

PROSPER SOCIAL FINANCE

ANNUAL REPORT- APRIL 2020



EXECUTIVE SUMMARY

27 months ago, Prosper set out with the goal of creating **finance with a purpose** and working towards a **more compassionate society**. As we have continued to work towards this goal and develop Prosper, the last year has certainly been busy. We have now invested £20,000 across 18 companies, trained over 100 analysts and continued our community outreach through the various events we have both attended and run. This report will highlight the progress Prosper has made since May 2019 and the effective use of the last £10,000 draw down from the University of Edinburgh.

Back in November 2017, Prosper set out a strategic plan which would allow students a unique opportunity to engage with sustainability in a meaningful way. This plan ensured Prosper would allow students to:

- Have a **global influence** through our collaboration with organisations and universities around the world.
- Contribute to the local community** through social impact investing.
- Build their own **talent, skills and employability**.

Prosper has continued to work in accordance with this original strategic plan. This report will show:

- The successful execution of a further two rounds of investments.
- The positive performance of our investments and effective fund management of our 18 holdings.
- The effective recruitment and training of a further 43 analysts.
- The continued development of our social impact and wider community engagement.
- Our operational cash flow performing as projected in the original business plan.
- Our impact on the student experience at the University of Edinburgh.
- Our management of ongoing and potential risks.

We are extremely grateful for the £20,000 in funding we have received from the University of Edinburgh thus far. The opportunities it has provided are countless.

We hope the University of Edinburgh SRS Department and Finance Department are satisfied that Prosper continues to fulfil the originally pitched business plan and continues to have a positive impact for the University and its students. If so, then we would aim to continue our investment cycle in May and move forward to grow and develop Prosper in the coming year with their continued financial support.



COVID-19 RESPONSE

Prosper Social Finance has most certainly not been exempt from the widespread impacts of the COVID-19 pandemic. As the ongoing situation has developed, we have found ourselves constantly adapting in order to allow our operations to continue as seamlessly as possible.

Thankfully, we were able to finish this semester's formal training programme before the virus started to cause too much disruption. As a result of this, our analysts were still able to take away the full set of tools and lessons we would expect them to have at the end of the semester. As the situation deteriorated, we felt it was our obligation to minimise social contact, so we quickly put an end to any face to face meetings. In addition, as this academic year came to an abrupt ending, we felt it was important to extend our Investment Proposal and Pitch deadlines in order to accommodate the analysts who were forced to abruptly pack up and return to their homes overseas. Despite these obvious disruptions, with the use of Microsoft Teams, we were still able to conduct Investment Pitches which were accompanied with incredibly in-depth and analytical Investment Proposal documents. We are hugely grateful both to the analysts for their continued hard work through these uncertain and ever-changing times as well as the management team's innovative solutions.

It was a great shame that the analysts were not able to pitch in front of each other and the outside investment panel, however their overwhelmingly positive feedback has shown they were still able to take away a great understanding and passion for socially responsible investing from this semester. Our panellists, although unable to see the pitches, have still offered their advice when we come to analyse the newly pitched stock ideas, ensuring we are still able to benefit from their extensive experience in the investment management industry.

The COVID-19 pandemic has led to a global sell-off in the equities market. This sell-off has had profound impacts on our portfolio. For an in-depth, company by company run down of this impact, please refer to the Investments section of this report. In addition, we will also address the revised management team handover plan given the current circumstances.

From our perspective, it has been overwhelmingly positive to see the compassionate and cooperative response across the UK and the world. Such challenging times may only act as fuel for our desire to create a healthier, happier and more equal planet.



CONTENTS



INVESTMENT REPORT	1
STRATEGIC RELATIONS AND STUDENT ENGAGEMENT	3
ANALYST TRAINING PROGRAMME	5
SOCIAL IMPACT	7
A LOOK BACK	8
RISKS AND RISK MITIGATION	10
VALUE ADDED CALCULATION	12
INTRODUCING NEXT YEAR'S TEAM	14



INVESTMENT REPORT

Heads of Investment	Mackenzie Wallace/ Tirivashe Chidzwondo
Execution Date	12/01/2020
Report Date	29 April 2020
Fund Size	£18,458.80
Initial Investment	£19,237.18
Total Return	-4.21%
Total Dividend	£176.63

Figure 1 Prosper Key Stats April 2020

This investment report will tackle two periods, firstly the portfolio until Friday 21st of February, before the first major market falls on the 24th of February. We have split the analysis this way as we believe it will give a better reflection of the fund before the unforeseen disruptions of the COVID-19 virus.

As the global pandemic began to affect markets on the 24th of February, we began to see the Prosper portfolio being affected. There is still a lot of concern as to what the extent of the effect of the COVID-19 pandemic is on markets and as Prosper we will continue to watch the markets and make all our decisions accordingly. Currently the Prosper portfolio is down 4.21%. The entire market has been affected by the global pandemic and we are now starting to see some companies starting to recover.

Prior to the market crash the Prosper Social Finance (PSF) portfolio was outperforming the benchmarks. Prosper net profits had seen a 53.9% increase since the last round of investment that were made at the turn of the new year.

