

SCALING UP INSTITUTIONAL INVESTMENT **FOR PLACE-BASED IMPACT**

White Paper

MAY 2021



ABOUT THE PROJECT

The Good Economy, Impact Investing Institute and Pensions for Purpose have joined forces to produce a white paper on place-based impact investing (PBII) that can mobilise institutional capital to help build back better and level up the UK. Based on extensive consultations with market actors and stakeholders, this white paper offers a clear set of directions, models and practical guidance for investors to engage in PBII and report their impact across sectors and geographies. The Local Government Pension Scheme (LGPS), the empirical focus of this project, could itself become a pioneer of PBII in the UK, showing the way forward for the multi-trillion pound pensions industry.

This research project has been supported by the Department for Digital, Culture, Media & Sport, the City of London Corporation and Big Society Capital. Our approach to the project has been collaborative and consultative throughout, with LGPS funds, local authorities, fund managers and other stakeholders contributing advice, guidance and practical support throughout the project work.

ABOUT THE PARTNERS

THE GOOD ECONOMY

The Good Economy (TGE) is a leading social advisory firm dedicated to enhancing the contribution of finance and business to inclusive and sustainable development. Formed in 2015, TGE has rapidly established itself as a trusted advisor working with public, private and social sector clients. TGE provides impact strategy, measurement and management services and also runs collaborative projects bringing together market participants to build shared thinking and new approaches to mobilising capital for positive impact. TGE currently provides impact advisory services for over £3.4 billion assets under administration.

IMPACT INVESTING INSTITUTE

The Impact Investing Institute is an independent, non-profit organisation which aims to accelerate the growth and improve the effectiveness of the impact investing market. It does this by raising awareness of, addressing barriers to, and increasing confidence in investing with impact.

PENSIONS FOR PURPOSE

Pensions for Purpose exists as a bridge between asset managers, pension funds and their professional advisors, to encourage the flow of capital towards impact investment. Its aim is to empower pension funds to seek positive impact opportunities and mitigate negative impact risks. It does this by sharing thought leadership and running events and workshops on ESG, sustainable and impact investment.

ACKNOWLEDGEMENTS

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EXECUTIVE SUMMARY

The UK is a country of entrenched place-based inequalities which have persisted for generations and are more extreme in the UK than most OECD countries. The Covid-19 pandemic and Brexit have combined to move these place-based inequalities to centre stage in public debate – alongside a search for effective and sustainable ways of tackling them. The need for more public investment is undeniable and the political will appears to be in place. There is now a golden opportunity for responsible, patient private capital to step in, match public investment and deliver positive environmental and social impact in places and communities across the country.

Currently only a small fraction of UK pension money is invested directly in the UK in ways that could drive more inclusive and sustainable development, in sectors like affordable housing, small and medium-enterprise (SME) finance, clean energy, infrastructure and regeneration. This white paper offers a place-based approach to scaling up institutional capital, including pension fund investment, into opportunities that enhance local economic resilience and contribute to sustainable development, creating tangible benefits for people, communities and businesses across the UK.

If we manage to accomplish this, the UK will be creating bridges between London and the rest of the country, and bridges between financial capital and the real economy.

Place-based approaches to tackling deep-seated social and spatial inequalities are now the norm internationally and they are relatively advanced in the UK. The current UK Government's levelling up policies are consistent with a place-based approach. With the costs to the nation of levelling up expected to exceed £1 trillion over the next 10 years, it is clear public investment will need to be matched by private investment. This is the rationale for our study, which explores how a place-based approach, already favoured by public and social investors, can be extended to institutional investors.

To establish an empirical basis for understanding place-based investing, we chose to focus on the Local Government Pension Scheme (LGPS). These pension funds are locally managed by 98 sub-regional administering authorities and have assets with a combined market value of £326 billion as of March 2020 [see footnote 6]. The LGPS has a place-based administrative and membership geography.

Environmental, social and governance (ESG) integration and alignment with the Sustainable Development Goals (SDGs) are becoming increasingly important to investment strategies, and there is a legacy and current interest in local investing. If all LGPS funds were to allocate 5% to local investing, this would unlock £16 billion for local investing, more than matching public investment in the £4.8bn Levelling Up Fund and associated government initiatives.

The levelling up agenda goes hand-in-hand with the climate change agenda where pension funds already have a strong focus, including how to build net zero portfolios. Delivering these two goals together would support a 'just transition' to a net zero economy that supports green job creation and simultaneously delivers environmental, economic and social benefits across the UK.

We should emphasise, however, that we see place-based impact investment (PBII) as a new paradigm and lens for investors more generally. We envision PBII as a confluence of capital from commercial, social and public investors that results in equitable distribution of investment across all regions of the UK for the benefit of local places and people. This confluence of capital flows, with institutional investors playing a key role, must happen if we are to make the levelling up aspiration a reality. As such, we hope this report acts as a template for change, and will be read and acted upon by all institutional investors and financial institutions.

The project has been led by The Good Economy working in partnership with the Impact Investing Institute and Pensions for Purpose. The research project has been supported by the Department for Digital, Culture, Media & Sport, City of London Corporation, and Big Society Capital.

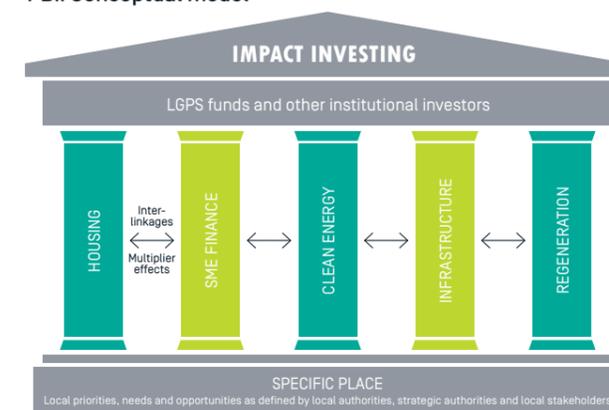
A PLACE-BASED APPROACH TO IMPACT INVESTING

We define place-based impact investment as:

Investments made with the intention to yield appropriate risk-adjusted financial returns as well as positive local impact, with a focus on addressing the needs of specific places to enhance local economic resilience, prosperity and sustainable development.

We present an original conceptual model of PBII that brings together places and investors around five 'pillars', underpinned by a solid social and financial rationale for investing [see Section 2]. The five pillars are dual structures. On the one hand, they represent policy objectives and priority areas in local and regional development strategies. On the other hand, the pillars are real economy sectors and investment opportunity areas that fall within institutional investment strategies and asset classes.

PBII Conceptual model



Central to PBII is creating an alignment of interest and action among all stakeholders in shared impact creation for the benefit of local people and places. Stakeholder consultation and engagement is indeed fundamental to PBII. This type of investing is about 'boots on the ground rather than eyes on screens'.

The white paper also defines five traits that define and distinguish PBII as an investment approach:

- 1 Impact intentionality
- 2 Definition of place
- 3 Stakeholder engagement
- 4 Impact measurement, management and reporting
- 5 Collaboration.

THE FINANCIAL CASE FOR PBII

For institutional investment to flow to PBII, it needs to meet the commercial investment requirements of LGPS funds and other institutional investors. We carried out original analysis of market data which demonstrates that investments within the sectors that are key to PBII – affordable housing, SME finance, clean energy, infrastructure and regeneration – can deliver risk-adjusted financial returns in line with institutional investor requirements. Specifically:

- Investments in these key sectors provide stable, high, long-term returns and low volatility versus other mainstream asset classes.
- Investments in most of these sectors are generally in real assets, such as housing and infrastructure, so can also provide income streams.
- These assets are generally illiquid which often command higher returns, hence, are attractive from a portfolio diversification and financial return perspective.

The universe of assets is, however, comparatively small and often in the private markets, suggesting a need for manager selection and a deeper understanding of the risks by interested institutional investors.

THE OPPORTUNITY FOR LGPS FUNDS

Currently the scale of PBII is very limited. Our baseline analysis of investment activity by LGPS funds in sectors that are key for PBII found that:

- **Few pension funds demonstrate intentionality to invest with a local place-based lens.** We were only able to identify six LGPS funds out of a representative sample of 50 that have a stated intention to make place-based investments: Cambridgeshire, Clwyd, Greater Manchester, Strathclyde, Tyne and Wear and West Midlands. Of these, only Greater Manchester has an approved allocation to invest up to 5% of its capital locally.
- **There is a very low level of investing into key PBII sectors.** Only 2.4% of the total value of LGPS funds holdings are in these key sectors, of which only 1% of total assets (£3.2 billion) is clearly identifiable as directly invested in these sectors within the UK. Infrastructure dominates in terms of the scale of investment. SME finance provides the most opportunities for direct local and regional investment through specialist fund managers.
- **Key sector allocations are generally relatively small size, averaging £10 million** and busting the myth that pension funds can only make large allocations in the £50 million to £100 million range.

→ **Investment in these sectors is growing due to an increasing number of funds** managed by specialist fund managers. From 2017 to 2020, the number of private market funds investing in these sectors increased by 16% from 106 to 123 funds, and the number of public funds increased by 62% from 21 to 34 [see Annex 2 for a list of funds]. The largest growth is seen in investments in residential housing, including social and affordable housing.

STAKEHOLDER PERSPECTIVES AND CURRENT PRACTICE

There are challenges to PBII but none of these are hard barriers. The three main challenges are:

- **Traditional mindsets** whereby institutional investors allocate capital to the global capital markets without giving full consideration to whether allocations closer to home could deliver comparable returns and diversification while benefiting the development needs of local communities.
- **Fears of conflicts of interest** make LGPS managers wary of being accused of succumbing to political pressures that undermine their fiduciary responsibility.
- **Capacity constraints** and having the time, expertise and skills to source and carry out due diligence on PBII opportunities are the most limiting factors to scaling up these types of investments.

It appears that the universal requirement to scaling up PBII is an increase in operational resource across the ecosystem to prepare, identify and do due diligence on PBII investments, including building expertise within local authority teams, LGPS investment teams and consultants. In order to meet this capacity challenge, we observed approaches we broadly classify as 'building' capabilities, 'buying' in the skills or 'borrowing' resources. Section 4.4 provides examples of how different LGPS funds have used these strategies to make local investments.

Many UK fund managers expressed frustration that it is easier to raise capital from foreign pension funds than it is from UK pension funds. This is in part because these foreign pension funds are larger with teams that are more experienced in private market investing who proactively seek out UK opportunities.

In the UK, individual LGPS funds have made PBII-aligned investments in three ways: direct investments, co-investment strategies and via third-party managed funds. The vast majority of capital is invested via third-party funds, hence, fund manager selection and experience is critical to scaling up PBII. Pension funds review their managers closely and are often guided by advisors and consultants.

Many of the fund managers in this space are relatively small, specialist firms. Those LGPS funds that have a commitment

to PBII have the appetite and resources to engage with and do due diligence on smaller fund managers. However, the majority of LGPS funds rely on consultant advice for strategic asset allocation and fund manager selection and the smaller funds do not get considered. This pattern tends to lead to bifurcation in the market. Large fund management firms which are more able to raise capital are successful but with more traditional strategies. This contrasts with specialised niche firms which often have a more impactful strategy or place-led approach but find it challenging to raise capital.

Consultants perform a gatekeeper role. Hence, getting consultant buy-in and support is key to scaling up institutional investment in PBII.

Pension pools are building their capacity and skills in private markets investing and could potentially also play an important role in scaling up PBII. There are eight pension pools in England and Wales which were established as a means for individual LGPS funds to invest collectively so leveraging scale to improve investment opportunities and reduce costs.

IMPACT REPORTING FRAMEWORK

Evidencing the achievement of place-based impact is fundamental to PBII. TGE convened a working group of LGPS funds, local authorities and fund managers to develop a common approach to impact measurement, management and reporting.

We used the PBII pillars to provide a set of common impact objectives that are relevant from both a local government policy and investment perspective. We also co-created a reporting approach that provides a core metrics set to report back on PBII activity. A key aim was to develop a right-sized and practical approach to impact reporting that would enable LGPS funds to communicate with their members in a clear and straightforward manner about their place-based investment activity.

CALL TO ACTION

We have presented PBII as a new paradigm for institutional investment using the LGPS to explore its implications for thinking and doing things differently. We see this paradigm as potentially having a much bigger reach: the aim should be for PBII to become a main investment theme in the next decade for the UK's leading pension funds.

Successful adoption of PBII through projects that are appropriately planned, designed and financed would help reduce place-based inequalities. However, this also requires deploying the PBII model within existing national strategies that aim to tackle regional inequalities, such as the Devolution and Growth Deals, the National Infrastructure Strategy, the Industrial Strategy, the Climate Change Adaptation Strategy and the

levelling up programmes. PBII can also provide an umbrella framework for local investment partnerships between commercial impact investors, local and central government, social investors (including foundations) and local anchor institutions, such as housing associations and universities.

Levelling up is about creating this landscape of investment activity with hundreds of PBII projects underway right across the country, and with inequality within and between places diminishing over the next decade. This is what success looks like.

We recommend five areas for action to scale up PBII. We want to change the traditional investment paradigm and scale up investment in PBII for the benefit of communities across the UK. Hence, we need to raise awareness and strengthen the identity of PBII as an investment approach that could contribute to inclusive and sustainable development across the UK, whilst achieving the risk-adjusted, long-term financial returns required by institutional investors. This requires actions that raise awareness, increase capacity and competency, promote place-based impact reporting, connect investors and PBII opportunities and scale up institutional grade investment

products. Section 6 provides details of these priority areas and a call for action to all market actors to engage in the PBII agenda.



FINAL REFLECTION

Behind all of the discussion in this white paper is the idea that if we can get PBII right and launched across the country – as a top national priority within the build back better and levelling up agendas – then it is not unrealistic to expect the UK to approach 2030 as a landscape where place-based inequalities are becoming a thing of the past. Much of this report is about 'getting there'.

If we manage to accomplish this, the UK will be creating bridges between London and the rest of the country, and bridges between financial capital and the real economy. Bridge-building calls for collaboration and a sharing of money and method, with impact investors of all kinds working closely with place-based stakeholders from business, government and community to get things done. There is a need for mutual learning and understanding, as we have emphasised throughout this report.

“Behind all of the discussion in this white paper is the idea that if we can get PBII right and launched across the country – as a top national priority within the build back better and levelling up agendas – then it is not unrealistic to expect the UK to approach 2030 as a landscape where place-based inequalities are becoming a thing of the past.”

1 INTRODUCTION

The UK is a country of entrenched place-based inequalities which have persisted for generations and are more extreme in the UK than most OECD countries [see Chart 1.1].¹ The Covid-19 pandemic and Brexit have combined to move these place-based inequalities to centre stage in public debate – alongside a search for effective and sustainable ways of tackling them.² Currently only a small fraction of UK pension money is invested directly in the UK in ways that could drive more inclusive and sustainable development. This study looks at how to scale up institutional capital, including pension fund investment, into opportunities that enhance local economic resilience and sustainable development and create tangible benefits for people, communities and businesses across the UK.

Place-based approaches to tackling deep-seated social and spatial inequalities are now the norm internationally and they are relatively advanced in the UK.³ The current Government’s levelling up policies are consistent with a place-based approach.⁴ With the costs to the nation of levelling up expected to exceed £1 trillion over the next 10 years, it is clear public investment will need to be matched by private investment.⁵ This is the rationale for our study, which explores how a place-based approach, already favoured by public and social investors, can be extended to institutional investors.

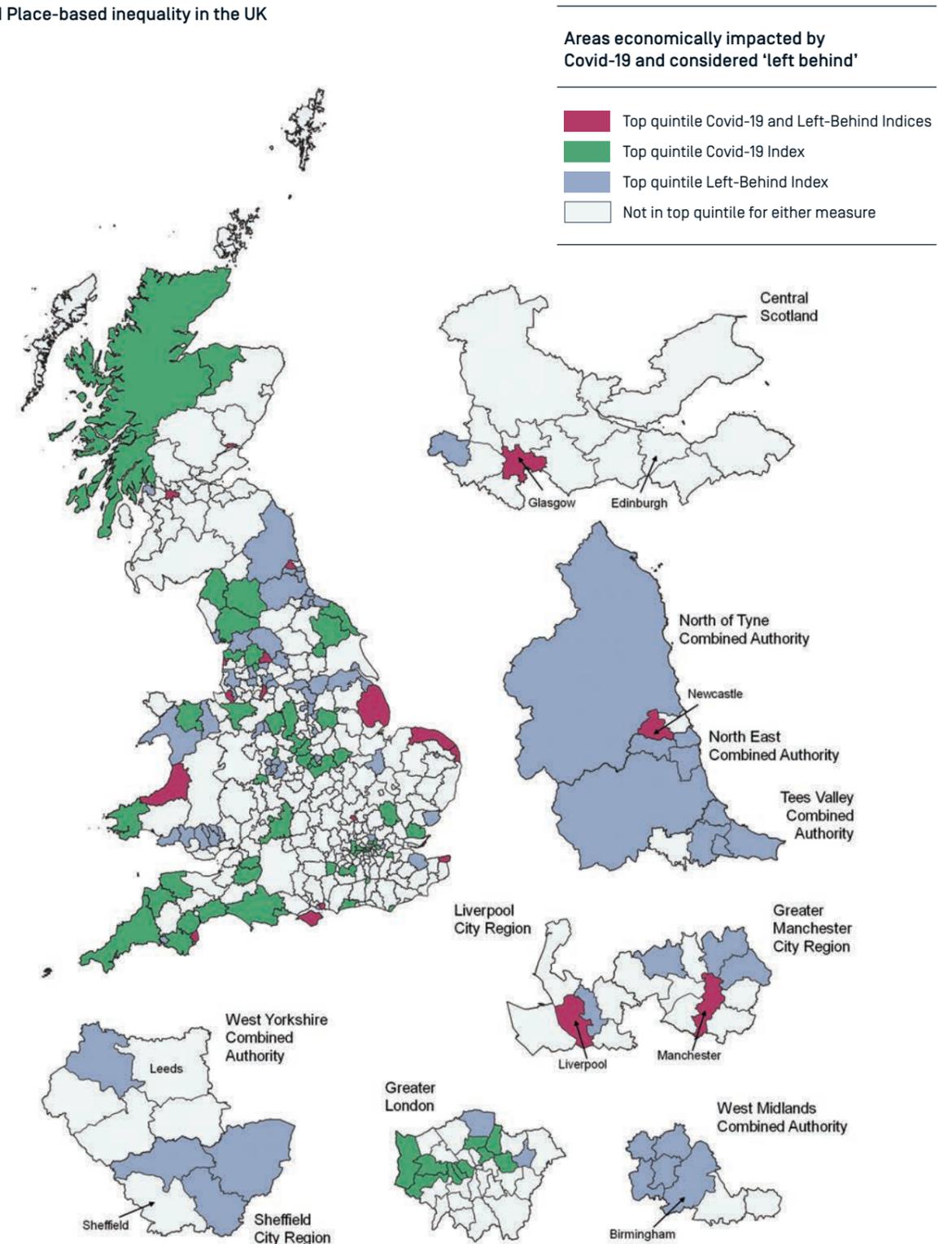
The investor focus of this white paper is the Local Government Pension Scheme. These pension funds are locally managed by 98 sub-regional Administering Authorities, having assets with a combined market value of £326 billion as of March 2020.⁶ The LGPS has a place-based administrative and membership geography. Environmental, social and governance (ESG) integration and alignment with the Sustainable Development Goals (SDGs) are becoming increasingly important to

investment strategies, and there is a legacy and current interest in local investing.

We should emphasise, however, that we see place-based impact investment as a new paradigm or lens for investors more generally. We envision a confluence of capital flows from private markets, government programmes and social investment into local economies and communities. The levelling up agenda requires this confluence of capital flows, with institutional investors playing a key role. As such, we hope this report will be read and acted upon by all institutional investors and financial institutions.

The project has been led by The Good Economy working in partnership with the Impact Investing Institute and Pensions for Purpose. It has been supported by the Department for Digital, Culture, Media & Sport, City of London Corporation, and Big Society Capital.

Chart 1.1 Place-based inequality in the UK



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 Recreated from IFS Green Budget 2020: Levelling up: where and how? The Institute for Fiscal Studies, October 2020.

Source: The Good Economy.

1. Philip McCann, 'Perceptions of regional inequality and the geography of discontent: insights from the UK', Regional Studies, 2019.
 2. 'Unequal Britain: attitudes toward inequality in light of Covid', Policy Institute at King's College London and UK in a Changing Europe, February 2021. A key finding of this survey research was that "inequalities between more and less deprived areas [61% of survey respondents], along with disparities in income and wealth [60%] are seen as the most serious type of inequality in Britain."
 3. HM Treasury, Levelling Up Fund Prospectus, March 2021
 4. Since its election in 2019, the Government has made a series of announcements and financial commitments to levelling up in a range of funds, including the Levelling Up Fund, the UK Community Renewal Fund, the Community Ownership Fund and the Towns Fund.
 5. The UK 2070 Commission, Go Big, Go Local: A New Deal for Levelling up the UK, October 2020
 6. MHCLG, Local Government Pension Scheme Funds England and Wales: 2019-20 Statistical Release. For Scotland and Northern Ireland individual pension fund annual reports (2019/2020).

1.1 PLACE-BASED APPROACH TO IMPACT INVESTING

This study explores the potential role of impact investing in tackling place-based inequalities, given its mission is to generate positive social and environmental impacts while providing investors with financial returns.

The PBII Project has set out to answer how impact investing can, as a global market trend, be purposed to deliver positive impact at the local level, measured by progress towards a future of inclusive prosperity and sustainable development. Similarly, the project asked what a place-based approach to impact investing – or simply, 'place-based impact investment' (PBII) – would look like in practice, starting from the following definition:

Place-based impact investments are made with the intention to yield appropriate risk-adjusted financial returns as well as positive local impact, with a focus on addressing the needs of specific places to enhance local economic resilience, prosperity and sustainable development.

In the sphere of public policy, place-based approaches refer to the sub-national – for example, regional, local, neighbourhood – level of economic, social and community development and service delivery. The UK public policy landscape has been described as 'a patchwork quilt' of place-based initiatives, mainly anchored by local authorities working together in cross-sector and regional partnerships.⁷

1.2 WHY THE LOCAL GOVERNMENT PENSION SCHEME?

The LGPS is one of the largest pools of institutional capital that also has connections with place-based communities in all areas of the country. The decentralised geography of the LGPS and its local investment decision-making powers suggest it is worthwhile exploring how it could play an important and distinctive role in PBII.

Further to this, if PBII were to lead to more prosperous local economies and communities, local authority revenues would be enhanced. Ideally, PBII would generate a virtuous circle of good pension fund returns and strong local multiplier effects that bring inclusive prosperity and sustainability in the long run. Stronger local economies would also result in greater financial stability for the local authority members of the pension funds.

This is, of course, an ideal scenario. In the first instance, LGPS funds have responsibilities to their members as pension fund

In the commercial sphere of institutional investment, 'place' is typically looked at through the lens of country-level diversification within global portfolios. The PBII Project has explored the prospect of sub-national portfolio diversification by institutional investors – with 'place' referring to local and regional economies and communities within the UK. In other words, 'place' in PBII is where these public policy and commercial spheres intersect.

PBII is a paradigm which positions 'place' at the sub-national level – regions, cities, communities – and enables institutional investors to engage in the same spatial context, making it possible for collaboration and shared value creation. The project has asked: what can place-based stakeholders and impact investors learn from one another? One area for mutual learning and knowledge-sharing lies in impact measurement, management and reporting. This could provide a promising route for developing targets and metrics for levelling up policies, programmes and projects.⁸

The thrust of this report is to scope out PBII as an opportunity area where potential synergies between investors and place-based stakeholders can be used to provide both long-term positive financial returns and social, economic and environmental impacts.

managers. Political and financial barriers are also known to influence the scope of LGPS decision making. Certainly, LGPS funds do not see themselves as 'impact investors' seeking to meet local development objectives. However, we do know that the LGPS funds are moving decisively in the direction of ESG integration and the SDGs, which is evident from their investment strategies in public listed and private markets.

The levelling up agenda goes hand-in-hand with the climate change agenda where pension funds already have a strong focus, including how to build net zero portfolios. Delivering these two goals together would support a just transition to a net zero economy that supports green job creation and simultaneously delivers environmental, economic and social benefits across the UK.

This report extends the scope of the LGPS sustainability agenda from the 'E' in ESG to the 'S', and from the environmental SDGs to a wider set of SDGs covering sustainable and inclusive economic development and decent jobs. As such, PBII offers a promising route for LGPS funds to achieve SDG benefits on behalf of their surrounding local and regional communities.

Finally, LGPS funds have a legacy of local investing to build on.

If 5% of LGPS funds were allocated to local investment this would unlock £16 billion for PBII, more than matching public investment in levelling up.

Through the course of this research, we found examples of LGPS funds, both individually and collectively, investing in projects delivering a positive local impact – notably in the areas of affordable housing, SME finance, clean energy, infrastructure and regeneration. These are all areas where PBII could be scaled up and profiled more strongly for LGPS members and local community and economy stakeholders. This study presents ways and means of accelerating this investment activity and making it more visible and coherent from a local sustainable development perspective.

1.3 THIS REPORT

Our **approach** to the study has been collaborative and consultative throughout, with the research team setting out to enable LGPS funds and stakeholders and our partners and sponsors to contribute advice, guidance and practical support to the project work.

The **structure** of the report is as follows:

- **Section 2** outlines a conceptual 'five-pillar' model of PBII, the social and financial case for investment, a mapping of the stakeholder ecosystem and five traits that define PBII
- **Section 3** provides a baseline assessment of PBII activity by LGPS funds
- **Section 4** analyses stakeholder perspectives on the challenges and opportunities for PBII, the investment models used and possible routes to increase institutional investment flows
- **Section 5** presents a proposed common approach to impact measurement, management and reporting
- **Section 6** synthesises our conclusions and proposes five action areas to scale up PBII.

7. Taylor, M., Buckley, E. and Hennessy, C. (2017). Historical review of place-based approaches, Lankelly Chase.

8. Centre for Cities, Levelling Up the UK's Regional Economies, March 2021; Institute for Fiscal Studies, Levelling up: Where and How?, October 2020.

