

## **Investing For Growth – Project Information for Asset Managers**

This initiative is being sponsored by the following local government pension funds: Greater Manchester Pension Fund, West Yorkshire Pension Fund, West Midlands Pension Fund, South Yorkshire Pensions Authority and Merseyside Pension Fund. The funds have commissioned PIRC to facilitate the initiative.

Contact details for asset managers: All contact with regard to this document and the initiative it contains should be made to Brian Bailey, Chairman PIRC Limited acting on behalf of the sponsoring pension funds. The contact details are:

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Deadline for receipt of asset management submissions: 5 July 2013

Information session (Open Day) for interested asset managers: 14.00hrs 19 June 2013

## **Investing For Growth – Project Information for Asset Managers**

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### **Section 1 Introduction**

1.1 A group of local authority pension funds (referred to as the sponsoring funds) are working together to identify investment opportunities that will meet their fiduciary responsibilities and make a positive economic impact at a local, regional and national level in the UK. This initiative has been prompted by the LAPFF-sponsored Smith Institute report “local authority pension funds: investing for growth<sup>1</sup>” and the desire of funds to consider opportunities for investments that benefit communities and their economic wellbeing. This would make use of pension fund investment capacity for the benefit of communities who have contributed to the funds over many years. This approach will also reflect a local government pension fund’s fiduciary duties and the need to achieve appropriate institutional returns within acceptable risk parameters.

1.2 Asset managers are invited to put forward for consideration current or proposed investment opportunities that have appropriate risk and return characteristics suitable for the institutional investment market, where the underlying UK investments have a targeted positive economic impact on UK communities. This will cover a range of investments e.g. infrastructure, resource management, and business development. A description of requirements is set out below (section 2) together with the information required and how it will be used (sections 3 to 5).

1.3 The implementation process for this initiative is as follows:-

- A call for asset managers to highlight their products that can meet the requirements specified,

- An open meeting for interested managers to meet with sponsoring funds' representatives and raise any questions or points of clarification,
- The submission of opportunities/proposals
- The formal assessment of submission and proposals by sponsoring funds,
- Possible visits to asset managers in order to meet individual fund requirements,
- Individual sponsoring funds making investment decisions,
- Establishment of appropriate investment vehicle and monitoring mechanisms,
- Publication of Annual Reports to sponsoring funds and the general public.

1.4 This is not an EU public procurement process, but will operate with the sponsoring funds' Members and Officers working together to identify investment opportunities that will be subject to each fund's own due diligence requirements for the selection of investments.

1.5 The funds working together have identified a potential commitment of £250m subject to identifying suitable opportunities.

## **Section 2: Description of investment opportunities sought**

2.1 The following investment opportunities are being sought:

- Those managed by an asset manager of good standing with appropriate experience
- Investment opportunities that have appropriate risk and return characteristics suitable for the institutional investment market (minimum return of 6% with modest risk parameters or higher returns for increased risks that are within accepted practices)
- Underlying UK investments that have a positive and measurable economic impact and any associated, social or environmental impacts on communities at a local, regional and national level
- A preference for the investment impact to include deprived geographical communities and areas with challenging economic and social issues
- Underlying investments can include infrastructure (development and operation), business development (regeneration, education and skills, employment, venture capital), and resource management (energy, water, waste, etc.)
- Environmental schemes are acceptable.
- Investment opportunity that will exceed £25m over the investing period.

2.2 There is no requirement that one opportunity presented has to meet all of the areas of investment activity sought as described in 2.1 above in a "fund of funds" type approach. A "fund of funds" approach is acceptable as are opportunities that only cover a limited number of areas. Asset managers can put forward current opportunities or proposed new arrangements. The vehicles for investing are expected to be an asset manager's regulated vehicle suitable for institutional investors.

2.3 Sponsoring funds may determine to invest in none, one or more opportunities following their due diligence. There is significant common ground amongst funds to indicate that funds are likely to be making similar investment decisions reflecting their common purpose.