As seen in Figure 2, Prosper has consistently outperformed the FTSE 100, whilst showing similar growth to both the Euro Stoxx 600 and S&P 500 since the fund's inception. However, the fund's positive performance is not solely limited to the bull market we have had over the last few years. Prosper has continued to outperform the indices in the recent market downturn, protecting the fund's value in these uncertain times.

PROSPER PORTFOLIO PERFORMANCE

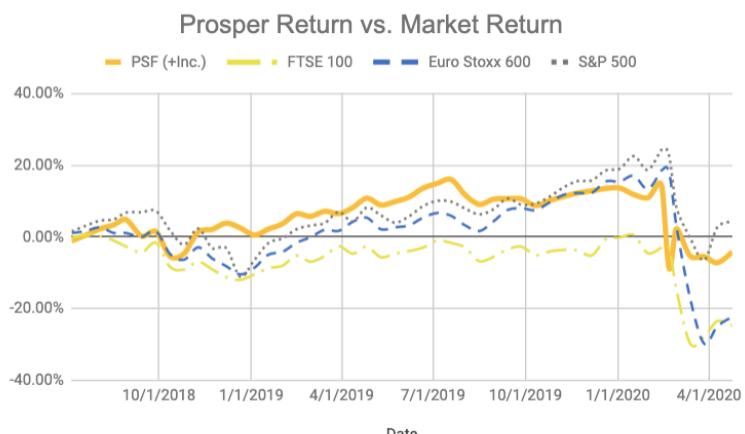


Figure 2 Prosper vs Market Return April 2020

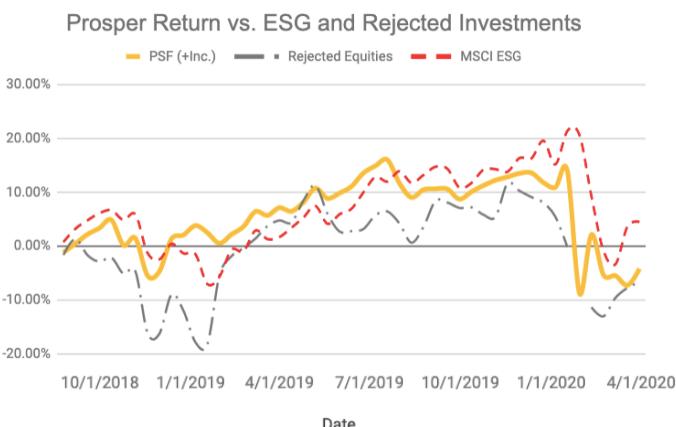


Figure 3 Prosper vs ESG Index & Rejected Stocks

In our last report, our rejected stocks were slightly outperforming the portfolio indicating returns of 8.46% against our 8.18%. We are pleased to see in the time since, we have consistently outperformed our rejected stocks, proving the value of our screening process. In the last year, we have slightly underperformed the MSCI ESG Index, however, both our portfolio and the ESG index have outperformed most other indices, highlighting the financial value gained from investing in a socially responsible manner. Prosper's investment strategy has shown evidence of success as we continue to grow and outperform indices not only when markets are on the up but also as markets fall, the hallmark of a well-run fund.



INVESTMENT REPORT

Portfolio Composition

We continue to mitigate risk by ensuring diversity across both sectors and geographies. By doing so, we limit the effects of individual sector or regional shocks, on the portfolio. We take this into account when screening potential investments.

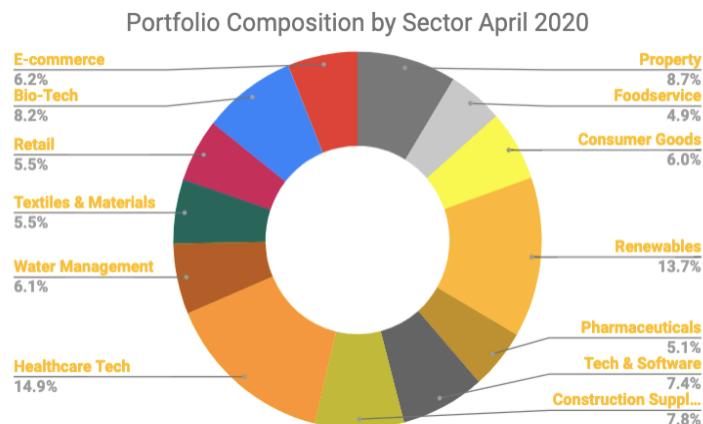


Figure 4 Prosper Portfolio Composition by Sector as of April 2020

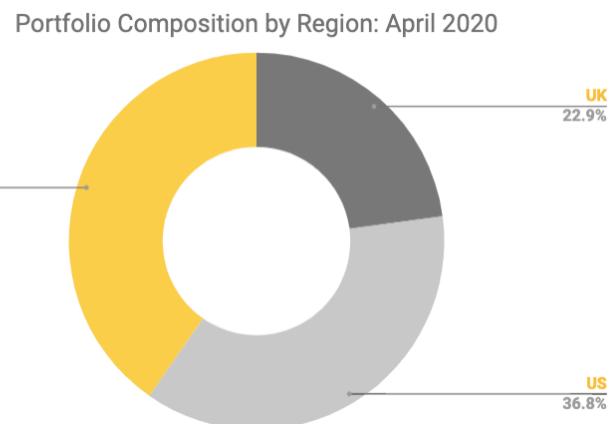


Figure 5 Prosper Portfolio Composition by Region as of April 2020

Divested Stocks

Sirius Minerals (LON: SXX)