2 A PLACE-BASED FRAMEWORK FOR IMPACT INVESTORS

This section provides a framework for LGPS funds and other institutional investors to engage in place-based impact investing either as something new or to build upon existing investment activity.

We provide a mapping of the stakeholder ecosystem from the LGPS perspective showing what types of relationships and linkages are needed to implement the investment model successfully. Then we provide data that demonstrate the strong financial performance of the asset classes that sit within these five pillars. Finally, we describe five traits that define and distinguish PBII in order to build a shared understanding and collaborative approach to its scaling up.

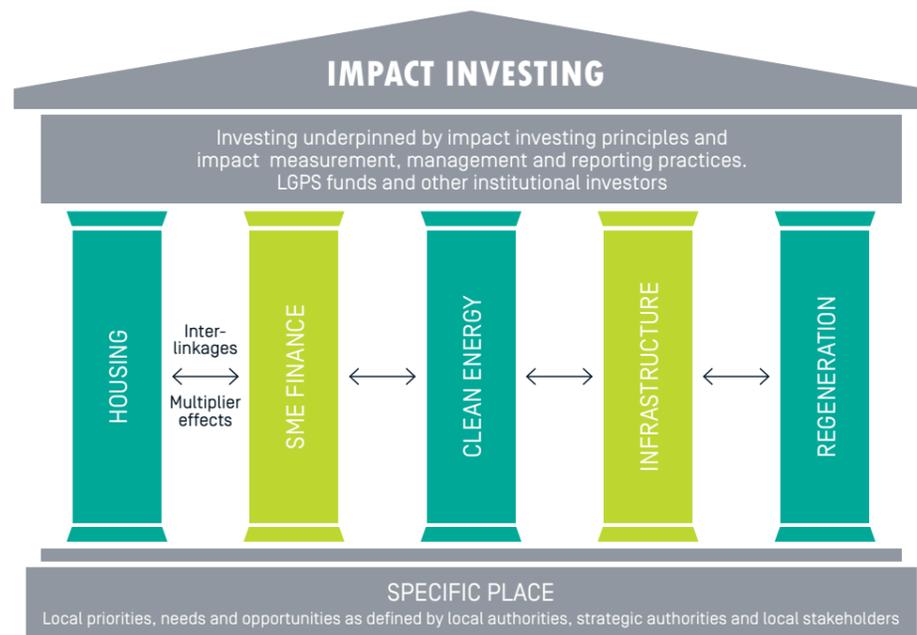
2.1 A CONCEPTUAL MODEL: THE ARCHITECTURE OF PBII

The conceptual model shown below is intended to provide an overall picture of the architecture of PBII. As place-makers, local authorities and their strategic partners 'reside' in the model's foundation stone. The model positions LGPS funds and other institutional investors in the capstone.

The five pillars are dual structures. On the one hand, they represent policy themes or priority areas in local and regional development strategies. On the other hand, the pillars are sectors that fall within institutional investment strategies.

The pillars have to bear the weight of investor risk-return expectations while meeting the inclusive-sustainable development expectations of local authorities and strategic partnerships. Successful delivery of PBII should be a win-win game. We can add other pillars – for example, agriculture and forestry which are important to rural authorities and LGPS funds.

Chart 2.1 The architecture of place-based impact investing



Source: The Good Economy.

Looking at PBII through the lens of these asset classes is a useful entry point for institutional investors, including LGPS funds that must achieve commercial returns to meet their pension fund obligations. Such investments have direct linkages to the real economy and development processes and activities that impact on people's lives and the prosperity of places, therefore bringing about place-based impacts, as described below. Our interviews with LGPS funds confirmed that approaching PBII opportunities that already exist in sectors within the asset classes they are familiar with is a helpful approach.

“It makes sense to approach PBII through the lens of asset classes that pension funds are familiar with e.g. infrastructure, real estate.”

– Academic Expert

“Investing in place is a hard ask. It is much easier to have an allocation to affordable housing that sits within a real estate allocation and may bring benefits to UK places that include one's own backyard.”

– LGPS Investment Manager

“Start with the asset classes and from there we can approach how our investments intersect with place.”

– Pension Fund Advisor

Below we describe the nature and types of investments in these five pillars and their role in delivering place-based benefits followed by the financial case for investing in these sectors. Critical to PBII is recognising the interlinkages between these sectors and how we develop place-based approaches that bring together multiple stakeholders in more coordinated and joined-up investment strategies that benefit local people and places through both their direct and multiplier effects.

THE FIVE PILLARS OF PBII

→ **Affordable housing** is a cornerstone of community and economic development, generating health, employment and community wellbeing benefits. Lack of housing affordability has reached a crisis level in many UK cities, such that investing in genuinely affordable housing is a top priority for PBII. Housing associations are important providers of affordable housing and recognised as 'anchor institutions' in place-based development and partners for institutional investors.

Affordable housing investments include social rent, affordable rent, shared ownership, private sale, private rent, specialist supported housing, and shared living (e.g. independent living for older people). Such investments are typically managed by real estate investment firms as well as specialist social housing fund managers. Institutional investors also invest in bonds issued by housing associations.

→ **Small and Medium Enterprise (SME) Finance** reflects the importance of SMEs and social businesses to local economies and communities. SMEs form the backbone of local economies and account for more than 60% of private sector jobs. They play a central role in localised growth given their spread across high and low wage/skill sectors and their presence across all communities, towns and regions. SMEs, including start-ups, are a traditional focus of local government policy and industrial strategies. Investing in local SME development is key to inclusive prosperity and levelling up, particularly investing in growth sectors which provide quality jobs and support the transition to a green economy.⁹ Social businesses, including social and community enterprises, play an important role in more inclusive community-based development and community wealth-building.

SME finance includes venture capital, debt and private equity. Investment organisations include SME fund managers, often investing in specific high-growth sectors, Community Development Finance Institutions (CDFIs), as well as specialist social investment intermediaries funding social enterprises.

→ **Clean energy and energy efficiency** is prioritised in the Government's Industrial Strategy – new green industries, businesses, technologies and jobs – as well as in build back better policies aimed at renewing and decarbonising towns and cities. Clean energy has been a focus of place-based initiatives for decades. It is now a major focus for institutional investors, including pension funds, who are tied into commitments to reduce the carbon footprints of portfolios and meet net zero targets.

Investments include solar, wind and other renewable energy sources, waste-to-energy, green technologies, retrofitting and installation of electric car charging points. Such investments are typically managed by specialist investment firms.

9. Local Government Association (LGA), Attracting investment for local infrastructure (Guidance), 2019.

10. Isabelle Roland, 'Unlocking SME productivity', LSE Centre for Economic Performance, 2020.

→ **Infrastructure** investments have a powerful multiplier effect and play a critical role in supporting local communities and the local economy. “They can unlock an area’s potential, enable residents to access new education, skills, and work opportunities, support local retail and business areas, and increase the viability of new sites for homes and businesses”.⁹ Scaling up infrastructure investment is a central plank of the Government’s levelling up agenda and a priority for many local and combined authorities.

Infrastructure investments include transport (such as roads and bridges), utilities, telecommunications and social infrastructure (such as schools and hospitals). These are large-scale, long-term investments in physical (real) assets managed by specialist investment firms.

→ **Regeneration** here refers to physical development – from the remediation of contaminated ‘brownfield’ land to urban regeneration projects – but not the social capital aspects of regeneration, such as community development and employment and training. Authorities tend to pursue a holistic, joined up approach to physical and social regeneration. Institutional capital can have place-based impacts by investing in regeneration schemes and helping to ‘re-purpose’ town centres. Local authorities are already busy reviving existing assets such as government buildings and empty offices and high street shops.

Regeneration involves mixed use urban development schemes, typically including residential, office, and retail development, as well as improvements to public space and amenities. Investors include those who fund new developments and those who acquire properties once built.

Successful investments that constitute PBII are those that produce positive social, economic and/or environmental outcomes for specific local communities and economies as well as appropriate risk-adjusted financial returns for institutional investors. As such, PBII strategies must be supported by an adequate evidence base on local needs and priorities, including constructive engagement with local stakeholders.

Stakeholder consultation and engagement is indeed fundamental to PBII. This type of investing is about ‘boots on the ground rather than eyes on screens’. It also requires developing impact assessment and reporting systems to measure and report on positive impacts achieved in relation to place-based needs and priorities, and to understand and mitigate potential negative local impacts.

The pillars can unify investors and local authorities by providing a common set of place-based impact objectives that are relevant from both a policy and investment perspective and which foster collaboration and a sense of shared purpose. See Section 5 for a proposed common impact assessment framework for LGPS funds, local authorities and fund managers, including place-based impact objectives.

When assessing place-based impacts, it is important to recognise that public or private investors may intentionally target specific places, however the impacts on people and businesses may fall outside the prioritised geographical areas. The smaller the area, the greater the probability that impacts will benefit other areas outside of it. For example, an investment may be made in a local business but employees may live elsewhere. These ‘leakages’ have been highlighted in evaluation studies of additionality in the case of place-based government programmes.¹¹

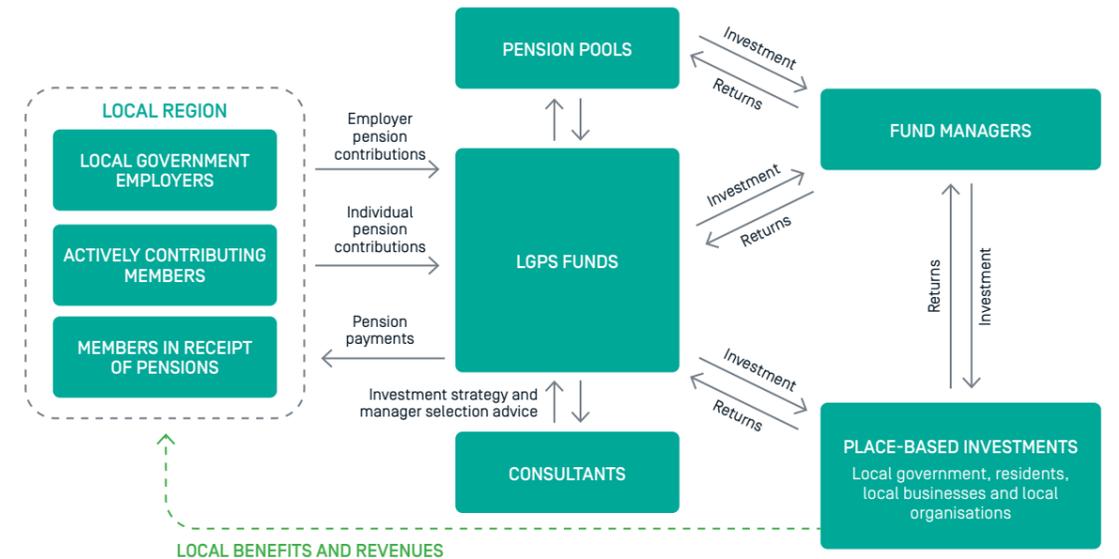
Institutional investors adopting a place-based approach can learn from the experience of government programmes, including approaches to impact measurement. See further discussion and a proposed common approach to impact measurement, management and reporting in Section 5.

Successful investments that constitute PBII are those that produce positive social, economic and/or environmental outcomes for specific local communities and economies as well as appropriate risk-adjusted financial returns for institutional investors.

2.2 THE STAKEHOLDER ECOSYSTEM

A core feature of PBII is creating an alignment of interest among all stakeholders in shared impact creation for the benefit of local places and people. The key stakeholder groups described below all have a role to play in influencing levels of investing for place-based impact by LGPS funds. They are depicted below showing their sphere of influence and their inter-dependencies. Their perspectives on the challenges and opportunities for scaling up PBII are provided in Section 4.

Chart 2.2 A Mapping of stakeholders



Source: The Good Economy.

LGPS MEMBERS AND EMPLOYERS

are the central stakeholders in this ecosystem. The LGPS is the largest Defined Benefit (DB) pension scheme in the UK. Both employers and employees pay into the pension scheme which the LGPS funds have a fiduciary responsibility to manage on their behalf. The majority of scheme members (74%) work for local authorities, while around 25% are employed by other public sector bodies (such as higher education and park authorities) or private sector and voluntary sector contractor organisations which have been granted admitted body status.

LGPS FUNDS

have a responsibility to manage members’ pension contributions and to act in the best interests of scheme members when managing pension assets. Historically, pension fund managers used a narrow interpretation of fiduciary duty and focused on maximising risk-adjusted financial returns. However, today, all investment institutions, including LGPS funds, are expected to take into account ESG factors in making investment decisions and many have defined sustainability strategies. Because the Pension Committees decide and oversee the pension funds’ investment strategies, they play a key role in determining them.

PENSION POOLS

are potentially important players in place-based impact investing. Pension pools were established following the Government’s changes to the LGPS scheme in England and Wales in 2015. The aim was to encourage individual LGPS funds to pool their assets and invest collectively, so the LGPS could leverage its scale to improve investment opportunities and reduce costs. There are now eight pools as shown in Chart 2.3. Most are currently prioritising allocations of assets to core investment strategies across public and private markets and will consider UK allocations as part of portfolio construction, including allocations to sectors that are key for PBII, particularly clean energy and infrastructure.

CONSULTANTS

have a major influence over the strategies and decisions of many LGPS funds, particularly the smaller ones. These comprise both individual advisors who directly advise pension committees, and consultancy firms contracted to provide investment advice, advise on fund manager selection and provide portfolio management and performance monitoring services. Consultancy firms tend to view investment choices from the perspective of global financial markets and trends using modern portfolio theory¹² and focus research and recommendations on mainstream funds where they expect broad applicability and high client demand. To date, they have shown limited interest or appetite to apply a place-based lens or encourage impact investing.

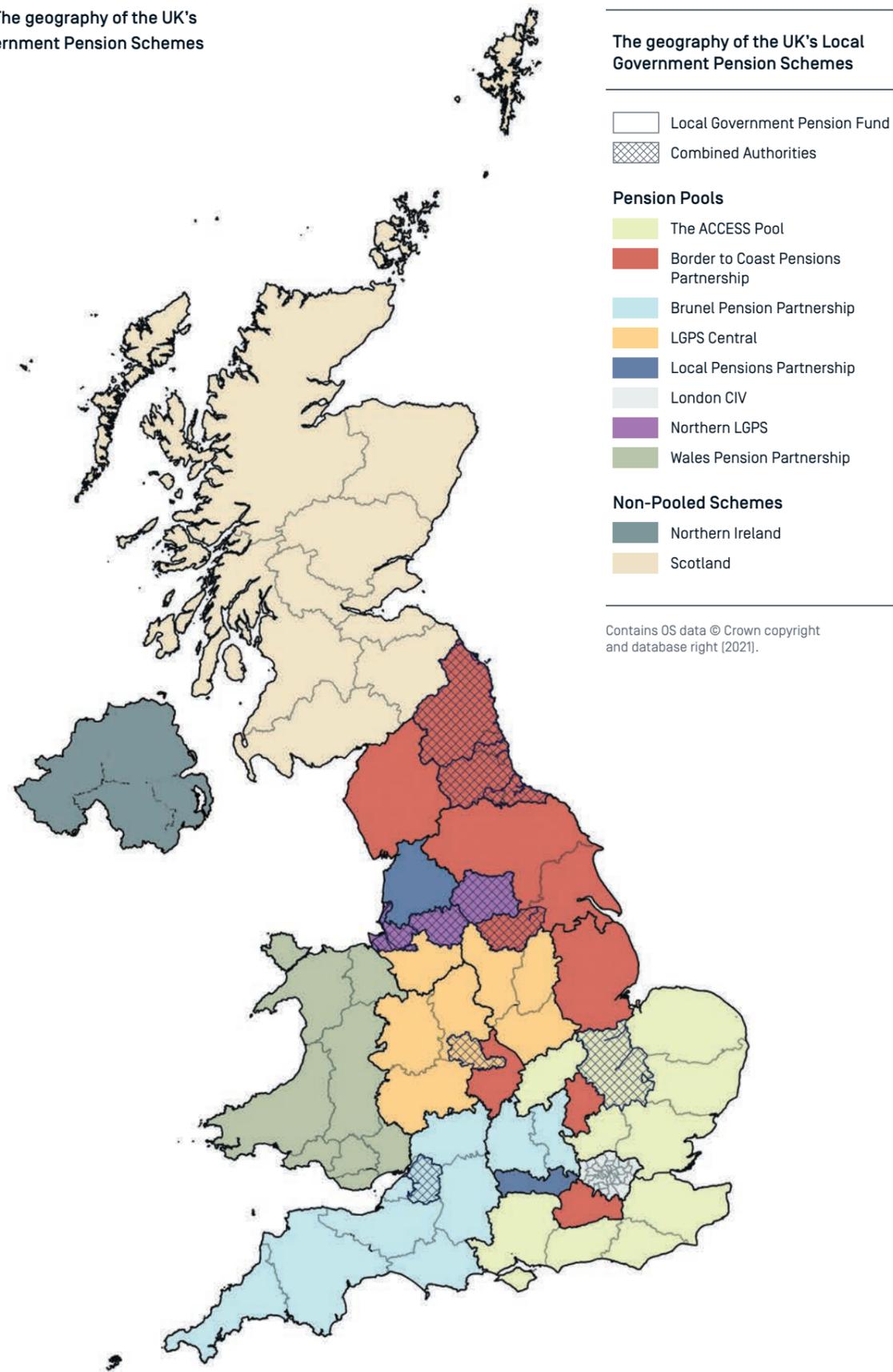
FUND MANAGERS

are critical players in the ecosystem as they manage funds on behalf of the LGPS funds and pension pools and make decisions as to which individual investments are made into companies or projects. Their activities are based on objectives set by the LGPS funds and pension pools. Key to place-based investing is finding and selecting fund managers with aligned place-based impact objectives and the specialist knowledge and capacity to originate and make financially sound investments. Currently, it is the fund managers selected directly by LGPS funds that are most engaged in place-based investing. We analyse the state of the market and types of fund management models in Section 4.

12. Modern Portfolio Theory (MPT) is a mathematical framework for combining a portfolio of assets such that the expected return is maximised for a given level of risk. It uses the variance of the asset prices as a proxy for risk. Its key insight is that it is not the asset’s own risk and return which is analysed, but the contribution the asset makes to the portfolio by also including the correlation of risk in the calculations.

11. UK Department of Business, Innovation and Skills, ‘Research to improve the Assessment of Additionality’, Occasional Paper 1, October 2009.

Chart 2.3 The geography of the UK's Local Government Pension Schemes



Source: The Good Economy.

2.3 THE FIVE TRAITS OF PLACE-BASED IMPACT INVESTING

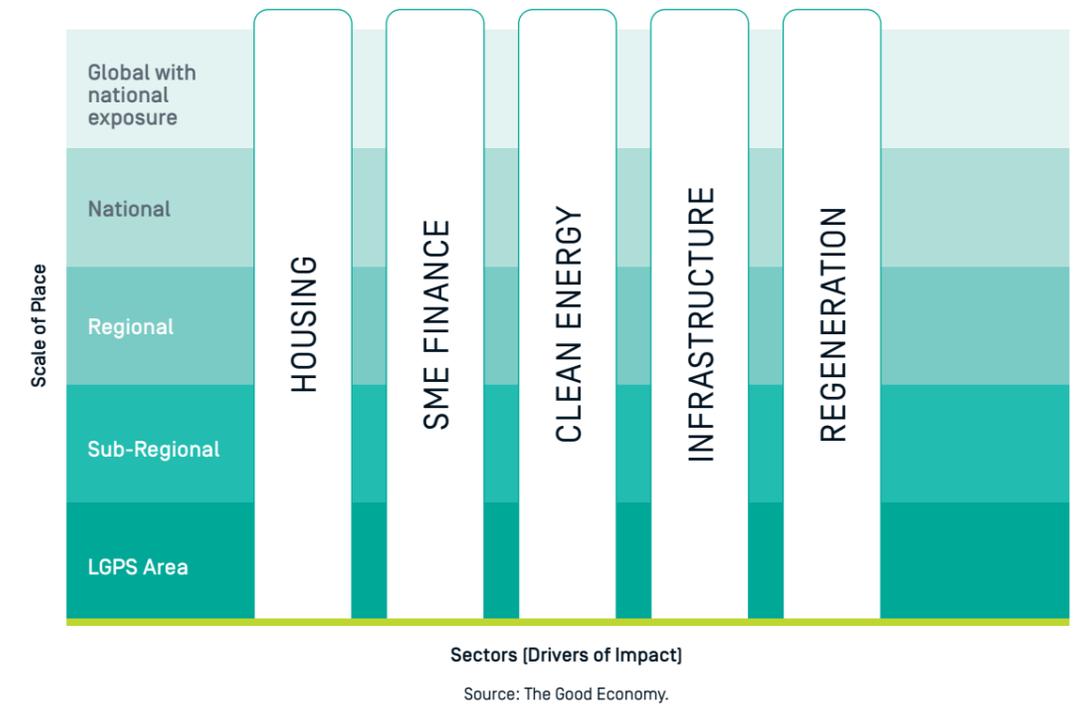
The focus of this report is on how to scale up institutional investment in ways that deliver tangible benefits for local people and places in order to achieve more inclusive and sustainable development across the UK. But what defines and distinguishes place-based impact investing?

HERE WE BUILD ON OUR DEFINITION AND CONCEPTUAL MODEL TO IDENTIFY FIVE TRAITS THAT CHARACTERISE PBII:

1 First, PBII has a clear intentionality to achieve a positive impact. Intentionality is a key characteristic of impact investing. Typically, intentionality is defined in relation to addressing a defined social or environmental need. PBII investors need a bifocal lens – focusing on both 'place' and 'impact' is necessary. Intentionality in PBII should be geographically bounded – where you are seeking to create a positive impact is defined, alongside the types of social and/or environmental outcomes to be achieved. Such intentionality can be articulated by having impact objectives as well as financial objectives within an investment strategy. Section 5 proposes a common set of place-based impact objectives and an approach to impact measurement, management and reporting.

2 Second, define place. Currently, the vast majority of LGPS capital is invested in global funds and large multinational companies in the listed markets and only a small fraction is invested directly in the UK's real economy. PBII is about directing more capital to the UK and its local areas and regions using a place-based lens. Effective PBII needs to consider the cross-cutting nature of 'place' and 'sectors' (see Chart 2.4). The target geography may differ by sector. For example, infrastructure investments may focus at the UK level, whereas SME investments may be targeted to a local area or region. How LGPS investment is allocated geographically is analysed in the next section. A PBII approach is focused on the sub-national level – investing in ways that benefit specific local areas or regions.

Chart 2.4 The intersection of place and sector



3 Third, engage with stakeholders. Effective stakeholder engagement is a core trait of PBII. We regard PBII as aligning with and supporting locally-defined development objectives and priorities. It is the role of local and combined authorities to determine strategic development plans and these bodies should be regarded as key stakeholders at a strategic and project planning level. For individual projects or investments, stakeholder engagement should be widened to include all relevant local stakeholders in the project planning and design and how an investment can maximise local benefits, and mitigate any negative risks.

4 Fourth, a hallmark characteristic of impact investing is impact measurement, management and reporting. For PBII, impact creation needs to be properly mapped and measured. Hence, we need to know the geographical locus of these impacts – ‘where’ is the next frontier of impact investing, from where the capital originates to where it is deployed for the benefit of people in places. Our approach to PBII impact measurement, management and reporting is presented in Section 5.

5 Finally, collaboration is critical to PBII. Currently, there is often a fragmentation and lack of alignment in decision-making across different stakeholders. Silos and poor alignment also exist within organisations, including government. For example, while one local government department may be focused on social issues and how to invest more in underserved areas, another department will be looking at land and property development from a commercial, revenue-generating perspective. The same applies to investment firms. For example, firms may have teams investing in real estate, another in infrastructure, and another in private equity, all investing in the same places. To optimise their impact in a specific place, coordination across teams is necessary. Such conflicts and lack of alignment can be solved by acknowledging shared impact goals and taking a more place-based approach to investing.

2.4 THE FINANCIAL CASE FOR INVESTING IN THE ‘FIVE PILLARS’

There is a clear sustainable development case to be made for investing in the ‘five pillars’ as described above, but what about the financial case? All pension funds (including LGPS funds) have a primary purpose of managing and paying out pensions, hence, their investments need to deliver the financial returns that will enable them to fulfil this purpose. The PBII Project carried out original research that found UK investments within our PBII pillars can deliver risk-adjusted returns in line with the financial return expectations of pension funds. The analysis is presented below.

LGPS INVESTMENT APPROACH

Pension funds (including LGPS funds) are long-term investors with liabilities up to 30 to 40 years in the future. They tend to follow a traditional investment approach to build a diversified portfolio across asset classes that will deliver the financial objectives of the fund. When setting strategy, the LGPS fund will take into account the expected level of return and the risks associated with each asset.

Furthermore, the correlations of the asset returns are assessed such that the assets demonstrate low correlations with each other, yet overall deliver good portfolio returns. Conventionally the volatility of the returns is used as the key determinate of this risk, and diversification is used to reduce the correlation between assets and therefore the volatility of the portfolio. Therefore, there is an expectation that the more volatility that is accepted, the higher level of return should be delivered. This approach is the bedrock of Modern Portfolio Theory and is addressed below when considering the financial case for PBII.

Asset allocations are generally reported as equities, bonds, cash, property and alternatives. The majority of LGPS assets are invested in equities (55%) and bonds (20%).¹³

The PBII Project is interested in investments which will typically fall within what is described as ‘alternatives’ or property. Alternative assets refer to investments falling outside the traditional asset classes commonly accessed by most investors, such as stocks, bonds, or cash investments. Due to the alternative nature of these, such investments are often less liquid.

According to the latest annual review by the Pensions and Investment Research Consultants (PIRC), the allocation by local authority pension funds to alternative assets has doubled over the last decade to reach the current average level of 11% of assets. Funds have diversified away from equities in an attempt to reduce volatility. The move into these asset classes has brought positive financial returns, with private equity delivering the best performance (see Chart 2.5).

