impact investing institute

Originating place-based impact investments

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1. Introduction to place-based impact investing (PBII)

Place-based impact investing (PBII) is the meeting of two worlds – finance and regeneration. It is a response to the fact that the UK has some of the highest levels of sustained inequality in Europe, and that this inequality is expressed both within and between regions.

There is no set roadmap for addressing regional inequality and rebalancing access to opportunity between and within places, but an economy that works for all requires an intentional approach to place. Places become 'underperforming', 'left behind' and 'underinvested' as a result of a complex combination of factors which culminate in market failure and vicious cycles of asset depreciation.

By working together, places, financial institutions, supported by an encouraging policy and regulatory context set by Government, can start to break those cycles.

While, of course, the worlds of finance and regeneration have intersected for a long time, place-based impact investing seeks to reframe the involvement of private finance in regeneration in the UK, building on the lessons of the past and carving out a niche for responsible mainstream financial institutions in addressing the challenges we face.
This process started with a White Paper, "**Scaling up institutional investment for place-based impact**"[1], published in May 2021 and delivered in partnership by the Impact Investing Institute, the Good Economy, and Pensions for Purpose. The White Paper sets out the case for institutional investors, focusing on local government pension schemes, to adopt a place-based approach.

That report identified five key barriers to place-based impact investing by institutional investors. These are:

1. Lack of awareness of place-based impact investing.
2. Lack of appropriate financing vehicles through which to invest.
3. Lack of impact measurement frameworks.
4. Issues around origination of investable projects.
5. Lack of capacity and capability across these issues within many key organisations, including local authorities, financial institutions and government.

These identified barriers have held true as the work on place-based impact investing has expanded to include more parts of both the finance and investment ecosystem, and as a broader range of organisations representing various places around the UK have been engaged in the work.

This report focuses on the fourth barrier – issues around the origination of investable projects.

In any sector, the origination of financing deals (or relationships, or transactions) is complex. It requires opportunities of investable quality to be created, articulated, and brought intelligently to those parts of the investment market which may be interested in them. Origination of place-based impact investments is arguably additionally complex, given that the overlaid elements of impact (intentionality, additionality and measurability) and place (geographic specificity, local community engagement) make each and every potential investable opportunity entirely unique. This is both a challenge and an opportunity.

1 https://www.impactinvest.org.uk/wp-content/uploads/2021/05/Place-based-Impact-Investing-White-Paper-May-2021.pdf

The creation of investable projects has been explored as part of our work on the second barrier as mentioned above: financing vehicles for place-based impact investing. The Institute will shortly be publishing a paper highlighting the kinds of financial structures that enable institutional investors to achieve an appropriate risk-adjusted return alongside delivering positive impacts for places, people and the planet.

This piece of work, therefore, focuses on the way opportunities are brought to market. Institutional investors seeking to adopt and implement place-based strategies (before any consideration of impact) have difficulty finding suitable investment opportunities. At the same time many fund managers and enterprises with a local or regional focus with the right qualities to meet institutional investors' needs struggle to connect with them.

This report is testing a hypothesis that there may be a gap in the market for a specific 'platform' solution to this issue. The report outlines what kinds of origination platforms already exist, and explores forms of information intermediation that can help facilitate increased investment in PBII.

In this report, the term 'origination platform' refers to web-based origination platforms, while the term 'information intermediation' is not limited to web-based or digital intermediation.

Further information and outputs for the Impact Investing Institute's PBII programme, which is supported by the Department for Digital, Culture, Media & Sport, can be accessed via our website.[2]

Through a review of and engagement with existing origination platforms and other forms of information flow, including co-investment and informal networks, this report seeks to better understand and address the information gap which is repeatedly cited as one of the barriers to place-based impact investing by institutional investors.

The scope of this report is limited to information flows, however other workstreams within the Impact Investing Institute's PBII programme deal with addressing other identified barriers, including the current lack of available impact measurement frameworks and appropriate vehicles through which to invest.

2 For more information: https://www.impactinvest.org.uk/project/place-based-impact-investing/

2. A note on methodology

This report has two main objectives,

- To present the existing landscape of origination platforms and other forms of information flows that are relevant for and/or can be adopted for PBII.
- To describe the key features of origination platforms and other forms of information sharing pathways that can respond to and serve the requirements of PBII.