Sirius Minerals PLC: DIVESTED (-100%) - Since Prosper's initial purchase of Sirius Minerals PLC, the company has experienced significant turmoil. The company began displaying issues in September of 2018 as a result of increased costs and difficulty securing financing to complete the construction of their Woodsmith Mine. The issue appeared to be resolved when a deal was struck with JP Morgan to secure financing on the conditions of a \$500m bond issuing by Sirius Minerals. However, on August 6th, 2019 Sirius Minerals pulled the bond issuing due to issues regarding market volatility. The result was a precipitous drop in the share price of 30% in one day. After re-evaluation by Prosper's management team, it was decided to maintain Prosper's holdings in Sirius as it was agreed it was not optimal market conditions for a bond issuing. The bonds were already at the risky end, and one condition for the further funding was that the bonds bear an interest rate no higher than 15%, and the offer at 13.5% would have been one of the highest yielding dollar issues since the start of the year. The expectation was Sirius would issue the bonds at a later date and secure funding.

However, Sirius failed to meet this expectation. On March 3rd, 2020 shareholder majority voted to accept Anglo American PLC's 5.5p per share offer. The takeover was completed on March 17th, 2020. When making the initial investment, the management team recognized the risks associated with such an unestablished market and a heavily leveraged company and thus took precautions by investing a minute share of Prosper's funds and ensuring the portfolio was well diversified against such a risk. On August 2nd, 2019, Sirius constituted only 1.15% of Prosper's Fund. Prosper's management team maintains their opinion that Sirius



STRATEGIC RELATIONS AND STUDENT ENGAGEMENT

Prosper Social Finance has connected and collaborated with new local and international partners this year whilst building on strong foundations in the Edinburgh investment scene. We have cultivated relations with our original supporters – firms such as Baillie Gifford, Stewart Investors, Martin Currie and Aberdeen Standard Investments (who have so kindly hosted our pitches) – and we continue to call upon this wealth of investment expertise to use as a sounding board to our ideas or to provide advice, data and human capital. This year we have also established two successful new partnerships with Kames and Walter Scott, to whom we are enormously grateful for their transformational advice and help developing our training program. Kames' ESG team has run training sessions with our analysts and Walter Scott has worked with the management team to update the way Prosper Social Finance uses financial metrics. This culminated in their help rewriting and teaching this section of training – something that they hope to repeat next semester. The invaluable support provided to Prosper Social Finance by the local financial community has massively improved the experience that we are able to offer to our trainee analysts and subsequently the quality of investments. We were once again fortunate to have the support of a number of impressive individuals to sit on the panel for our investment pitches last semester – namely Angus Tulloch (Retired Managing Partner of Stewart Investors), Sarah Whitley (Retired Baillie Gifford Partner and Lead Fund Manager, Current NED Rakuten) and Fiona Macrae (Investment Manager at Walter Scott) - providing a valuable added layer of due diligence.

We have also widened our knowledge base and network through invitations to and involvement with a number of impressive sustainable investment events such as the Ethical Finance Conference (hosted by GEFI), Institutional ESG Investment Summit (supported by Ruffer and ClearPathway Analysis, in London), Good Money Fair (run by the Church of Scotland, in Edinburgh) and (now cancelled) Katapult Future Fest, in Norway - that we hope to remain in collaboration with through the decentralised program. A highlight of this semester was the hosting of our own event 'Rethinking Capitalism: The Fourth Industrial Revolution' organised in collaboration with the Buchanan Institute, Freshsight and Economics for Change. This event aimed to call students to question and rethink the ways in which technology and capitalism intersect and affect one another and how they might be used for social good. Our four speakers, Chris Speed (Chair of Design Informatics), Lorrell Quinn (CEO of Sustainably), Uzma Khan (Deputy Director of Economic Strategy, Scottish Government) and Stephen Ingledew (CEO of Fintech Scotland) were chosen to reflect a number of perspectives, be it public or private sector, and almost 4,000 students engaged with the Facebook event.



We continue to use our own resource of human capital, talented and interested students, to engage with the local community. We have particularly enjoyed supporting Future Asset at their conferences and roadshow events in Edinburgh and Glasgow, and the fruition of a blog partnership with New Money. We hope to continue to develop these next year through the Social Impact arm of our returning analyst programme. In order to attract these talented and interested students, we have continued to refine our marketing strategies to engage with as many students as possible. As a result, this year, Prosper has received its highest number of applications, 199, an increase of 10% from last year.



STRATEGIC RELATIONS AND STUDENT ENGAGEMENT

This increase in student engagement has been a direct result of our more focused marketing campaign whereby we have frequently publicised the activities of Prosper, begun to issue a weekly blog and continued our engagement with the student body, and the greater Edinburgh community through the various events we have put on. We have substantially boosted our online presence this academic year, attracting over 3,700 unique visitors to our website, and the number of engagements of all our social media channels (Facebook, LinkedIn, and Instagram) has continued to steadily increase. In our alignment with our core value of transparency, we continue to show our investment returns on our website, giving the viewers the opportunity to compare our performance against various benchmark indices. We hope to continue to make our website more user-friendly next year and regularly update our followers about our day to day operations, investment decisions and provide up to date news on the companies in our portfolio.