Chart 2.5 Longer term performance of alternatives

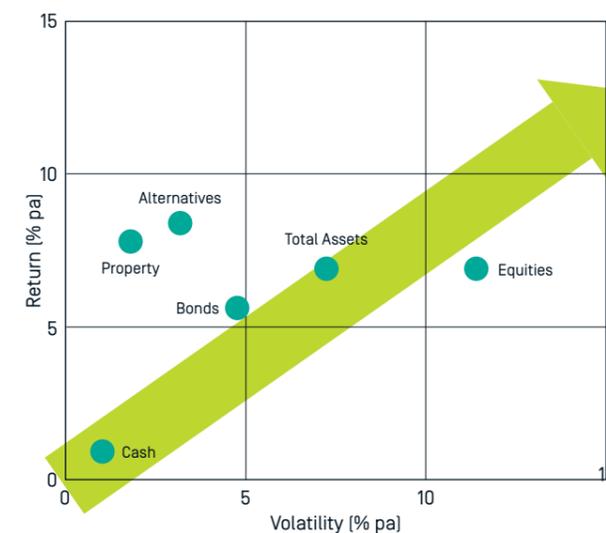


Source: PIRC 2020.

Property and alternatives have delivered better levels of return, when adjusted for the volatility, than might be expected whilst equities have delivered a less efficient level of return. – PIRC/LAPPA

Looking to the risks, the PIRC review considers the risk and return track record of the LGPS funds, using volatility as the established measure of risk. The chart below from the report shows that return for a unit of risk is highest for alternative assets (private equity, hedge funds and infrastructure) and property. This provides a compelling financial case to invest in these asset strategies.¹⁴

Chart 2.6 Asset class performance – 10 years (2010-2020)



Source: PIRC 2020.

Fund manager selection is important. The vast majority of pension fund assets are managed by third-party fund managers (see Section 4). The latest PIRC review notes that:

...the move into alternative assets has had many positive benefits for funds but the difference in manager skills has brought wide differences in returns achieved. – PIRC Review

This highlights that in contrast with index trackers and traditional traded assets, the ‘alpha’ created by the fund manager is variable and requires an assessment of the manager themselves – not just the market beta.

Using the same approach, we sought to assess if the returns, and relationship of returns to volatility are as compelling within the UK as the PIRC asset class analysis which is based on global portfolios.

FINANCIAL PERFORMANCE ANALYSIS OF RELEVANT KEY SECTORS IN THE UK

We collected data on UK listed equities investing in these key sectors which we referred to as ‘public markets’, as well as ‘private market’ unlisted funds. A particular challenge in assessing the market returns for UK investments in these sectors is paucity of data. Due to financial regulation and reporting requirements, there is far better financial reporting and information in public markets. Private markets are notoriously opaque compared to public markets. We used Preqin to access available private funds data, which is a well-recognised source of information for private funds.¹⁵

PUBLIC MARKETS

The UK FTSE All-Share includes around 600 stocks and represents approximately 99% of the UK market capitalisation of equities. We identified 69 shares of operating businesses and listed funds, including property (Real Estate Investment Trusts or REITs) and Venture Capital Trusts (VCTs), which invest in eight sectors relevant to the PBII pillars in the UK.

We then compared the return and risk characteristics of these sectors versus the FTSE100. We analysed the returns over the time periods highlighted in chart 2.6, then compared these returns to the returns on the FTSE100 overall as a benchmark over that same time period. The figures in green are comparatively higher than their counterparts in red.

13. See PIRC (2020), Local Authority Pension Performance Analytics 2019/20.

14. Fig. 15 PIRC (2020), Local Authority Pension Performance Analytics 2019/20.

15. Preqin (www.preqin.com) is a company that provides financial data, information and analytical tools for alternative assets.

Chart 2.7 Results of financial analysis of listed funds in relevant sectors versus FTSE100

	#*	TIME PERIOD	MEAN RETURN (%)		STANDARD DEVIATION (%)		SHARPE RATIO	
			SECTOR	FTSE	SECTOR	FTSE	SECTOR	FTSE
Clean Energy	7	Jun 13 – Sep 20	4.3	2.0	12.4	22.6	0.30	0.06
Utilities and General Infrastructure	8	Sep 08 – Sep 20	6.9	5.1	20.0	30.5	0.31	0.14
Communications	3	Sep 08 – Sep 20	10.1	5.1	43.5	30.5	0.21	0.14
Transportation	5	Sep 08 – Sep 20	8.7	5.1	44.2	30.5	0.18	0.14
Medical Facilities	4	Sep 08 – Sep 20	6.9	5.1	23.5	30.5	0.26	0.14
Student Housing	3	Sep 13 – Sep 20	10.2	2.5	26.0	22.9	0.37	0.09
Build to Rent	3	Dec 12 – Sep 20	11.0	3.6	27.0	23.1	0.39	0.13
SME Finance and VC	36	Sep 08 – Sep 20	9.1	5.1	25.1	30.5	0.33	0.14

*# is the number of constituent assets.

Source: Based on Bloomberg data, analysed in partnership with Centrus.

The results indicate higher returns (highlighted in green) for the time periods measured for all eight sectors against the FTSE100, as well as a better return versus risk.

PRIVATE MARKETS

Sourcing private market data was more challenging due to the limited level of consistent financial reporting by fund managers. Private funds often simply publish the financial returns for the end of their investment period, which disguises the asset volatility and is not directly comparable to periodic returns (as analysed in the traded assets in the previous section).

A total of 68 funds were identified that were aligned to our PBII pillars and had a UK focus. However, many of these funds do not

report performance data on a consistent and regular basis, nor in a format that is easily comparable to a simple quarterly return figure.

Notwithstanding the data limitations, we were able to produce a financial performance analysis as shown in Chart 2.8. No proxy benchmark was used as a comparator. However, the relative returns can be observed over similar timeframes using the public market analysis above.

Chart 2.8 Results of financial analysis of private funds in relevant sectors

SECTOR	#*	TIME PERIOD	MEAN RETURN (%)	STANDARD DEVIATION (%)	SHARPE RATIO
Utilities and General Infrastructure	7	Mar 09 – Dec 19	7.3	26.8	0.27
Private Equity and Venture Capital	9	Mar 11 – Sep 20	24.4	46.4	0.52
SME Debt	3	Sep 13 – Dec 19	4.1	4.4	1.00

*# is the number of constituent assets.

Source: Preqin data and Centrus analysis.

The results are consistent with their listed peers and indicate higher returns against the FTSE 100, as well as a better Sharpe Ratio over similar timeframes.



A further observation is that private market funds are not providing accessible data regarding the attractiveness of their sectors – leading to their exclusion from studies on asset allocations. This is a well-known issue for private funds which consequently fall into the alternative asset space. Scaling up PBII in private markets may require greater disclosure.

FINANCIAL PERFORMANCE ANALYSIS CONCLUSIONS

The results of the research suggest:

- Investments in key UK sectors that align with our PBII pillars provide stable, high, long-term returns and low volatility versus other mainstream asset classes. As such, these sectors appear very well suited to LGPS investment on a purely fiduciary basis.
- The universe of assets is, however, comparatively small and often in the private markets, suggesting manager selection and deeper understanding of the risks is demanded of the LGPS and other interested institutional investors.

In addition to these findings, these assets arguably possess financial characteristics which are attractive to pension funds, including:

- The cashflow nature of the underlying assets. Investments in most of these sectors are generally in real assets, such as housing and infrastructure, so can also provide income streams given they are underpinned by revenue generating models. These returns are often inflation-linked, providing a good match for inflation-linked pensions. As pension funds mature and members enter retirement, the funds have an increasing need for income generating assets.

→ Diversification “through the cycle”. These assets are also often underpinned by revenue streams which are either government guaranteed or (through social transfer payments) countercyclical. An example is social housing, where demand increases in recessionary circumstances. This suggests investments in these assets would provide even further diversification benefits than are apparent in the analysis above when considered through the cycle.

→ These assets are generally illiquid which often command higher returns. LGPS liabilities are very stable and long-term, hence the matching with illiquid assets may offer the funds access to better returns. This is particularly pertinent when contrasted with the high levels of investment by LGPS funds into highly liquid Global Equity Trackers (currently c.20%¹⁶ of all LGPS assets).

→ More data is available privately. Many private funds do provide performance data which is not available publicly for a study such as this but may be made available to investors and consultants. Therefore, a wider dataset from the industry (LGPS funds, consultants or advisers) supplementing this analysis would facilitate greater understanding of the risk and return trade-offs.

This section would therefore conclude that on a purely risk versus return basis, PBII assets can provide good investment opportunities and should be considered as part of an asset allocation perspective. Section 3 of this report goes on to investigate further to what extent these allocations exist.

16. PIRC (2020), Local Authority Pension Performance Analytics 2019/20.

3 A BASELINE ANALYSIS OF INVESTMENT ACTIVITY BY LGPS FUNDS

This section provides a baseline analysis of the current level of investment activity that is aligned to the PBII agenda by LGPS funds. LGPS funds do already invest in the sectors we have identified as the pillars of PBII, namely affordable housing, SME finance, clean energy, infrastructure and regeneration. However, they have typically made these investments based on their financial performance and not considered them through an impact or place-based lens. Analysing the scale and nature of these existing investments is a good place to start when considering the potential to scale up PBII.

To investigate PBII-related activity by LGPS funds we carried out a baseline analysis using three data sources:

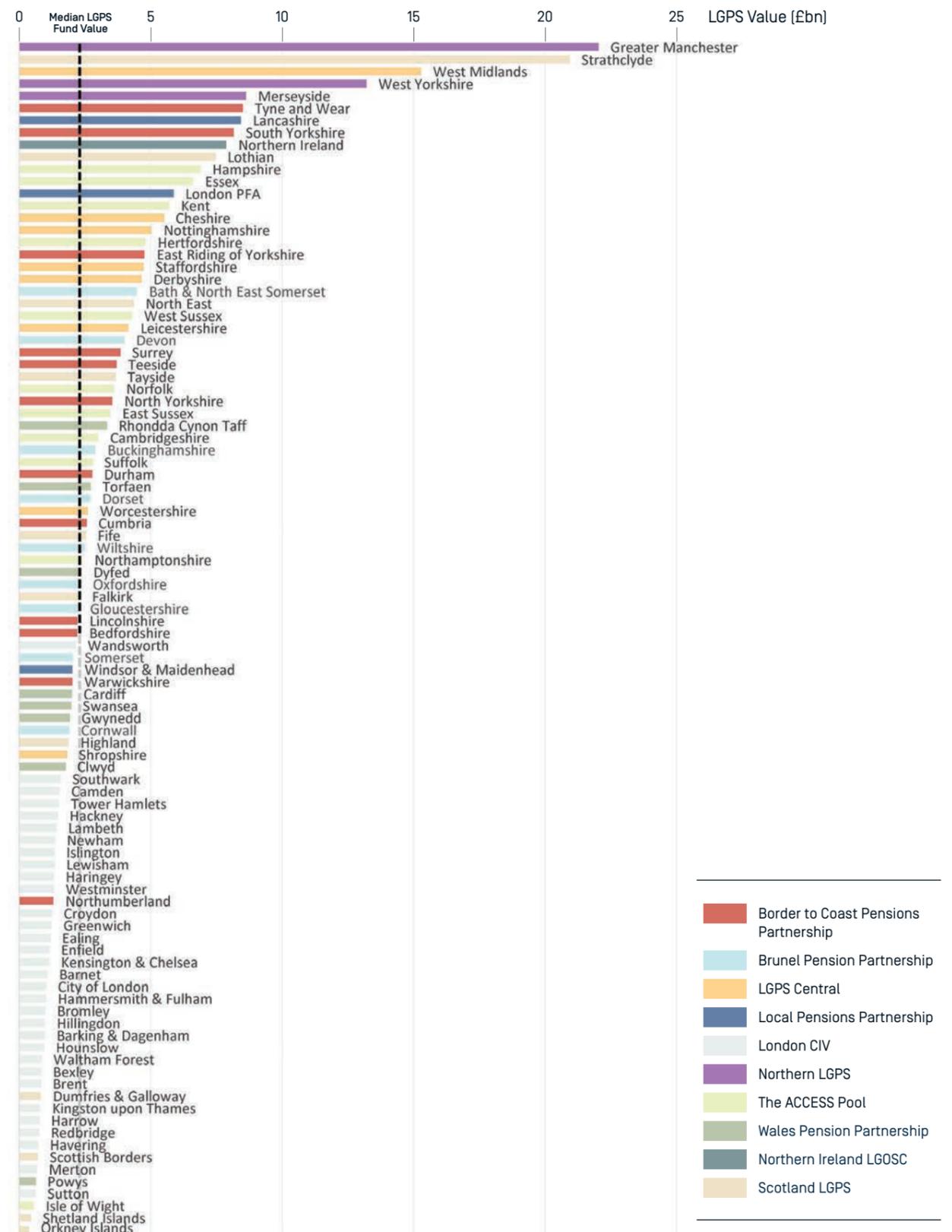
- 1 Published LGPS data** were analysed to establish the size distribution of the UK's 98 individual LGPS funds.¹⁷
- 2 Annual reports** were analysed for evidence of LGPS funds intentionally allocating capital to local and regional areas in their investment strategies. Intentionality is a hallmark characteristic of impact investing – we are essentially stretching this to 'place'.
- 3 Data on the underlying holdings of each LGPS fund** were analysed to identify holdings that had a UK geographical footprint and were aligned to the PBII pillars in terms of their asset class or sector identity. This data was sourced through Freedom of Information requests for the financial years ending March 2017 and 2020.¹⁸ It is important to note that there is no consistent reporting by LGPS funds in terms of how asset classes are described, nor is the geography of funds regularly reported. Hence, compiling the data set for analysis required detailed interrogation of the nature of the individual holdings.

3.1 THE SIZE DISTRIBUTION OF LGPS FUNDS

LGPS funds have a highly skewed size distribution with a few large funds and a long tail of small funds. The median value is £2.2 billion with the range stretching from £0.4bn (Orkney Islands) to over £22bn (Greater Manchester). Interestingly for the levelling up agenda, seven out of the eight largest LGPS funds are in the North and Midlands.

This size distribution reflects the underlying organisation of local government and is strongly correlated with population and employment size – and most obviously, public sector employment.

Chart 3.1 The size Distribution of the individual LGPS funds



Source: The Good Economy.

17. Local Government Pension Scheme Funds: 2019-20 England & Wales (MHCLG), for Scotland and Northern Ireland individual pension fund annual reports (2019/2020).
 18. Data on LGPS fund holdings was collected, quality checked and compiled by investigative journalists and research associates Edward Jones and Nicole Pihan via the WhatDoTheyKnow website.

3.2 INTENTIONALITY AND ACTION IN LGPS FUNDS

We analysed a representative sample of 50 LGPS annual reports for 2018/19, including the 10 largest funds with the remaining 40 differing in size and covering all home nations, regions of England and asset pools. We carried out an in-depth review of the funds' annual reports, particularly their investment strategy statements and portfolio allocations, for evidence of:

- **Intentionality** – evidence of a clear intention to invest in the UK at the national, regional or local levels, including the LGPS funds' own geographic areas and within the key sectors defined in our PBII pillars i.e. housing, SME finance, clean energy, infrastructure and regeneration.
- **Action** – evidence of investment in key PBII sectors in the UK.

INTENTIONALITY

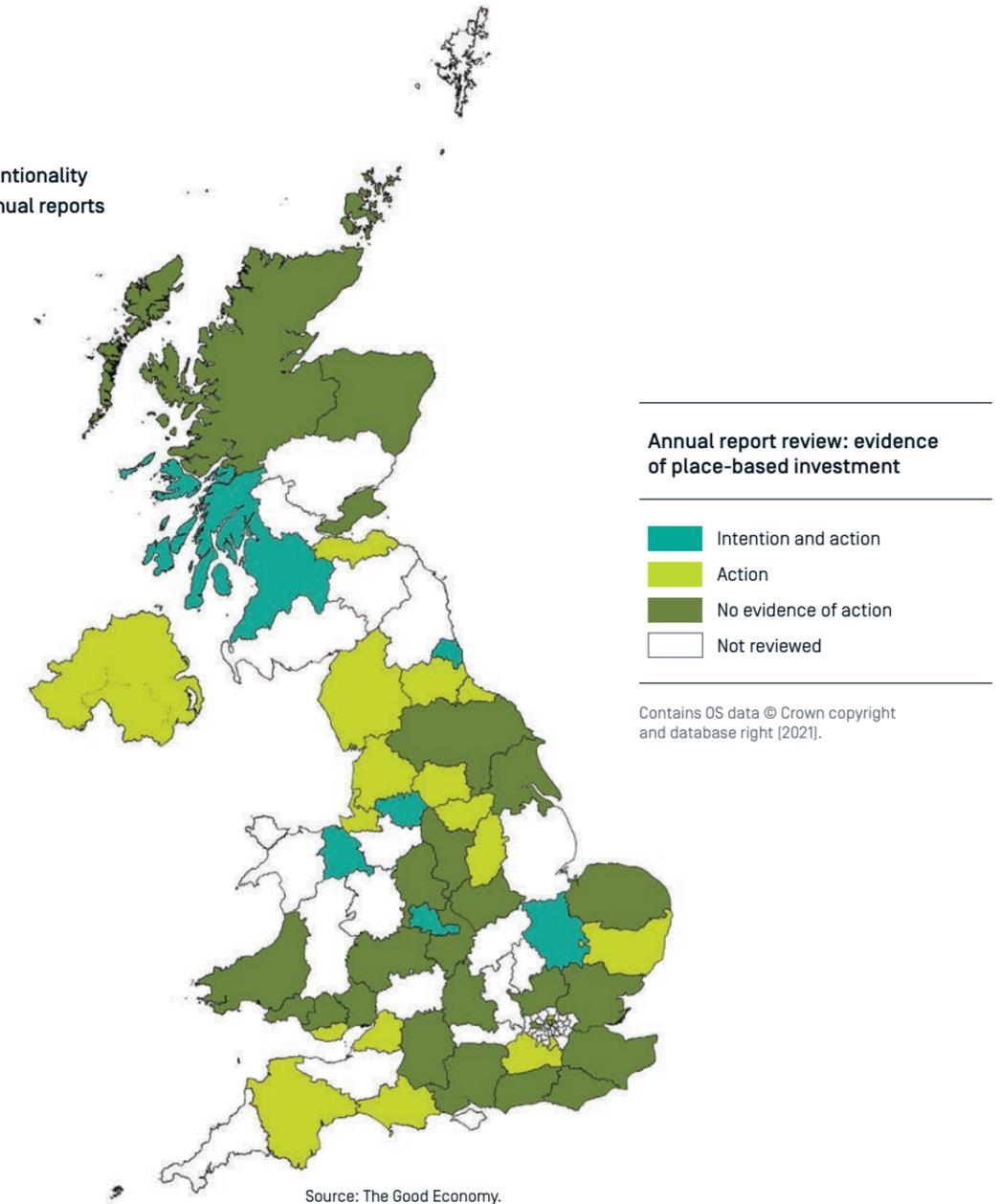
Only six out of the 50 LGPS funds reviewed (12%) demonstrate a clear intentionality to make place-based investments as stated in their annual reports. These six LGPS funds were: Cambridgeshire, Clwyd, Greater Manchester, Strathclyde, Tyne and Wear and West Midlands.

'Place' and 'local' have different meanings across these pension funds. In some cases, 'place' is clearly defined as the local catchment area for the pension fund concerned (e.g. Cambridgeshire) or the region (e.g. West Midlands). For others, 'local' can mean a UK nation. Clwyd Pension Fund, for example, is interested in investing in Wales. Notably, Clwyd is also the only fund to have any stated intent to direct investment to deprived areas. The six LGPS funds spotlighted for their place intentionality also reported making investments in the five key sectors.

Of these six, only Greater Manchester has an approved capital allocation to invest up to 5% of its total assets locally. Examples of the investment strategy statements that we interpreted as an intentional commitment to place-based investing can be found at the bottom of this and the following page.

A further 19 pension funds reported investing in these sectors without any place-based intentionality. The overall results of this analysis indicate the low base of observable LGPS interest in place-based investing that currently exists.

Chart 3.2 Where intentionality features in LGPS annual reports



“ We are also making good on our commitment to harness the financial power and unique long-term outlook of pension funds to drive regeneration and investment in Greater Manchester and beyond, while at the same time providing a commercial return that will allow us to continue to meet our obligations to our 370,000 members. – Chairman’s Statement, Greater Manchester Pension Fund (GMPF) Annual Report 2019

“ The Panel has approved an allocation to Local Investments (up to 5% of total assets), which has the twin aims of generating a commercial return and delivering a positive social impact. – Chairman’s Statement, Greater Manchester Pension Fund (GMPF) Annual Report 2019

“ Secondary objective: adding value through investments with a positive local, economic or ESG (environmental, social, governance) impact. – Direct Investment Portfolio, Strathclyde Annual Report 2020

“ The Fund is permitted to directly invest locally, subject to suitable risk/return characteristics and there being clear value for money benefit. – Tyne and Wear Investment Strategy Statement

“ We will look for investment opportunities across all sectors that offer potential for catalysing economic growth, particularly in deprived areas. – Social Investment Strategy, Clwyd Pension Fund Annual Report 2018-19

“ We continue to engage in local investment opportunities and building local talent, noting in particular, property and housing investment within the West Midlands region and the pool of strong candidates who have joined our teams from local schools, colleges and universities. – Chairman’s Statement, West Midlands Pension Fund, Annual Report and Accounts 2019

“ The Fund holds an allocation to local investments currently consisting of the Cambridge & Counties Bank and Cambridgeshire Building Society. – Cambridgeshire County Council Pension Fund, Annual Report 2019

ACTION

We reviewed the LGPS holdings data to identify which investments are in key sectors (as defined by the pillars in our conceptual model – see Chart 2.1) and have exposure to the UK. This aligns with the approach taken to analyse market data presented in Section 2.3. The nature of the data available makes it impossible to analyse whether the investments have the key traits of PBII per se (see Section 2.4). However, it is within this group of investments we will find investments supporting place-based development and delivery of positive local impact. Understanding the scale of this investment is, therefore, important to assessing the baseline picture.

The level of UK investment in key sectors is currently very small. As of March 2020, the value of investment in key sectors totalled £7.7 billion, only 2.4% of the total value of the UK LGPS, with at least £3.2 billion (1% of the UK LGPS) identified as being invested within the UK.¹⁹

Just over half the LGPS funds have made investments in these key sectors within the UK. However, only seven funds made allocations of more than 3%. The majority of LGPS funds making such investments (36) made allocations of less than 1% (see chart 3.3). The top three largest investors in terms of amounts invested in key sectors in the UK are Strathclyde (£462 million), Greater Manchester (£477 million) and West Yorkshire (£335 million).

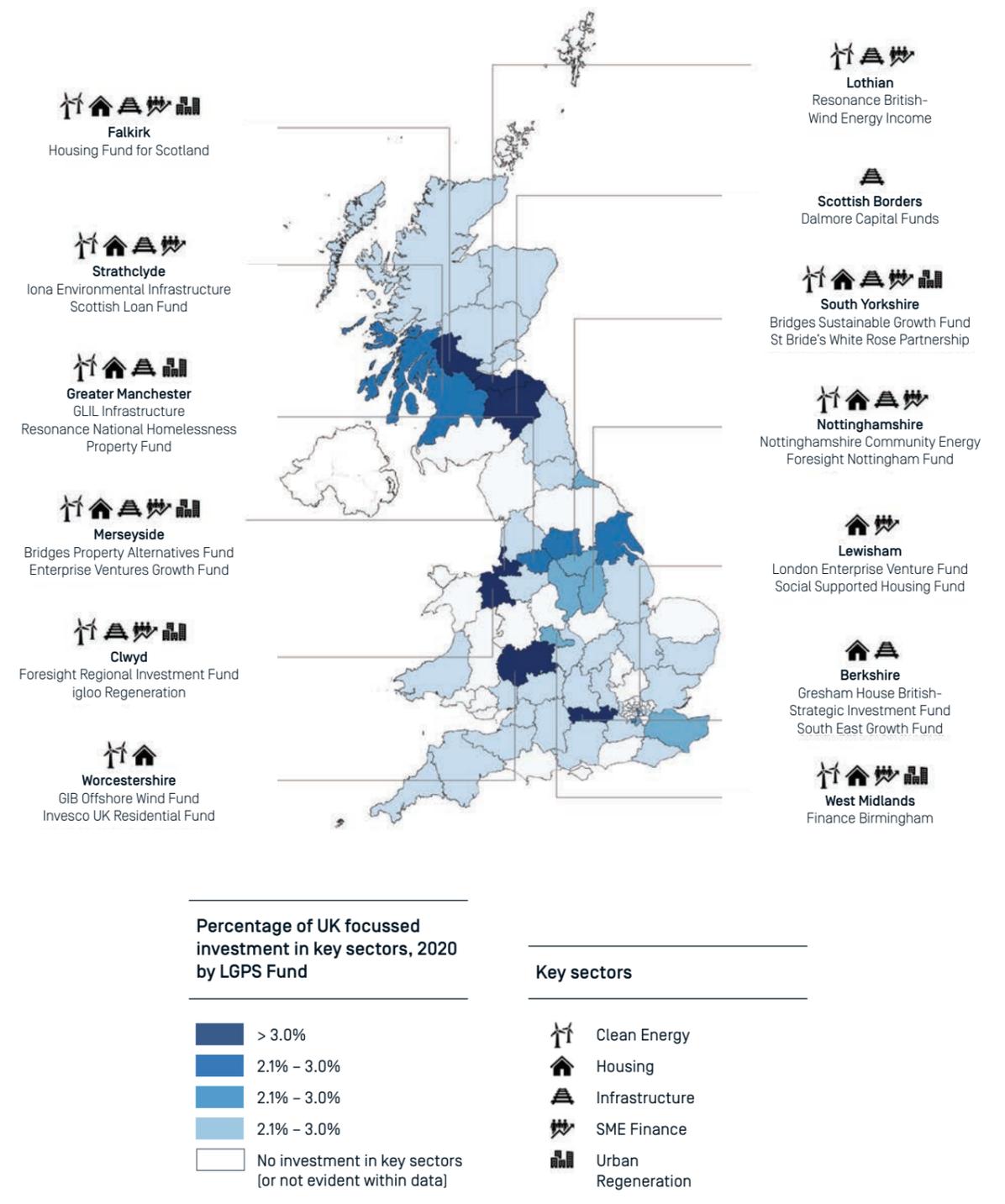
Chart 3.3 Top 20 LGPS funds by the proportion invested in key sectors in the UK

RANK (by % Value in PBII sectors – UK ONLY)	LGPS FUND NAME	VALUE OF LGPS FUND AT 31 MARCH 2020 (£ BN)	VALUE IN KEY SECTORS – UK EXPOSURE (£ M)	VALUE IN KEY SECTORS – UK ONLY (£ M)	VALUE IN KEY SECTORS – UK EXPOSURE (%)	VALUE IN KEY SECTORS – UK ONLY (%)
1	Falkirk	2.2	140.6	84.2	6.4	3.8
2	Merseyside	8.6	747.9	314.2	8.7	3.6
3	Scottish Borders	0.6	29.2	21.6	4.6	3.4
4	Berkshire	2.0	80.0	68.9	3.9	3.4
5	Clywd	1.8	122.7	58.3	6.9	3.3
6	Worcestershire	2.6	85.6	85.6	3.3	3.3
7	Lothian	6.6	657.2	208.7	10.0	3.2
8	East Riding	4.8	333.5	128.5	7.0	2.7
9	West Yorkshire	13.2	541.3	335.6	4.1	2.5
10	Southwark	1.6	67.1	37.3	4.2	2.4
11	Sutton	0.6	15.0	15.0	2.3	2.3
12	Strathclyde	19.8	671.6	462.6	3.4	2.3
13	Greater Manchester ²⁰	22.0	477.4	477.4	2.2	2.2
14	Kent	5.7	110.9	110.9	1.9	1.9
15	Croydon	1.3	129.0	22.3	10.3	1.8
16	Teesside	3.7	84.7	51.5	2.3	1.4
17	Derbyshire	4.7	250.5	57.2	5.4	1.2
18	Nottinghamshire	5.0	170.7	57.6	3.4	1.1
19	West Midlands ²⁰	15.3	206.3	168.2	1.3	1.1
20	South Yorkshire	8.2	243.0	88.2	3.0	1.1

19. £7.7 billion is invested in the key sectors with some degree of exposure to the UK, for instance funds with a European or Global footprint with assets in the UK. Of this, £3.2 billion is held in investments with assets only in the UK.

