

# Investing in healthcare solutions

A legal guide for trustees  
and senior leaders of  
healthcare charities



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# Who is this guide for and what does it cover?

**Charities<sup>1</sup> can fund healthcare solutions in many ways. Most use grant funding, but fewer use investments. This is a legal guide for charity trustees and staff in the early stages of using investments to fund solutions, and in particular, investments into commercial businesses to accelerate the development of innovations or services that will help the charity's beneficiaries.**

We refer to these investments as 'social investments', because the investment is made with the intention both to directly further a charity's purpose, and to produce a financial return. Others might refer to 'impact investments' or 'social venture investments'. We use 'social investments' because that is the term used in charity law, and specifically refers to charities (rather than any other kind of socially motivated organisation).

Many charities also invest their funds to produce a financial return they can then spend on grants or operating costs. Those investments could be savings in a bank account, publicly listed stocks or units in a fund. They may consciously do so in a way that is 'responsible' or 'sustainable', such as by screening out certain sectors from investment portfolios or actively engaging with their voting rights to influence company behaviour. This guide does not consider those investments, as they are not made to directly further a charity's purposes and they are covered by a separate legal framework. You can find a detailed explanation of the difference between financial investments and social investments on [page 6](#).

## Legal and tax frameworks explained

Many charity personnel starting out on this journey can feel it is complicated and even risky. The purpose of this guide is to explain the legal and tax frameworks for social investments, the

governance structures that surround them, the typical process an investment will follow, and the key considerations. The goal is to demystify how those investments can be made, and what the relevant considerations are. Hopefully, by the end you will see that the legal and tax frameworks give flexibility to charities to make a wide variety of social investments, suited to their circumstances. Some readers may already be carrying out social investments, and have years of experience. This guide is not aimed at those people, though we hope some of the detail may be of interest.

## Other help you might need

This guide does not cover the commercial considerations of making an investment – for example, analysing business plans and financial projections, assessing market opportunities, deciding on asset allocations, valuing intellectual property, considering commercial risks to a business. Charities may be able to call on existing personnel to assess those factors, or they may need to seek external advice.

It also does not cover the accounting treatment of these types of investment, which is governed by the Charities SORP<sup>2</sup>.

At the end of the guide there is list of further [resources](#), including directories that can help in finding other expertise.

<sup>1</sup> In this guide 'charities' refers to charities registered with the Charity Commission for England and Wales. Many of the principles may also apply to other charities, but they are not expressly covered here.

<sup>2</sup> The Charities Statement of Recommended Practice, found here:

<https://www.icaew.com/technical/corporate-reporting/accounting-for-specific-sectors/charities-sorp>

## About TAR and Bates Wells

This guide is a joint project between the TAR Network and Bates Wells.

### **The Translating and Accelerating Research (TAR)**

Network supports charities working in medical research and healthcare to improve patient outcomes by learning from each another and the wider ecosystem, building partnerships, and advocating for meaningful change that accelerates impact for patients.



**“The TAR Network has been a valuable source of expertise and shared experience in translational research. We believe the Bates Wells report will help our organisation make better-informed investment considerations and identify future opportunities for strategic growth.”**

Cure Parkinsons 2025



**Bates Wells** is the UK's leading firm for charities and social investments. Over decades, it has been at the forefront of developing the non-profit sector, advising on many key policy initiatives, the foundation of major institutions and the creation of the law as it stands today – including the creation of the social investment power. It is also the first UK law firm to receive B Corp certification, awarded to businesses that balance purpose and profit, and currently holds the highest certification score of any B Corp in the UK.

**“Bates Wells has unrivalled knowledge of the charity sector and is the go-to firm in the space of social investment and blended finance.”**

Legal 500 2025

*Please note this guide is a general summary of the law applying to charities in England and Wales. It should not replace legal advice tailored to your specific circumstances. Examples provided in this guide are illustrative and not intended to cover every possible scenario.*

# Why social investments?

## Investment vs grant

Social investing begins with the intention that, if all goes as planned, the charity will further its mission and achieve a financial return at the same time.

Unlike grant funding, the recipient must have a revenue model that will allow for that financial return. Many healthcare research projects are only suitable for grant funding – there is no prospect of revenue generation and therefore financial return.

However, further along the journey from research to rollout, many ventures developing and providing healthcare solutions are in need of ‘risk capital’ funding, and would not be eligible for, or want, grant funding. The good news is that charities and some venture capital investors are providing investment at this crucial stage. Charities as early-stage investors can provide patient, flexible capital that supports their mission.

In some cases, providing risk capital (particularly alongside others) can scale up the rollout of a solution in a more sustainable way than grant funding.

Financial returns from social investments can then be recycled into new investments – a key difference from grant funding – thereby potentially multiplying the impact of those funds.

Some charities make grants on the condition that the recipient cannot commercially exploit IP funded by the grant without consent from the charity. A condition of consent may well be that a revenue share agreement is made between the charity and the entity taking forward commercialisation. That approach allows the recipient to use the funds as

per a traditional grant, but with the possibility that the charity might benefit from commercial upside if that ever materialises. This approach has been present in the medical research sector for some time, and is being increasingly considered. It is not a form of investment, and would not be appropriate where the charity knows from the start that the project will create revenue. We do not cover these types of grant in this guide, but it is something for trustees to consider as part of their toolkit.