The study employed an interview-based, qualitative approach to data gathering. Our pool of respondents consisted of investors and intermediaries, including existing origination platform providers. This pool was compiled by leveraging the network of PBII actors built by the Institute and its various partners.

In total we conducted 13 structured interviews, of which five were with providers of origination platforms, three were with other types of intermediaries, and five were with investors and investment managers. A list of interviewed organisations and their categorisation is presented in the table below. The information gathered from these interviews was then summarised for analysis. This report presents the aggregated findings of the study.

Type of organisation	Organisation name
Platform Provider	Abundance Investment
	Ethex
	Impact Agora
	Regionally
	Triodos Crowdfunding
Intermediary	Allia
	Barnett Waddingham
	Investing for Good
Investor/ Investment Manager	Gresham House
	Legal & General
	Palatine PE
	Resonance
	TriplePoint

Table 1. Interviewed organisations

Other organisations which were not interviewed but which are relevant are GLIL Infrastructure and the Pensions Infrastructure Platform. Information presented about them is from publicly available sources and referenced.

3. Origination platforms

With capital disproportionately located in and flowing towards already economically dynamic regions, it is difficult for projects and enterprises in regions that are less prosperous – left-behind places – to access finance via traditional channels. The owners and managers of capital also find it difficult and / or costly to invest impactfully in such geographies. Given this situation, a fit-for-purpose intermediary function, such as a website which could increase the flow of information and decrease the cost of intervention, may increase the amount of private impact capital flowing into disadvantaged places.

3.1. What is an origination platform?

An origination platform is a way of sourcing projects and enterprises for investment, and is usually a website. In its simplest form, an origination platform is a service provider for (at least) two groups of entities, capital providers (asset owners and managers), and capital seekers (funds, projects and enterprises). Capital providers use the platform to seek out funds, projects and enterprises to invest in, which meet their pre-determined parameters in relation to risk/return (as well as complying with any applicable regulatory requirements). Capital seekers, on the other hand, would use the platform to raise finance into funds, projects and/or enterprises.

The core business of a platform is to provide these distinct customer groups with a mechanism through which to exchange information. Platforms help minimise transaction costs by facilitating information exchange between these two groups.[3] The primary value created by such a platform is access to information, however they can also provide additional benefits, including reducing transaction costs.

An origination platform enables an investment process that broadly includes six steps. Comparing the approach that platforms take with a venture capital approach elucidates some of the uniqueness of using the tool:

- Platforms start with deal sourcing, selection and evaluation, followed by fundraising (whereas traditional VC models start with fundraising followed by deal sourcing).
- For a platform, fundraising entails listing the opportunity, and then marketing the platform as a whole (rather than specific opportunities) to prospective investors. The platform charges a fee to the capital seekers who list with them, typically with an additional fee once a fundraising round reaches its goal.
- For a platform, deal selection, evaluation and diligence is generally a two-stage process with a first round of 'light' evaluation followed by an 'in-depth' review.

These processes are illustrated in Figure 1:

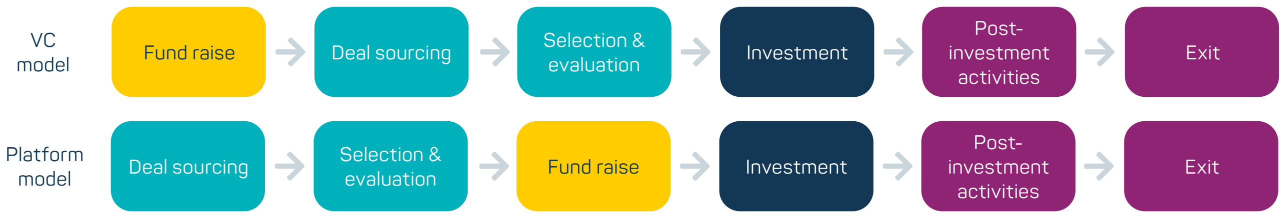

Figure 1. Comparison between the process followed by traditional (VC) model vs platform model
Source: Victoriya Salomon, Emergent models of financial intermediation for innovative companies: from venture capital to crowd investing platforms in Switzerland, 2016

3 David S. Evans and Richard Schmalensee, The Industrial Organization of Markets with Two-Sided Platforms, in Platform Economics: Essays on Multi-Sided Businesses, David S. Evans, ed., 2011, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1974020

Web-based investing platforms have their origins in the crowdfunding model where funds are raised from the public (crowd) through an online intermediary.[4] The use of web-based platforms can enable wider and quicker dissemination of information, thus increasing the number and relevance of potential investments that a capital provider has access to, as well as the number and relevance of capital providers exposed to a potential investment.