20. The data submitted by two large LGPS funds (Greater Manchester and West Midlands) did not allow for the identification of individual unlisted investments having been aggregated into broader alternative asset class groupings. For Greater Manchester value information for relevant investments in key sectors was sourced from the 2019/2020 annual report where given. Only GLIL Infrastructure could be included. A similar method for West Midlands was used however only holding names were reported in the 2019/2020 annual report. In this case we used the values from West Midland's 2017 FOI data submission for relevant holdings which were listed in the current annual report.

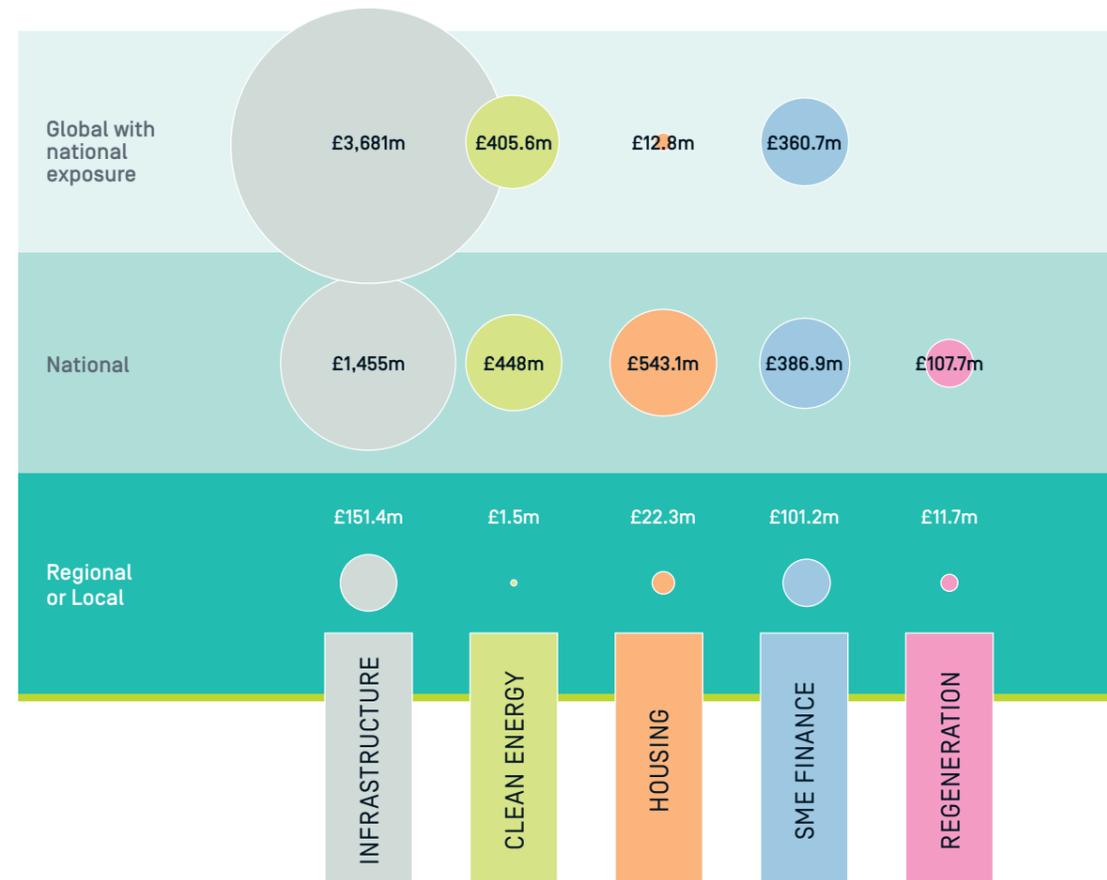
Chart 3.4 Selected relevant investment activity by LGPS funds (as of 31st March 2020)



Source: The Good Economy.

The split of investments was allocated further into the key sectors together with the level of geographical focus. This is shown in Chart 3.5 below. This demonstrates that regional/local investments in key PBII sectors by LGPS funds amounts to only £300 million.

Chart 3.5 Value of Investment in key PBII sectors by sector and geography, 2020



Source: The Good Economy.

The latest LGPS data was compared to that from 2017 and we found that the number of funds has increased since 2017. In 2017, 106 private market funds investing in the key sectors were identified within the LGPS data. By 2020 this had increased by 16% to 123 funds. UK-only funds saw the greatest increase at 22% [from 60 to 73 funds]. The number of UK funds in all but the

Regeneration pillar increased – the greatest being in housing where the number of funds almost doubled from 8 to 15. Total public market funds increased by 62% [from 21 to 34]. UK-only funds rose by 63% [16 to 26]. Again, the largest increase in listed funds is in the housing sector with an increase from 7 to 11 funds.

Most LGPS investments are made through specialist fund managers. Across the 2017 and 2020 LGPS data we identified a total of 176 private and public funds in the key sectors provided by 127 fund managers (see Annex 2). Some LGPS funds also invest locally via joint ventures or make direct investments as further discussed in Section 4.

A third of the SME finance funds identified have co-investment from the UK Government (e.g. from the British Business Bank) or Europe (European Investment Bank, European Regional Development Fund). A small number of clean energy and infrastructure funds have public backing, in particular from the UK Green Investment Group and the European Investment Bank.

It is a generally held belief that pension funds only make large allocations to funds, in the range of £50 million to £100 million. However, we found that key PBII sector allocations are generally relatively small size averaging less than £10 million. The median value of individual UK-only investments was £6.4 million (£8.9 million for those funds with a wider global footprint). Such an investment would account for 0.3% of the total value of the median-sized pension fund (£2.2 billion). The SME finance pillar had the smallest size investments (median value of £3.3 million for UK investments) and infrastructure the largest (£20.7 million). A small number of very large investments have been made, in particular to GLIL Infrastructure, Greater Manchester’s being the largest single investment of all identified holdings at £477 million. Of the £768 million invested in REITs, VCTs and other public funds, the median holding value was just over £370,000.

The total number of fund managers operating in the key sectors has increased from 95 in 2017 to 116 in 2020 (22%). This increase opens up opportunities for increasing investing in these sectors, including for PBII, but also adds the challenge of complexity for LGPS funds in understanding asset types, the range of products and selecting fund managers. Selecting and building long-term relationships with fund managers is key to PBII – it requires long-term capital and a commensurate engaged, long-term investment approach.

3.3 SUMMARY OF FINDINGS

The results of this analysis suggest that:

- Few pension funds demonstrate intentionality to invest with a local place-based lens, with only six pension funds indicating investment intentions alluding to place. Only one pension fund (Greater Manchester) has made a specific target allocation to local investing.
- In terms of action, there is currently a very small level of direct investing into funds that invest in our key sectors in the UK. Only 2.4% of the total LGPS value is held in holdings in key sectors, of which at least 1% is focused on the UK. This investment activity is concentrated in the largest pension funds and a handful of smaller pension funds with over 2% of their portfolio in key sectors.
- Infrastructure dominates in terms of the scale of investment. However, SME finance provides the most opportunities for local or regional investment in terms of the number of sub-national funds available to invest in.
- Despite the low relative levels of intent and action, investment into these key sectors is growing. The number of individual investments made, the total value invested, the average size of investments, the number of LGPS funds making such investments and the number of private market fund opportunities have all increased since 2017. It is within these sectors and through these fund managers there is an opportunity to increase PBII.

The next section examines the barriers and solutions to scaling up PBII and the investment models and approaches currently being used that provide vehicles for PBII.

4 STAKEHOLDER PERSPECTIVES AND CURRENT PRACTICE

This section presents the results of our stakeholder consultations with LGPS managers, fund managers, local authorities, consultants and advisers. Out of these interviews and roundtables we were able to identify the main perceived barriers to scaling up PBII as well as possible solutions to overcoming these barriers, which are supported by examples of current practice. Please see Chart 2.2 for the stakeholder map used to guide our consultation exercise.

The second half of this section reviews institutional asset management models currently used to invest in the five sectors that constitute the pillars in our PBII conceptual model [Chart 2.1]. We highlight a number of ideas on how to scale up existing or new models that could mobilise greater flows of institutional investment to PBII.

4.1 BARRIERS AND SOLUTIONS TO SCALING UP PBII

TIME AND MINDSET

It was frequently highlighted that LGPS funds have crowded agendas, which now extend to formulating ESG and sustainable investment policies. Understandably, opportunities to include local investing and impact investing on investment committee agendas are constrained. A first step towards getting PBII onto agendas is to increase awareness and understanding of PBII as a distinctive style of investment that generates fresh opportunities for achieving good risk-adjusted returns and sustainable investment objectives.

Traditional mindsets pose a further constraint. Institutional investors tend to allocate capital to global capital markets without proper consideration of the opportunity to allocate capital 'closer to home'. Allocations to local investment opportunities could deliver comparable returns and diversification benefits while enhancing the economic development prospects of LGPS members' own communities. This 'win-win' game requires investors to change mindset and use a spatial lens that enables them to think and act globally and locally.

“ We do not consider a UK or place-based lens in our investment strategy. All our investments are in global funds, including equities, real estate and hedge funds. – LGPS Investment Manager

“ We just don't consider a place-based lens. This is a new way of thinking for me. – Pension Fund Consultant

“ Financial drivers lead pension investors to invest off-shore rather than investing domestically. – Pension Fund Advisor

“ The Covid-19 crisis has made this a very timely topic. Interest is moving in the right direction. There is far more focus on how mainstream investors can create positive impact for places than ever before. Now is a good time to be looking at what and how pension funds could do more to benefit their local areas. – LGPS Fund Manager



CONFLICT OF INTEREST CONCERNS

LGPS investment managers active in local investing seek to avoid any perceived political influence in managing the pension fund assets. The reasons for this are (a) to stay very clear of potential accusations of succumbing to political pressures, and (b) to avoid the potential ambiguity it creates for the LGPS fund when demonstrating they have carried out their fiduciary duties. Some LGPS fund managers have experience of local investments failing which has put them off investing locally.

Some LGPS funds highlighted how they were under regular pressure from local authority members to invest more in local projects. They explained that pension fund teams were wary of commercially unviable propositions being put forward to them by local authorities and, as a result, wanted to keep the door between the LGPS and local authorities closed.

LGPS investment teams often believe that local politicians and local government staff do not understand the commercial realities of investing and what is financially viable for a pension fund.

“ Local government pension funds fear political interference if they make a place-based allocation. – LGPS Investment Manager

“ Historically, there has been a real fear of the conflict of interest associated with making local investments. – Pension Fund Advisor

“ Councillors are concerned that they could be accused of vanity projects. Local investing is seen as bringing reputational risk. Some LGPS funds have made local investments that have failed, so are now very wary of investing locally. – Pension Fund Advisor

Practically, the solution to overcoming conflict of interest concerns is establishing governance and operational arrangements that mitigate these risks. Greater Manchester and South Yorkshire are notable examples of LGPS funds that have succeeded in doing this – please see case studies on pages 43 and 45).

“ Practically, the solution to overcoming conflict of interest concerns is establishing governance and operational arrangements that mitigate these risks.

LACK OF CAPACITY AND EXPERTISE

Having the time, expertise and skills to source and undertake due diligence on PBII opportunities is the most limiting factor influencing the level of PBII activity. Larger pension funds are more likely to have the resources to maintain in-house investment teams, cover the costs of due diligence in private markets and manage the risks, so are correspondingly more likely to diversify into PBII investments.

Greater Manchester Pension Fund, with over £20 billion AUM, stands out as having an investment team with the skills and competence to assess local investment opportunities across all PBII pillars. But the set-up of this pension fund was seen as an exceptional case by many stakeholders. Most LGPS funds have very limited capacity comprising one-to-two person teams. The extra resource required to perform due diligence on PBII relevant funds or assets puts small pension funds at a significant disadvantage.

The majority of LGPS funds are small and rely on consultants to advise on their asset allocation and selection of fund managers. Consultants focus on researching and recommending funds which are at scale (typically over £1 billion) and attractive to a large spread of clients. Many funds that operate in the PBII pillars are relatively small, in the region of £100m to £1 billion, so consultants do not spend the time and effort researching these opportunities as they are regarded as sub-scale.

Many UK fund managers operating within key PBII sectors, including affordable housing, SME finance and urban regeneration, expressed major frustration at how it is easier to raise capital from foreign pension funds than UK pension funds, including LGPS funds. However, this is in part because these foreign pension funds are larger with teams that are experienced in private markets investing and seek out UK investments to create balanced portfolios.

Increased capacity and expertise are also needed within local and combined authorities to prepare PBII projects in ways that can be considered from a commercial investment perspective. Local government representatives highlighted how they have the skills to make the cost-benefit and business case for public investment, but do not have the competence and skills to develop business models and investment cases that would satisfy the requirements of commercial investors.

“ These are sectors that require specialist knowledge to assess risks, do due diligence and make good investment decisions. – International Pension Fund Expert

“ You need an investment team that can find deals locally – having the commercial investment skills and capacity is critical. – LGPS Investment Manager

“ Manchester has the power, the team and the local authority backing. – Fund Manager

“ Local authority planning teams are under resourced. They need expert help to get projects appraised and progressed to the point of being able to raise commercial investment, including pension fund investment. – Local Authority Representative

Scaling up PBII requires building capacity and expertise to prepare, identify and carry out due diligence on these investments – from a financial and place-based impact perspective – including building expertise within local authority teams, LGPS investment teams and consultants. A shared approach and alignment of interest in PBII across the market would help build capacity.

Expertise in these private market asset classes exists with fund management firms, pension pools and consultants experienced in alternative investments. We need to find ways of connecting organisations across the value chain with shared impact objectives and the right mix of knowledge, skills and experience to scale up PBII transactions.

“ The barriers to PBII are all hurdles that can be overcome rather than blockages. – Investment Consultant

LACK OF INVESTIBLE OPPORTUNITIES

Another barrier to creating scale in PBII is the perceived lack of commercial investment opportunities. This can be a more fundamental challenge if there is indeed a desire to invest locally but the local economy is small or weak. Clwyd Pension Fund in North Wales, for example, has a strong commitment to local investing but there are limited commercial investment opportunities in the local area. Given this reality, it has defined its place-based investment strategy as focusing on Wales and the North of England adjacent to its local authority area, including deprived areas.

Developing a pipeline of PBII investment opportunities requires local knowledge, relationships and investment teams. LGPS funds active in PBII highlighted how a combination of local knowledge and commercial investment skills is critical to identifying local investment opportunities.

The investment sector is seen as highly concentrated in the City of London with many fund managers having limited knowledge or on-the-ground presence in the regions. Greater Manchester's success in allocating to PBII partly comes from the fact it works with fund managers who have a local presence. In some instances, it has insisted fund managers hire local staff as a condition of investment.

This highlights the importance of fund managers having investment teams that can source local investment opportunities, engage with local stakeholders and develop investment propositions that can deliver commercial returns and positive local impacts.



4.2 INVESTMENT STRATEGIES

There are three main ways in which individual LGPS funds have made PBI-aligned investments:

1 Direct Investments – here the LGPS fund invests directly in a project or business, and there is no fund manager between the LGPS investment committee and the underlying investment. Such investments are relatively rare, although they can offer a good route to local impact creation (see box on Nottinghamshire Community Energy).

2 Co-investment strategies – here the pension fund co-invests with a trusted partner in a specific place-based project or investment vehicle with a targeted purpose with both parties committing capital. An example of a trusted partner would be a local development firm or a private equity firm with specialist knowledge e.g. in renewable energy. Co-investment strategies are a good vehicle for PBI as they typically involve a high degree of local stakeholder engagement and the partner brings expertise to develop and deliver projects (see box on page 35 for co-investment examples). There is an opportunity to scale up such co-investment models, including models bringing institutional investors together with local partners in the private sector, public sector and social sector, including local housing associations and universities.

3 Third-party managed funds – here the investments are wholly managed by an intermediary fund manager sitting between the LGPS fund and the investment. This may be either where the LGPS funds are pooled with other investors (“Pooled Fund”) or held separately for the LGPS (“Segregated Fund”). The overwhelming majority of LGPS funds are third-party managed. Funds are either private funds or listed on a stock exchange (see Section 4.3). A list of funds and fund managers identified from the LGPS holdings data is provided in Annex 2.

DIRECT INVESTMENT CASE STUDY: NOTTINGHAMSHIRE COMMUNITY ENERGY

In 2016, Nottinghamshire Pension Fund invested £1.5 million in Nottinghamshire Community Energy (NCE). The pension fund’s investment provided long-term funding to help finance the construction and management of a solar farm with the aim of benefitting the local community. The project also ran a shares scheme for local people and businesses to invest shares in the project.

NCE is a Community Benefit Society and receives payments under the Feed-in Tariff scheme and income from the export of electricity to the national grid. NCE has a 25-year lease with the landowner.

Based in Rushcliffe, Nottinghamshire, the 5-megawatt community solar farm creates the following benefits for the local community:

- Clean energy is generated to power 1,150 local homes.
- 100% of surplus profits are used to provide an annual £20,000 to a Community Fund. The fund supports projects in Nottingham City and Nottinghamshire that address renewable energy generation, wildlife conservation, climate change mitigation, carbon reduction and reducing fuel poverty.
- Up to a 7% return for those who invested in the shares scheme.

The LGPS fund’s investment in the project is a good example of a direct investment by a pension fund which delivers positive local environmental, social and economic impacts and also involves community ownership and a revenue-sharing arrangement that provides long-term funding to local community-led projects.



CO-INVESTMENT CASE STUDIES

LEGAL & GENERAL CAPITAL, MEDIACITYUK

Legal & General Capital has been a pioneer in place-based investing and successfully used joint ventures as a means to invest locally across all PBI pillars. One example is its investment in the development of Media City at Salford Quays in Manchester. This investment was done through a 50:50 joint venture with Peel Group, an experienced local development and investment company. This regeneration project included affordable housing, office space including for SMEs, education facilities and transport infrastructure. The site which officially opened in 2012 has established itself as an international hub for technology, creativity and innovation, and is home to over 7,000 residents, students and workers as well as over 250 businesses including BBC, ITV and University of Salford. The site was the first development in the world to acquire BREEAM Sustainable Community status.

MediaCityUK is currently in its second phase of development and has since attracted investment from Greater Manchester Pension Fund. Development of the area will continue to deliver high quality residential and commercial properties, sustainable infrastructure through extending tram and pedestrian connectivity, and rejuvenated public spaces.

SLEAFORD RENEWABLE ENERGY PLANT – BORDER TO COAST PENSION PARTNERSHIP

In 2020, Border to Coast, one of the English pension pools, made a £40 million investment in a renewable energy plant in Lincolnshire, a facility located in the geographical area of the asset pool. This was Border to Coast’s first co-investment and was made by the infrastructure team with the aim of securing a reliable and secure return, particularly from renewable energy. The partner is Greencoat Capital, a specialist investment manager dedicated to renewable energy infrastructure. The investment secures a minority stake in the plant which is owned by Greencoat Capital (acquired from Glenmont Partners Clean Energy Fund I in 2020) as part of the Greencoat Renewable Income fund. RMPI Railpen, the pension manager for the £30 billion Railways Pension Scheme is also a partner.

The plant uses both locally sourced straw, the majority from within a 30-mile radius, and sustainable woodchip to generate renewable power and heat. The plant has the capacity to generate electricity for 65,000 homes, saving 50,000 tonnes of CO₂ per annum and provides 30 direct local jobs and a further 50 in the fuel supply chain.

GREATER MANCHESTER PROPERTY VENTURE FUND

The Greater Manchester Property Venture Fund (GMPVF) was created by the Greater Manchester Pension Fund in 1990. It is a specialised vehicle for the LGPF to invest in property developments in Greater Manchester and across the wider North West area which generate a commercially viable rate of return. GMPVF does this through site acquisition, building design, direct property development and property letting/management. GMPVF has made a £700 million allocation to GMPVF.

Since its founding, investments have been made in both commercial and residential property, in doing so facilitating economic development, long-term job creation and improving the living standards for local residents. Examples of investments include:

INVESTMENT	USE OF FUNDS
Matrix Housing	Creation of joint venture to fund the construction of 240 affordable houses across the Greater Manchester region.
Airport City	Creation of 5 million sq ft for the construction of hotels, office space and logistics infrastructure, likely creating significant numbers of jobs.
Crusader Mill	Provision of loan facility for the construction of 201 apartment buildings, which will be targeted at local residents.
Deansgate Square	Debt funding for the construction of 350 apartment units within the city centre.
First St, Manchester City Centre	Addition of 170,000 sq ft of office space for both established firms and new SME enterprises.
Runcorn Industrial Warehouses	Provision of long lease storage units for local businesses and Mancunian industry.
Stockport Sorting Office	Debt funding towards the construction of 119 new apartment units and commercial spaces.

In total, the fund has developed more than 1 million square feet of commercial buildings and funded the construction of more than 1000 housing units within the Greater Manchester area.



4.3 INVESTMENT FUND MODELS

When a fund manager is sought, a broad range of fund structures are used. These comprise both unlisted (also known as private funds) and listed funds i.e. funds which are listed on a stock exchange but invest in the private markets. Below we describe some of the key features of these fund models and how they can be used to scale up PBII.

UNLISTED (PRIVATE) FUNDS

- **Most PBII-aligned investments are currently in private funds set up as either a Limited Partner (“LP”) or Limited Liability Partnership (“LLP”) fund.** These are typical structures in the private equity sector and well known to investors and advisers alike. In an LP structure, investors (including pension funds) invest the capital for the fund but are not concerned with the fund’s investment operations and management. They become Limited Partners (LPs) and the fund is managed by a General Partner, typically an experienced specialist fund management firm.
- **Most funds in PBII-aligned sectors operate at a national rather than a local level [see Chart 3.5]. Social and affordable housing** is the fastest growing PBII-aligned investment area with a rapidly increasing number of funds seeking to raise institutional capital to address different housing needs including general needs affordable housing, specialist supported housing and homelessness accommodation. Most of these funds operate at an England or UK-wide level. However, these funds typically

engage locally with local authorities to identify projects and gain planning approvals and they partner with local housing associations or charities to manage the properties. PBII funds would be regarded as those that clearly meet locally identified social needs, have a high level of local engagement and create good quality partnerships with local providers.

- **The largest number of regional or local funds exist in SME finance,** such as those managed by Foresight and Mercia which have successfully raised LGPS investment. There are a broad range of funds within the SME finance space including venture funds developed by local fund managers e.g. Northstar Ventures. While venture funds play an important role in supporting the growth of local businesses it is more difficult for them to raise institutional investment given the early stage and high-risk nature of venture finance.
- **Side-car arrangements** can be used to provide a carve out of an investment allocation to a particular local area. For instance, Greater Manchester pension fund negotiates with fund managers to set up side-car arrangements for place-based allocations to the region within national funds.
- **‘Best efforts’ clauses are also used to carve out place-based investment allocations.** Here the fund manager agrees within the terms of its legal agreement to make ‘best efforts’ to include local investments as part of the investment strategy but is not obliged to commit to a defined local allocation.

PRIVATE FUND CASE STUDY: FORESIGHT REGIONAL FUNDS

Foresight Group is a global investment manager which offers both private and public investment vehicles to institutional and retail investors. Foresight Group has products in the SME finance, clean energy and infrastructure PBII pillars.

Within SME finance, Foresight has five exclusively institutional, regional private equity funds which aim to fill

a funding gap for smaller companies through supporting growth and innovation in ambitious SMEs. The regional focus of the funds aims to stimulate enterprise, create quality jobs and attract inward investment to the regions. LGPS investors in the funds include Cambridgeshire, Clwyd, Greater Manchester, Nottinghamshire and South Yorkshire. The Regional Funds consist of:

REGIONAL FUND	SME FINANCE	SIZE
Foresight Nottingham Fund	Up to £2m	£39m
Foresight Regional Investment Fund (North West of England, North Wales and South Yorkshire)	£1m to £5m	£58m
Foresight Midlands Engine Investment Fund (MEIF) Equity Finance	Up to £2m	£35m
Foresight East of England Fund	£1m to £5m	£100m
Foresight Scottish Growth Fund	Up to £2m	£20m

Foresight Regional Investment LP ('the Fund') Case Study

The Fund makes initial equity investments of £1m-£5m in the North West of England, North Wales and South Yorkshire. It aims to deliver attractive economic returns with broader long-term benefits for regional communities by applying a professional approach to private equity investment in this underserved and relatively uncompetitive part of the market. The Fund's region covers 36 Local Authority Districts, 19 of which fall within the top 50 most deprived areas in the country, while six make it into the top 10.