## Investment returns vs other income sources

Social investments are, by definition, not made solely for financial return, and may carry greater financial risks than classic investments. Charities should therefore be cautious about placing too much reliance on the financial returns coming from social investments. Pure financial investing (for example in listed stocks and shares) will most likely be more suitable for providing stable financial returns to fund a charity’s work.

Some charities allocate a proportion of their overall investable cash to a social investment programme on the basis that should the social investments underperform financially, the remainder of the portfolio can still provide the stable investment income the charity requires. Other charities choose to use a portion of their cash to make social investments as opposed to grants. It is important to make a decision on how much you can afford to allocate early on when approaching social investments.

# The legal framework for charities and investment

Everything a charity does should further its charitable purposes, whether directly or indirectly. When charities make investments, broadly they are using either a power to make financial investments, or a power to make social investments. To understand the legal framework, it is important to know which power applies.

## Financial investments

Financial investments are made for the purpose of producing a financial return for the charity to spend on its mission. The investments themselves may have a positive impact on the charity's purposes, and trustees may set investment policies that take account of non-financial factors when choosing investments, but the fundamental purpose is to produce a financial return. When using the financial investment power, charity trustees must comply with certain duties, such as the duty to consider the suitability of the investment to the needs of the charity, and suitable diversification.

This guide does not cover how to make financial investments, because it is aimed at charities considering investments that directly further their mission. There is further guidance on the financial investment power in the Charity Commission's 'CC14' guidance<sup>3</sup>, and the newly published **Charity Investment Governance Principles**.<sup>4</sup>

## Social investments

When a charity invests its funds with the intention of both making a financial return and furthering its purposes (sometimes called a 'social return'), it is making a social investment. For many years there was some uncertainty about the legal basis for this type of investment, but the Charities Act 2016 introduced a statutory social investment power which clarified charities' ability to do so.<sup>5</sup> Before that, charities used a combination of their financial investment power and their grant-making power to justify social investments, and the very small number of charities not currently covered by the statutory power continue to do that.<sup>6</sup> The term 'social investment' encompasses what used to be known as 'mixed-motive investments' and 'programme-related investments'.

The key distinction between the financial investment power and the social investment power is intention – social investments are made 'with a view to' financial and mission return, whereas financial investments are made for the purpose of producing a financial return, even if that can include considering other factors.

<sup>3</sup> <https://www.gov.uk/government/publications/charities-and-investment-matters-a-guide-for-trustees-cc14/charities-and-investment-matters-a-guide-for-trustees>

<sup>4</sup> <https://www.cigp.org.uk/>

<sup>5</sup> If charities have an explicit power to make social investments in their governing documents, the statutory power is in addition to that power.

<sup>6</sup> The statutory power does not apply to charities established by Royal Charter, by legislation, or those which have expressly excluded it in their governing documents.

The duties attached to a social investment are different to those for a financial investment. Trustees must take any advice deemed necessary and “*satisfy themselves that it is in the interests of the charity to make the social investment, having regard to the benefit they expect it to achieve for the charity (by directly furthering the charity’s purposes and achieving a financial return).*”<sup>7</sup> Essentially, trustees must balance the potential financial and social return, and decide overall whether the investment is in their charity’s interests.

That balance might include:

- An investment with strong financial prospects – in terms of potential return and risk profile – which has a clear but not significant social return.
- An investment with both strong financial and social return prospects
- An investment with strong social return prospects, but weak financial return prospects, or a high degree of risk
- An investment that might otherwise be made as a grant, but the trustees would prefer a financial return (even if this just the capital back) so they can recycle those funds
- It should not include investments with a weak prospect of social return and financial return.

A social investment does not have to produce a positive financial return, although in most cases charities will of course plan to achieve this. The statutory power defines a ‘financial return’ as anything that does not involve the complete expenditure of the funds – so even investments anticipated to lose money would count as producing a financial return, provided that some capital was expected to return. However, in order to be justifiable as a social investment, the balancing ‘social return’ of that investment would have to be high, and almost as high as a grant.

**Example:** A charity wants to support a small socially motivated start-up that is developing a cheap, rapid test for early diabetes detection, aiming for take-up within low-income communities. The charity lends the start-up £50,000 as a social investment.

- **The Financial return:** the charity knows it is difficult to create and sell this product profitably, and it may not be repaid the full loan amount. They cautiously assume a financial return of £45,000, but the start-up projects to repay the full amount with interest. (Even though the charities assumes a loss of £5,000, legally it counts as a financial return because not all funds are expected to be lost.)
- **The Social return:** this is expected to be high as the device should provide earlier diagnosis for people who cannot afford normal tests, and the charity has previously investigated grant funding this type of project.

<sup>7</sup> s292C Charities Act 2011

After making a social investment, trustees also have a duty to review them from time to time and take advice if they feel it necessary. How often the review occurs will depend on the investments and the charity's circumstances, and how involved the trustees are in managing the investments (as compared to staff or a board committee). Trustees should plan for at least an annual review.

The diagram below summarises the range of potential social investments.<sup>8</sup> On the left, outside of the range of social investments, is a financial investment – one is made for producing financial return for the charity, not to directly further its purposes. On the right, spending or grant-making – using charity funds to directly further its mission, but with no expectation of financial return for the charity. In between, a wide range of possible social investments, from those which are almost grants (but some capital is expected to be returned) to those which are almost financial investments (but they are made with the intention that the invested capital will be used to further the charity's purposes), at least to some extent.

