Investing4Growth

Investing4Growth Concluding Statement June 2014

Background

In May 2013 a group of five local authority pension funds sought expressions of interest from asset managers in a new investment initiative seeking to deliver both financial returns and create measured positive economic impact.

The Funds were Greater Manchester Pension Fund, West Yorkshire Pension Fund, West Midlands Pension Fund, South Yorkshire Pension Fund and Merseyside Pension Fund. The funds were supported by PIRC.

The initiative was taken following the recommendations of the report 'Local Authority Pension Funds: Investing for Growth' published in November 2012. This report was commissioned by the Local Authority Pension Fund Forum (LAPFF), conducted by the Centre for Local Economic Strategies with help from PIRC and published by the Smith Institute. The report sought to identify the possible challenges and opportunities for these types of investments. The five funds established the initiative as a project called Investing4Growth, (I4G).

The funds were seeking to identify the extent of UK investment opportunities which, whilst meeting their investment return and risk strategies, also had positive economic impacts. The funds did not seek to change their risk and return requirements for these investments, but rather sought to discover investments that would benefit local communities they represented and address some of the current economic challenges they faced. The pension capital that the five funds had available to invest came from their local communities and where many of the fund scheme beneficiaries' are low paid and from deprived communities where the economic challenges are at their greatest.

The range of investment activities that were envisaged to have an economic impact were broad in nature and included activities that were perceived to have beneficial economic, social and environmental impacts. In addition it was considered that they may include underlying investments including infrastructure, resource management, and business development.

The following key features were sought:

- Opportunities managed by an asset manager of good standing with appropriate experience
- Opportunities that had appropriate risk and return characteristics suitable for the institutional investor market.
- Opportunities in the UK that would have a positive and measurable economic impact with associated potential social or environmental impacts on communities at a local, regional and national level.
- Underlying opportunities could include infrastructure (development and operation), business development (regeneration, education and skills, employment, venture capital), and resource management (energy, water, waste, etc.
- Opportunities with an investment impact to include deprived geographical communities and areas with challenging economic and social issues were also to be considered.

Councillor Kieran Quinn, chair of Greater Manchester Pension Fund and Leader of Tameside Council said on 14 March 2013:

> "A pension fund has an overriding responsibility to make a financial return that will assist it in meeting its pension liabilities without taking unreasonable risks, but it is clear that in meeting these criteria there are investment opportunities that will also deliver an impact on local communities that improves their economic wellbeing, including social and environmental outcomes. Funds have taken a number of such investment opportunities and this initiative is not only to establish the depth and breadth of the current market, but to challenge asset managers to bring opportunities forward of sufficient scale to match the investment allocations pension funds are prepared to commit."

An advert seeking expressions of interest was published in the Financial Times, and a website was set up for those asset managers seeking more information at www.investing4growth.co.uk.The deadline for submission of proposal was 5th July 2013.

The brief required asset managers to demonstrate they had an institutional quality product by providing information covering their good standing, experience, investment process, risk management arrangements, operating structure, fees, costs etc.

They also had to provide details of the impact of their investment activity identifying economic, social, environmental and geographic (in terms of deprivation and fund operating areas) impacts.

Submissions made by Asset Managers

33 submissions were made by 28 managers covering a wide range of underlying investment activity e.g. property, infrastructure, SMEs, social enterprises. A range of sectors were covered e.g. energy, care services, technology. This was followed by an initial short-listing by PIRC.

Sponsoring funds undertook due diligence on all of the opportunities submitted and followed this up with detailed work on seven asset managers' submissions where there was common ground amongst the five funds. The submissions had varying impacts, but generally submissions from small, specialist asset managers had the stronger community impact outcomes. The results of their work were considered at a meeting of the sponsoring funds on 4 March 2014.

The sponsoring funds finally identified three opportunities in which they had a collective interest.

Some individual pension funds are continuing to evaluate some of the other opportunities presented by asset managers reflecting their specific investment strategies and needs.