In Foresight's experience, the incorporation of ESG principles into its investment approach enhances the delivery of commercial returns, while also generating broader long-term benefits for the regional communities in which its investee companies operate. These benefits cover a wide spectrum from environmental issues and community engagement on a macro level to specific social benefits for individuals at a micro level. Throughout the life of an investment, each company is measured against 40 KPIs related to five principles. In addition, Foresight's investment strategy encompasses an outcome orientated approach

that identifies and measures the contribution of investee companies to four societal challenges based on the Sustainable Development Goals: quality employment at scale, health, research and innovation, and sustainable infrastructure and the environment.

The Fund's progress is mapped on an annual basis. Highlights to 31 December 2020 include:

- £51.9m deployed to support SMEs in the region;
- 590 quality jobs created - an average increase of 56% per company since investment;
- 33% of the Fund's investee companies have a female founder in their team versus the national average of 10% for PE-backed companies. Female board representation is 24%;
- 71% of portfolio companies have established environmental policies;
- 86% of portfolio companies have formalised diversity and inclusion policies; and
- Portfolio companies have spent £2.6m on research and development in 2020.

The regional focus of the funds aims to stimulate enterprise, create quality jobs and attract inward investment to the regions.

PRIVATE FUND CASE STUDY: BRIDGES FUND MANAGEMENT

Bridges Fund Management is a private markets fund manager specialising in sustainable and impact investment. They strive to make investments that contribute to the transition to a more inclusive and sustainable economy, predominantly in the UK to date.

(through private equity, debt and business support) and regeneration (through both residential and commercial real estate). All investment strategies focus on the social and environmental themes of 'Stronger Communities', 'Sustainable Planet', 'Healthier Lives' and 'Future Skills'. These themes are closely aligned with the SDGs.

Founded in 2002, Bridges offer four investment products to institutional investors in the PBII pillars of SME finance

VEHICLE	STRATEGY	CAPITAL RAISED	INVESTMENTS TO DATE
Bridges Sustainable Growth Funds	Provision of £5m-£20m equity and business support for organically growing companies having a positive impact on people or the planet.	£321 million	54 businesses
Bridges Evergreen Holdings	Provision of £10m+ long term capital (equity or debt) for social and other mission-driven businesses.	£51 million	4 investments
Bridges Social Outcomes Funds	Provision of working capital and management and contract structuring support for providers of Government commissioned social outcome contracts - those where providers are paid for the successful outcomes they achieve, not the services they deliver.	£58 million (committed to projects)	Over 40 projects
Bridges Property Funds	Investment in real estate that helps to reduce carbon emissions, revitalise business and residential spaces, regenerate communities and address unmet needs.	£656 million	63 properties

All four funding strategies have raised investment from LGPS funds.

CONNECT (BRIDGES PROPERTY FUNDS)

- With a JV partner and support from local agencies, Bridges led the remediation of a former colliery site in Cannock that had been identified as in need of regeneration by Cannock Chase Council.
- Called Connect, the site was developed into highly environmentally sustainable Grade A industrial space (BREEAM 2018 "Very Good" rated and EPC A rated).
- The site was presold to generate a very strong financial return, and the regenerated site is providing c.400 jobs within the local community.

THE ETHICAL HOUSING COMPANY (BRIDGES EVERGREEN HOLDINGS)

- The Ethical Housing Company provides long-term, stable accommodation for those in housing need, with a current focus in Teesside, by acquiring properties and renting them to people in housing need (48% of lettings in FY2021 related to housing homeless households).
- Its partner letting agency ensures tenants can afford their bills and supports them in sustaining their tenancy.
- Bridges' vision is a best practice model for affordable private rented accommodation that can be replicated wherever there is housing need.

WHOLEBAKE (BRIDGES SUSTAINABLE GROWTH FUNDS)

- Wholebake manufactures and sells gluten-free energy bars, from its factory and distribution facilities in North Wales (lowest 11-20% and 21-25% income and employment deprived local authorities in the UK).
- Their snack bars use natural ingredients and are aimed at the healthier segment of the snack market.
- Wholebake employs a workforce of about 200, about 90% of whom drawn from underserved areas and over half being formerly unemployed.

GREATER MANCHESTER HOMES PARTNERSHIP (BRIDGES SOCIAL OUTCOMES FUNDS)

- Greater Manchester Homes Partnership is designed to tackle homelessness in Greater Manchester by providing entrenched rough sleepers the intensive emotional and practical support to sustain their tenancies.
- It is a partnership between Department for Communities and Local Government, Greater Manchester Combined Authority, Shelter, Great Places Housing Group and The Brick. Bridges provides project finance and project management support.
- Through the project, 323 rough sleepers have moved into accommodation, with 91% having sustained the accommodation for more than 3 months.

LISTED (PUBLIC) FUNDS

Listed funds are a good investment route for institutional investors, including pension funds. They may be invested in as an allocation into a specific sector or as part of a general UK equity allocation. They provide a far higher degree of liquidity than private funds and, therefore, appeal to a wider investor base. They can offer attractive long-term, income-earning investment opportunities that are well-suited to the long-term nature of pension fund investments. They are governed by tighter restrictions than private funds but are very scalable.

Listed funds are prevalent in clean energy, housing and infrastructure. Investment trusts and REITs are common legal structures where we see strong growth opportunities for private market investments, including PBII. Social and affordable housing is one of the fastest growing areas for PBII [see box on page 41].

One model that has developed as a means of attracting institutional and retail capital into businesses that have large capital expenditure commitments is the AssetCo + OpCo model. This model is commonly used in infrastructure [see the Greencoat example in the box below] and also being used in social and affordable housing where pension funds buy the underlying assets [AssetCo] and partner with a housing association to manage the asset [OpCo]. There are numerous other sectors which use this symbiotic approach so that large funds can access asset pools without taking on the operations, leaving this to experienced specialist partners.

Venture Capital Trusts [VCTs] are listed funds designed to encourage investment in small, unquoted, entrepreneurial firms. Some LGPS funds have invested in VCTs [see Annex 2].

LISTED FUND CASE STUDY: GREENCOAT

Greencoat Capital is an asset manager which offers institutional investors the opportunity to invest into a diversified portfolio of UK and European renewable infrastructure assets delivering inflation-linked cashflows. It has successfully raised capital from a number of LGPS funds and represents a good example of how listed funds can bring scale to these key PBII sectors.

The business model brings institutional capital into the operators of infrastructure assets. Greencoat will buy the physical assets from a utility which allows the utility to free up capital and build further assets. Greencoat work with the operator as owner of the assets in a model known at 'AssetCo + OpCo' - Greencoat is the AssetCo (or Asset

Company) and the utility is the OpCo (or Operating Company).

Greencoat Capital is one of the UK's largest investors in the resource efficiency and renewable energy market, with approximately £5.5 billion under management. Greencoat focuses on solar, wind and bioenergy, with selected other green infrastructure opportunities such as renewable heat.

Founded in 2009, Greencoat has built an experienced team of around 50 investment professionals headquartered in London and Dublin. The business verticals manage either listed vehicles which are available to both institutional and retail investors, or private funds. These include:

INCEPTION	VEHICLE	STRATEGY	MARKET CAP (BN)
2013	Greencoat UK Wind PLC	Investing in 35 operating UK wind farms including onshore and offshore, with net generating capacity of 979MW [equivalent of almost 1m homes].	£2.2
2016	Greencoat Solar	Owns and operates 78 UK Solar PV generation assets with inflation-linked revenues, consolidating a fragmented market.	£1.3 [commitments]
2017	Greencoat Renewables PLC	Owns and operates 12 renewable infrastructure energy assets with EURO revenues in the Republic of Ireland with a combined capacity of 411MW.	€0.6
2019	Bioenergy	Unlisted funds invested in bioenergy assets.	-



SOCIAL AND AFFORDABLE HOUSING: A GROWING INVESTMENT OPPORTUNITY FOR INSTITUTIONAL INVESTORS

There is an urgent need to increase the level of quality, affordable housing across the UK. Currently nearly 8 million people are in housing need, ranging from people who are homeless to those unable to afford to buy or rent in the private market. Hence, we see investing in affordable housing as a core PBII pillar.

There has been a rapid rise in institutional investment in social and affordable housing over the last few years bringing equity into the sector. Recent research commissioned by the Impact Investing Institute found that the social housing sector provides attractive risk-adjusted opportunities for both equity and debt investors. Social-rented property generates cashflows that can provide investors with effective risk diversification that is decorrelated from wider economic trends, especially compared to commercial property trends. Occupancy rates are high with less than 1.5% of stock vacant over the last five years which underpins stable income streams and high quality cashflow fundamentals.

Specific LGPS investments in social and affordable housing include:

- In November 2020, **Teesside Pension Fund** committed £5 million to the **Ethical Housing Company**, which operates in the Tees Valley, and provides affordable homes to families in need. That is both a place-based investment and an impact housing investment.
- In December 2020, Greater Manchester Pension Fund committed £10 million to the **National Homelessness Property Fund, managed by Resonance**. That fund will also focus on Greater Manchester, at least initially.

LGPS funds have also invested in social and affordable housing funds including CBRE UK Affordable Housing Fund which invests in a range of tenure types and Civitas Social Housing and Triple Point Social Housing REITs which invest in specialist supported housing. While these are national funds, there is engagement with local authorities from identifying sites to participating in Section 106 bids. Also most funds have lease agreements with local housing associations who manage the properties and provide tenant services.

Homes England takes a place-based approach and is an important partner to institutional investors. It helps unlock land, funds infrastructure and invests in new investment products that can raise institutional capital at scale.

There is an urgent need to increase the level of quality, affordable housing across the UK. Hence, we see investing in affordable housing as a core PBII pillar.

FUND MANAGER SELECTION

The fund manager selection process and experience is critical to scaling up PBII. Pension funds will review their managers closely and will often be guided by advisers and consultants. Consultants will often be employed to select the candidate fund manager list for the LGPS funds to select from. As such consultants perform a gatekeeper role to many LGPS funds.

The main trends observed in the process of investment selections were:

- Many of the fund managers in this space are relatively small, specialist firms. Those LGPS funds that have a commitment to PBII have the appetite and resources to engage with and do due diligence on smaller fund managers and make investment decisions.
- However, the majority of LGPS funds rely on consultant advice for strategic asset allocation and fund manager selection and the smaller funds do not get considered.
- This pattern tends to lead to bifurcation happening in the market. Large fund management firms which are more able to raise capital are successful but with more traditional strategies. This contrasts with specialised niche firms which often have a more impactful strategy/place-led approach but find it challenging to raise capital.

Consultants are very risk averse. They focus on funds that have broad applicability for their client base not niche place-based funds. Specialist funds are often seen as sub-scale. Institutional investors, including pension funds, often have a minimum investment size of £100m plus. – Fund Manager

4.4 CAPACITY, SKILLS AND COMPETENCE – BUILD, BUY OR BORROW

Our research has found that good commercial investment opportunities that achieve positive place-based impacts exist within all our key sectors.

It appears that the universal requirement to scaling up PBII is an increase in operational resource across the ecosystem. This is needed to create commercial investments, analyse these investments and aggregate them into viable institutional funds. Resources are needed by local authorities, LGPS investment teams, consultants and fund managers. The investment returns from proper resourcing appear to reward the cost, as exemplified by the experience of Greater Manchester and South Yorkshire pension funds. A cost cutting approach from origination to fund management will work against the objectives of growing PBII and the benefits to the local economies.

In order to meet this capacity challenge, we have observed approaches we broadly classify as 'building' capabilities, 'buying' in the skills or 'borrowing' the capacity from other institutions e.g. government-backed development finance institutions or pension pools.

Greater Manchester Pension Fund provides a leading example of an LGPS fund which has built significant capacity for place-based investing and also buys in expertise (see case study on page 43). South Yorkshire Pension Authority has relied on buying in expertise, primarily from CBRE to help source investments and manage funds (see case study on page 45). In London, LGPS funds can borrow capability from the pension pools which have created the London Fund to make place-based impact investments (see case study on page 47).

BUILD CASE STUDY: GREATER MANCHESTER PENSION FUND

Greater Manchester Pension Fund (GMPF) is the largest LGPS in the UK. The Fund is managed by Tameside Metropolitan Borough Council. The Fund has around 380,000 members and total assets were £22 billion as of 31 March 2020.

GMPF is one of the only pension funds to have an explicit allocation to local investment with the twin aims of generating a commercial return and delivering a positive local impact. This has been a consistent part of their strategy for decades: the fund first made an allocation to invest locally 25 years ago. GMPF has built its investment capacity over time and today has 7-8 investment professionals and a pool of investment professionals who do due diligence and investment structuring. The current 5% allocation sits within 'alternatives' with specific allocations to private equity, private debt, infrastructure and property, including Private Rented Sector (PRS) and affordable housing.

Local investing was originally defined as the Greater Manchester region, however, this has recently been extended to the North of England. This decision is partially to enable greater diversification but also to support collaboration and pooling arrangements with Merseyside and the other Northern Pool funds.

The GMPF investment team have close working relations with the Greater Manchester Combined Authority (GMCA) and have established a governance structure and capacity to make joint local investments. This relationship has been built up and strengthened over the past five years. The 2014 Devolution Agreement was critical to the establishment of the investment team within the Combined Authority (now 15 person strong). Central government provided a combination of grant funding which covered staff costs and risk capital which underwrote the risk of early investments. The first joint investment was GM Housing Investment Fund in which GMPF invested £100m. This invests in new Build-to-Rent and Build-for-Sale housing schemes brought to them by private developers. The fact that the GMCA can structure finance as mezzanine finance is helpful in leveraging in pension fund investment.

Both the GMPF and GMCA investment teams are driven by market opportunities that meet their risk and return profile. The regional economic development strategy is implicit in what they do.

GMPF actively seeks out opportunities that deliver a positive impact. It was a founding investor in the Invest 4 Growth initiative established in 2014 with a number of other LGPS funds. A total of £50 million was raised and invested in SME and impact focused funds UK-wide but with some investments having a local impact, including investments in Bridges venture, property and social impact bond funds.

Following on from the Invest 4 Growth initiative, GMPF has approved an allocation of up to 2% into an Impact Portfolio. This portfolio has the same twin aims of generating a commercial return and delivering a positive local impact. GMPF is seeking to collaborate with other pension funds, specifically the Northern Pool members, to develop a diversified portfolio and achieve cost benefits from greater economies of scale. Investments include Mercia's SME Loan Fund and most recently a £10 million investment in Resonance's National Homelessness Property Fund 2. GMPF negotiates side car vehicles with fund managers to ring fence their investment to the local area. GMPF also makes direct investments in regeneration and property development schemes through joint ventures. The Fund's flagship development is 1 St Peter's Square which is seen as a catalyst for further development and regeneration in Manchester.

Neither GMPF or GMCA have a systematic approach to impact measurement, management and reporting. They have evidence that their local investments have created improvements to the local economy, including business development, job creation and provision of affordable housing. Both are interested in our initiative to develop a common impact reporting framework and will participate in the working group. GMPF believe that diversification is important to reduce volatility of the overall Fund return, and that local investments have provided such benefits.

GMPF is one of the only pension funds to have an explicit allocation to local investment with the twin aims of generating a commercial return and delivering a positive local impact. This has been a consistent part of their strategy for decades and the fund made a 5% allocation to local investment 25 years ago.



BUY CASE STUDY: SOUTH YORKSHIRE PENSION FUND

South Yorkshire Pension Fund is the eighth largest LGPS fund in the UK as of 2020. Uniquely the fund is administered by the South Yorkshire Pensions Authority (SYPA), a democratically accountable single purpose pension organisation, which manages the pension schemes of the four district councils (Barnsley Metropolitan, Doncaster Metropolitan, Rotherham Metropolitan and Sheffield City Council) and nearly 600 other employers. In 2020 the fund had 161,477 individual members and a value of £8.2 billion. Since 2018, the majority of the Fund's investments are managed by Border to Coast Pensions Partnership. However, around 30%, including a very substantial legacy alternatives portfolio is currently directly managed by SYPA. This will reduce to around 3% when the pooling process is completed and the legacy alternatives portfolio has been fully realised.

SYPA has a longstanding commitment to investing within the South Yorkshire region with the aim of generating a commercial return and positive local impacts. SYPA has made investments across all the key PBI sectors including SME finance, affordable housing and renewable energy. The Authority prefers to make use of external managers in this area in order to minimise conflicts and ensure a neutral evaluation of the commercial merits of specific proposals.

In 2019, SYPA established a specific allocation to development finance in South Yorkshire and appointed CBRE to manage this allocation, including originating and appraising opportunities. As these are direct lending transactions SYPA has to make the final investment decisions. The South Yorkshire Pension Fund currently has an allocation of £80 million and is expected to make loans in the range of £10-15 million with a current return across the portfolio of 6.75%. The fund works in tandem with the JESSICA (Joint European Support for Sustainable Investment in City Areas) Fund, a regional investment fund with EU funding which supports local and regional economic development.

Councillor Sue Ellis, Chair of the South Yorkshire Pensions Authority when the CBRE mandate was awarded said:

“We are pleased to be working with CBRE to achieve financial returns for our scheme members while at the same time supporting delivery of investment in communities across South Yorkshire. This is an example of an area where we can achieve the commercial return we need to pay pensions at the same time as ensuring the delivery of schemes which will improve the long term prospects of the local economy.”

SYPA's local investment strategy is to target long-term investments which are designed to tackle local economic, social and environmental challenges which would not be addressed by traditional commercial investors.

To date, loans have been approved for the following projects:

- Redevelopment of former foundries into 52 low carbon homes in Little Kelham, Sheffield targeted at young graduates and supporting regional policy to stop the 'brain drain'. The SYPA funding complemented funding from the JESSICA Fund and other regeneration funding streams.
- Regeneration of an old coalite plant in Bolsover, Derbyshire in partnership with Derbyshire County Council (the site is within the Sheffield City Region). Public funding was used to finance remediation works, with pension fund investment used to fund the infrastructure, including sewers and roads. The site will provide business space and is expected to contribute to the creation of over 2,000 local jobs, and the fact of this funding has attracted the first lettings to the site.
- Construction of a grade A office building as part of a new development opposite Sheffield station. This complements two previously developed buildings and completes the redevelopment of a significant gateway site.

SYPA also invests in third-party managed impact funds, including those managed by Bridges, Foresight, Triple Point and Civitas. These are not regarded as routes to achieving local place-based impact, however, they meet target returns and are viewed positively because of their impact focus, including on SME development and social and affordable housing.

SYPA has a unique governance arrangement which guards against conflict of interest while maintaining close engagement with its membership and local and regional stakeholders. Regular consultations are made with the pension fund members to take their concerns into account. In addition to investment opportunities scouted out and originated directly by CBRE, many of the local investment opportunities are proposed through city region structures, themselves products of the wishes of local constituents. Many of these communities represent former miners and colliery workers, ensuring traditionally neglected and deprived communities can shape the direction and composition of local investments. As such, communication and stakeholder engagement at the local level are incorporated into the investment process for a large portion of investments.

4.5 THE ROLE OF PENSION POOLS

Pension pools are building their capacity and skills in private markets investment and could potentially play an important role in scaling up PBII.²¹ The asset pools were only relatively recently set up and are at different stages of their pooling arrangements. Most are currently focused on carrying out due diligence and making allocations to their largest asset classes – gilts, equities and fixed income. However, there is now an increasing focus on building specialist investment teams to increase private market allocations including sectors of interest to PBII, such as clean energy, infrastructure and SME finance. In general, the pension pools do not take a place-based lens and their willingness to consider PBII products depends on partner LGPS fund interest. One pension pool representative made the following comments which illustrate a commonly held position among the pools:

“All of our alternatives strategies are global in nature. We have permitted ranges for each geography, but UK is captured within Europe. There is no discrete allocation for the UK. We will consider UK only strategies as part of our portfolio construction, but there is not a specific target to do so.”

“If our Partner LGPS Funds collectively have interest in greater place-based allocations, the geographic ranges for our strategies could potentially be changed to facilitate such allocations. We could launch additional products to meet client needs, but this is a matter for the executive and Board, and would require sufficient interest in capital terms. It would also require sufficient bandwidth to launch such a product.”



Pension pools were keen to highlight how some of their private market investments will be in the UK and have positive local impacts. See, for example, the Border to Coast investment in Sleaford Renewable Energy plant (see box on page 35).

However, there is an opportunity for individual LGPS funds to work more closely with the pension pools and borrow their private markets expertise to increase investments in PBII. The London Collective Investment Vehicle (LCIV), the pension pool for 32 London borough pension funds, has taken the initiative in this regard. It has set up a collective investment vehicle to enable the individual pension funds to invest in projects in London which have a positive impact. Local Pensions Partnership Investments, a provider of investment services for government pension funds, will manage the fund.



BORROW CASE STUDY: THE LONDON FUND

The London Fund was launched in January 2020 as a collaboration between two LGPS investment pools - the London Collective Investment Vehicle (LCIV) and Local Pension Partnership Investments (LPPI) – to enable London LGPS funds to access investment opportunities in three of the PBII pillars – housing infrastructure and SME finance – across the Greater London area and surrounds. LCIV is the Alternative Investment Fund Manager responsible for risk management while LPPI has delegated responsibility for portfolio management. The London Fund combines the local knowledge of both parties which offers greater access to resources and a wider investment pipeline than could be achieved through individual management. LCIV and LPPI represent clients based in the Greater London region.

The Fund aims to deliver:

- Competitive investment returns with a target return of CPI + 3%;
- Positive social benefits including job creation, affordable housing, local area regeneration and positive environmental impacts; and
- 80% of the capital invested within London's 32 boroughs (Greater London).

The Fund's investment approach has been designed to ensure the delivery of positive social outcomes within the target geography. Each investment will be evaluated using ESG criteria and be expected to align with the London Quality of Life indicators published by the London Sustainable Development Commission. This includes themes such as decarbonisation, quality of housing and health outcomes. Investors will receive periodic reporting

on the social outcomes delivered through the Fund's investments.

The London fund is aiming to raise £300-£500 million over several years from individual London-based LGPS funds. In December 2020, the the London Pensions Fund Authority (LPFA) provided a £100 million commitment, followed by an additional £50 million in March 2021.

March 2021 also included the fund's debut investment in Delancey and Oxford Residential's DOOR SLP ('DOOR') 'build to rent' housing platform which supports the development of new quality housing stock for London.

DOOR is a dedicated residential investment vehicle - part owner of Get Living, the UK's leading build-to-rent operator of large-scale residential neighbourhoods. DOOR will facilitate The London Fund's investment in housing developments in areas such as East Village, Stratford and Elephant and Castle. This includes almost 3,000 homes under management, 1,870 homes under construction, a further 3,500 in the secured pipeline, with an overall target of 15,000 homes within the next five years. Get Living's institutional ownership, provision of long-term tenancies and resident-only break clauses provide residents with security of tenure.

This investment reinforces The London Fund's focus on investment opportunities in real estate that includes the private rented sector affordable housing, regeneration schemes and specialist accommodation such as senior living and co-living.

21. Chart 2.3 shows which LGPS funds belong to which pension pools.

5 IMPACT MEASUREMENT, MANAGEMENT AND REPORTING FRAMEWORK

This section sets out the rationale for having a consistent approach for LGPS funds to measure, manage and report the sector, geography and place-based impacts of their PBII investments. It suggests a common impact reporting approach, developed in collaboration with representatives from LGPS funds, fund managers and combined and local authorities. Impact reporting is the golden thread which can connect LGPS funds, local authorities and local stakeholders.

5.1 WHY IMPACT MEASUREMENT AND MANAGEMENT MATTERS

Measuring, managing and reporting impact is integral to impact investing. It is incumbent on impact investors to measure and report on social and environmental outcomes as carefully as they would financial outcomes. Impact investing particularly favours transparent, consistent and comparable measurement and reporting.

Impact reporting is about ensuring transparency and accountability to all stakeholders as to how capital is being invested. It should also be used to identify the risks of negative impact and provide insights to improve delivery of impact over time. Currently, few pension fund members know how their pension funds are invested and there is very limited communications with members about the nature of any local investments.

The PBII project revealed how impact measurement and reporting can be the golden thread that aligns and helps build collaborative relationships and projects that benefit local places and people.

Increasingly, investors are seeking to use impact data to drive future investment decision-making, and not just report on past performance. The aim is to elevate the analysis of impact performance to the same level as financial performance analysis. As the field of impact and sustainable investing has matured, measurement is no longer just a question of selecting metrics, collecting data and reporting on impact performance.

The challenge is to integrate impact considerations into the entire investment cycle – from selecting which investments to make, to project planning, design and due diligence, to investment structuring and exit. Key to impact investing is managing what we measure. Hence, impact management practices are as important as impact measurement with a view to driving positive impact creation as well as financial returns.

Impact measurement can also provide a common language to bring together different stakeholders in a place, including investors, local authorities, and local representatives from the private and social sectors. Too often there are silos and lack of trust between different stakeholders which can lead to a lack of alignment and missed opportunities to understand different perspectives and enhance local impact creation.

IMPACT MEASUREMENT AND MANAGEMENT

Impact measurement and management (IMM) is the process of selecting and embedding social and environmental performance considerations into the investment cycle, collecting data, and using the information to drive decision-making.

An IMM system is a set of activities that cover, in broad terms:

- **Selecting goals and indicators** that are mission-aligned.
- **Setting targets and strategies** most likely to achieve and reflect these goals.
- **Measuring and analysing metrics** to understand what is happening in reality.

A good impact measurement system is therefore capable of describing who is being impacted, in what way, by how much and the contribution of the organisation to the change in outcomes.