It's important to note that some social investments will fund outcomes or activities that fall outside of a charity's purposes. For example, a medical device company may make equipment that can help patients suffering from X condition, but that device also helps those with Y condition and the company hopes to develop that market too. The investing charity exists to help those with X condition, but not with Y. That charity can still make a social

investment into that company, even though some of the investment funds will be used to help those with Y condition. This is a key difference to how charities may make grants, where all funds must be used to fund that charity's purposes.

Two other key parts of the legal framework:

- **Check your governing document** – in case there are specific provisions which require the charity to make social investments in particular ways, or following certain processes. This would be rare. Many governing documents have standard wording about the power to invest under the Trustee Act 2000. This refers to the financial investment power, and is separate to the statutory investment power.
- **Private benefit** – charities must exist for public benefit, and any private benefit produced during the course of their activities must be 'incidental' to the public benefit. 'Incidental' means the private benefit is (a) a necessary by-product (b) reasonable in amount and (c) overall in the best interests of the charity. In the context of social investments, private benefit issues can arise:
  - **For recipients** – where founders or senior staff are using invested capital for unjustifiable salaries or rewards;
  - **For co-investors** – where the charity takes less favourable investment terms, thereby potentially subsidising co-investors, without proper justification.

Fig 1. The range of potential social investments



<sup>8</sup> See Figure 1, Law Commission Report 'Social Investment by Charities', 2014

# Governance

**As with any issues relating to charities, how trustees choose to govern their social investment activities will depend on their individual circumstances, including: their charitable purposes, the size of the charity, the capacity of its trustees and staff, and the specific goals for making social investments. Trustees are entitled to take a proportionate approach to governing their activities, provided they comply with their legal duties.**

## The role of Trustees, committees and staff

Making social investments brings with it specific legal duties, as described in the section on the legal framework for charities and investment on pages 6-8. These duties sit with the trustees, rather than staff members.

Trustees also have legal duties when generally managing their charities. Trustees' general duties apply in addition to those specific to making social investments.

It is perfectly acceptable to delegate certain decisions and actions to committees and staff, including when making social investments.

The key question then becomes how to design an approach that gives trustees the right level of oversight and control, whilst also allowing committees and staff the ability to source, execute and monitor investments effectively.

Many charities will rely on a committee to help oversee the investment process, whether that is already existing (such as a finance committee) or specifically created (a social investment committee).

## Investment approval

Charities will take different approaches to approving investments. Those considering only the occasional investment may consider each on a case-by-case basis at board level, while others wanting to implement a broader programme may approve a general policy at board level and then delegate implementation.

In each case, there should be a clear process for consideration and approval of an investment passing through each stage – from initial assessment, due diligence, negotiation and final approval of investment documents. For simple investments, these phases may run quickly together, and just a single approval decision is needed. For more complex investments, months can pass between phases.

## Setting policy

Creating a social investment policy will not only serve the important function of clarifying intention and parameters, it will also assist effective delegation.

The policy should set the principles of how the charity will make its social investments in the context of its financial situation and charitable purposes, including:

- Impact goals – what charitable purpose is being targeted, and within that purpose what is the impact goal or theory of change
- Financial goals – what financial return is being targeted, and over what period
- Parameters of potential investments, for example:
  - Total amount available
  - Minimum and maximum investment amounts per deal
  - For equity investments, target % ownership of the investee, and exit timings
  - For debt, any debt ratios, or interest rate targets, secured or unsecured positions
- Methods for managing private benefit to investees and co-investors
- Principles for measuring impact and financial performance
- Governance – will the charity consider taking a governance role in an investee, such as a board seat or observer role
- Approach to reviewing investments

The level of detail contained in the policy, and the level of discretion given to committees or staff to interpret the policy in light of specific opportunities, will vary from charity to charity and there is no single right approach. The important principle is that trustees must be able to show how they have complied with their duties under the social investment power.

## Decision making

The Charity Commission's general guidance on trustee decision making (**CC27: Decision-making for charity trustees**) contains useful principles to follow, and its guidance on investments, CC14, contains specific issues that trustees should consider before making an investment. Each of those documents will be useful reference points when making decisions about both: (a) an individual investment and (b) setting a policy for a social investment programme.

It's important to note that decision makers should be judged on the circumstances at the point they make the investment – not with hindsight. If the investment subsequently goes wrong, having well-documented decision-making processes, and taking advice where reasonable, can make a huge difference in replying to any questions about why the charity made the investment.

### Balance sheet vs subsidiary

So far this section has assumed that the investments will be made directly by the charity – ie using the charity’s own funds, via legal agreements between the charity itself and the recipient.

Some charities also choose to use a separate subsidiary company to make their investments. This may be because:

- There is a strategic rationale for legally separating these activities – for example because it is very distinct from the charity’s other activities
- There are plans in the future to invite third parties to contribute investment capital, and this would not be possible within the charity
- Specific skills and staff are needed, and it is necessary to hire those staff on different terms to the charity’s other staff

Charities considering doing this should factor in the tax and governance implications of using a separate subsidiary. In many cases, it will not be necessary to use a subsidiary.