Looking forward, we intend to establish a smooth handover and transition to the next management team, to maintain the relationships that we have built over the past two years and to ensure continuity. We plan to engage more with our previous alumni and work closely with those who express interest in maintaining their relationship with Prosper. We hope to give them frequent opportunities to input into the running of Prosper and involve them in key future decisions to ensure our continued success.

A few of the people we have collaborated with this year:



K O
F F
2

WALTER SCOTT
SINCE 1983

KAMES
CAPITAL

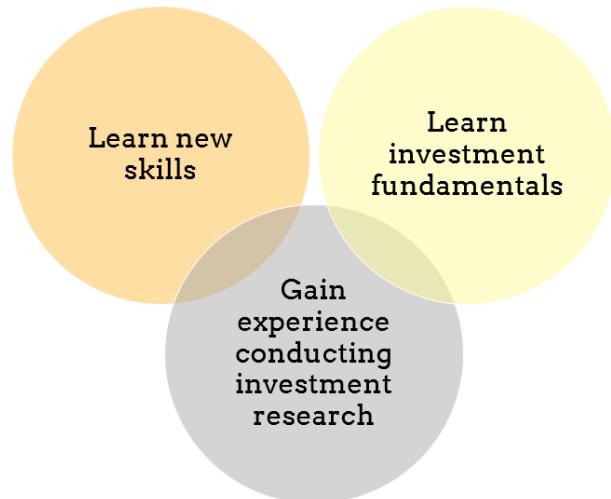
BAILLIE GIFFORD

The logo for the Global Ethical Finance Initiative. It features a graphic of four horizontal bars in shades of teal and blue. To the right, the text 'GLOBAL ETHICAL FINANCE INITIATIVE' is written in a serif font, with 'GLOBAL' and 'INITIATIVE' in a larger weight and 'ETHICAL FINANCE' in a medium weight.



ANALYST TRAINING PROGRAMME

This year has seen further development of our training programme. Firstly, we set out to further align our training programme with our five-stage, bottom-up investment philosophy. We broke down the weeks by stages in order to ensure all the analysts understood our philosophy and the building blocks which will allow them to analyse a company in the 'Prosper' way. In addition, this would allow them to complete the relevant stages of research as we went along. In the past, the programme has been rather back heavy, with the majority of work and research happening at the end. By setting clear expectations and tasks each week which aligned with the relevant stages of the investment process, it meant the analysts could continually apply their newfound knowledge as well as conducting the research which would feed into their final proposals.



The biggest change to the training programme this year has been the revamped financial evaluation section of our analysis. With the help of Laura Clark from Walter Scott and Partners, we entirely restructured our analysis with the use of four spreadsheets focused on: (1) growth and profitability, (2) balance sheet strength, (3) return structure and (4) valuation. The spreadsheets allowed the analysts to compare values year on year going back to 2008. This allowed the analysts to see how the company fared during and after the financial crisis but also gain a better understanding of companies' long-run financial performance; as long-term investors, we felt this was important. Analysts were also able to familiarise themselves with MS Excel which is a significant skill they can apply in their future endeavours. To solidify this knowledge, Laura and three of her colleagues from Walter Scott and Partners ran small group workshops taking the analysts through our fundamental analysis. For us as training directors, it was hugely exciting to enlist the help of industry professionals to take the analysts through what is arguably the most technical part of the programme.

Furthermore, we altered the 'Financial News' segment of our training programme to ensure that all analysts develop their soft skills throughout the programme. Each week, a selected team was allocated a news article which related to the content covered in that session. In the beginning of the session the Team would present the news article to their peers. This not only gave analysts the ability to develop their presentation skills, but they were able to develop their team's teamwork dynamic which prepared them for their final pitches.



ANALYST TRAINING PROGRAMME

In addition to these integral changes to the training programme, we have also altered the team allocation process. We now break the analysts into four teams of six, each of which pitch two or three stocks. By doing so, we are able to take 3 more analysts each semester and the smaller teams have allowed each individual to become more involved with the researching and pitching process. We have trained 44 analysts this year, bringing the total number of students trained through the Prosper Social Finance Programme to 108.

At the end of each semester we have released anonymous feedback forms which we have subsequently used to improve and further develop the training programme. In general, the feedback has been overwhelmingly positive as 95% of students have said the trainee programme has improved their overall student experience (rating 4 and 5 out of 5). In addition to this, the vast majority have felt both their public speaking abilities and financial literacy have improved as a result of the programme. Finally, 100% of students would recommend Prosper to a friend, a true testament to the analyst trainee programme.



Year on year, it is hugely exciting to see Prosper alumni head out into the world of work. They leave equipped with a sound financial knowledge and a passion for responsible investment. Whether they end up working in finance or not we hope these new-learned tools prove useful and valuable as young professionals.



SOCIAL IMPACT

Prosper's mission is, and always will be, *to deliver positive social change in Edinburgh through responsible student led investments*. As our operations continue, we believe it is increasingly important to both track and assess the impact we are having on the local community. This academic year we have strived to increase Prosper's positive social impact both directly and indirectly.