In the following sections we discuss some existing web-based origination platforms; however, our focus is not limited solely to online platforms as the potential form of intermediation.

It is important to distinguish that an origination platform is neither necessarily a financial advisory service nor a stock exchange listing. Platforms present information rather than making recommendations or advising on the suitability of an investment as part of an investor's portfolio, though they do often signpost users to where they could access such advice. Unlike a stock exchange listing, platforms are not restricted to sharing information about listed products, so can be an access point to private markets for capital providers (though it is noted that some large platforms such as Hargreaves Lansdown[5] are themselves listed).

3.2. Users of origination platforms

As mentioned, the two primary users of existing origination platforms are capital providers and capital seekers. An important additional user group is providers of advice to both capital providers and seekers. A brief discussion of the types of users and their characteristics and roles is presented below.

Capital Providers (investors/ asset managers): origination platforms can offer services to a varied group of investors ranging from retail to institutional. It is, however, relevant to note that most large-scale institutional investors, such as pension funds, insurance companies and managers of funds which attract investments from such organisations, do not use origination platforms currently.

Origination platforms can provide a pipeline of opportunities to capital providers, which can be 'searched' according to the investor's preferences and investment criteria. At a minimum, origination platforms can support a capital provider's initial deal sourcing activities. However, depending on the nature of the platform, additional services may also be provided.

Advisors: advisors play an important role in performing due diligence on opportunities, providing business development and consulting support to capital seekers and investment advisory and consulting support to capital providers. As well as making use of support from advisors in their own deal sourcing, due diligence and monitoring activities, platforms can also list the services of advisors or connect the advisors to the capital seekers and capital providers using the platform.

Capital seekers (funds, projects and enterprises): origination platforms provide a (virtual) space where capital seekers can connect to and pitch investment opportunities to capital providers. Capital seekers can range from start-ups and SMEs to managed funds or various types of projects. At the same time, the range of opportunities can be varied in terms of sectors, geography, impact, deal size etc.

4 Victoriya Salomon, Emergent models of financial intermediation for innovative companies: from venture capital to crowdinvesting platforms in Switzerland, 2016

5 Hargreaves Lansdown is a large, general platform for private investors - https://www.hl.co.uk

There are four main ways in which capital seekers connect to the platforms. Capital seekers either:

- approach the platform provider directly;
- get recommended by professional networks of consultants and other professional service providers engaged by the platform provider;
- get recommended via an investor network; or
- get recommended by other capital seekers who have previously engaged with the platform.

3.3. What role should and could an origination platform play in PBII?

There are two key deficiencies in the existing landscape which impede place-based impact investing and contribute to regional investment disparities: gaps in information flows between capital providers and capital seekers including information asymmetry; and the high search costs associated with finding investment opportunities. The latter is largely because the unique nature of individual PBII interventions means that there are few (if any) 'off-the-shelf' PBII opportunities. This makes both search costs and due diligence more labour-intensive.

A suitable origination platform might be able to cater to this market failure. However, to cater to it effectively, any deals housed on a platform would have to embody and hold information specific to place-based impact investing, draw in a specific audience of investors, and enable stakeholder interaction uncommon in business-as-usual commercial deal-making. Additional services such as due diligence cost sharing alongside facilitation of information sharing and network building could also be valuable.

Deals that the origination platform would need to host (capital seekers)

Most importantly, any origination effort that sought to deliver for place would need to be relevant to a local geography i.e. relevant to a local / regional economy and communities in the UK. Given the objectives of levelling up and the investment disparities within and between towns, cities and regions, any PBII origination approach would need to be able to reach deals in 'left-behind' places of the UK.

