social return implies that there is no clear trade off between social and financial returns in minds of the investor. But is it possible to compare social returns at all, or is it down to the preferences of the individual investor? That doesn't feel right either -

as a community we can all broadly agree on what is socially useful and what is not. There is something much more complex going on.

8) In the workshops, we found evaluating social returns was much easier when you looked at them on a best of sector basis. You can more easily compare cafedirect and Zaytoun for example.

9) What would a best of sector approach to social returns look like? Imagine if in the FT stock exchange listings that appear daily we had an exchange where we replaced the existing stock exchange sectors by social sectors. Might it look like this?

SLIDE

FTSE SECTOR	ETHICAL EXCHANGE SECTOR
Aerospace and Defence	None
Finance and Insurance	Community and Ethical Finance, micro-credit
Food and Drink	Organic Food and Farming, whole Foods
Health and Pharmaceuticals	Natural Health, care co-ops
Industrial Manufacture	Environmental technologies
Leisure and Media	Community radio and TV , eco-tourism
Oil Gas and Utilities	Renewables
Property and Construction	Eco-housing, social housing
Forestry and Mining	Sustainable timber, recycling companies
Retail Distribution and Packaging	Fair trade, local shops and recycled goods
Transportation and Automobiles	Low energy sustainable transport, sustainable fuels, car club operators

10) Say also we created a fund out of those investments, and decided for you how your money should be split between the investments – How would this affect your choices?

SLIDE 6

The Investors for Change Fund

Zaytoun	5%
Unicorn grocery	5%
Cafédirect	25%
Ethical Property	30%
Ecology Building Society	35%

11) Does this reflect your view? Does it make it easier to decide? In our workshop we agreed that there are quite a few advantages to this approach. It spreads the risk, it makes it easier to manage your investments, but then we realised it means less participation – your investment is in a fund not directly in the companies.

For several decades now, all investments have been evaluated on two dimensions only – risk and return. But there is now a third dimension – the social return. How does this new third aspect fit in to the picture? Is it a third axis on which an investment can be placed? Or is it the overall context within which an investor decides to make an investment in the first place?

I suggest it is about this context - an investor looks at whether an investment is acceptable or unacceptable before taking a decision about whether they should invest at all.

What is judged as acceptable differs from person to person. But it is still a calculated decision by each investor, where one investment is seen as more socially beneficial than another one, in much the same way as for a financial decision.

What we need to do is find a way to build those individual decisions into one socially agreed view of what constitutes a social return.

12) Where we have gone wrong is that the investment of money has become divorced from the purpose of making that investment.

We recently learnt that Goldman Sachs deliberately sold bad Collateral Debt Obligations to banks, knowing that they would most likely fail. But also knowing that when they did, they would make a vast amount of money through a hedge fund that was betting on them failing.

This is not abnormal behaviour in the mainstream financial community – or the Casino as it is now sometimes called. The only object is financial gain. Institutional investors have no interest in what the businesses they invest in actually do – only in how much money they can make.

But isn't a truly successful social business one that delivers **both** a profit **and** a social good, and the more profit they deliver the better it is for society? In fact, isn't that true for any business, if we believe that the purpose of business is to improve society and make the world a better place?

We need to move back – or is that forward? - To a world where people are interested in the social impact of the businesses they invest in, not only the risk and returns.

A culture of the intermediary has sprung up. Layers and layers of professional advisors deciding what is best done with your money – IFAs, bankers, brokers and fund managers, some handling money for yet another intermediary - Each time getting one further step away from the original purpose for which the money is required. And the further away from that original purpose the

money gets, the less responsibility the intermediary takes for the impact of his investments on society.

- 13) Yes of course there are sharks out there, and we do need financial institutions to protect us.

But is that what is really driving the consolidation of the financial markets? Or is the aim more to amass large amounts of money so that profits can be achieved on very small margin? Centralised and professional control is seen as a way of reducing risk – though ironically we have learnt in the last year or so that huge amassment of money actually creates greater risk. And now we are all suffering for that.