“Currently, few pension fund members know how their pension funds are invested and there is very limited communications with members about the nature of any local investments.” – LGPS Fund Manager

5.2 STAKEHOLDER PERSPECTIVES ON IMPACT MEASUREMENT

Stakeholders were asked about the extent to which they focus on impact measurement currently. Our key findings are presented below by stakeholder type:

LGPS FUNDS

- All LGPS funds regularly monitor and report on the financial performance of all their investments but there is limited impact monitoring and reporting.
- Place-based investment opportunities are typically selected based on their potential to deliver commercial returns with the fact that they are located in the specified local area or region regarded as inherently positive from an impact perspective.
- The main focus is on environmental reporting at the portfolio level, particularly reporting on the carbon footprint of investments in line with emerging reporting standards (such as the Taskforce on Climate-Related Financial Disclosure). Currently there is little focus on social impact measurement.
- LGPS funds investing in funds in the key PBII sectors do receive impact data and reports from some fund managers, particularly those that have an impact investing approach e.g. Bridges and Resonance. However, typically LGPS funds make little use of this information due to lack of capacity and inconsistency of reporting received.
- There was a strong interest in developing a common, consistent and transparent approach to impact reporting that would enable LGPS funds to report on their local investing activity to members. The conceptual thinking of the PBII model (see Section 2) was seen as helpful in articulating and aligning investment strategies to place-based impact creation and reporting on impact.

LOCAL AND COMBINED AUTHORITIES FUND MANAGERS

- Local and combined authorities have experience of impact measurement, with some authorities having dedicated expert staff. Measurement is related to reporting on socio-economic and environmental indicators and outcome metrics that tie into local development plans and the use of public funding.
- Many local and combined authorities will capture data using a common outcomes matrix related to local and strategic plans and priority objectives (see box on page 53 for examples). This information will be published in an annual report.
- However, local council staff do not routinely consider external investment as a source of project finance. Instead there is a reliance on public sector funding and grants.
- Hence, impact assessment is linked to making the case for public funding. It was recognised local government lacks experience in making the investment case, hence, capacity-building on developing investible propositions is also essential (see Section 4).
- Local government staff are not familiar with the impact measurement approaches being developed within the impact investing community.
- There is a strong interest in mobilising institutional investment for local development and sharing knowledge on impact measurement to ensure any approach ties into existing methods and reporting metrics that are familiar and useful to local and central government outcomes performance monitoring, while recognising approaches need to work for all stakeholders within the ecosystem.
- Of the 176 identified private and public funds, only seven produced dedicated impact reports and another two funds detailed their approach to impact on their website. A further nine funds produced dedicated sustainability/ ESG reports and seven funds included ESG/sustainability reporting in their overall annual reports.
- Some fund managers, such as Bridges, Civitas, Foresight, Resonance and Triple Point, do provide impact reporting on specific funds. Bridges, in particular, has been at the forefront of developing consistent approaches to impact measurement and management and established the IMP which has become a leading player in developing global reporting norms and standards.
- These funds see little demand for impact reporting from LGPS investors. However, within the investment market more broadly they noted the increasing interest and demand for ESG and impact reporting.
- Demand for ESG and impact reporting has been greater from European institutional investors than UK investors.
- Impact fund managers also noted concerns over ‘impact’, ‘green’ and ‘SDG’ washing and wanted to be able to demonstrate the robustness and integrity of their investment strategies from an impact perspective. Hence, these fund managers would welcome efforts to develop a common PBII framework built on their experience and which worked for the LGPS funds and other institutional investors.

5.3 APPROACH TO DEVELOPING A PBII IMPACT REPORTING FRAMEWORK

The Good Economy established a working group under the auspices of the project to help develop a common impact measurement, management and reporting framework for PBII. This group aimed to develop an approach bringing together thinking and impact assessment experience from local government, fund managers and LGPS funds already active in investing locally.

The working group members were:

LGPS Funds

- Clwyd Pension Fund
- Greater Manchester Pension Fund
- Merseyside Pension Fund
- South Yorkshire Pensions Authority
- Strathclyde Pension Fund

Local Government

- Local Government Association
- Glasgow City Council

Fund Managers

- Big Society Capital
- Bridges Fund Management
- Foresight
- igloo Regeneration
- Nuveen

THREE CORE PRINCIPLES UNDERLINED THE DEVELOPMENT OF THE IMPACT FRAMEWORK:

Principle 1 – Align with international and UK impact reporting best practice and standards.

The first principle was to align the approach with emerging international and UK best practice and standards for measuring, managing and reporting impact. We aligned each impact objective with the SDGs which are accepted as providing a universal set of impact goals relevant to both national and local governments and the investor community.²²

Where possible we aligned the metrics to the National TOMS Framework which provides a set of core Themes, Outcomes and Measures that provide a consistent approach to measuring and reporting on social value (impact).²³ We also aligned the metrics to the Sustainability Reporting Standard for Social Housing, a sector-specific ESG and impact reporting standard.²⁴

Where relevant, we also aligned with the GII IRIS+ metrics²⁵ and referred to the IMP five dimensions of impact and impact classification system (see box on page 57). We also sought to align with impact management standards, including the IFC Operating Principles of Impact Management²⁶ and the Impact Investing Principles for Pensions²⁷ developed by the Impact Investing Institute in partnership with Pensions for Purpose.²⁸

Principle 2 – Amplify place. The second principle was to design the framework so that ‘place’ – the locality of impact creation – is central to the reporting approach. ‘Who’ benefits, ‘how’ and importantly ‘where’ become key impact assessment questions. Ultimately the PBII Project seeks to drive greater levels of investment to areas that have suffered from lack of investment across the UK in support of locally-defined investment needs and opportunities. Hence impact objectives should be defined that are relevant from both a local development policy and investment perspective and foster collaboration and a sense of shared purpose among stakeholders in particular places.

Principle 3 – User driven. The third principle was the framework should be useful and add value for all stakeholders – notably LGPS funds (and other institutional investors), fund managers, local government and local stakeholders. The focus was on developing a ‘right-sized’ and practical output, that would enhance existing LGPS reporting. A specific need that we heard from LGPS representatives was they were seeking a reporting approach that would help them communicate with their members in a clear and straightforward manner about their place-based investment activity.

During the period of the working group, we co-created a reporting approach that we believe is a good starting point in building alignment and common impact goals among stakeholders and a consistent approach to reporting on core metrics across the key PBII sectors. We recognise this is a basic and simple framework that will need testing and further development to become an approach that fully describes and reports on place-based impact creation.²⁹ A good impact assessment would combine quantitative and qualitative data, including feedback from affected stakeholders. Specific and systemic outcomes are not captured by this framework nor do we get into a discussion of how to analyse and interpret the data.

5.4 THE PBII IMPACT REPORTING FRAMEWORK

The framework has six components providing the fundamental elements typically underpinning a robust impact investment strategy and aligned with the Impact Investing Principles for Pensions. These could be further developed and detailed by individual LGPS funds to define a more bespoke PBII strategy and measurement approach tailored to the pension fund’s specific geographic and investment objectives.

- 1 Overall Impact Goal and Narrative** – The overarching place-based impact aim that the LGPS fund is trying to achieve.
- 2 Place-Based Impact Objectives** – Thematic or sector-specific investment objectives that an LGPS fund should align their place-based investments with.
- 3 Theory of Change** – How the actions taken by the LGPS fund contribute to the achievement and improvement of positive outcomes.
- 4 Impact Metrics** – How the LGPS funds would report on place-based investment impact performance.
- 5 Impact Reporting** – A basic impact reporting template.
- 6 Impact Management** – The practical tools needed to ensure the potential for place-based impact creation is considered throughout the investment process.

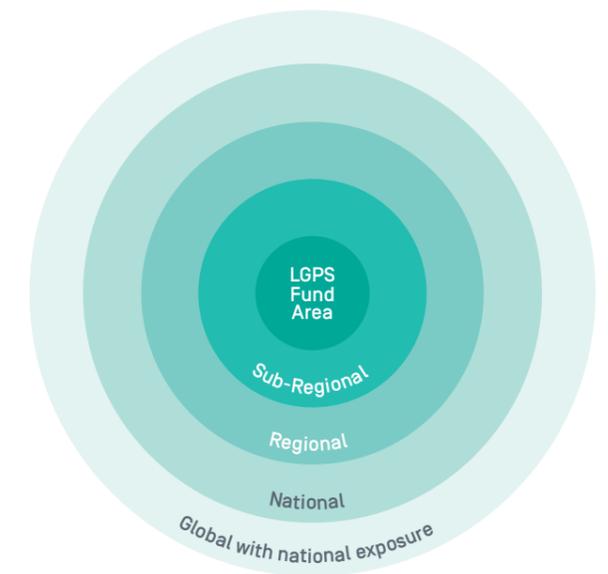
1 OVERALL IMPACT GOAL AND NARRATIVE

The overall impact goal is a statement of the vision the pension fund is trying to achieve through their place-based impact investing. The purpose of specifying an overall impact goal is to make a statement to help unite the portfolio around a goal against which portfolio outcomes can be assessed. This goal can be supported by a narrative that explains the rationale for the LGPS fund’s commitment to this impact goal and makes clear how it aligns with the LGPS fund’s overall investment philosophy and approach.

An LGPS approach to PBII needs to consider the cross-cutting nature of place and sector. From interviews with LGPS managers, we know different LGPS funds have different perspectives on place-based investing and varying degrees of interest in investing locally. Some LGPS funds are most interested in the scale of their investments in the UK or specific nations (e.g. Scotland or Wales). Others are more interested in defining commitments to invest in their locality or region (e.g. Manchester, the North West or the North of England).

We have used ‘Target Geography’ throughout the approach to refer to reporting at any of these geographical scales. Each LGPS fund must define their own Target Geography. This Target Geography may vary for different sectors. For example, the LGPS fund may be interested in making infrastructure investments in the UK or want to focus on regeneration investments within a City Region. Meanwhile, its housing investments might focus on a much wider commuter belt or alternatively be specified to benefit deprived local areas or underserved populations (e.g. providing social and affordable housing or housing for people who are homeless in the local area).

Chart 5.1 A geographic lens – different spatial resolutions



22. <https://sdgs.un.org/goals>
 23. <https://socialvalueportal.com/national-toms/>
 24. <https://esgsocialhousing.co.uk/>
 25. See the Global Impact Investing Network’s IRIS+ system for measuring, managing and optimising impact and the catalogue of IRIS metrics at <https://iris.thegiin.org/>
 26. The IFC Operating Principles for Impact Management provide a framework for impact investors to ensure that impact considerations are purposefully integrated throughout the investment process. See <https://www.impactprinciples.org/>
 27. <https://www.impactinvest.org.uk/wp-content/uploads/2020/11/Four-Good-Governance-Principles-for-Pensions-with-case-study.pdf>
 28. A related initiative is the Equality Impact Investing Project which brings together a range of social finance and equality actors to reduce inequality and advance human rights through impact investing. <https://equalityimpactinvesting.com/>
 29. <https://impactmanagementproject.com/>

Examples of place-based impact goals that currently exist in LGPS annual reports are given below. However, there is an opportunity for interested LGPS funds to sharpen and strengthen these statements into explicit impact goals and impact objectives.

“ We are also making good on our commitment to harness the financial power and unique long-term outlook of pension funds to drive regeneration and investment in Greater Manchester and beyond, while at the same time providing a commercial return that will allow us to continue to meet our obligations to our 370,000 members. – Chairman’s Statement, Greater Manchester Pension Fund (GMPPF) Annual Report 2019

“ Will look for investment opportunities across all sectors that offer potential for catalysing economic growth, particularly in deprived areas. – Social Investment Strategy, Clwyd Pension Fund Annual Report 2018-19

“ We continue to engage in local investment opportunities and building local talent, noting in particular, property and housing investment within the West Midlands regions. – Chairman’s Statement, West Midlands Pension Fund, Annual Report and Accounts 2019

2 PLACE-BASED IMPACT OBJECTIVES

Defining clear impact objectives is important for an impact measurement framework. These provide the objectives against which performance and key results can be measured. For PBII, we recommend setting objectives that reflect local development priorities and objectives. Setting objectives in this way helps create a consistent strategy and alignment between the LGPS fund and the local authority. This will also drive consistency

of approach across the rest of the value chain – the fund managers and underlying investment opportunities.

TGE reviewed the local and regional strategic development plans from a wide range of local and combined authorities to identify impact objectives that align to the five PBII pillars. These objectives are defined in chart 5.2 below.

Chart 5.2 Common impact objectives for PBII

HOUSING	To increase the supply of safe, decent affordable housing in the Target Geography
SME FINANCE	To increase business start-ups and business growth in priority sectors of the Target Geography
CLEAN ENERGY	To reduce emissions and increase green infrastructure in the Target Geography
INFRASTRUCTURE	To increase competitiveness and productivity in the Target Geography
REGENERATION	To better utilise the derelict and vacant land in the Target Geography

LOCAL GOVERNMENT STRATEGIC PLANS AND IMPACT MEASUREMENT APPROACHES

All branches of local government (local authorities, combined authorities etc) develop place-based strategic plans for their area. These plans must align with the National Planning Policy Framework (NPPF) which has a purpose of contributing to sustainable development.

“ The purpose of the planning system is to contribute to the achievement of sustainable development. At a very high level, the objective of sustainable development can be summarised as meeting the needs of the present without compromising the ability of future generations to meet their own needs. – NPPF

These local strategic plans outline the vision of local government. For example:

“ Our vision is to make Greater Manchester one of the best places in the world to grow up, get on and grow old... – [Our people our place: The Great Manchester Strategy](#)

“ The vision for the Glasgow City Region is: A strong, inclusive, competitive and outward-looking economy, sustaining growth and prosperity with every person and business reaching their full potential. – [Glasgow City Region Economic Strategy](#)

Local government strategic plans also outline priority outcome areas for their Target Geography. These priorities typically align with the five PBII-related pillars but will provide more place-specific outcome areas and objectives (see example in bold below). Investors are recommended to review local strategic plans to get an understanding of local development priorities.

[The West Midlands Combined Authority Strategic Economic Plan](#) describes eight priority outcome areas: New Manufacturing Economy, Creative and Digital, **Environmental Technologies**, Medical and Life sciences, HS2 Growth, **Skills for Growth and Employment for all**, **Housing**, Exploiting the Economic Geography.

In some cases, specific outcome measures and targets are articulated:

“ Productivity outcome: Our workforce’s productivity will increase, positively benefiting the prosperity of our residents. Metric: Labour productivity measured in Gross Value Added per employee. Currently 82% of UK average – Target 100% of UK average. – [Our people our place: Our Strategic Economic Plan 2020-2040: Sheffield City Region](#)

The NPPF – published in 2019 – describes a range of well-established environmental strategies, including mitigating against the physical risks of climate change, minimising damage to the local environment and reducing greenhouse gas emissions. These will be particularly relevant for the 74% of local authorities, and 8 combined authorities/city regions who have declared a climate emergency.

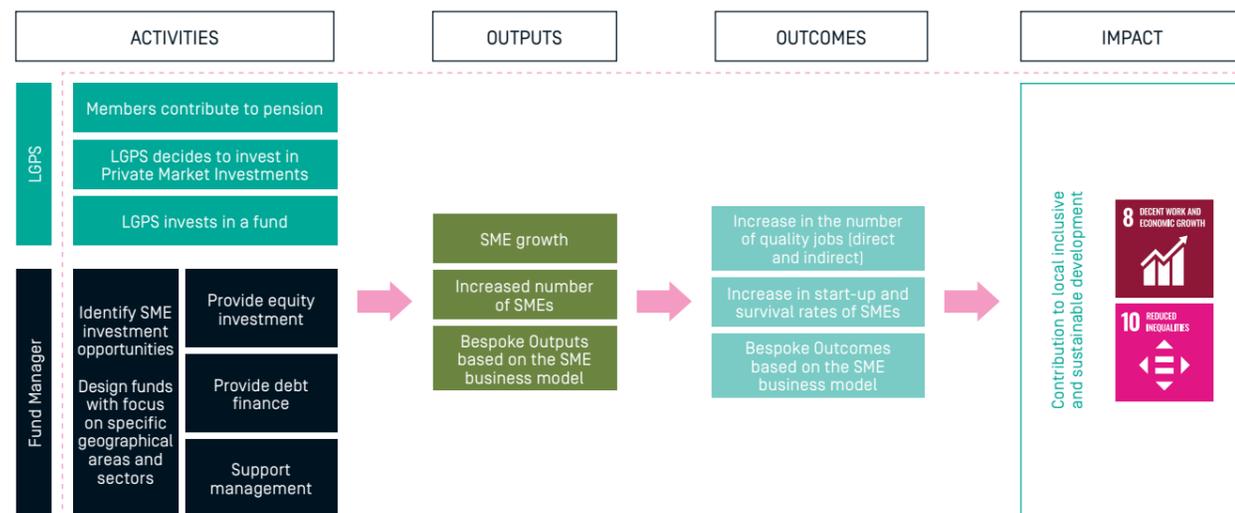


3 THEORY OF CHANGE

A 'theory of change' is a conceptual model used to describe and map out how specific inputs and activities lead to positive change, measured in terms of 'outputs' and 'outcomes'. For each pillar we developed a theory of change with the

working group participants. An example is provided below, with all five theories of change available in Annex 3. These theories of change provide a clear starting point for identifying what to measure and manage to maximise impact.

Chart 5.3: Example basic Theory of Change for SME finance



4 IMPACT METRICS

The Good Economy developed a set of core portfolio metrics for each impact objective that was reviewed and refined with input from working group members (see Chart 5.4). These are aligned to existing frameworks and metrics where possible.

These core metrics are proposed as a minimum impact reporting standard. We recognise these measures are output rather than outcome measures. However, they do provide a

useful, high-level snapshot of the nature and scale of the LGPS fund's investments in a particular locality. Where the LGPS fund would like to report more fully on its place-based impact it would need to work with its fund managers to collect outcome data and more detailed analysis of local benefits. Working group members agreed this was a useful common reporting approach and a feasible starting point that could be implemented and become a useful tool in communicating to pension scheme members.

Chart 5.4 Impact objectives and key impact metrics

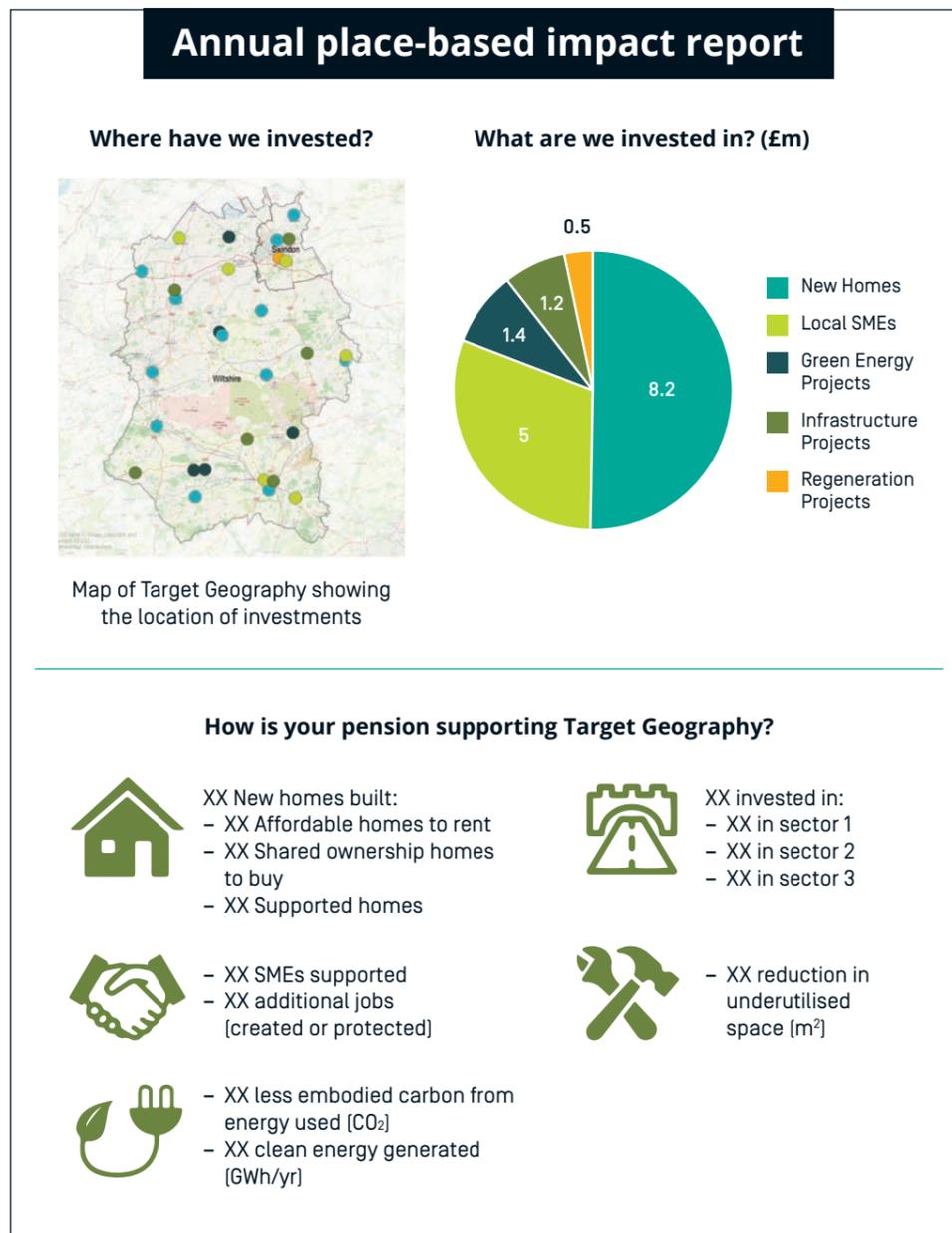
INVESTMENT SECTOR	IMPACT OBJECTIVE	OVERALL METRIC	SDG ALIGNMENT
Housing	To increase the supply of safe, decent affordable housing in the Target Geography	<ul style="list-style-type: none"> – £ Invested in Target Geography – Number of new homes built by tenure type (Open Market, Shared Ownership, Affordable Rent, Social Rent, Specialist housing) 	SDG 1 SDG 7 SDG 11
SME Finance	To increase business growth in priority sectors of the Target Geography	<ul style="list-style-type: none"> – £ Invested in Target Geography – Number of businesses supported (by size and sector) – Number of additional jobs created – Survival rate for businesses supported 	SDG 8 SDG 10
Clean Energy	To reduce emissions and increase green infrastructure in the Target Geography	<ul style="list-style-type: none"> – £ Invested in Target Geography – Reduction in embodied carbon from energy used (CO₂) – Amount of clean energy generated (GWh/yr) (by energy source) 	SDG 7
Infrastructure	To enhance social, economic and environmental conditions in the Target Geography	<ul style="list-style-type: none"> – £ Invested in Target Geography – Assets under management in the Target Geography £ and % (by sector and geography) 	SDG 9
Regeneration	To better utilise the derelict and vacant land in the Target Geography	<ul style="list-style-type: none"> – £ Invested in Target Geography – Reduction in underutilised space (m²) 	SDG 11 SDG 12

5 IMPACT REPORTING

By defining simple standardised metrics, LGPS funds will now be able to approach fund managers with a clear expectation on reporting requirements. Reporting against these core portfolio metrics could either be done as an appendix of an impact report, or as a specific submission. The LGPS funds would be able to collate individual fund data submissions to create

an overall portfolio impact report. We have created an example template one-page report that the LGPS funds could populate and share with members in their annual report (see below). This is basic reporting. Good PBII impact reporting would combine quantitative and qualitative data, including affected stakeholder voice, to provide a holistic view of impact creation in relation to place-based needs and opportunities.

Chart 5.5 Example template for place-based impact reporting



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Source: The Good Economy.

6 IMPACT MANAGEMENT

PBII requires an ongoing process of impact measurement, management and reporting as described at the start of this section. LGPS funds, and other institutional investors, should seek to identify fund managers that have a genuine commitment to positive impact creation and actively manage and report on

impact creation as well as financial performance in a robust and authentic manner. This requires both LGPS funds and fund managers developing policies and processes to ensure impact creation and performance monitoring is considered throughout the investment cycle.

THE IMPACT MANAGEMENT PROJECT (IMP) – ABC CATEGORISATION OF IMPACT

LGPS funds could also consider using the IMP Impact Class system to measure and report on their impact. The Impact Class system is a useful approach to classifying investments at the portfolio level based on the impact of the underlying asset(s) and the contribution the investor makes to that impact. Impact classes help differentiate the type of impact that investments have, even when very different measurement approaches are used.

Investments are classified as either:

- Avoiding harm,
- Benefiting stakeholders, or
- Contributing to solutions.

The 'ABC' component of the impact classes is determined through analysis of impact data – quantitative, qualitative, and ESG data – of the underlying assets using the [IMP five dimensions of impact](#) (what, who, how much, contribution, risk). The approach can be used across all asset classes.

The classification of the underlying asset is combined with a classification of the contribution the investor makes to that impact, depending on how active or passive an investor is and the extent to which capital is being provided to markets that lack access to capital.

By categorising each investment against one of these types, an LGPS fund could report against their overall distribution of A, B and C investments and potentially set targets aligned to these for their fund managers.

EXAMPLE SECTOR – HOUSING

The below summary lays out a potential way of identifying the degree of impact of investments in housing:

- **A avoid harm** – The Fund has a negative ESG screen, but most of the investment is housing for market sale or private rental sector.
- **B benefit stakeholders** – The Fund is building a mix of regulated affordable homes, but the majority is for market sale or private rental sector
- **C contribute to solutions** – The Fund is building a majority of regulated social and affordable homes which will benefit those on benefits or low incomes.



5.5 NEXT STEPS

The PBII Project has elicited a considerable amount of enthusiasm and interest in developing a common approach to impact reporting for PBII. Following on from the development of this initial common reporting approach, TGE plans to work with supportive LGPS funds and fund managers to begin testing it out and building a larger user group. By taking an iterative approach and learning from practical, operational users of the framework over a reporting cycle, we will be able to further refine the approach to create a series of tools that enable fund managers to easily share their positive impact in a format that works for LGPS funds and other institutional investors. Improving impact measurement, management and reporting practices can help scale-up interest in PBII and drive more capital towards investments that have positive impacts for local people and communities.

6 MOVING FORWARDS

In this report, we have presented PBII as a new paradigm for institutional investing using the LGPS to explore its implications for ‘thinking and doing things differently’. We see this paradigm as potentially having a much bigger reach: the aim should be for PBII to become a main investment theme in the next decade for the UK’s leading pension funds.