Councillor Kieran Quinn Chair of the I4G Group Comments:

> "I am very pleased that after a challenging process the sponsoring funds are moving collectively to secure the final close on some interesting opportunities that will demonstrate that a fund's fiduciary responsibilities can be aligned with delivering positive outcomes for individuals and communities, and bring positive economic benefits to local areas.
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> We will be carrying out a review of the process we followed and will share our observations with other interested funds who may wish to explore similar opportunities. Impact investing for pension funds is a new area of activity and I hope that having established the investment potential, other funds will join us in seeking further opportunities leading to the establishment of a strong flow of good opportunities and provision of pension fund investment returns.
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> We are aware that several interesting potential opportunities are in unfamiliar areas of activity for us, and presented by with asset managers with whom we have not worked with before and who are seeking to establish their first funds. These factors add to the investment risk and present new challenges for pension funds on how these can be mitigated in order to meet a specific fund's expectations. As we gain experience and see successful opportunities mature, I am confident that these factors can be effectively managed. I would like to take the opportunity to thank all the asset managers that submitted proposals and the work of pension fund officers and advisors." June 2014

Investments Being Made

It can now be confirmed that the following investment commitments in principle have been made.

Pension Fund	Bridges Ventures Property Fund	Bridges Ventures SIB Fund	Bridges Ventures Social Sector Fund III	Boost&Co Industrial Lending Fund 1	Midven Ltd AM&M Fund	Total Commitments
GMPF	£25m	£2.5m	£2.5m	£10m	£10m	£50m
MPF	£10m	£1m	£1m	£5m		£17m
WMPF	£30m					£30m
WYPF	£10m			£5m	£5m	£20m
SYPA	£10m			£5m		£15m
East Riding	£20m					£20m
TOTAL	£105m	£3.5m	£3.5m	£25m	£15m	£152m

In addition a number of the asset managers submitting proposals have received interest direct from a number of funds, from within and beyond the initial I4G sponsoring funds.

There are no immediate plans to repeat the initiative but the opportunities and challenges identified will be considered in future discussion amongst funds. In particular it is clear opportunities for pension funds exist, but they come with challenges. Funds need to formulate a clear policy in advance of investment decisions which locates such investment opportunities in a fund's asset allocation strategy and meets its policies and objectives outlined in its SIP. There is also a significant challenge in overcoming the lack of understanding around impact investing enabling appropriate knowledge and skills to be acquired amongst trustees, officers and advisers/consultants.

Pension funds are naturally concerned about their stewardship role which implies cautious risk management. Impact investing brings new risks that have to be overcome e.g. a lack of track record for such investments, liquidity, presence of other investors, unfamiliar activities, managers operating in new areas. Another interesting feature of the I4G initiative was that traditional investment consultants were not engaged due to the lack of specialist knowledge and understanding of the sector.

Perceived conflicts between LGPS pension fund duties and the broader role of the local authority are also concerns that need to be considered and managed. In today's pension fund investment marketplace the number of impact investment opportunities are relatively small in number in terms of investment size, management costs and administrative time required and in transaction costs relative to the investments pension funds currently undertake.

As a result of the I4G initiative pension funds need to consider changing their operating parameters to accommodate impact investments.

Councillor KQ commented:

> "I am pleased that we have shown through this initiative that opportunities exist for pension funds, but recognise that challenges remain to be overcome if impact investing is to be established as a suitable institutional investment opportunity. My fund has taken steps to develop the expertise and experience necessary to make meaningful impact investments. A number of funds want to continue to work together on developing a joint approach to further impact investments and we will be considering our options later in the year. We will continue to share our experiences and work with other like-minded pension funds." June 2014

Investing 4 Growth

GREATER MANCHESTER PENSION FUND

West Yorkshire Pension Fund

ERPF East Riding Pension Fund

SOUTH YORKSHIRE PENSIONS AUTHORITY

West Midlands Pension Fund

Merseyside PENSION FUND