The platform would also need to enable the needs of investors and investments taking a PBII approach, and facilitate their exchange of information that speaks to the central tenets of PBII:

Intentionality refers to the investor's intention to deliver specific social and/or environmental outcomes through their investments. A platform therefore may include reference to the impact goal or likely outcomes of a particular project.
Measurability refers to establishing a clear process and framework to manage, measure and report the impact performance of the investment. A platform would need to enable the sharing of information about a project or the prospective investee's approach to impact measurement and their existing reporting frameworks.
Additionality refers to the extent to which the outcome would/ would not have occurred without the particular investment. Platforms are unlikely to have a designated role in establishing additionality, as this would solely be the purview of the investor.
Place-specific refers to driving capital into local areas and regions using a place-based lens with the intention to create positive local impact; a PBII approach focuses on a sub-national definition of place. Platforms would therefore need to include geographic data not only about the prospective investee but also potentially about project impact (which are likely to overlap but may not be the same), and have geography as a searchable criterion within the platform. Regionally, featured below, already does this, as well as engaging with a network of regional advisory firms to bolster local understanding and engagement.
Stakeholder engagement refers to the importance of having buy-in from the targeted place; this includes buy-in from local leadership, local community stakeholders and private sector participants. As with measurability, a platform would need to ensure that it presented a prospective investee project, fund or company's approach to community engagement, work done in this sphere to date, future plans and strategy for onward accountability to the place.

These features are in addition to those ordinarily applied to business-as-usual financial transactions – including appropriate risk levels and financial returns.

Any platform would be best suited to the three main asset classes that place-based investments fall within:

- **SME Finance**
  SMEs, including start-ups and social businesses, form the backbone of local economies and play a central role in localised growth. SMEs account for more than 60% of private sector jobs, and are present in all communities, towns and regions. Investing in local SMEs is key to inclusive prosperity. Investments in SMEs in growth sectors can also deliver high growth rates and support the creation of quality jobs.
  Sectors include: SME debt, venture capital, private equity investments.

- **Real Estate and Real Assets**
  Real estate development can contribute physical, environmental and social benefits. Investments in real estate can deliver robust cash-flows and risk diversification while comprehensive regeneration projects can also catalyse economic growth through land value increase and stimulate local economic activity. Real assets investing, in sectors like natural capital, are one of the few ways for investment to meet rural communities' needs.
  Sectors include: residential property (including affordable and specialist housing as well as housing for market rent or sale), commercial property (retail, office and industrial uses) land, natural capital, social infrastructure (e.g. education and medical facilities)
- **Infrastructure**
  Most infrastructure investments tend to be large-scale, long-term investments managed by specialist investment firms. They also create powerful multiplier effects in places and support local communities and local economies.
  Sectors include: renewable and clean energy generation, storage and transmission, digital and physical communications infrastructure, roads, rail, climate resilience infrastructure (such as flood drainage).

Investment in these sectors has the potential to achieve the risk-return expectations of the investors while also meeting the inclusive and sustainable development expectations of local authorities.

This scoping focuses on private market transactions. As our intention is to accelerate impact investments with a place-based lens, this study is focused on deals that create intentional local impact alongside a financial return. The study is not limited to any one type of financial instrument.

Investors to whom a platform would need to appeal (capital providers + advisors)

The opportunity in PBII is to encourage institutional investors to allocate capital to local opportunities. For example, the total assets under management of the Local Government Pension Scheme (LGPS) are over £330 billion, making it the largest pension scheme in the UK.[6] The recent Levelling Up White Paper gave LGPS Funds a new 5% target for local investment. While it is not yet clear how that will be implemented or manifested in the market, given their geographic scope and the fact that their members are largely local public servants, LGPS Funds undoubtedly have a more natural connection to particular places than most institutional investors. Any PBII origination effort should target this group specifically.

Beyond the volume of capital, the Institute's recent exercise of estimating and describing the UK's impact investing market found that market participants identified institutional investors such as asset managers, insurance firms, pension funds, banks, and family offices as the primary drivers of the impact investing market's future growth in the UK[7]. Although this work focuses on institutional investors, we recognise that there are various other sources of capital that can also be mobilised.

6 HMG, Levelling up the United Kingdom, 2021, https://www.gov.uk/government/publications/levelling-up-the-united-kingdom

Approaches and stakeholder interactions necessary to facilitate meaningful partnerships with mutual understanding and a shared purpose

One of the key inputs for successfully originating PBII deals is developing meaningful partnerships around a shared purpose. We have previously discussed the three key stakeholders of an origination platform: the capital providers, the capital seekers, and the advisors and consultants; linking these three stakeholders is a value created by a platform. Beyond these stakeholders, many more stakeholders need to be included at the origination stage when place-based opportunities are being considered. These include local government bodies/ local authorities, LGPS funds, local investors, CDFIs, local politicians, anchor institutions like universities and NHS Trusts, and the local community.