- 14) What we need to do is to get back to a more democratic financial system. The financial equivalent of proportional representation, where your money and your vote actually count. Where people's money does not all end up with Goldman Sachs or Royal Bank of Scotland in some massive Collateralised Debt Obligation. Where risk and reward are not the only parameters and greater and greater investment size does not run the risk of destabilising the system.

We need to reconnect people with their money and one first step would be to create a community of ethical investors committed to social change.

- 15) So how can we build this community? Well EP has 1.300 already. EBS has 10,000. What if we brought these investors together? And if other investors in social businesses and co-operatives such as cafedirect, shared Interest, Energy4All and Triodos Bank were to join us?

I have done some research to build a picture of what this sector actually looks like. I looked at the 14 largest companies, coops,

banks and societies which together have in total some 64,000 investments.

SLIDE 3 The 14 companies surveyed

<u>Deposit taking institutions</u>	<u>Existing investors</u>
Ecology Building Society, Triodos Bank	31,000
<u>Social Companies</u>	
Traidcraft, Cafedirect, Triodos Renewables, Good Energy, Ethical Property	17,000
<u>Co-operatives</u>	
Shared Interest, Energy4All, The Phone Co-Op, ICOF, Aston Reinvestment Trust, Rootstock, London Rebuilding Society	16,000
Current direct ethical investors	64,000

16) But interestingly there is an overlap in the investors. For example, of EP shareholders - 21% ebs, 32% cd, 23% shared interest. We estimate our shareholders hold on average between 2 to 3 of these investments each.

So we already have a community –made up of around 25,000 unique investors, many holding multiple ethical investments. It's just that no one has yet tried to bring them together, to provide them with the services they need to be more effective in their investment, to build a community for change. Even though, it seems, to some extent they are already building a community on their own.

17) What could they be as one force? Say we could grow 25,000 to 50,000 people with investments of £1000 each. That's £50 million of

patient capital, that would be a very good start and already a powerful force for change

- 18) What would it take to actually access that £50 million? To create such an ethical investment club?
- 19) Lets first ask what the investors need

SLIDE 4 – What investors need

- a. Information on ethical investments**
- b. Participation in the companies in which they invest**
- c. To be able to invest small amounts**
- d. Easy to withdraw your investment**
- e. A modest return**

This sounds very simply, but in practice it is very hard to achieve. Take information - An investor needs to know how companies are performing. But most people don't even know that many of these investment opportunities even exist. This is mostly due to the highly restrictive regulatory environment. The FSA has stringent rules on financial promotions, which means that anything you say about an investment needs to be approved by a financial intermediary – and usually that intermediary is a part of the financial system.

Now of course these laws are there for good reason. They prevent flagrant abuse by those who are taking advantage of the system for their own gain. But the result is it means that information can only pass by word of mouth. That is legal - Pub conversation test

Being able to invest small amounts is also difficult – FSA rules require an extensive prospectus of 70 or 80 pages. This is expensive to produce - and the investor has to read all of it even if they are only making a very small investment

Another restriction is around suitability to invest, where how much you can invest is loosely based on how easily you can afford to lose

your money. But this means you can't go to anyone – and it means you need to know how rich they are before you can even approach them!

And it is not so easy to be able withdraw an investment. In a building society that's fine, but for an equity investment you need a market, but you can't market that market. Second hand shares

In fact a club helps us to overcome some of these difficulties. The club provides a one stop shop for investors, helping them to get the information they need, and helps them to participate in the social businesses. The club Can be non-profit so more acceptable to FSA. And it gathers info on investor habits so helps with suitability.

20) How would the club benefit social businesses? Again there are benefits in economies of scale. It also provides one platform for investor relations, making it easier to attract new investors, helping with liquidity and with raising new finance.