Firstly, our 8-week Analyst Training Programme is our most direct means of delivering a positive impact within the university. Since our inception, Prosper has trained over 100 students from the University of Edinburgh, ranging from first-years to Master's students, studying a wide range of degrees. When marketing Prosper, we reach out to all corners of the University, in order to attract a diverse range of students. By doing so, we have made finance more accessible and understandable to people who may have been sceptical or intimated to learn more about it.

This year also saw the restructuring of the Returning Analyst Programme, combining the Social Impact and Investment Tracking programs. In previous years, these programmes were separate which forced students to choose which area they were more interested in. However, from speaking to the Returning Analysts and reflecting on Prosperc's core mission of challenging perceptions of the financial industry by seeking to create profit for purpose, we decided to combine these programmes. This would give the analysts a more holistic overview of the work Prosper does after the investments are made.

The programme focused on introducing the students to social enterprises in Edinburgh, encouraging them to explore and learn more about those they were interested in or they felt Prosper could benefit in some way. As we aim to use the profits from our investments to positively benefit the Edinburgh community, we feel that engaging with organisations that already work in the community is a great way to understand what issues it faces. Furthermore, the analysts helped theorise a financial literacy programme set to be trialled at Edinburgh WomensAid. This programme was backed by a £400 grant awarded to Prosper by the Social Responsibility and Sustainability Student Project of the Edinburgh University Students' Association. These grants, of up to £500, are awarded to student led initiatives that positively contribute to the social responsibility and sustainability efforts of the University. However due to social distancing measures established as a result of the Covid-19 pandemic, this grant will be spent on running the same program in the coming academic year.

As well as working to increase our social impact, the Returning Analysts learnt more about how the Investment team track and manage the Prosper portfolio. Each analyst was given a 'problem' stock to track throughout the semester, with fortnightly updates sent to the Management Team. This involved looking at news updates as well as financials, culminating in Sell-Side reports which were submitted at the end of the semester. As long-term investors, we hold ourselves accountable for the actions of the companies we hold. This in-depth tracking allowed us to more closely monitor the progress these companies have been making in regard to the many ESG criteria we consider.

Prosper also attended several Future Asset roadshows this year. Future Asset seeks to increase diversity in the finance industry in Scotland by working with girls in the final stages of high school, focusing on teaching them valuable and transferable skills, while emphasising how careers in investment management can change the world for the better. Our analysts who attended these roadshows found them hugely rewarding and Prosper hopes to stay involved with Future Asset in the next academic year.



A LOOK BACK

As Prosper heads towards its third year, we take a look back at three former management team members and ask how Prosper has helped shape their careers.

Sarah Smit-Founder - 2017/2018

'Hey! My name is Sarah. I co-founded Prosper Social Finance in 2017/18 whilst in my final year of studying economics at Edinburgh Uni. At Prosper's launch my role was Head of Investments in which I was responsible for developing Prosper's initial investment strategy and ESG framework.'

Since leaving University in July 2018, I have moved to London where I have been working at Goldman Sachs as an analyst within the asset management business. Currently I work in client management where I am responsible for managing GSAM's institutional client relationships.

My experience at Prosper was fundamental when it came to choosing and beginning my career. I knew I wanted to work in a fast-paced professional environment, but I was also drawn to working in a field where I could have a social impact - before Prosper I wasn't sure that finance was an industry in which I could have both. My experience at Prosper however gave me both the confidence and a foundation of knowledge to enter into finance, as well as exposure to sustainable finance, an area of the industry that fits my long-term career goals. Without Prosper I'm not sure I would have begun my career here!' -Sarah Smit



Jack Friend- Executive Director- 2018/2019

'Hello! My name is Jack, and I was part of the founding team at Prosper in my third year before taking on the role of Executive Director in my fourth year. I studied Geography at Edinburgh, and for me, Prosper merged an interest in and care for our planet and the people on it with the intriguing world of finance.'

My experience at Prosper has been fundamental in shaping my current career as well as my goals and aspirations for the future. Learning about the investment industry surrounded by other passionate students enabled me to develop knowledge and skills I wouldn't have otherwise had when I left University. Furthermore, the opportunity to delve into the fascinating world of sustainable finance and research investments in a way that aligns with my passions and values was, I believe, unique to Prosper. All of this, while surrounded by other passionate students, with whom I could discuss and debate all of the challenging issues surrounding the industry and the recent surge in sustainable investment. My experience at Prosper was one that allowed me to see the finance industry as a place where I might be able to make a difference, and it helped me question the status quo and ask; what if things could be done differently?



A LOOK BACK

Since leaving University, I have started working for Alpha F.M.C as an analyst consultant. We work with asset and wealth managers to help them with any challenges they might face to deliver the best results for their end investors. Since joining, I have been on several projects at different asset managers and have already started learning a lot. Excitingly, as we have seen the industry begin to react to a demand for the incorporation of sustainability and ESG (Environmental, Social and Governance) factors within investment processes and philosophies, Alpha have started to work with our clients to help them to properly integrate these considerations across their business, from their investment philosophy to which data to use and how best to keep up with the myriad of sustainability regulation.