It is important to note that some of these stakeholders may not have an active role in originating and developing the opportunity, but consultation with these stakeholder groups can help develop opportunities that respond to the needs of the place while addressing the expectations of the capital providers.

Additional services that might appeal

A significant component for successful PBII deals is appropriate due diligence. Investors need verifiable, trustworthy information to enable them to understand the risks associated with any given opportunity. The cost of this detailed due diligence can be a hurdle for place-based impact investments given their complexity and the fact that they are non-standardised.

Due diligence by origination platforms tends to be two-pronged, with a light evaluation followed by in-depth due diligence, and usually requires further due diligence by the investor.

A mechanism to enable potential investors to share the cost of project due diligence could be significant, and there may be a role for the public sector in facilitating this. Given the role of collaboration between investors in developing PBII deals, information and cost sharing for due diligence may be feasible in the PBII space. There are several potential mechanisms for this. Multiple potential investors could collaborate to jointly commission and fund a due diligence report by a third party that they can all rely on and take through their internal governance processes, or one investor or asset manager who already intends to invest (for example as a cornerstone investor) might share their due diligence with potential investors to encourage additional investment. Co-investment (in which investors join a cornerstone investor in a venture, having relied in large part on the due diligence of that cornerstone investor) is a variation of the latter. There is unlikely to be a one-size-fits-all solution, but facilitating such arrangements would likely increase the number of PBII deals transacted.

Additionally, as a multi-stakeholder space where all stakeholders coalesce around a shared purpose, reducing any existing information asymmetry can be achieved by various formal and informal channels, including formal intermediation via platforms and forums, or informal ad-hoc relationship building and word-of-mouth networking.

The key factors necessary for mobilising capital into PBII via successful deal origination can therefore be summarised as bringing the right partners to the table around a shared purpose; collaborating with those partners by sharing information, due diligence and associated costs; being mindful about impact and agreeing on a framework to manage, measure and report impact from the initiation of the project. Facilitating the right relationships and partnerships can therefore be seen as the most important ingredient for the origination of place-based impact investments. While there is an argument that an online information or origination platform could contribute to achieving those things, given the barriers faced by existing

7 Impact Investing Institute and EY, Estimating and describing the UK impact investing market, 2022, https://www.impactinvest.org.uk/publications/estimating-and-describing-the-uk-impact-investing-market/

origination platforms, it is likely that a more 'real-world' or informal approach may be more successful.

3.4. Markets segments addressed, and products delivered by origination platforms surveyed in this study

Given the very specific needs of the PBII sector, we set out to interview origination platforms in the field that looked most likely to cater to the nascent sector's requirements. We selected those dealing with private markets investments, and that had some impact or place credentials.

Criteria	Range		
Geography	No geographic consideration	Data collected at country level of deals	Geography (at regional level) as a specific consideration that is mapped and is a searchable criterion
Deal ticket size	£200k (minimum ticket size for deals sourced for only retail investors) £400k (minimum deal size when capital is also sourced from institutional investors)	€8m (maximum ticket for crowdfunding models as per threshold requirements for crowdfunding offers)	£10m (when capital seekers are funds)
Investor type	Retail	Retail & Institutional	Institutional
Instrument	Debt	Debt & Equity	Equity
Due diligence on deals	No due diligence when listed by verified members	Light touch due diligence (such as documentation review, valuation checks, Know Your Customer (KYC) checks on the offer document etc.)	Business mentoring, support, review by and consultation with advisors (external or internal), support to make the deal investment ready and in-depth due diligence
Due Diligence length of time	6 weeks	6 months	In rare cases several years
Role of impact	No impact consideration	Impact as factor in due diligence	Impact data collected and reported to investors
	Impact measurement, management and reporting does not continue post-transaction, as the platform is no longer involved.		
Fee	No fees (external funding)	Charged to capital seekers: a fixed fee (one-time onboarding or application fee), plus a success fee upon raising finance	Charged to capital seekers: a fixed fee (one-time onboarding or application fee), a success fee upon raising finance, plus a nominal annual fee for the lifetime of the investments
	Fees are not charged to investors in any paid platform we spoke with		
# deals per annum	6	→	20
	The number of deals converted per year is a function of multiple factors, however platforms generally have 3 active deals at any time		

Table 2. High level summary of the characteristics of interviewed origination platforms

The platform providers reviewed in this study were found to be sector agnostic, with interest ranging from community energy to food, technology and transport, as well as geography agnostic, with only one platform focused on deals in UK regions. There was some interest in exploring the gap in place-based opportunities and the potential for the platforms to focus on local investments in the future. Deals were sourced either through proactive approach by capital seekers or via recommendation from network actors. There was little, if any, active sourcing of deals by the platforms themselves, with the platforms being approached by or connected to potential investees. This contrasts with investment managers and co-investment structures, which proactively seek out investment opportunities which align with their priorities.