2.4 Sponsoring funds are not seeking housing investments as a number of opportunities are currently already known and accessible to funds. However housing opportunities in

combination with other asset types as set out in this definition will be considered, provided they are part of a suitably diverse risk and return profile that otherwise would be acceptable.

## **Section 3: Description of asset manager requirements and assessment criteria**

### **3.1 Background**

3.1.1 Investment opportunities offered by asset managers that provide the appropriate declarations at 3.2 will be assessed initially against the requirements set out in section 3.3 to 3.5 below. Those that do not meet them will not be considered further. Clearly if an offering is incomplete or does not comply with the procedural conditions set out in this document that offering may be excluded from further participation in this process.

3.1.2 Asset managers that can make the confirmations required and meet the other requirements will be assessed in accordance with the criteria set out in section 3.5. Opportunities that are the strongest when seen against the criteria will be considered by individual sponsoring funds using their specific due diligence requirements. This process may be a shared process by funds where there is common ground.

### **3.2 Statement relating to good standing: Asset manager declarations – economic and financial stability, regulatory standing, mandatory and discretionary exclusion criteria**

Asset managers must provide a written statement of their good standing with their offering that as a firm they have economic and financial stability, no regulatory problems and no mandatory or discretionary criteria exclusions apply to them as a firm. The declaration also applies to parent company, any partner organisations and significant sub-contractors involved with the opportunity being presented.

#### **3.2.1 Economic and financial standing**

The asset manager must be able to confirm that they are a viable economic and financial firm and have no known issues that would significantly alter this position. Three years of audited accounts may be requested.

#### **3.2.2 Regulatory**

Asset managers are required to confirm that they have no regulatory or outstanding compliance concerns or issues affecting their organisation. Asset managers are also required to confirm that they have a working knowledge of the Local Government Pension Scheme and the controlling Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. They must also confirm that the asset manager is registered with an appropriate regulatory body in the EU for undertaking investment activity as set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

#### **3.2.3 Mandatory and discretionary exclusion criteria**

##### **a) mandatory exclusion criteria**

This matter relates to public procurement and reputational issues for funds. An acceptable position is established by the asset manager confirming that they have not committed any offences listed in Regulation 23(1) of the Public Contracts Regulations 2006. This covers:

- 1) Conspiracy within the meaning of the Criminal Law Act 1977
- 2) Corruption within the meaning of the Public Bodies Corrupt Practices Act and the Prevention of Corruption Act 1906;
- 3) The offence of bribery;
- 4) Fraud, where the offence relates to fraud affecting the financial interests of the European Communities as defined by Article 1 of the Convention relating to the protection of the financial interests of the European Union, within the meaning of –
  - (i) the offence of cheating the Revenue;
  - (ii) the offence of conspiracy to defraud;
  - (iii) fraud or theft within the meaning of the Theft Act 1968 and the Theft Act 1978;
  - (iv) fraudulent trading within the meaning of section 458 of the Companies Act 1985;
  - (v) defrauding the Customs within the meaning of the Customs and Excise Management Act 1979 and the Value Added Tax Act 1994;
  - (vi) an offence in connection with taxation in the European Community within the meaning of section 71 of the Criminal Justice Act 1993; or
  - (vii) destroying, defacing or concealing of documents or procuring the extension of a valuable security within the meaning of section 20 of the Theft Act 1968;
- 5) Money laundering within the meaning of the Money Laundering Regulations 2003;
- 6) Any other offence within the meaning of Article 45(1) of the Public Sector Directive

**(b) Discretionary Exclusion Criteria**

This relates to the standing of a firm and reputational issues and is addressed by the asset manager confirming they are not or have not as an individual or company:

- 1) Been bankrupt or had a receiving order or administration order or bankruptcy restrictions order made against them or made any composition or arrangement with or for the benefit of creditors or made any conveyance or assignment for the benefit of creditors or appears unable to pay, or to have no reasonable prospect of being able to pay, a debt within the meaning of section 268 of the Insolvency Act 1986, or is the subject of any similar procedure under the law of any other state;
- 2) Been the subject of an any winding up action;
- 3) Been convicted of a criminal offence relating to the conduct of business or profession;
- 4) Has committed an act of grave misconduct in the course of business or profession;

- 5) Failed to fulfil obligations relating to the payment of social security contributions or taxes under the law of any part of the United Kingdom or of the relevant State in which the economic operator is established.