In short, Prosper has shaped my interests, enabled me to think critically, but positively, about the future of the asset management industry and given me lifelong skills, memories and friends.' -Jack Friend

Tasha Jayabalan- Head of Training - 2018/2019

'Hi – I'm Tasha. I was Training Manager at Prosper during the year of 2018/2019, whilst in my final year of studying Politics and Economic and Social History at Edinburgh Uni. At Prosper, my job was to deliver an 8-week training programme to 21 analysts per semester on topics such as financial evaluation and accountancy basics, our ESG criteria, and social impact investments.

Since leaving Edinburgh in July 2019, I have moved back to my home city, Kuala Lumpur, where I'm now working as a strategy analyst and consultant for a start-up that helps Western technology and social media companies grow in the South East Asian market.

My experience at Prosper in many ways informed my career choice, as my current role involves a lot of thinking out of the box in how to regionally grow a company in an ethical but profitable manner – something that we at Prosper were also trying to do as a start-up. But more than that, at its very core, being on the management team at Prosper taught me how to manage relationships, respectfully disagree with people that became my life-long friends and stand my ground in my own values and beliefs – things that I believe are all fundamental life skills no matter what industry you go into. I'm not sure that I would have gained the confidence and ability to stand my ground in the same way that I can today, and hence I would highly recommend the experience!' – Tasha Jayabalan



RISKS AND RISK MITIGATION

1. Management Team Turnover

- a. The annual turnover of management team members continues to be a great asset to Prosper, bringing fresh ideas and leadership to the organisation, but it does not come without its risks.
 - i. **Improved documentation** – Following a successful handover last summer to this year's management team we have compiled internal feedback, updating and refining our internal documentation on the responsibilities of the respective management positions. This is part of our ongoing process of formalising Prosper's internal operation procedures in the form of a series of regularly updated documents that we believe will help those in new positions even more.
 - ii. **Covid-19 induced separation** – The lockdown imposed by various international governments is likely to prevent us from doing formal handover meetings in person. We are using this as an opportunity to stagger the handover process over the summer and make sure the existing management team members work alongside their new counterparts on existing projects, bringing them up to speed on their new responsibilities in the process.
 - iii. **Advisory board** – The implementation this past year of an advisory board consisting of past management team members has proven very successful. Regular calls between them and the Executive Director have proven fruitful grounds for strategic thinking and dealing with operational and investment difficulties that have arisen.
 - iv. **Rigorous selection process** – We continue to implement a rigorous selection process for all members of the management team. Firstly, they must have completed our training programme, which itself requires a highly competitive application process involving both written applications and interviews. A similar process is then put in place for applicants for the management team, administrated by the outgoing members of the team. It was decided through the application process for this year's management team that no suitable candidate presented themselves for the position of Head of Social Impact. Rather than select a candidate who we did not feel was completely right for the position, we have decided to leave the post open for applications in the new academic year. The rest of the new team are aware of this and have been briefed accordingly.
 - v. **Workload Balance** – Finding the right balance between Prosper work and degree work has proven difficult at times over the last year. Whilst it never compromised our ability to deliver on our core mission it occasionally left us unable to complete the projects, we feel would have helped Prosper continue to grow its impact. To account for this, we have created a new management team position, Head of Strategy. Their role will be to take charge of these projects, writing up deliverable reports on them and coordinating their execution. The extra pair of hands on the team will also greatly help during particularly stressful times. Furthermore, we have been sure to make clear to all new applicants to the management team the weight of their commitment to make sure only those who can commit their time and passion to Prosper have been selected for the team.

2. Investment Risks

- a. Prosper invests in European and North American equities that can both increase and decrease in value.
 - i. **Rigorous screening process** – All stocks that are invested in in our portfolio continue to be subjected to the rigorous screening process necessitated by our investment strategy. This involves...
 - ii. **Formalised tracking protocols** – As part of our more general effort to codify Prosper's operations we have put in place formal documentation on the procedure to undertake in the case of underperforming stocks, both in terms of their finances and ESG behaviour. These are under constant review and will be a key project for the incoming Heads of Investment Strategy and Tracking.
 - iii. **Formalised tracking implementation** – The expansion of the portfolio from 14 to 23 stocks over the last year has necessitated a shift away from manual tracking of every individual company. We have created a software tool that automatically pulls in key data on all the stocks in our portfolio into one spreadsheet. This tool also captures recent ESG news and has the flexibility to be expanded to incorporate the stop-loss protocols mentioned above. This tool will be implemented and refined during the handover process.
 - iv. **Investigating portfolio diversification** – The recent covid-19 crisis and subsequent market response has highlighted the potential risks of an equity only portfolio. We have begun research projects into fixed income investment options such as green bonds in an effort to see if we can incorporate them into our portfolio in a way that aligns with our values and operational remit. Similarly, we have begun investigating the potential for investments outside of the geographical limits our strategy currently entails.