The type of investor and the deal size also varied across platforms, but there was alignment between a platform's target investors and the ticket sizes. Platforms exclusive to retail investors had ticket sizes from £200k to £5m, while ticket sizes in platforms that also sourced capital from professional and institutional investors, which include charitable trusts, foundations, family offices, wealth managers, ethical funds, ethical building societies and local councils (but not large-scale institutional investors like pension funds and insurance providers), ranged between £400k and £10m. The platforms also did not necessarily specify what kind of deals they intermediate. Three of the five platforms were open to both equity and debt, one platform currently focuses on equity with plans to scale into debt, and only one platform focused exclusively on bond issuance.

Through interviews, we found that due diligence by the platform provider ranged in duration (and correspondingly in detail) from 6 weeks to 6 months, and in some cases, deals remain in the pipeline for years. Some of the impact-focused platforms we spoke to provided business support and mentoring as part of this process. The due diligence by a platform typically included ESG, sustainability and/or impact considerations, but platforms found it challenging to integrate impact management, measurement, and reporting beyond due diligence considerations. One of the reasons cited for this difficulty was the transactional nature of origination platforms, leaving little room for involvement by the platform provider post-investment.

Two platforms specifically work with external professional services advisors by either listing their services or proactively connecting them to the capital seekers that may benefit from their services. Advisors also support the platform and investors in due diligence. In the case of one platform, its parent company hosted a corporate finance team that provided business advisory to the capital seekers prior to being listed on the platform. By and large, it was perceived that the involvement of advisors improved the credibility and usability of the platform by ensuring a high quality of listed opportunities.

Most commercial platforms were found to be charging a fee to the investee in the form of a fixed fee, such as a one-time onboarding or application fee, plus a success fee upon raising capital. The platforms were free to use for investors.

As entities likely to be carrying out regulated activities, origination platforms were found to require regulatory authorisations from the Financial Conduct Authority (FCA), with loan-based and equity-based crowdfunding regulated under the Financial Services and Markets Act 2000[8] and governed by additional regulations published in 2014, when the FCA took over regulation of the consumer credit market from the Office of Fair Trading[9].

8 FCA, https://www.fca.org.uk/firms/authorisation/how-to-apply/crowdfunding

9 The FCA's regulatory approach to crowdfunding over the internet, and the promotion of non-readily realisable securities by other media – policy statement and final rules https://www.fca.org.uk/publication/policy/ps14-04.pdf

3.5. Case studies of origination platforms with relevance to PBII

There are two main types of origination platform in use: retail and crowdfunding; and specialist platforms.

Retail and crowdfunding platforms: These platforms generally connect investors (mainly individuals, though with some use by large organisations such as ethical building societies and foundations) to deals that include investing in social enterprises, charities, profit for purpose organisations, SMEs, infrastructure projects, and bonds. The ticket sizes in these platforms ranged from £200k to £10m. These platforms are generally not used by large-scale institutional investors like pension funds and insurance companies or by managers of funds which attract investments from such organisations; they do not offer deals that align with the scale or diversification requirements of large-scale institutional investors.

Case study: Triodos Crowdfunding

Triodos Bank launched its investment crowdfunding platform in 2018 to promote the investments structured by the bank's Corporate Finance team. The Corporate Finance team specialises in supporting social enterprises, charities and sustainable businesses to raise risk finance. The team raises funds from individuals and small-scale institutional investors such as foundations and wealth managers. The investments offered on the crowdfunding platform range in size from c. £300,000 to £5m, with the minimum investment typically set at £50 to enable a wide range of investors access to these investment opportunities. The Triodos crowdfunding platform has over 6,500 registered users and has raised £55m for 24 organisations since its inception. Areas of impact delivered by the investments include renewable energy, conservation & rewilding, and education and housing for people with a learning disability, among others.