Our analysis and evidence suggest that we are at the start of a journey, but not at the starting line. PBII is already underway in the LGPS sector. The Government’s levelling up agenda has created a sense of urgency about tackling the UK’s place-based inequalities and the need to increase investment in local and regional economic development. The levelling up

agenda must go hand-in-hand with the climate change agenda. These agendas create a discernible momentum behind PBII.

Our recommendations for building on this momentum are based on the report’s analysis and stakeholder findings: what necessary steps need to be taken to scale up PBII right across the UK?

“ The aim should be for PBII to become a main investment theme in the next decade for the UK’s leading pension funds.

6.1 A NATIONAL APPROACH TO PBII AND LEVELLING UP

Successful adoption of the PBII model presented in Section 2 should help to reduce place-based inequality for four reasons:

- Firstly, the PBII model is grounded in local strategies that already have inclusive and sustainable growth and development as ‘baked in’ priorities and objectives – that is why the PBII architecture is built upwards from the foundation stone in Chart 2.1.
- Secondly, the model’s five pillars are all key areas of social and public investment driven by inclusive and sustainable development needs of ‘left behind communities’ – for this reason, they are central planks of place-based approaches as well as investment opportunity areas already existing within sectors and asset classes familiar to pension funds.
- Thirdly, PBII incorporates an investment approach based on stakeholder collaboration and alignment of values and objectives aimed at achieving intended inclusion and sustainability impacts for the benefit of place-based communities.
- Finally, PBII includes an impact measurement, management and reporting system for ensuring that investment strategies are accountable for generating positive social, economic and environmental outcomes, including for disadvantaged communities and local businesses – that is, impacts are both mapped and measured.

Our PBII model can be used to help tackle inequality within places. It can be applied to any and every place, ‘rich or poor’, ‘leading or lagging’. PBII for town centre regeneration is needed everywhere, as is PBII in clean energy infrastructure, social and affordable housing and business development. The PBII model could therefore be integrated into a range of community investment funds, such as the Levelling Up Fund, the UK Community Renewal Fund, the Community Ownership Fund and the Towns Fund.

To tackle inequality between places, the PBII model needs to be framed by a national strategy for proactively supporting the growth of PBII activity in areas of the UK where achieving inclusive and sustainable development is a bigger and more uncertain challenge. This tiered national-regional-local approach is common to most government economic and social policies.

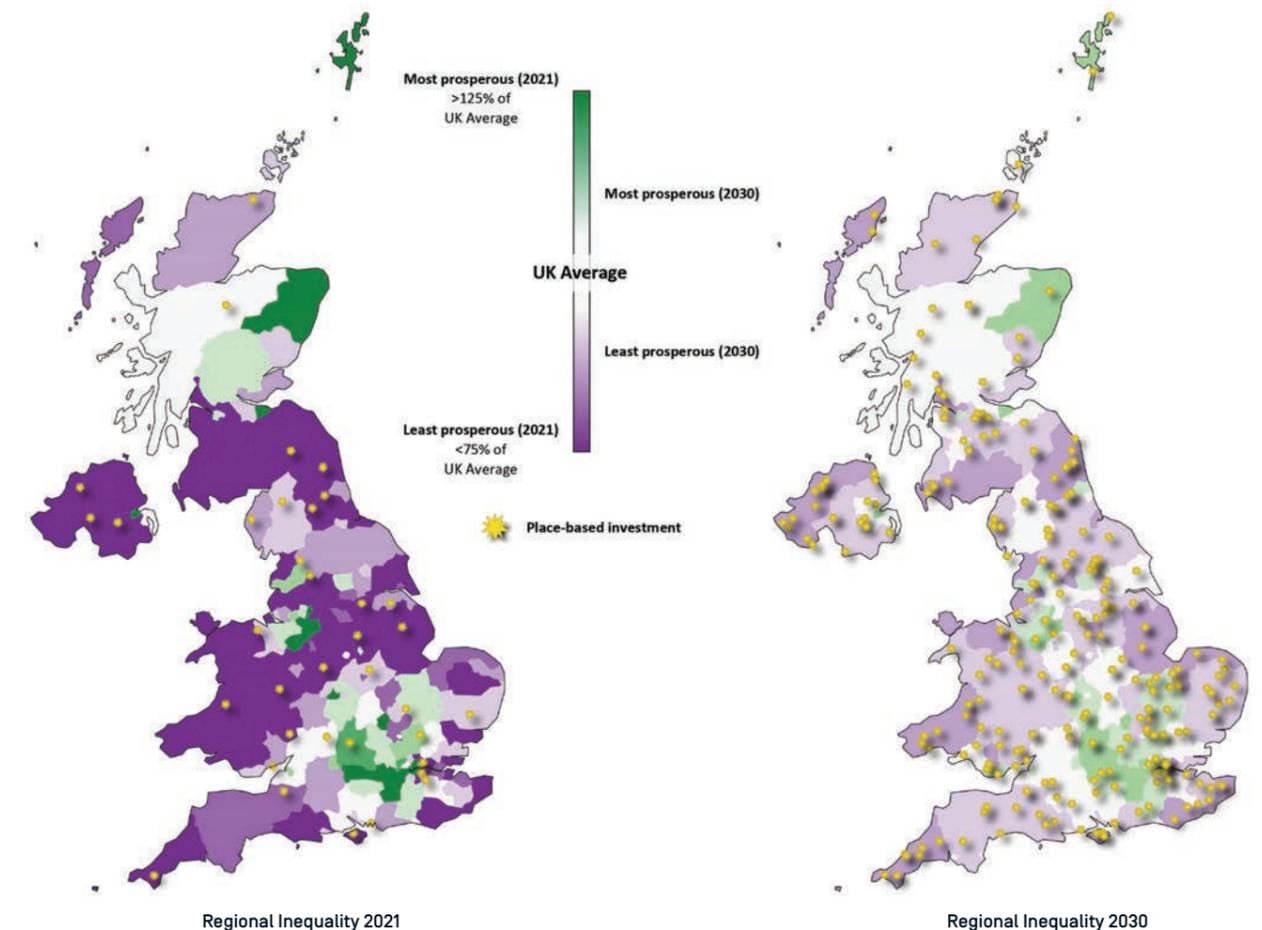
Thus, the obvious starting points here are:

- To deploy the PBII model within existing national strategies that aim to tackle regional inequalities – such as the Devolution and Growth Deals, the National Infrastructure Strategy, and the Industrial Strategy. All these national strategies, – the Industrial Strategy and Climate Change Adaptation Strategy – call for combined public and private investment and are regionally focused, impact oriented and require private investment to scale.
- To deploy the PBII model as an umbrella for place-based investment partnerships between commercial impact investors, local and central government, leading social investors, including foundations and local anchor institutions that are both local economic and community stakeholders and asset owners, for example, housing associations and universities.

Devolution would be consistent with a national PBII strategy, enhancing the gravitational pull needed to attract investment professionals and fund managers to set up regional offices outside of London. Collaborative PBII models work better with face-to-face contacts and boots on the ground.

In the introduction to this report, we envisioned PBII in terms of spatial confluences of capital from commercial, social and public investors that are equitably distributed across all regions of the UK. Levelling up is about creating this landscape of investment activity with hundreds of PBII projects underway right across the country, and with inequality within places and between places diminishing over the next decade. This is what success looks like. We have attempted to visualise this evolution of the PBII landscape in Chart 6.1 – by 2030, the country is ‘levelled up’.

Chart 6.1: PBII landscape: from levelling up to levelled up



Regional Inequality 2021 is based on current Regional gross value added (income approach) per head of population estimates (ONS, 2018). Regional Inequality 2030 is illustrative.

Source: The Good Economy.

6.2 RECOMMENDED ACTIONS



1 RAISE AWARENESS

Currently, institutional investors, including LGPS funds, rarely analyse their investments using a place-based lens. Out of longstanding practice, institutional investors allocate capital to the global capital markets without giving much thought to whether allocations closer to home could deliver comparable returns and diversification while benefiting the development needs of members' communities. Our analysis has found that less than 2.5% of LGPS capital is invested in the UK in ways that could directly support local and regional economic development and positive place-based impact creation.

We want to change this investment paradigm and scale up investment in PBII for the benefit of communities across the UK. Hence, we need to raise awareness and strengthen the identity of PBII as an investment approach that could contribute to inclusive and sustainable development across the UK, whilst achieving the risk-adjusted, long-term financial returns required by institutional investors. This requires actions that inform and educate stakeholders about PBII, strengthen its identity, share knowledge and experience, and influence attitudes, behaviours and beliefs across the investment market.

WHAT	Establish the concept and practice of place-based impact investing by raising awareness and understanding, drawing on the PBII model and experience described in this report. The campaign will reach into all relevant stakeholder groups, including LGPS funds, other pension schemes and institutional investors, investment consultants, central and local government, fund managers, banks, public finance institutions and the social sector. It will also reach across the country to gather a deeper understanding of the key issues facing places and the opportunities for private finance – in coordination with public finance – to contribute to solutions.
WHO	The Impact Investing Institute to lead a targeted awareness raising and communications campaign, working with partners including Pensions for Purpose, Local Government Association, trade bodies and other interested organisations.
WHEN	Immediately and ongoing.

2 INCREASE CAPACITY AND COMPETENCY

Our research has found that good investment opportunities that achieve positive place-based impacts exist within all the PBII pillars and key sectors. It appears that a critical universal requirement to scaling up PBII is an increase in focus and operational resource across the ecosystem. This is needed to create commercial investment propositions, analyse these investments and aggregate them into viable institutional funds. Resources are needed by local authorities, LGPS investment teams, consultants and fund managers. Some LGPS funds have met this capacity challenge and are making PBII investments. We identified three capacity-building strategies which we classified as 'build, buy or borrow' (see Section 4.4). Key to capacity building is a shared focus and alignment on place-based impact creation by all key parties. The most successful PBII projects involve partnerships and leveraging the local knowledge and expertise that exists within specialist investment firms and local partner organisations.

A first step in building capacity and competency is to increase knowledge sharing and learning across the ecosystem. This can help bring together different actors who together have the knowledge and capacity to make things happen on the ground. PBII is an area for innovation where there is a need to think creatively and broadly about how we use financial tools and partnerships to deliver investments that benefit local places. Entrepreneurialism will have to play its part in finding the answers. Local government, cities and combined authorities will have an important role to play. They know their local priorities and investment opportunities. Ultimately, PBII is about co-creation and collaboration. There is also an opportunity to examine how government funding streams linked to devolution and the levelling up agenda can be used strategically to build organisational capacity within local government and LGPS funds and to create public-private sector, co-investment models that attract institutional capital.

WHAT	Increase knowledge, skills and competency in PBII by improving access to information. Work will start with the launch of a PBII Knowledge Hub to showcase this research, making the data and case studies engaging and accessible, and supplementing it with key resources from aligned initiatives and partners. Review how existing devolution funding and other government funding streams could be used to build long-term capacity both to identify and develop PBII projects and to support investments that deliver long-term risk-adjusted returns and impact.
WHO	The Impact Investing Institute to build on its popular Learning Hub to develop a PBII Knowledge Hub, and to work with Pensions for Purpose to expand the Impact Investing Adopters Forum to catalyse engagement on PBII.
WHEN	Over the next year.

3 PROMOTE ADOPTION OF REPORTING ON PLACE-BASED IMPACT

Impact measurement, management and reporting is a key feature of impact investing that provides transparency and accountability to all stakeholders as to the social, economic and environmental benefits of investments. LGPS funds are interested in consistent approaches to impact reporting that would enable clear, transparent and accessible impact reporting of UK and local investments to individual pension scheme members.

managers and local authority representatives. This includes a requirement to map all investments and report on key performance metrics aligned to place-based impact objectives (see Section 5). There was considerable interest in this initiative and already LGPS funds are requesting fund managers to report using the PBII Impact Reporting Framework. The next step is to pilot the reporting framework and scale up its adoption so that LGPS funds, other institutional investors and fund managers report on both the financial and impact performance of their investments with a place-based lens as a matter of course.

During this project, we developed a PBII Impact Reporting Framework in partnership with a group of LGPS funds, fund

WHAT	Pilot the PBII Impact Reporting Framework. Encourage more institutional investors, fund managers and local authorities to join the current working group. Encourage LGPS funds, PBII-aligned fund managers and other institutional investors to map the geography of their UK investments to provide greater transparency as to where capital flows in the UK.
WHO	The Good Economy to lead the further development and adoption of the PBII Impact Reporting Framework, in partnership with the working group and other interested organisations.
WHEN	Over the next year, TGE will lead the further development and adoption of a common PBII impact measurement, management and reporting approach. The aim will be to secure commitments to report against the framework by October 2021 and publish the first impact reports by October 2022.

4 CONNECT INVESTORS AND PBII OPPORTUNITIES

One of the challenges within the PBII marketplace is the difficulty of finding investible opportunities. Pension funds interested in PBII described how it can be difficult to source high quality investible opportunities that meet commercial investment criteria. On the other hand, fund managers and project developers highlighted the problems they face accessing finance.

developed with local and regional stakeholder engagement, but much of this activity is hidden to institutional investors. Here we believe technology has a role to play in making PBII investments easier and more accessible. Digital platforms could help create better market information flows, reduce search costs and provide investors with access to information about potential PBII investment funds and projects. Digital origination platforms already exist that help institutional investors to source and make venture capital, private credit and infrastructure transactions globally. Innovative and collaborative approaches are needed to facilitate better information flows and financial intermediation within the UK.

There is a clear need to help connect and build the market ecosystem in ways that facilitate greater investment flows across the range of PBII investment opportunities and spectrum of capital. There is a high degree of business dynamism and innovation within all our PBII pillars in places and regions across the UK. PBII investment opportunities are being

WHAT	Carry out and make available a review of existing origination platforms that could help facilitate increased investment in PBII. Engage with existing investor platforms with the aim of utilising one for PBII and / or explore scope for a new platform dedicated to UK PBII.
WHO	The Impact Investing Institute to lead on a review of existing origination platforms and scope for the expansion of an existing or development of a new platform for PBII. Interest invited from market participants to explore how to overcome information barriers and repurpose or build PBII platforms.
WHEN	Over the next year the Impact Investing Institute will produce and make available the review of existing platforms and recommendations for the expansion or development of [a] new platform[s] – with a view to any developments coming to market over the next three years.



5 SCALE UP INSTITUTIONAL GRADE PBII INVESTMENT FUNDS AND PRODUCTS

There is a need and opportunity to increase the number and scale of institutional grade PBII investment funds and products. Within clean energy and, more recently, affordable housing, we are seeing the launch of new investment funds some of which have reached significant scale and are mobilising institutional investment, including LGPS investment. However, the scale of PBII investment is still very small compared to investment need.

Hence, scaling up PBII investment funds and products is a priority. This includes engaging with impact-oriented investment fund managers to formulate dedicated PBII funds in conjunction with LGPS funds and pension pools. We also need to engage with larger pension investors, such as Aviva, L&G and M&G, to promote an allocation – or aggregate measurement of – PBII investments in their existing fund products. Municipal bonds also have a role to play in providing local authorities with direct access to the capital markets for local development projects.

WHAT	Support and increase the number of PBII vehicles and instruments, and the scaling-up of innovative investment models. Promote increased allocation towards PBII within existing portfolios and products. Encourage the aggregation of existing funds and investment opportunities, particularly with regards to government initiatives. Advocate for the use of government funding as seed or cornerstone capital in investment vehicles, and as technical assistance to bolster investment capacity and capability.
WHO	Interested market participants, local and central government, public finance institutions, and social and community organisations.
WHEN	Over the next 1-3 years.

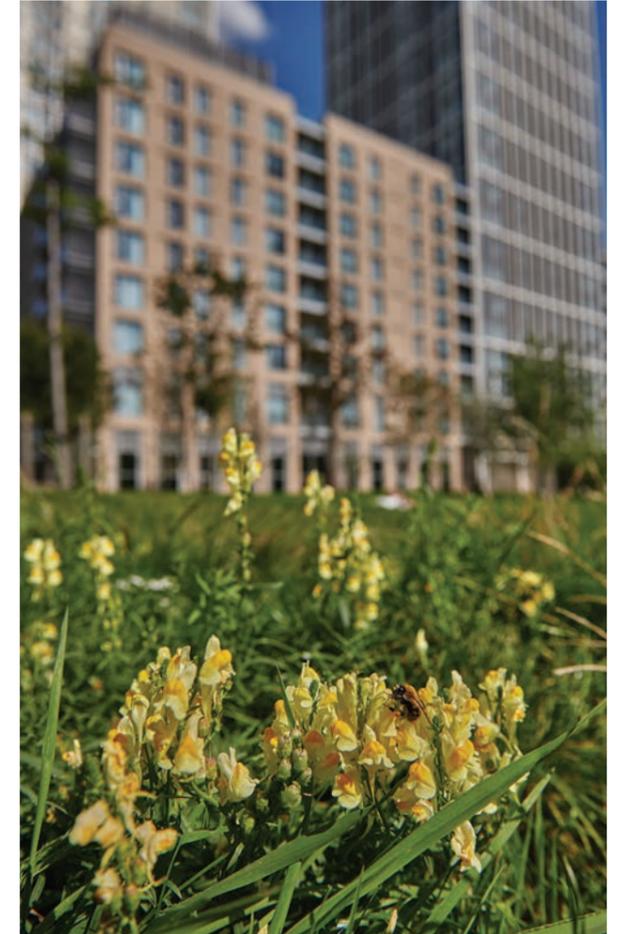


6.3 FINAL REFLECTION

Behind all of the discussion in this white paper is the idea that if we can get PBII right and launched across the country – as a top national priority within the levelling up agenda – then it is not unrealistic to expect the UK to approach 2030 as a landscape where place-based inequalities are becoming a thing of the past. This is the horizon. Much of this report is about 'getting there'.

If we manage to accomplish this, the UK will be creating bridges between London and the rest of the country and bridges between financial capital and the real economy. Bridge-building calls for collaboration and a sharing of money and method, with impact investors of all kinds working closely with place-based stakeholders from business, government and community to get things done. There is a need for mutual learning and understanding, as we have emphasised throughout this report.

This is where PBII as a force for good in the economy and society can take us. Its impact-driven methods and metrics can also help to sharpen up the levelling up agenda and make targets and milestones more transparent. Through both money and method, PBII can contribute to the long-term challenge of making inclusive and sustainable development a reality in all areas of the UK.



“ Behind all of the discussion in this report is the idea that if we can get PBII right and launched across the country – as a top national priority within the build back better and levelling up agendas – then it is not unrealistic to expect the UK to approach 2030 as a landscape where place-based inequalities are becoming a thing of the past.

ANNEX 1 – LIST OF INDIVIDUALS CONSULTED

TGE would like to thank the following people for supporting this project through interviews, roundtables, and provision of data or information for case studies.

FULL NAME	TITLE	ORGANISATION
James Ridout	Director, Private Equity	AIMCO
Tim Manuel	UK Head of Responsible Investment	Aon
Tony Bartlett	Head of Business, Finance and Pensions	Avon Pension Fund
Amanda Latham	Policy and Strategy Lead	Barnett Waddingham
Pete Smith	Principal and Senior Investment Consultant	Barnett Waddingham
Andy Rothery	Head of Finance	Bath and North East Somerset Council
Simon Martin	Head of Commercial Investment	Bath and North East Somerset Council
Sam Gervaise-Jones	Head of Client Consulting UK and Ireland	Bfinance
Paul Doyle	Director	Bfinance
Anna Shiel	Head of Origination	Big Society Capital
Maggie Loo	Partner	Bridges Fund Management
Rishi Madlani	Councillor	Camden London Borough Council
Tessa Hebb	Research Fellow	Carlton University
Anthony Parnell	Treasury and Pension Investments Manager	Carmarthenshire Council (host authority for the Wales Pension Partnership)
Will Church	Senior Director	CBRE
Andrew Antoniadis	Executive Director	CBRE
Carol Bulman	Councillor	Cheshire East Council
Simon Horner	Innovation Director	City of London Corporation
Paul Bridge	CEO	Civitas Investment Management
Debbie Fielder	Pensions Finance Manager	Clwyd Pension Fund
David Pollock	Director	Consilium Capital
Bev Dursten	Managing Director	Edgehaven
Aoifinn Devitt	Head of Investment	Federated Hermes International
Charis Duffy	Institutional Investor Relations Manager	Foresight
Jane Thompson	Assistant Head Glasgow City Region Deal	Glasgow City Council
Kevin Rush	Director of Regional Economic Growth	Glasgow City Region
Andrew McIntosh	Director of Investment	Greater Manchester Combined Authority
Paddy Dowdall	Assistant Executive Director	Greater Manchester Pension Fund
Andrew Hall	Investment Manager	Greater Manchester Pension Fund
Emma Garrett	Investment Consultant and Actuary	Hymans Robertson
Paul Potter	Senior Investment Consultant	Hymans Robertson
Peter Connolly	Chief Executive	igloo Regeneration
Robert Wood	Investment Director	igloo Regeneration
Sammir Lingawi	Investment Manager	igloo Regeneration
John Raisin	Advisor	Independent
Paul Convery	Councillor and Pensions Sub Committee Chair	Islington London Borough Council
David Jenkins	Councillor	Leeds City Council
Eleanor Bucks	Chief Operations Officer	Legal & General Capital

FULL NAME	TITLE	ORGANISATION
Shuen Chan	Head of ESG, Real Assets	Legal & General Investment Management
William Bourne	Director	Linchpin
Keith Bray	Advisor	Local Authority Pension Fund Forum (LAPPF)
Robert Holloway	Pensions Secretary	Local Government Association (LGA)
Jason Fletcher	Chief Investment Officer	London CIV
Ben Constable-Maxwell	Head of Sustainable and Impact Investing	M&G Investments
Alibhai Shamez	Managing Director and Head of Community Housing	Man Group
Kate Brett	Principal and Head of the Responsible Investment Team	Mercer
Jonathan Diggines	Investment Committee Chair	Mercia Asset Management
Darren Agombar	Managing Director	Mercia Asset Management
Pat Cleary	Chair and Councillor of the Pension Committee	Merseyside Pension Fund (administered by Wirral Council)
Owen Thorne	Investment Manager	Merseyside Pension Fund
Yvonne Gale	CEO	NEL Fund Managers
Alasdair Greig	Director	Northstar Ventures
Richard Hamilton-Grey	Senior Director of Sustainability	Nuveen
Abigail Dean	Global Head of Strategic Insights	Nuveen
Gordon Clark	Director, Smith School of Enterprise and Environment	Oxford University
Mathieu Elshout	Head of Sustainability and Impact Investing	Patrizia AG
Janice Hayward	Client Services Director	Pensions Investment Research Consultants
Tessa Younger	Head of Engagement	Pensions Investment Research Consultants
Neil Sellstrom	Client Services Manager	Pensions Investment Research Consultants
Piet Klop	Senior Advisor Responsible Investment	PGGM
Edwin Whitehead	Head of Responsible Investment	Redington
Jill Davys	Head of LGPS	Redington
Simon Chisholm	Chief Investment Officer	Resonance
Charlotte Jacques	Head of Sustainability	Schroder Real Estate
George Graham	Director	South Yorkshire Pensions Authority
Mick Stowe	Chair	South Yorkshire Pensions Authority
Paul Clark	Head of Land and Partnerships	Stories
Richard McIndoe	Director	Strathclyde Pension Fund
Ian Jamison	Head of Direct Investment Portfolio	Strathclyde Pension Fund
Glyn Caron	Councillor and Wales Pension Partnership Joint Governance Committee Chair	Torfaen County Borough Council
Miriam Adams	Councillor	Tower Hamlets London Borough Council
Jennifer Ockwell	Partner	Triple Point Investment Management
Lindsay Smart	Head of Sustainability	Triple Point Investment Management
Luba Nikulina	Global Head of Research	Willis Towers Watson

ANNEX 2 – LIST OF IDENTIFIED FUNDS WITH LGPS INVESTMENT

Note that these have not been analysed nor classified as PBII funds, rather they are private funds investing in the PBII sectors with assets in the UK.