**“Decision makers should be judged on the circumstances at the point they make the investment – not with hindsight.”**



# Typical types of social investment

There are many types of potential social investments. The appropriate type will vary from charity to charity and will depend on a variety of factors, such as the:

- Status of the project/investee company (i.e. what stage are they at; proof of concept, early stage, later stage, revenue generating etc)
- Status of co-investors
- Funding priorities and risk appetite of the investor
- Timelines for return of capital
- Internal level of knowledge and expertise
- Ability to exit the investment

## Direct vs indirect investment

Direct investments generally refer to a direct relationship with the investee – for example, becoming a shareholder. Indirect investments refer to investing in a fund/investment vehicle or via an externally appointed manager. The key differences that charities need to consider are in the table below:

Factors	Direct investments	Indirect investments
<b>Sourcing and executing investments</b>	Direct investing typically involves the investor doing some degree of sourcing and then assessing individual investments. This can be outsourced to some extent, but ultimately the responsibility for choosing the right investment lies with the investor.	Investing in an external fund means responsibility for sourcing and executing investments lies with the external manager, reducing responsibility and time required for the investor.
<b>Ability to influence and level of control</b>	Direct investment leads to contractual and/or statutory rights to influence decision making, strategy, governance and impact measurement. An ability to shape impact outcomes directly.	The fund manager or investment manager will hold the decision-making powers, although charities can negotiate specific criteria in some cases. However, the reality is that the manager is incentivised by its own commercial needs so will be selecting and prioritising investments which have a clear route to return – this may involve impact trade offs the charity cannot accept.
<b>Transparency and reporting</b>	Direct access to data and operations allows for greater level of ongoing oversight and monitoring of impact. Reliant on internal resourcing and capabilities.	Reliant on the fund manager or investment manager to provide adequate reporting. These organisations may have greater resources to track and prepare impact reports.
<b>Diversification</b>	Active consideration needed to create an appropriately diversified portfolio of investments, although charities making social investments are not required to ‘diversify’ in the same way as traditional financial investments.	Role of external manager to manage diversification and risk within the fund’s portfolio, meaning reduced risk for the investor.

## Shares

Buying shares offers the ability to directly influence the trajectory and impact of the company and participate in significant financial return if the business is successful. However, buying shares in early stage companies is high risk, as many fail and shareholders are the lowest level of creditor, and they are generally not a liquid investment.

## Debt

For example, a term loan to be used for general business purposes or a specific project, with annual interest payments. The loan may be 'bilateral' (only between the lender and borrower) or 'syndicated' (a group of lenders to a single borrower). Typically more appropriate for later stage ventures with established revenue streams, and without the upside of equity. However, charities may be able to offer a loan to an organisation deemed too high risk for a commercial lender, given the impact expected to flow from its activities.

## Externally managed funds

A fund is a vehicle set up for the purposes of receiving/pooling cash from multiple investors. Funds can take different forms and will be available to different types of investors depending on their sophistication in making investments and how risky the investment is.

A fund can either be regulated or unregulated by the Financial Conduct Authority, and the parties involved in managing the fund will be regulated by the FCA. The fund can invest in a range of assets such as private and public companies, other funds, debt instruments, real estate, infrastructure and commodities.

The financial return and/or social return will depend largely on the investment strategy of the fund therefore it is very important that the strategy is aligned with the charity's own investment policies.



## Convertible Loan Notes (CLN) and guarantees

A CLN is a hybrid between an equity and debt investment. It begins as a debt investment, typically with an interest rate and a defined repayment date. However, if certain conditions are met, the debt will 'convert' into equity, at an agreed share valuation. CLNs can be particularly helpful for early stage companies with high risk profiles, where the investor wishes to retain the option to have the safety of debt, and also the potential upside on an equity return.

Alongside or instead of providing direct funding, charities can also offer an investee a guarantee (i.e. a promise) to cover loan repayments or protect against other specific liabilities. While often not considered a form of investment, guarantees are specifically included within the legal framework for making social investments.

## Other support to investees – service agreements, branding agreements

Charities may offer support to investees in other ways, on top of the provision of funding.

Examples of this include:

- **Branding:** charities can use their branding to support commercial projects, following the 'commercial participator' rules required under charity law and with appropriate licence agreements.
- **Service agreements:** the charity may be able to offer advisory services to the company using the expertise of its staff, in return for a commercially appropriate fee.
- **Expertise:** if the charity takes a board seat at the investee, a charity staff member may occupy that seat and help steer board discussions using their expertise gained from their charity role.



# Preparing to make investments

Taking the time to think about your investment strategy and policy lays the groundwork for the rest of the investing cycle to fall into place. Your investment strategy will inform how you build and identify a pipeline of opportunities and how you assess which opportunities align with your mission.

## Pipeline

Once you have a clear investment strategy, you will have a framework against which you can effectively source opportunities. Charities who have already set up or participated in incubator or accelerator programmes will have a network they can already reach out to and will usually start there. If that is not the case, there are other ways to identify projects or initiatives such as attending MedTech industry events, partnering with NHS innovation accelerators, joining or leveraging your networks through translational research-focused membership organisations (such as TAR Network), issuing a call for proposals, collaborating with impact funds and foundations, or engaging with specialist advisors who are well connected in the medical research and impact space.

## Due diligence

As part of building your pipeline, you will need to build internal processes to assess how a potential investment aligns with your impact criteria and your strategy. You may also want to build checklists/questionnaires to streamline the due diligence process and systematically receive specific information from the investees. This will help you assess core aspects such as impact alignment, impact measurement, financial viability, governance, and team.