But, some may ask, why go to all the trouble of setting up something new? Why not just join one of the existing exchanges? This argument runs something like this:

The City has spent hundreds of years building up a vast range of support services for companies– trading platforms and exchanges, pricing information feeds, brokers, research analysts, venture capital and ethical investment funds, funds of funds, derivatives, indices, collateral debt obligations - all these things help to channel money into companies listed on the stock exchange.

What the sector needs is not £50 million but £500 million. And only the mainstream stock exchanges can provide that kind of money.

Indeed, some social businesses have chosen to list on the commercial exchanges– such as ethical fashion designers Adili, the vegetable box people Abel and Cole, Green and Blacks chocolate,

the Body Shop – have they now consigned their ethics to the dustbin? Or are they helping to reform the system?

It's hard to get away from the feeling that by entering into the mainstream financial system, they will lose their ethical nature. All those layers of intermediaries will help them raise finance, but the intermediaries also want to be paid. A good chunk of their profits will then have to go to the intermediaries providing these services.

And so the slow slippery slope to out-and-out speculation begins

21) Is this the fate of all of us, if we become social businesses of any size and scale? Or can we build our own financial systems and exchanges that would support and encourage an ethical approach to business, in the same way that we have built our own social businesses? Can we create our own ethical stock exchange?

22) Someone called Mark Campanale is currently looking to do something like this – by using an existing market as its platform and creating an ethical niche within that market.

But this does not differ dramatically from the existing exchanges. His view is that if you create the exchange, the mainstream would see an opportunity in the ethical market and all the intermediaries would then look to service that market.

23) But for me it is not clear that this goes deep enough. Will we end up with the same layers of intermediaries distancing people from their money, forcing companies to go for bigger returns and take more risks in order to still be able to give a decent return to investors?

24) Can't we create something more co-operative in its nature, more grassroots? An exchange that is itself an ethical business? Back in the time of William III, The London stock exchange first

began in a cafe in the city called Jonathan's, where all the brokers came together to do their trading. They were a rowdy lot, and they were eventually evicted from the cafe. So they set up their own exchange that they themselves owned.

- 25) But surely we don't want an exchange owned by the intermediaries? What we want is something owned by the social businesses themselves.
- 26) Ethical property's Shares are traded on a simple MBM where willing buyers are matched with willing sellers. It works fine for us. Buyers are matched with sellers. And as there are no brokers, there is no chance of too much of the investor's money passing from the investor and the investees to the intermediaries. Without a broker it can take longer to sell, but ethical investments are long term investments. People would rather wait a bit longer than get less in the end
- 27) We have also brought 5 companies together onto this one platform – Cafedirect, Traidcraft, Triodos renewable Energy Fund. So we already have the beginnings of a club.
- 28) The main problem is to bring people to that market. So we need to create one front end – a website people can go to, a leaflet that tells them how it works. And we need to build around that our own set of ethical financial intermediaries – ethical banks like Triodos, ethical financial advisors who understand social returns, and ethical funds that invest in genuinely ethical investments, not ones that simply avoid tobacco and armaments and then invests in Vodafone and HSBC.
- 29) I believe the only way to bring about real change in civil society is to build a C for Change. We need businesses where better profits mean a better society and vice versa. And we need a banking and finance structure to support them. Perhaps

creating an ethical stock exchange is the best and most efficient way to do that.

SLIDE 7 - JUMP! Slide from year before last's AGM

- 30) The level of change in the financial system since the crash has been pitiful. It seems we can't look to Government to bring about change. We have to do it ourselves.
- 31) And while firms like Lehman Brothers are jumping to the bottom, can we rise to the top? The Quakers did several 100 years ago – manufacturing chocolate as an alternative to alcohol (not realising people would take both). They succeeded as their businesses were built on trust. Do we not have the power to do the same? Are the social businesses that we are seeing spring up now part of a bigger societal shift? What do we need to do now to make sure that shift happens?

Perhaps I am too much of an idealist, but I am also a business man.
A social business man

- 32) So let's stop waiting for Government to reform the financial system – Let's take it into our own hands. Let's put our money where our values are, and create a system that works for us, and for a better society.

Thank you