### **3.3 Asset Management Capability (Technical or professional ability)**

- 3.3.1 Asset managers will need to demonstrate their capability in support of their submitted investment opportunity as an organisation. This should relate to investment management and operational experience of the particular investments being proposed.
- 3.3.2 This requires demonstration of a robust, successful organisation appropriately structured with experience relevant to the activities undertaken.
- 3.3.3 The minimum standard expected is that the asset manager or key staff, partners, or sub-contractors have been engaged in a number of directly comparable investment activities over the last 3 years.

Asset managers are required to include information setting out the names of the core staff that will be involved with the investment process and details of their experience relevant to working on directly, or comparable type activities.

### **3.4 Details of Investment Opportunity**

3.4.1 Details of the investment opportunity, its characteristics and how it meets the requirements detailed in this document will need to be demonstrated. This should include the investment process, risk management, projected outcomes and reporting arrangements (see 4.1 for further details).

3.4.2 The details should clearly state the management fee arrangements including any opportunity for performance sharing of returns between asset manager and investors. Also the fee statement should be clear how the costs associated with the underlying investments are being treated.

### **3.5 Assessment Criteria**

3.5.1 For asset managers that meet the good standing requirements detailed in paragraph 3.2 above, an assessment of their submitted investment opportunity for suitability will be based upon:

- The likelihood that the targeted return/risk profile can be achieved;
- Management fees; and
- The economic impact that the underlying investment is expected to achieve, together with any associated environmental, social and geographical impacts.

### **3.5.2 Risk/Return profile**

The key objective is to maximize returns within acceptable risk levels and therefore the strength of the risk/return analysis and track record will determine the view as to the extent to which the investment opportunity submitted will help the funds achieve their objective. The following elements will be considered:

- staff and specialised support resources
- use of partners and sub-contractors
- relevant experience
- past performance
- investment process
- characteristics of investments

### **3.5.3 Management fees**

These will be considered from the perspective of funds paying a reasonable fee having regard to the resources the asset manager has to deploy, fee levels currently being paid by funds and how performance gains or losses are shared between the investors and asset managers.

### **3.5.4 Expected Impact to be achieved from underlying investment**

This will be to some degree a subjective judgement based on an overview of the proposals submitted and will be evaluated on the following basis for four broad impact areas,

1. economic
2. social
3. environmental and
4. geographical in terms of areas of deprivation or economically and socially challenged.

It is recognised that some proposals will not cover all four areas, but any opportunity must have strong economic impacts. Various impact measures are known to be used by asset managers and no measures prescribed in detail are being required, but measures submitted must demonstrate their relevance and robust nature for the purpose of measuring impact outcomes.

## **Section 4: The submission of Information**

4.1 Asset managers interested in putting forward opportunities for consideration should submit the following information having regard to the assessment process detailed in 3.1 to 3.5:

- a statement outlining the asset manager firm and its structure including the name of the asset manager, registered addresses, the names of its Directors or Partners and the number of employees.

- details of partner organisations and sub-contractors involved with the submitted investment opportunity
- details of fund management experience relevant to the submitted investment opportunity, scale of operations, personnel committed to the offering, regulatory arrangements
- a good standing statement that the organization is economically and financially stable, there are no regulatory or compliance problems or concerns and no exclusions relating to public service contracts apply and that the requirements set out in 3.2 can be met
- details of the proposed offering(s) covering investment activities, investment process, risk and return projections, diversification, deal flow, exit arrangements/strategies, measurable outcomes from the impact of the investments in economic, social and environmental terms, investment vehicle and proposed fee structure, and
- any other supporting information relevant to the submitted investment opportunity such as experience or track record.