PRIVATE MARKET INVESTMENTS – CLEAN ENERGY

NAME	PBII PILLAR	GEOGRAPHY	PRESENT IN 2017 LGPS DATA	PRESENT IN 2020 LGPS DATA
Ancala Renewables	Clean energy	Europe (including UK)	Yes	Yes
Aviva Investors PIP Solar PV Fund	Clean energy	UK	Yes	No
Capital Dynamics Clean Energy and Infrastructure Fund	Clean energy	Global (including UK)	No	Yes
Capital Dynamics Clean Energy and Infrastructure Fund VIII	Clean energy	UK	Yes	Yes
Cleantech Europe (Zouk)	Clean energy	Europe (including UK)	Yes	No
Environmental Capital Fund	Clean energy	UK	Yes	No
Environmental Technologies Fund	Clean energy	Europe (including UK)	Yes	Yes
Equitix Energy Efficiency Fund	Clean energy	UK	Yes	Yes
European Clean Energy Fund	Clean energy	Europe (including UK)	Yes	Yes
Foresight Environment Fund	Clean energy	UK	Yes	Yes
GIB Offshore Wind Fund	Clean energy	UK	No	Yes
Glennmont Clean Energy Fund Europe	Clean energy	Europe (including UK)	No	Yes
Greencoat Solar	Clean energy	UK	Yes	Yes
Hermes Environmental Innovation	Clean energy	UK	No	Yes
Hg Renewable Power Partners	Clean energy	Europe (including UK)	No	Yes
Impax New Energy Fund	Clean energy	Europe (including UK)	Yes	Yes
Iona Environmental Infrastructure Fund	Clean energy	UK	No	Yes
Macquarie GIG Renewable Energy Fund	Clean energy	Global (including UK)	Yes	Yes
Nottinghamshire Community Energy	Clean Energy	UK Local	Yes	Yes
NTR Renewable Energy Income Fund	Clean energy	Europe (including UK)	Yes	Yes
NTR Wind 1 Fund	Clean energy	Europe (including UK)	No	Yes
Quinbrook Low Carbon Power Fund	Clean energy	Global (including UK)	Yes	Yes
Resonance British Wind Energy Income	Clean energy	UK	No	Yes
Temporis Operational Renewable Energy Strategy Fund	Clean energy	Europe (including UK)	No	Yes
Zouk Renewable Energy & Environmental Infrastructure Fund II (REEIF II)	Clean energy	Europe (including UK)	Yes	Yes

PRIVATE MARKET INVESTMENTS – HOUSING

NAME	PBII PILLAR	GEOGRAPHY	PRESENT IN 2017 LGPS DATA	PRESENT IN 2020 LGPS DATA
API Residential	Housing	UK	Yes	Yes
Catella European Student Housing Fund	Housing	Europe (including UK)	Yes	Yes
CBRE UK Affordable Housing Fund	Housing	UK	Yes	Yes
Curlew Student Trust	Housing	UK	No	No
Gresham House British Strategic Investment Fund Housing	Housing	UK	Yes	No
Hearthstone Residential Fund	Housing	UK	Yes	Yes
Horizon Long Lease Housing LP	Housing	UK	Yes	Yes
Horizon Secure Residential Leasing LP	Housing	UK	Yes	Yes
Housing Fund For Scotland	Housing	UK Regional	Yes	Yes
Invesco Real Estate - UK Residential Fund	Housing	UK	Yes	Yes
M&G UK Residential Property Fund	Housing	UK	Yes	No
Metro Property Unit Trust	Housing	UK	No	Yes
Octopus Healthcare Fund	Housing	UK	Yes	Yes
Schroders Residential Land Partnership	Housing	UK	No	Yes
Social Supported Housing Fund (Soho)	Housing	UK	Yes	No
The Careplaces Limited Partnership	Housing	UK	Yes	No
UK Retirement Living Fund	Housing	UK	Yes	Yes

PRIVATE MARKET INVESTMENTS – INFRASTRUCTURE

NAME	PBII PILLAR	GEOGRAPHY	PRESENT IN 2017 LGPS DATA	PRESENT IN 2020 LGPS DATA
Aberdeen UK Infrastructure Partners	Infrastructure	UK	Yes	Yes
Alinda Infrastructure Fund III	Infrastructure	Global (including UK)	Yes	Yes
Amp Capital Infrastructure Debt Fund III	Infrastructure	Global (including UK)	Yes	Yes
Ancala UK Infrastructure Platform	Infrastructure	Europe (including UK)	Yes	Yes
Ancala Utilities	Infrastructure	Europe (including UK)	Yes	Yes
Antin Infrastructure Partners	Infrastructure	Europe (including UK)	No	Yes
Arcus European Infrastructure	Infrastructure	Europe (including UK)	Yes	Yes
Aviva Investors Realm Infrastructure Fund	Infrastructure	UK	Yes	Yes
Barclays Integrated Infrastructure Fund (BIIF)	Infrastructure	Europe (including UK)	Yes	Yes
Basalt Infrastructure Partners	Infrastructure	Global (including UK)	Yes	Yes
Capital Dynamics Red Rose Infrastructure	Infrastructure	Global (including UK)	Yes	No
Cobalt Project Investments	Infrastructure	UK	Yes	Yes
Dalmore Capital Fund	Infrastructure	UK	Yes	Yes
Dalmore Capital Fund 3	Infrastructure	UK	Yes	Yes
Dalmore Infrastructure Investments	Infrastructure	UK Regional	Yes	No
DIF Infrastructure V	Infrastructure	Global (including UK)	No	Yes
Equitix Fund	Infrastructure	Europe (including UK)	Yes	No
First State European Diversified Infrastructure Fund	Infrastructure	Europe (including UK)	Yes	Yes
Foresight Energy Infrastructure Partners	Infrastructure	Europe (including UK)	Yes	Yes

PRIVATE MARKET INVESTMENTS – INFRASTRUCTURE (CONTINUED)

NAME	PBII PILLAR	GEOGRAPHY	PRESENT IN 2017 LGPS DATA	PRESENT IN 2020 LGPS DATA
Glil Infrastructure	Infrastructure	UK	Yes	Yes
Global Infrastructure Partners	Infrastructure	Global (including UK)	Yes	No
Gresham House British Strategic Investment Fund	Infrastructure	UK	Yes	Yes
Henderson PFI Secondary I	Infrastructure	UK	No	Yes
Hermes Infrastructure Fund	Infrastructure	Europe (including UK)	Yes	Yes
iCon Infrastructure Partners	Infrastructure	Global (including UK)	Yes	Yes
Ifm Global Infrastructure UK	Infrastructure	Global (including UK)	Yes	Yes
Infracapital Greenfield Partners	Infrastructure	Europe (including UK)	Yes	Yes
Infracapital Partners	Infrastructure	Europe (including UK)	Yes	Yes
Infrared Infrastructure Yield Fund	Infrastructure	Global (including UK)	Yes	Yes
Innisfree PFI Continuation Fund	Infrastructure	Europe (including UK)	Yes	Yes
Innisfree PFI Secondary Fund	Infrastructure	Europe (including UK)	Yes	Yes
ISQ Global Infrastructure Fund	Infrastructure	Global (including UK)	Yes	Yes
JP Morgan Infrastructure Investments Fund	Infrastructure	Global (including UK)	Yes	Yes
Macquarie European Infrastructure Fund	Infrastructure	Europe (including UK)	Yes	Yes
Medicx Healthfund II	Infrastructure	UK	No	Yes
Meridiam Infrastructure Sca	Infrastructure	Global (including UK)	Yes	Yes
Newcore Strategic Situations IV	Infrastructure	UK	Yes	Yes
North Haven Infrastructure Partners III	Infrastructure	Global (including UK)	No	No
Pantheon Infrastructure Fund	Infrastructure	Global (including UK)	Yes	Yes
Pensions Infrastructure Limited	Infrastructure	UK	Yes	Yes
Pensions Infrastructure Platform	Infrastructure	UK	Yes	Yes
PPP Equity PiP LP	Infrastructure	UK	Yes	Yes
Semperian PPP Investment Partners	Infrastructure	Europe (including UK)	No	Yes
SL Capital Infrastructure Fund I	Infrastructure	Europe (including UK)	No	Yes
SLCI Rail Co-Invest LP	Infrastructure	UK	Yes	Yes

PRIVATE MARKET INVESTMENTS – SME FINANCE

NAME	PBII PILLAR	GEOGRAPHY	PRESENT IN 2017 LGPS DATA	PRESENT IN 2020 LGPS DATA
Abingworth Bioventures	Private Equity and Venture Capital	Global (including UK)	Yes	Yes
August Equity Partners	Private Equity and Venture Capital	UK	Yes	Yes
Baird Capital Partners Europe Fund	Private Equity and Venture Capital	Europe (including UK)	Yes	Yes
Bridges Community Development Venture Fund	Private Equity and Venture Capital	UK	No	Yes
Bridges Evergreen Capital	Private Equity and Venture Capital	UK	No	Yes
Bridges Social Impact Bond Fund	Private Equity and Venture Capital	UK	No	No
Bridges Sustainable Growth Fund	Private Equity and Venture Capital	UK	Yes	Yes
Capital Dynamics LGPS Collective Private Equity	Private Equity and Venture Capital	Global (including UK)	Yes	Yes
Capital Dynamics Merseyside Private Equity	Private Equity and Venture Capital	Global (including UK)	Yes	Yes
Capital Dynamics UK High Tech Fund No 1 LP	Private Equity and Venture Capital	Global (including UK)	Yes	Yes

PRIVATE MARKET INVESTMENTS – SME FINANCE (CONTINUED)

NAME	PBII PILLAR	GEOGRAPHY	PRESENT IN 2017 LGPS DATA	PRESENT IN 2020 LGPS DATA
Catapult Growth Fund	Private Equity and Venture Capital	UK	No	Yes
Chandos Fund	Private Equity and Venture Capital	UK	No	Yes
East Midlands Regional Venture Capital Fund (Catapult)	Private Equity and Venture Capital	UK Regional	Yes	Yes
ECI Ventures	Private Equity and Venture Capital	UK	Yes	Yes
Enterprise Ventures Fund	Private Equity and Venture Capital	UK	Yes	Yes
Epidarex Capital	Private Equity and Venture Capital	Global (including UK)	Yes	No
Foresight Nottingham Fund	Private Equity and Venture Capital	UK Local	Yes	Yes
Foresight Regional Investment Fund	Private Equity and Venture Capital	UK Regional	Yes	Yes
Impact Ventures UK	Private Equity and Venture Capital	UK	Yes	No
KKR Evergreen Co-Invest II	Private Equity and Venture Capital	Global (including UK)	Yes	Yes
London Enterprise Venture Fund	Private Equity and Venture Capital	UK Regional	Yes	Yes
Ludgate Environmental Fund	Private Equity and Venture Capital	Europe (including UK)	Yes	Yes
North West Equity Fund LP	Private Equity and Venture Capital	UK Regional	Yes	Yes
Northedge Capital	Private Equity and Venture Capital	UK Regional	No	Yes
Novalpina Capital Partners	Private Equity and Venture Capital	Europe (including UK)	No	Yes
Palatine Private Equity Fund	Private Equity and Venture Capital	UK	No	Yes
Panoramic Enterprise Capital	Private Equity and Venture Capital	UK	Yes	Yes
Panoramic Growth Fund	Private Equity and Venture Capital	UK	Yes	Yes
Pentech Fund	Private Equity and Venture Capital	Global (including UK)	No	Yes
Risingstars Growth Fund	Private Equity and Venture Capital	UK	Yes	Yes
Scottish Equity Partners	Private Equity and Venture Capital	Europe (including UK)	Yes	Yes
South East Growth Fund	Private Equity and Venture Capital	UK Regional	No	Yes
South West Regional Venture Capital Fund	Private Equity and Venture Capital	UK Regional	Yes	Yes
South West Ventures Fund	Private Equity and Venture Capital	UK Regional	Yes	Yes
Terra Firma Special Opportunities Fund	Private Equity and Venture Capital	UK	No	Yes
UK High Technology Fund	Private Equity and Venture Capital	UK	Yes	Yes
Waterland Private Equity Fund	Private Equity and Venture Capital	Europe (including UK)	No	Yes
Westbridge Capital Fund II	Private Equity and Venture Capital	UK	Yes	Yes
YFM Equity Partners	Private Equity and Venture Capital	UK	No	Yes
Yorkshire & Humber Equity Fund	Private Equity and Venture Capital	UK Regional	Yes	Yes
Beechbrook UK SME Credit	SME Debt Financing	UK	No	Yes
Boost And Co Industrial Lending Fund	SME Debt Financing	UK	No	Yes
Finance Birmingham Ltd	SME Debt Financing	UK Local	Yes	Yes
Frontier Development Capital	SME Debt Financing	UK	No	Yes
Funding Circle UK SME Direct Lending Fund	SME Debt Financing	UK	Yes	Yes
M&G UK Companies Financing Fund	SME Debt Financing	UK	No	Yes
Mobeus Equity Partners	SME Debt Financing	UK	Yes	Yes
Muzinich UK Private Debt Fund	SME Debt Financing	UK	Yes	Yes
Pemberton UK Mid-Market Debt Fund	SME Debt Financing	UK	Yes	Yes
Scottish Loan Fund	SME Debt Financing	UK Regional	No	Yes
Tosca Debt Capital Fund II	SME Debt Financing	UK Regional	Yes	No

PRIVATE MARKET INVESTMENTS – URBAN REGENERATION

NAME	PBII PILLAR	GEOGRAPHY	PRESENT IN 2017 LGPS DATA	PRESENT IN 2020 LGPS DATA
Bridges Property Alternatives Fund	Urban Regeneration	UK	No	Yes
igloo Regeneration	Urban Regeneration	UK	Yes	Yes
St Bride's Key Cities Partnership	Urban Regeneration	UK	No	Yes
St Bride's White Rose Partnership	Urban Regeneration	UK Regional	Yes	Yes

PUBLIC MARKET INVESTMENTS

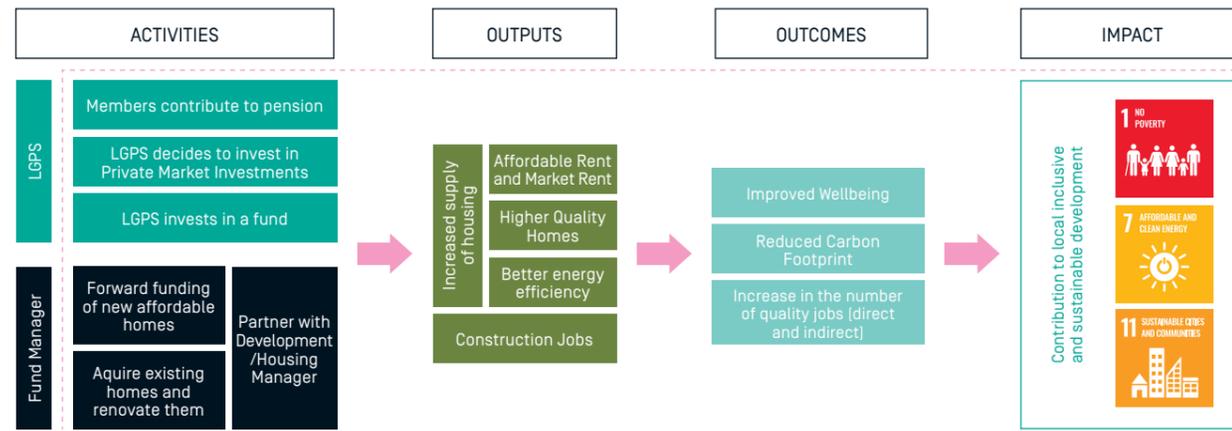
NAME	PBII PILLAR	GEOGRAPHY	PRESENT IN 2017 LGPS DATA	PRESENT IN 2020 LGPS DATA
Bluefield Solar Income Fund	Clean energy	Europe (including UK)	Yes	Yes
Foresight Solar Fund	Clean energy	UK	Yes	Yes
Greencoat UK Wind	Clean energy	UK	Yes	Yes
Gresham House Energy Storage Fund PLC	Clean energy	UK	Yes	Yes
JLEN Environ Assets Group	Clean energy	UK	Yes	Yes
Nextenergy Solar Fund	Clean energy	UK	No	Yes
Octopus Renewables Infrastructure	Clean energy	Europe (including UK)	No	Yes
The Renewables Infrastructure Group	Clean energy	Europe (including UK)	Yes	Yes
Civitas Social Housing PLC	Housing	UK	No	Yes
Dukemount Capital PLC	Housing	UK	No	Yes
Empiric Student Property PLC	Housing	UK	Yes	Yes
GCP Student Living PLC	Housing	UK	No	Yes
KCR Residential REIT PLC	Housing	UK	Yes	Yes
McCarthy & Stone PLC	Housing	UK	Yes	Yes
The PRS REIT PLC	Housing	UK	No	Yes
Residential Secure Income PLC (Resi)	Housing	UK	Yes	Yes
Sigma Capital Group	Housing	UK	Yes	Yes
Triple Point Social Housing	Housing	UK	No	Yes
The Unite Group PLC	Housing	UK	Yes	Yes
Assura PLC	Infrastructure	UK	Yes	Yes
GCP Infrastructure Investments Limited	Infrastructure	UK	Yes	Yes
Impact Healthcare REIT	Infrastructure	UK	Yes	Yes
Infrastrata PLC	Infrastructure	Global (including UK)	No	Yes
International Public Partnerships Limited	Infrastructure	Global (including UK)	Yes	Yes
Nexus Infrastructure PLC	Infrastructure	UK	Yes	Yes
Primary Health Properties	Infrastructure	Europe (including UK)	Yes	Yes
Renew Holdings PLC	Infrastructure	UK	No	Yes
Sequoia Economic Infrastructure Income Fund Limited	Infrastructure	Global (including UK)	Yes	Yes
Target Healthcare REIT PLC	Infrastructure	UK	Yes	No
Albion Development VCT PLC	SME Finance	UK	No	Yes
Augmentum Fintech	SME Finance	Europe (including UK)	Yes	Yes
British Smaller Companies VCT PLC	SME Finance	UK	Yes	Yes
Draper Esprit VCT PLC	SME Finance	UK	Yes	No
Oxford Technology Venture Capital Trust PLC	SME Finance	UK Regional	Yes	Yes
Harworth Group PLC	Urban development	UK Regional	Yes	Yes

PUBLIC MARKET OPERATORS

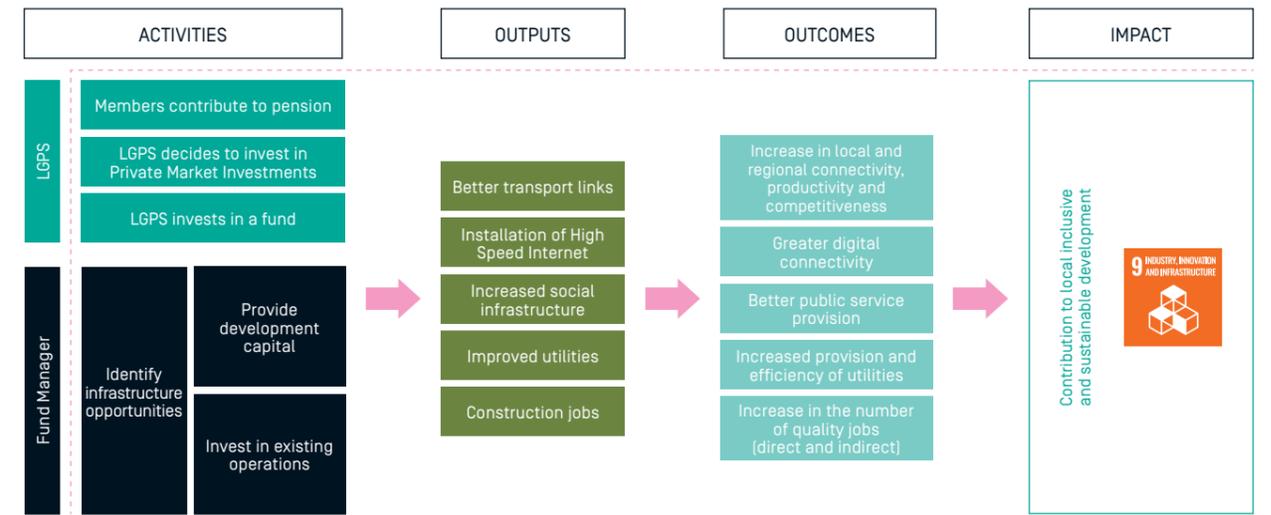
NAME	PBII PILLAR	GEOGRAPHY	PRESENT IN 2017 LGPS DATA	PRESENT IN 2020 LGPS DATA
Good Energy Group PLC	Clean Energy	UK	Yes	Yes
Barratt Developments PLC	Housing	UK	Yes	Yes
The Berkeley Group Holdings	Housing	UK	Yes	Yes
Grainger PLC	Housing	UK	No	Yes
BT Group PLC	Infrastructure	UK	Yes	Yes
Firstgroup PLC	Infrastructure	UK	Yes	Yes
Galliford Try	Infrastructure	UK	Yes	Yes
Go-Ahead Group PLC	Infrastructure	UK	Yes	Yes
Jersey Electricity PLC	Infrastructure	UK	Yes	No
KCOM Group	Infrastructure	UK	Yes	Yes
National Express Group PLC	Infrastructure	UK	No	Yes
National Grid PLC	Infrastructure	UK	Yes	Yes
Pennon Group PLC	Infrastructure	UK	No	Yes
Rotala PLC	Infrastructure	UK	Yes	Yes
Severn Trent PLC	Infrastructure	UK	Yes	Yes
Simec Atlantis Energy	Infrastructure	UK	Yes	Yes
SSE PLC	Infrastructure	UK	Yes	Yes
Stagecoach Group PLC	Infrastructure	UK	Yes	Yes
Talk Talk Group	Infrastructure	UK	Yes	Yes
United Utilities Group PLC	Infrastructure	UK	Yes	Yes
Vodafone Group PLC	Infrastructure	UK	No	Yes
Balfour Beatty	Urban development	UK	Yes	Yes
Kier Group	Urban development	UK	Yes	Yes
Morgan Sindall Group	Urban development	UK	Yes	Yes
Trafalgar Property Group PLC	Urban development	UK	Yes	Yes

ANNEX 3 – EXAMPLE BASIC THEORIES OF CHANGE

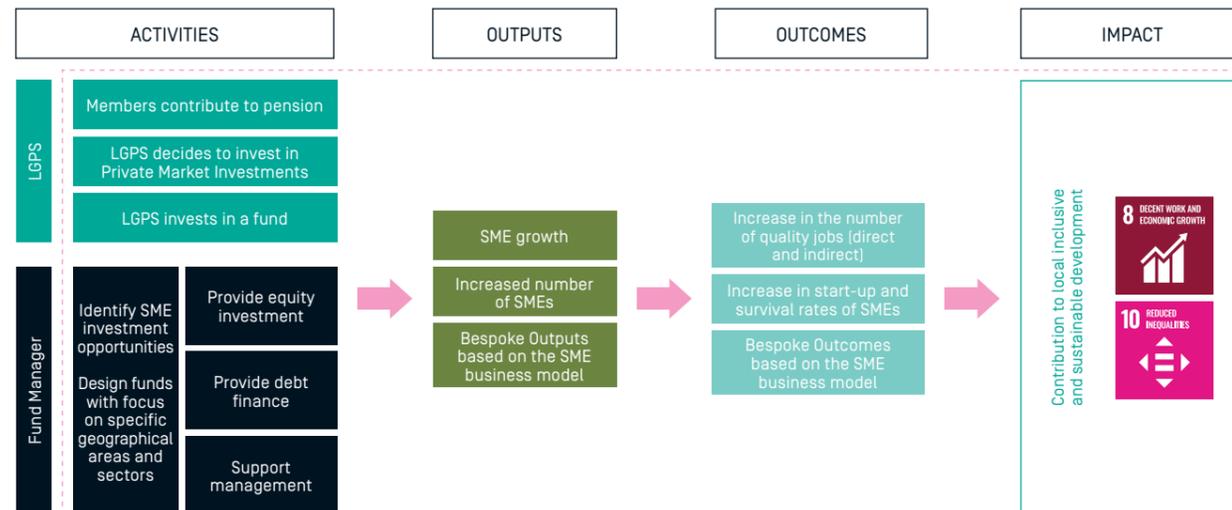
THEORY OF CHANGE – HOUSING



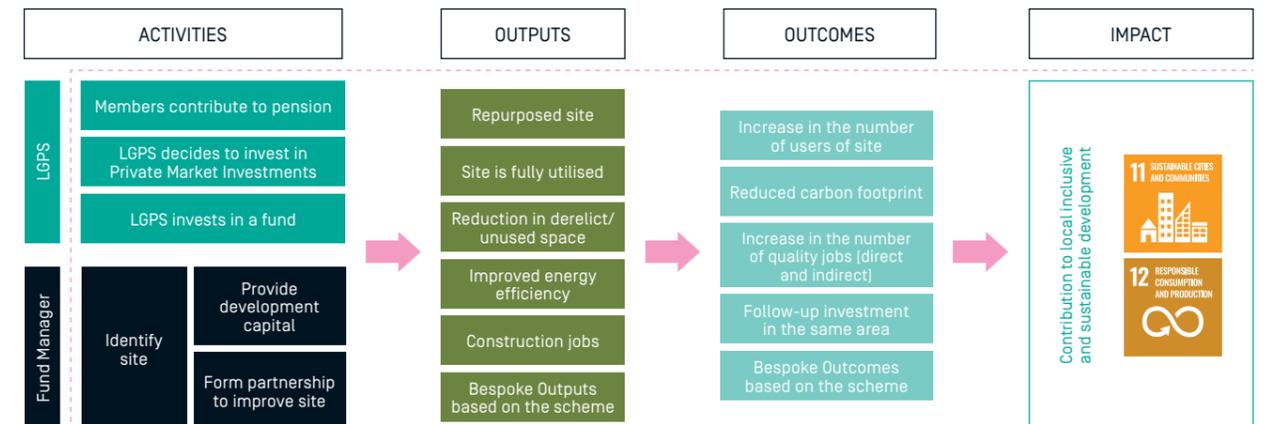
THEORY OF CHANGE – INFRASTRUCTURE



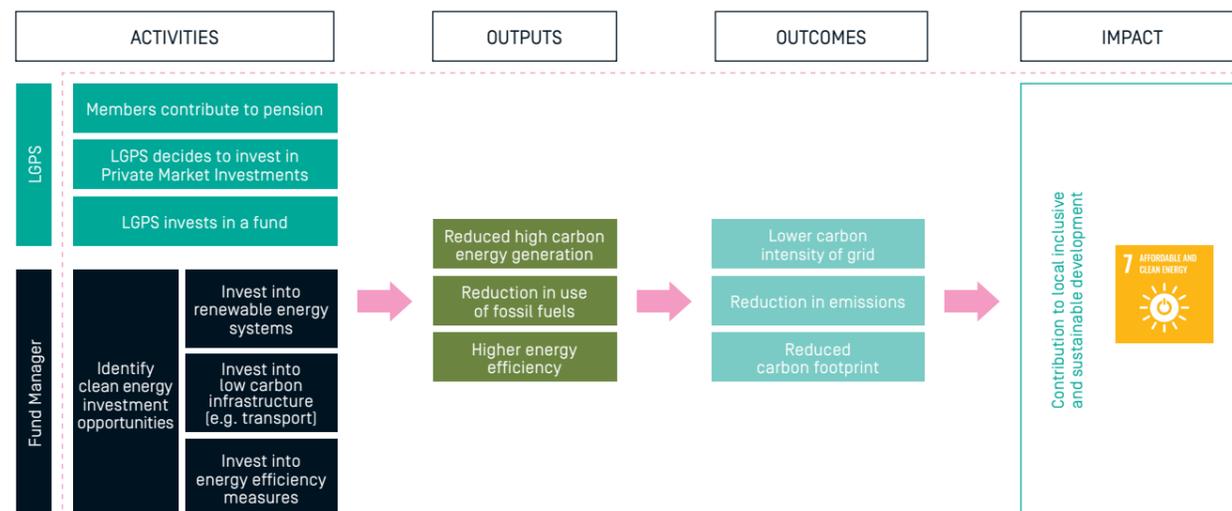
THEORY OF CHANGE – SME FINANCE



THEORY OF CHANGE – REGENERATION



THEORY OF CHANGE – CLEAN ENERGY





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