## Approval process

The approval process should be built out ahead of or as part of the investment strategy. In many cases, the approval process will require input and layers of approvals from teams such as the impact investment committee, finance team, senior leadership team and trustees.

## Resourcing – staff, consultants

Making social investments can be resource intensive. By taking the time to map out the preparation phase, you will be identifying where (if any) gaps exist and how best to fill them. This could be through hiring new members of staff with specialist expertise, outsourcing support to trusted advisors (legal, tax, accounting), and leveraging support from your wider network of advisors, charities and partners.



# Investment process

## Term Sheet

A term sheet is a checklist of key terms that are considered necessary for the investor to put in place with the investee. It is often negotiated, with the final version used as a base to prepare the core legal investment documents. A term sheet is not legally binding but instead serves as a statement of intent. The legally binding document will be the subsequent investment documents. While it can be seen as an unnecessary extra step, it plays a vital role in identifying early alignment – or misalignment – between parties. If core terms can't be agreed at this stage, it helps avoid unnecessary time and cost before progressing to detailed, legally binding investment documents.

We would expect a term sheet to cover the following areas:

- **Financial:** the form of investment (equity, debt, grant, hybrid), investment restrictions, conditions precedent, and exit rights.
- **Impact:** the impact goals and investment aim, any impact measurement and reporting, mission lock, and any use of funds requirements.
- **Governance:** board, advisory or observer rights, access to information rights and any specific consent rights.

## Negotiation

Once the term sheet is agreed, the next step is drafting the core investment documents. The type of documents required will depend on the structure of the investment – such as a loan agreement, or subscription agreement (see [page 12](#) for typical investment types).

While many commercial terms will have been covered in the term sheet, the legal documents will include additional provisions such as representations and warranties, tax clauses, indemnities, and rules around transferring the investment, which may also need to be negotiated.

Most of the investment documents follow standard formats, so your legal advisors will focus on identifying any unusual or off-market terms that could pose risks. If your charity plans to make multiple investments over time, it's helpful to track the key terms agreed with each investee to ensure consistency and continuity – especially if team members change over time. Your legal advisors can support you in setting up a simple framework for this.

## Side Letters

Used in equity investments with multiple investors. Depending on how the investment is structured, side letters may not be necessary if all relevant terms are captured in the core investment documents. However, where the structure allows for bespoke rights or obligations for individual investors (such as specific reporting requirements, impact covenants, or governance rights) these can be set out in a side letter. Side letters are separately negotiated and legally binding documents that apply only to the investor in question. It's important to ensure that any side letter is consistent with the main investment documents and does not create conflicting obligations or undermine the overall investment structure.

## Signing investment documents

Throughout the negotiation process, you should have your internal governance arrangements and approvals front of mind, before signing off on the investment documents. This includes confirming who within the charity has legal authority to execute documents and ensuring approvals are documented as required. This should be factored into the investment timeline to ensure all necessary stakeholders are informed and available when approvals are needed. Establishing a clear, well-communicated sign-off process helps avoid delays and ensures no critical steps are missed which protects both the enforceability and integrity of the investment.

## Record your decision making

As well as ensuring your process is correct, you should make sure you properly record the reasons for making the investment, and the key considerations taken into account. For some charities, this comes in the form of board or committee meeting minutes. For others, it may be an investment memo or investment record supplied to the board or committee by staff in preparation for their decision.

## Post-investment – monitoring

Once the investment documents are signed, it may feel like the hard work is done. However, in many ways, an equally important phase is just beginning. If you've agreed to take an active role such as a board seat, advisory committee membership, or observer rights, this will involve ongoing participation in meetings and strategic decision-making. You may also have committed to regular impact and financial reporting from the investee, which requires internal capacity to review, interpret, and engage with the data. Ensuring you have an appropriate allocation of resource depending on the size and nature of your investments is important

## Exit

For debt investments, 'exit' is typically a defined date when the loan should be repaid, and so can be easily planned for. For equity investments, there is often no binding exit date but a need to wait for a capital event at the investee (such as a listing or further investment round). As above, considering the prospects for exit over an indicative timeline is a key part of deciding whether or not to invest in the first place. If an exit possibility arises from a share sale, a decision will need to be made on whether the charity can accept the proposed terms, and/or what rights other investors might have to force those sale terms on the charity, given the existing shareholders' agreement.

## Involving advisors

Considering whether to take advice, and obtaining it if thought necessary, is one of the trustee duties attached to using the social investment power.

That advice can come internally – from a trustee or staff member – or externally. In any case, it should be clearly documented how trustees considered the need for advice, and what advice was received if this was obtained.

Ideally, advisors should be involved early in the process, so they fully understand the investment strategy, impact goals, and governance requirements. This allows them to provide more tailored and efficient support across each stage of the investment, from structuring and negotiation to monitoring and exit.

Building strong relationships with trusted advisors can also help create consistency across multiple investments and reduce the burden on internal teams.

## Working with other investors

Many investment opportunities will require charities to consider the perspectives of co-investors. Existing investors may have protections in place which affect the terms a charity can obtain, and investors coming in at the same time as a charity will often affect how negotiations with the investee progress.

Some charities can be concerned about investing alongside commercial investors, in case this appears to be 'not the sort of thing' a charity should do. But the law and regulatory guidance do not discourage it (except considering private benefit, as above), and the presence of commercial investors can of course be a strong sign of good financial prospects for the investment. In some cases it may be necessary for a charity investor to negotiate for something that commercial investors are not interested in, for example, specific impact reporting.