4.2 Where a consortium or sub-contracting or use of a partner organization approach is proposed, all information requested should be given in respect of the proposed prime contractor or consortium leader. Relevant information should also be provided in respect of consortium members or sub-contractors who will play a significant role in the delivery of the requirements or if necessary to meet minimum standards.

4.3 Information required can be supplied where appropriate using the firm’s standard documents and booklets, but is limited as follows:

	<b>Information Required</b>	<b>Maximum number of A4 pages</b>
<b>1</b>	<b>Company(organisation ) details</b>  A statement outlining the asset manager firm including the name of the asset manager, registered address, structure, names of its Directors or Partners and the number of employees.	<b>2</b>
<b>2</b>	<b>Asset management experience</b>  Summary details of fund management experience, scale of operations, personal committed to the offering, regulatory arrangements	<b>2</b>
<b>3</b>	<b>Good Standing statement</b>	<b>1</b>

	Provide the confirmation as set out in section 3.2.	
<b>4</b>	<b>Technical and professional ability</b> Provide the further information to address issues raised under sections 3.3 to 3.5 in relation to technical and professional ability.	<b>4</b>
<b>5</b>	<b>Details of investment opportunity</b> Details of offering including investment activities, investment process, risk and return projections, diversification, deal flow, exit arrangements/strategies, measurable outcomes from the impact of the investments in economic , social and environmental terms, investment vehicle and experience or track record.	<b>10</b>
<b>6</b>	<b>Fee structure</b>	<b>2</b>
<b>7</b>	<b>Any supporting information</b>	<b>5</b>

4.3 Submissions should be sent electronically to the contact detailed on page one.

4.4 Before making a submission asset managers will have an opportunity to meet with the sponsoring fund representatives in open session to ask any questions or seek clarifications. If you want to attend the meeting register your interest with the contact shown on page one.

## Section 5 General points

5.1 The sponsoring funds are committed to open government and to meeting their legal responsibilities under the Freedom of Information Act 2000. Accordingly, all information submitted to a public authority may need to be disclosed by the public authority in response to a request under the Act. The Council of a fund may also decide to include certain information in any publication scheme, which the Council maintains under the Act. Asset managers will be consulted on what is considered commercially sensitive (in broad terms), what harm may result from disclosure if a request is received, and attempt to meet manager’s reasonable requests for non-disclosure.

5.2 The information in this document is offered in good faith for the guidance of interested parties, but no warranty or representation is given as to the accuracy or completeness of any of it. The funds and their advisers shall not be under any liability for any error, misstatement or omission.

Asset managers will participate in the process on the strict understanding that the procedure may be altered or that the funds may not proceed for any reason. The funds do not bind themselves to enter into negotiations or proceed with or accept any offer. Any decision to submit an investment opportunity is at the sole discretion of the asset manager and the funds exclude all liability in respect of any costs incurred. No aspect of this procedure shall constitute a contract or part of a contract.

5.3 Funds are aware that there is the potential for conflicts of interest when investments are considered and made in the geographical area in which they operate, but they operate across areas that are in most need of impact investment. Sponsoring funds will therefore not want to be part of any process which determines the appropriateness or suitability of individual investments where conflicts could or do arise. This should therefore not prevent an asset manager making an investment in that fund's area if the asset manager considers it appropriate.

Funds would want to help generate deal flow for the asset manager to consider through its network of local public sector contacts and relationships. This would be done through a process acceptable to the asset manager and ensure only potentially suitable schemes are presented to the asset manager.

5.4 The sponsoring funds want to be able to facilitate other LGPS funds investing at a future date.

<sup>1</sup> Local authority pension funds: investing for growth, The Smith Institute, London 2012,

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