RISKS AND RISK MITIGATION

3. Security and Proper use of University Funds

- a. We understand that the university needs to be sure that any money given to Prosper will be used in the way intended and outlined in our memorandum of understanding.
- i. **CIC Structure** – legal structure as a community interest company limited by guarantee ensures that funds can only be used for our stated mission and only in the interest of the community which we aim to serve. An annual statement to the regulator for community interest companies outlines how Prosper has met these criteria. As indicated in our articles of association, if at any point we should fail to meet our legal requirements as a CIC all funds would be returned to the University of Edinburgh Development Trust (Charity No.: SC004307).
- ii. **Directorship Roles** - Three members of each year's management team are named directors on company's house. This spread of responsibility ensures an even balance and the need for majority vote on any important legal or accounting decisions. Two of the coming year's directors are remaining in place providing experience and continuity to the positions.
- iii. **Account Access** - Only the investment team have access to the trading account we use to manage our portfolio and only the Executive Director has the legal right to place trades. For both the trading account and operational bank account, we have best practice security protocols in place to protect access to these accounts. In all cases the executive director is ultimately responsible for monetary transactions.

4. Legal and Accounting Risk

- a. As a company, we need to ensure that we meet all the legal and accounting requirements imposed by law, including filing annual accounts and paying any necessary tax.
- i. **Ongoing relationship with LaunchEd** - We have maintained our relationship with the University LaunchEd service, this being our first port of call and support for any legal and accounting questions or risks. Their advice helped us to successfully complete our first Corporate Accounts filing.
- ii. **Independent Accountant** - We secured the services of Leopold Accountancy Group to file our first Corporate Accounts in November with the help of a LaunchEd Grant. This grant was a one-off grant for first time filings and as such this is not a long-term option for our filings. For the coming year of filings, we have secured the services of an independent, exam qualified and soon to be accredited accountant. Charlotte Lovegrove is an MSc Carbon Finance student at the University who has been involved in Prosper this past year as our Accountancy Mentor for the trainee analysts. She has agreed to complete our accounts *pro bono* based on the template we have from last year. Charlotte is graduating this year and therefore is unlikely to be able to offer a similar service in coming years, so finding a long-term solution will be high on the Executive Director's priority list.
- iii. **Leveraging Partners and Contacts** – To assist in this we will make the most of our large number of industry contacts and connections with social enterprise service providers in Edinburgh who can support us with legal or accounting questions.

5. Cash Flow Risk

- a. Although financially sustainable as a business there is not a huge amount of additional bandwidth within our current operational cash flow.
- i. **Careful Budgeting and planning** - In order to ensure that we remain cash flow positive careful budgeting and planning is needed. This year that has been well achieved with the current team managing to reduce costs and foresee extraneous expenses allowing us to spend less than the proposed budget.
- ii. **Efficient marketing spend** - The current main revenue stream for operations is the admin fee income from new analysts and senior analysts. In order to ensure that we continue to generate this revenue we need to effectively market ourselves affordably to new students. This year we have been able to considerably reduce our marketing costs whilst maintain output and attracting a record number of applicants. Our new Marketing Director has already expressed great creativity in increasing the scope of our marketing output within these budgetary restraints.



VALUE ADDED CALCULATION

The Social Responsibility and Sustainability office of the University has generously given Prosper Social Finance £50000 to invest in North American and European Equities over the next 5 years. Prosper has targeted annual growth of 3 percent over this 5-year period with the profit being used to benefit the local community. If the SRS office were to invest the £50000 in their own funds, they would expect a compound annual growth rate of 8 percent. The difference in the return between these growth rates is equal to £15502 (1) over the 5 years or £3100 each year. This section estimates the value added to both students and the reputation of the university by Prosper's operations over a one-year period. Please refer to the numbered points below for greater detail and a breakdown of each category.

12 Month Benefit Breakdown of Prosper Social Finance Operations					
Operation Category	Number of Hours	Number of Students Engaged with	Number of Employees	Estimated Price per Hour	Total Benefit
Training Programme (2)	32	48	2	£20	£1280
Management Team Experience (3)	4 (per week for 20 weeks)	10	1	£20	£1600
Events (4) (5)	Number of Attendees		Ticket Price		Total Benefit
GEFI Ethical Finance Conference	6		390		£2340
II ESG Summit	2		Free Ticket with Prosper Name (intangible networking benefits)		Intangible reputational value for the university and opportunities for attending students
Katapult Future Fest	4		Presenting on Socially Responsible Investing (ambassadors for Edinburgh's innovative approach)		Intangible reputational value for the university and opportunities for attending students
Prosper Events Hosted	400		Free entry for anyone (equivalent event may cost £5 per student)		£2000
Further Outreach (6)	42 unique contacts				Intangible reputational value for the university and opportunities for attending students
Total Benefit: £7220 (+intangible value)					



VALUE ADDED CALCULATION

(1) SRS Fund Estimated Return - £50000x1.08⁵=£73466

Prosper Estimated Return - £50000x1.03x5=£57964

Difference is £15,502 over the 5 years = £3100 a year

(2) **Training**- would require 2 paid tutors to deliver this service working 32 hours over the year in order to achieve:

- 48 students receiving 16 contact hours and a further 4 hours of external support
- Core understanding of finance, investment management, equity analysis, ESG analysis
- Soft skills such as presentation, teamwork, time management
- Networking opportunities through our events and contacts
- Valuable experience in this growing space which will improve employability

(3) **Management Team**- breakdown of equivalent 80 hours of leadership training for which the students receive:

- 10 Members with 4 formal meeting hours per week with an additional 4 hours a week work
- Further understanding of finance, investment management, equity analysis, ESG analysis
- Introduction to the day to day operations of a registered company
- Exposure to an innovative, entrepreneurial business environment
- Development of further soft skills including leadership training

(4) **Events Attended** (at no cost due to the Prosper name and our Presence in the professional community)

- GEFI Ethical Finance Conference (Tickets would have been £390 per person x6 people)
- Institutional ESG Investment Summit (Free registrations as a result of the Prosper Name, countless networking opportunities)
- Presenting at the Katapult Futurefest as ambassadors of Edinburgh

(5) **Events Hosted**- 400 students hosted for free across our events this year

- Increase our engagement with University of Edinburgh Students by putting on free events for all where they can learn about and question innovative movements within the finance industry and beyond
- Ability to attract a variety of interesting and relative speakers and panellists to our events through our network of contacts and presence in the professional community
- Provide career insight into new and growing industries

(6) **Further Outreach**

- Since Prosper's inception, we have collated a list of 42 professional contacts who work across many industries (asset managers, social enterprise founders, consultants etc.)
- Many of them have attended and led Prosper sessions, spoken at our events and helped us develop our investment strategy adding further value to us
- They also provide networking opportunities, career advice, internships and potential careers for students involved with Prosper
- Former analysts have gone onto work for some of our contacts
- Operating under the name of the University of Edinburgh increases the presence of the university amongst these professionals
- Fostering valuable relationships with initiatives and social enterprises that may end up benefiting from the profits the fund will accrue



INTRODUCING NEXT YEARS TEAM



Executive Director -Vicky Grant

"I am a 4th year Economics and Politics student. Growing up in Greece, I developed mixed feelings about finance but coming to university I knew it was a discipline I wanted to explore. Prosper was the ideal way to do this. It not only challenged my perception of finance, it also taught me how to use technical skills to deliver positive social impact. I believe crisis creates opportunity and the pandemic gives Prosper the chance to unite like-minded individuals and preserve the work of firms who are fighting for a better, sustainable future. I am excited to lead Prosper in this new chapter and help expand its reach to students and social enterprises."

Director of Strategic Relations – Clara Geldard

"I am a third year Arabic and Politics student. I am passionate about making the financial world more accessible to people from a wider range of social and academic backgrounds and was drawn to Prosper because of the focus it places on sustainable finance. Outside of university, I work for a children's rehabilitation centre in Kenya."



Director of Marketing- Rory Sandison

"I am a third year Economics with Environmental Studies student, a degree which allows me to combine my interests in economic theory and policy with my passion for the environment. I have been a part of Prosper for two years now and still find myself learning new things day in and day out. I look forward to continuing and improving Prosper's presence around the university and wider community."

Head of Operations – Aggeliki Koufali

"I am a fourth year Economics student from Greece. I joined Prosper because I wanted to learn more about Finance and how it can be used through socially responsible investing to make a positive social impact. Being the next Head of Operations, I am excited to dive into Prosper's affairs and ensure the fund's operations run as smoothly and effectively as possible."



Head of Investment Strategy – Joel Stedman

"I am a post-graduate student on the Carbon Finance MSc, having previously studied Physics for undergraduate here at the University of Edinburgh. I got involved with Prosper out of curiosity; I had never really heard of sustainable finance and so was eager to discover what it was and how it worked. After having learned a great deal through the analyst training programme, I would like to see the portfolio widened from North America- and Europe-based holdings to include both more geographical regions and a more diverse set of assets, for instance bonds."

Head of Investment Tracking – Amit Jagadeesh

"I am a fourth year Economics with Finance student. My interest in Prosper came from the idea of challenging traditional finance and pushing for the future of SRI. As Head of Investment Tracking, my goal next year is to model an even stronger portfolio of socially conscious companies."



Head of Training- Irem Sari

"I am a third year Economics and Mathematics student. I have first-hand experienced the mixture of economic development and instability in emerging markets which led me to wonder if finance can be used to achieve long-term sustainable growth. Through delivering Prosper's training, I am excited to show new analysts how finance has the power to create positive social impact, not forgoing financial returns."

Head of Training – James Orr

"I am third year Business and Economics student. Initially, I got involved with Prosper seeing it as a fun and novel way to learn about sustainable investing, but now I see it as so much more than that. I can't wait to spice up the training program and pass on the values Prosper has instilled in me, all whilst raising our analyst's financial literacy and increasing their awareness of sustainability."



Head of Strategy- Jai Shah

"I am currently studying for a degree in Chemical Engineering. I got involved with Prosper to improve my understanding of financial metrics and to get a better picture of current industry ESG standards. Looking forward, I hope to implement a development plan ad Head of Strategy and to add more value to Prosper."



THANK YOU

Thank you for taking the time to read through this report. Please do not hesitate to get in touch if you have any questions or concerns. We may be contacted by email operations@prospersocialfinance.co.uk.

We would also like to express our gratitude to the University of Edinburgh for their continued support. The growth and development of Prosper would not be possible without the belief they have shown in us and the financial support we receive. On behalf of this year's Prosper Team, thank you.