Co-investing alongside other charities or mission aligned organisations can offer advantages. For example, in sharing resources and pooling knowledge, during the due diligence phase and in influencing the investee's long term mission alignment. Negotiating as a group can also achieve more favourable terms on issues more relevant to mission aligned investors. The TAR Network is interested in exploring ways that charities could collaborate to share resources and expertise.

### Leading on investment rounds

A phrase most commonly used when early stage companies are raising a round of equity investment. The 'lead' will shape the due diligence, terms and timing of the round, and investors who 'follow' typically agree to the terms the lead has negotiated with the investee.

Some charities choose to take the lead role, but many also do not given the capacity and skills required to do so. Instead, they may follow but try to negotiate specific rights important to the charity (for example on reporting or mission alignment), perhaps in a side letter with the investee.

### Taking different terms to co-investors

Charities can bring a unique value proposition to investment rounds, particularly through knowledge of the market or related science, or the target customer group of the investee. That can be attractive to investees and co-investors, and so the charity may achieve some additional rights not available to those only contributing investment capital.

It is also possible for charities to take a 'subordinated' position to other investors, but charities should think carefully before doing so, to avoid creating more than incidental private benefit (see [page 8](#)).



# Tax considerations

There are two tax regimes relevant to most charities when considering investment – corporation tax, and VAT.<sup>9</sup>

## Corporation tax

The starting point is that charities are exempt from paying corporation tax on investments, provided those fall within what HMRC calls ‘approved charitable investments’. If they do not, HMRC may deem the investment to be ‘non-charitable expenditure’, which could lead to the charity having to pay corporation tax on the investment amount. If the investment does comply with the rules on approved charitable investments, then any financial returns from the investment will be free of corporation tax.

There is a prescriptive list of approved charitable investments focused on traditional forms of investment such as listed stocks and shares. In relation to social investments, there is a ‘catch-all’ category of “*any loan or other investment made for the benefit of the charity and not for the avoidance of tax (whether by the charity or any other person)*”.

The phrase ‘for the benefit of the charity’ is interpreted broadly by HMRC. Essentially, if an investment is reasonably considered by the trustees to be in the interests of the charity – considering the combination of the proposed financial return and the degree to which the investment advances the objects – it should be considered ‘for the benefit of the charity’. In practice, HMRC will look to the charity’s consideration of charity law if they were ever to look into an issue under tax law.

**HMRC’s guidance**<sup>10</sup> on approved charitable investments includes the following line, an illustration of its recognition of social investments: “*HMRC has long held the view that an investment or loan must be either for financial benefit or for charitable benefit. However, HMRC increasingly recognises that charity trustees need greater flexibility in making investment decisions and a rigid distinction is no longer necessarily appropriate. HMRC accepts that in considering whether an investment or loan has been made for the benefit of the charity a broad view should be taken of how the charity benefits. This does not mean that ‘anything goes’. Trustees must be able to justify their investment and loan making decisions and demonstrate how the loan benefits the charity. HMRC may ask to see evidence of the trustees’ decision-making process and the information considered as part of that process.*”

## VAT

VAT does not apply to amounts provided as investment capital, including social investments. However, if a charity wanted to enter into an arrangement where it also provided its brand to an investment recipient, or another form of brand licencing or services arrangement, then it would need to consider the VAT implications of doing so.

Similarly, if a grant arrangement included a revenue participation right for the charity, should the funded activity go on to generate revenue, this may also be subject to VAT and trustees should ensure they take appropriate advice on this point.

<sup>9</sup> For unincorporated charities, such as trusts, technically the regime is based on the Income Tax regime rather than corporation tax, but the rules are the same.

<sup>10</sup> <https://www.gov.uk/government/publications/charities-detailed-guidance-notes/annex-iii-approved-charitable-investments-and-loans>

# Financial regulation

Charities investing their own funds into healthcare solutions, particularly where those investments are intended to further their charitable purposes, will generally not need to worry about complying with financial services regulation. This is because such activity typically falls outside the scope of regulated investment activities.

However, if a charity is considering setting up a structure that pools funds from multiple third parties and then invests collectively, financial services regulation may apply and should be carefully considered. Additionally, while companies seeking investment may need to comply with the financial promotions' regime, standard exemptions are available for investments made by institutional investors such as charities. As a result, this is unlikely to present a regulatory issue for the charity itself, but it is important to be aware of the framework and seek advice where appropriate.

## The legal framework

Under section 19 of the Financial Services and Markets Act 2000 (FSMA), it is a criminal offence for a person to carry on a regulated activity in the UK unless authorised by the Financial Conduct Authority (FCA) or exempt. This is known as the 'general prohibition'. Exemptions and exclusions are set out in secondary legislation, including the Regulated Activities Order (RAO) and the Financial Promotion Order (FPO). If an exemption or exclusion applies, the person will either not be carrying on the regulated activity in question or will be exempt from needing authorisation under Part 4A of FSMA.

A regulated activity is one that: (1) is specified in the RAO; (2) relates to a specified investment or property; and (3) is carried on 'by way of business' in the UK.

Charities should assess each investment activity against these three criteria to determine whether FCA authorisation is required. Certain arrangements may trigger regulatory obligations. These include:

- Providing loan finance to individuals
- Pooling cash for collective investment
- Introducing investors to social investment opportunities
- Crowdfunding or syndicate structures
- Promoting investments via newsletters or websites
- Receiving commission or fees from third-party investment platforms

Each of these may fall within the scope of regulated activities, depending on how they are structured and promoted, but there are ways of ensuring they are not regulated.

### Avoiding the need for regulatory cover

Charities can often make social investments that further their charitable purposes without triggering FCA regulation. In general, if a charity:

- Uses its own funds (e.g. donations or income);
- Invests on its own behalf; and
- Does not promote or facilitate investment by others;

then it should not require regulatory cover.

However, where a charity facilitates investment by others (especially if it receives a financial benefit) regulatory obligations may arise.

### Advising on investments

The FCA distinguishes between generic advice (unregulated) and specific advice, tailored to the recipients' circumstances (regulated). This distinction is particularly relevant in co-investment scenarios, where a charity might advise potential co-investors on the merits of participating in a specific social investment, which could be considered to be advising on investments under Article 53 of the RAO.

### Arranging deals in investments

This activity most often applies where someone takes steps to 'arrange' a deal between investor and investee, and the 'arranger' is not themselves investing in the deal. The typical example would be a corporate finance adviser employed by an investee to find and 'match make' with an investor. Charities could be caught by this, even if unintentionally and without payment, where they are trying to encourage others to invest into opportunities that will help their beneficiaries, and become involved in making sure the deal is done. However, where the charity itself will be joining the investment at the same time, or the steps it takes involve an introduction on a one-off basis, it is unlikely that this will fall within regulation. If charities are intending to regularly share investment opportunities between each other and take active steps to encourage others to invest, this 'arranging' regulation is something to bear in mind.



## Case study: Proven Connect

**Investor/Charity:** Proven Connect – the translational arm of Prostate Cancer Research

**About:** Proven Connect aims to support the commercialisation of prostate cancer innovations through investment, expertise in academic and translational research and a deep understanding of patient needs.

Prostate cancer is the most common cancer in men and as populations around the world age, the incidence of cases will increase. Through increasing funding and support for cutting edge research Proven Connect aims to relieve the burden of the disease for men, their families and wider society. All profits raised through Proven Connect will be invested back into prostate cancer.

**Investment recipients:** Early-stage companies with technology that is applicable to the diagnosis, treatment and care of prostate cancer.

**Nature of investment:** Equity investments

**Background:** Prostate Cancer Research (PCR) has supported academic research for 30 years. In 2021, we expanded our mission to address the significant attrition that occurs between early-stage discoveries and their progression into treatments for patients.

Our initial plan was to partner with an external fund manager, but securing a venture capital firm would have required a level of investment that the charity – without an existing investment track record – could not raise. As a result, we shifted our strategy and began identifying early-stage companies developing promising technologies for prostate cancer. We provided them with early funding as well as expert guidance.

To support this work, we established Proven Connect, the translational arm of the charity. We appointed a Translational Research Director, convened a Translational Scientific Advisory Committee, and implemented a robust internal due-diligence process.

PCR now invests £50,000 per company and has successfully leveraged this to attract substantial additional investment from the UK government, venture capital firms, and angel investors. To date, PCR has leveraged more than £4.5 million.

**Number of investments:** Since 2021 PCR has invested in seven early-stage biotechs with a further four approved and pending investment.



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## Case study: Kidney Research UK

**Investor/Charity:** Kidney Research UK (KRUK)

**About:** Kidney Research UK is the leading kidney disease charity in the UK, funding research to free lives from kidney disease. The Translation, innovation and enterprise team (TI&E) within KRUK aims to accelerate the translation of research into tangible patient benefit.

**Investment recipients:** Early-stage companies that align with KRUK's strategic priorities, to prevent more people from developing kidney disease, protect those living with kidney disease from kidney failure and to transform treatments for people with kidney failure.

**Nature of investment:** Research awards, equity investment

**Background:** KRUK supports early-stage innovation in two ways: social investment and the Translation Accelerator Kidney Award.

Through social investment, Kidney Research UK can invest up to £250k in early-stage companies, typically at pre-seed and seed stages. The primary goal of investments made by KRUK is patient benefit, with a secondary aim of generating an appropriate return on investment, for the purpose of reinvesting in future research and innovation. KRUK's due-diligence process includes an external scientific/clinical review, carried out by a panel convened specifically for each proposal, and

actively involves patients to assess both clinical need and potential patient benefit. Based on the due diligence review, the Development Advisory Board, a group of clinical and commercial experts, evaluates proposals and provides strategic recommendations to the charity.

Investments are mostly but not exclusively made as a non-lead partner in syndicated rounds with venture capital firms. Since 2020, KRUK has invested in five early-stage biotech companies, with two additional investments approved and pending. The total value of completed and approved investments is approximately £1.6 million, attracting around £6 million in co-investments from participating syndicate partners.

In addition to social investment, KRUK launched the Translation Accelerator Kidney Awards in 2025 to encourage translational research and entrepreneurial activity within academia. These awards provide up to £120,000 for academic projects focused on developing products, intellectual property, and forming spinouts.

**Number of investments:** Since 2020, KRUK has invested in five early-stage biotech with a further two approved and pending investment.



For more information:

<https://www.kidneyresearchuk.org/research/innovation-and-enterprise/>

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## Case study: Orthopaedic Research UK

**Investor/Charity:** Orthopaedic Research UK

**About:** Orthopaedic Research UK (ORUK) is one the most significant funders of musculoskeletal (MSK) research and innovation in the UK and a leading provider of MSK learning for clinicians.

It is the first MSK charity in the UK to actively support early-stage start-ups. It invests in entrepreneurs delivering breakthrough innovations within MSK health and helps accelerate the translation of research ideas into new products or services by providing early career researchers with education, mentoring, investment and networking support. It also hosts the **Joint Venture MSK Innovation Network**, an informal group of innovators, entrepreneurs, researchers, investors and others interested in driving innovation and entrepreneurship within MSK health.

**Investment recipients:** Early-stage companies with technology that is applicable to the prevention, diagnosis, treatment and care of people experiencing poor MSK health. This equates to 20 million people in the UK alone.

**Nature of investment:** Equity investments.

**Background:** MSK health suffers both from a lack of research funding and a lack of innovation. ORUK is working to address the innovation deficit through a combination of direct investment and by supporting the wider innovation ecosystem in the UK. Through its **Ronald Furlong Fund** – named in honour of the charity’s founder, who was both a leading orthopaedic surgeon and entrepreneur – ORUK invests up to £100k in start-up businesses aiming to develop innovative and commercially viable ideas that solve the unmet needs of society around bone, joint and muscle wellbeing. The charity takes an equity stake in return for this investment.

Many of these investment opportunities are identified through an annual **MSK Innovation Accelerator programme**, hosted by MedTech SuperConnector, which culminates in a ‘pitch’ to the ORUK Finance and Investment Committee.

To date the charity has invested in eight early-stage business, which include **Radii Devices**, which is using state-of-the-art AI and biomechanical modelling to help clinicians design better fitting prosthetic sockets, and **Amotio Health**, which is aiming to transform orthopaedic revision surgery.



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<https://oruk.org>

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## Case study: Vivensa Foundation

**Investor:** Vivensa Foundation

**About:** The Vivensa Foundation – a member of the Association of Medical Research Charities – Charities Responsible Investment Network and the TAR is a UK-based independently endowed charitable foundation that funds academic and clinical researchers and social innovators who are working to make the changes needed to help everyone to age well.

**Investment recipient:** Zinc Ventures

**Nature of investment:** £400k equity stake in the Zinc2 Fund

**Background:** Zinc manages a £33m venture capital fund, providing capital and other support to impact-intentional entrepreneurs who are leveraging science and technology to solve some of the most pressing challenges for the health of people and the environment.

When Vivensa's Trustees were balancing their assessment of financial and social return in considering this investment, they weighed:

- the relatively short track record of the fund
- its focus on the risky pre-seed stage of company start-up

against:

- the desire to help fill the gap in support they had identified for this stage of the research and innovation pathway

- the fact that one of Zinc's four missions when it was established was 'adding quality to later life' – a clear alignment with Vivensa's mission
- Zinc's approach of identifying 'non-traditional' entrepreneurs, including those from an academic or clinical background, and helping them to pursue alternative, socially impactful career paths contributing to better health outcomes for people and the environment – a strong alignment with Vivensa's theory of change.

While Zinc had set ambitious market-level financial return objectives for itself, the Trustees assessed these to be high risk, but weighed against the substantial mission-alignment and contribution, it was approved as a mixed motive investment. A side letter, setting out Vivensa's requirements for the frequency and nature of impact reporting was taken alongside the subscription agreement.

As a result, Vivensa made its first social impact investment, a £400k equity commitment, to the Zinc2 Fund. Over 50% of that commitment has been drawn to date, with the fund as a whole having deployed more than £10.5M of investment across 46 different portfolio companies, which include, for example, Celestial Health, a University of Cambridge spinout, which is pioneering new therapeutics for Parkinson's disease and other neurodegenerative disorders.

Vivensa has since made a further three investments, all direct investments in early-stage social enterprises using mechanisms ranging from direct equity investment to loans.



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For further insights, we encourage readers to visit the TAR Network events page to access webinars from Oliver.

**ALZHEIMER'S  
RESEARCH UK** FOR A CURE

**CP CURE  
PARKINSON'S**

**Kidney Research UK**

**MS Society**

**Orthopaedic  
Research UK**

**Prostate  
Cancer  
Research**  
[pcr.org.uk](http://pcr.org.uk)

**tar  
network**  
 TRANSLATING & ACCELERATING RESEARCH

**Funding for  
the future of  
ageing well**  
 VIVENSA FOUNDATION

**ArthritisUK**

# Key resources

## Charity Commission guidance

[CC14: Investing charity money](#)

[CC27: Decision-making for charity trustees](#)

## HMRC guidance

[Annex iii: Approved charitable investments and loans](#)

## Charity Governance Investment Principles

[Home page](#)

[Investment policy guidance](#)

## Charities Act 2011

[Social Investment Power – s292A](#)

## TAR Network

[TAR Network | Translating & Accelerating Research For Patient Impact](#)

## Social Impact Investors Group

[Home page](#)

Making a profit is core to all businesses but our goal is to combine this with a real social purpose. Our values are pivotal to us, they shape our decisions and the way we live and work.

We focus on positive social impact as much as we focus on being a successful law firm. Our top tier legal advice is coupled with a real desire to drive change and we were the first UK law firm to achieve B Corp certification, awarded to businesses that balance purpose and profit.

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