Specialist platforms: There are a limited number of specialist platforms currently available in the market that provide services to specific user groups. Their services may be limited to linking a group of 'member' investors to deals endorsed by other members, or be broad-based and include facilitating a range of services, such as due diligence, deal making and post-investment monitoring for specific client groups like regional SMEs and specialist investors. There is sparse information to assess the performance of such platforms, given their limited number and their novelty, but anecdotal information suggests that the deal conversion from such platforms is low, and their networks and other value-added features, beyond the origination aspect of the tech-based platform, are important success factors for the platform provider. However, this is a new business model which remains to be proven, including at scale. Of the market actors that we spoke to, only Regionally was truly intentional about place.

Case Study: Regionally

Regionally is an investment service platform connecting private investors (such as angels, high-net-worth individuals, venture capitalists, family offices and private equity houses) to regional scaleups seeking growth investment. Regionally platform deals are sector- and deal-agnostic and the company is building nationwide regional networks to build a UK-wide investment community. Such networks are facilitated by the professional network companies which represent Regionally in the regions and interact with local investors and opportunities while also providing due diligence and advisory services. The platform aims to facilitate deal intermediation by remedying issues of information asymmetry. Following an initial due diligence and deliberation process in which the Regionally investment committee decides if a company will be taken on as a client, the opportunity data is channelled to advisor law and accountancy firms working in the relevant region. Essentially, the platform coordinates the process of due diligence between investee companies and a regional network of advisors who can support them before, during and after listing on the platform. Offers are then made on the platform itself, which also intermediates post-investment interactions between the investors and the investee companies. As with the other pathways of place-based deal origination, the system is underpinned by tailored, off-market conversations.

Case Study: Impact Agora

Impact Agora is a digital marketplace where institutions can find and share impact investment opportunities. Supported by Barclays and Delio, Impact Agora launched in 2020. The specialist platform has over 90 members and aims to resolve key accessibility issues within the impact investing space and serve as a community where investors (e.g. fund managers, family offices, private banks) and deal providers (e.g. advisors and accelerators) can connect. Impact Agora does not itself undertake due diligence on the opportunities listed, but members are vetted in advance of joining.

3.6. Origination strategies beyond the use of tech / web platforms

Across the study we discovered that most institutional investors are not using origination platforms. Investors and professional/ intermediary firms (including consultants) interviewed in this study instead use three overarching ways to find investment opportunities that are delivering impacts in places:

- **proactive capital providers** reach out to potential investees via their deal origination and/ or investment teams;
- **proactive capital seekers** including enterprises and local authorities seek out investors; and
- **networks and partnerships** with (local) organisations that provide referral.

Proactive capital providers: Investors and intermediaries generally proactively identify the markets, geographies and sectors, as well as the deals within these markets, geographies or sectors, that are interesting for them. This process includes approaching companies and projects to build direct relationships after extensive desk research by specialist investment teams.

Interestingly, we found that the origination platforms we spoke to generally did not engage in proactive outreach to potential investees. Although some origination platform providers did conduct extensive due diligence and build relationships with capital seekers, the first point of contact was found to be primarily either direct approach from the capital seeker or via referrals.

Case study: Palatine PE

Palatine is a mid-market private equity firm headquartered in Manchester, priding itself on a strong record of ESG framework investments and specialising in 'positive equity'. Palatine's approach to deal origination is off-market: the firm relies on its specialist deal origination and investment teams to seek out high-potential companies for the firm to invest in. Palatine seeks to proactively identify interesting geographies, markets, and businesses; the firm builds networks to uncover new opportunities. It also tends to avoid working with businesses already seeking investment, opting instead for a proactive approach which helps it source opportunities informally. Most of the research is desk-based and relies on platforms such as LinkedIn and other data sources, and Palatine's teams also attend regional marketing and networking events. The proactive approach to place-based deal origination that Palatine takes requires both intentionality and the commitment of staff time and financial resource[10].

Case Study: GLIL Infrastructure

GLIL Infrastructure is an Alternative Investment Fund, focusing on core infrastructure opportunities that serve as a driving force in the UK's shift towards a more sustainable economy. GLIL was founded in 2015 as a collaboration between Greater Manchester Pension Fund and the London Pensions Fund Authority, with an initial £500 million in capital. As of March 2021, the Fund had expanded significantly, raising a total of £2.5 billion. GLIL's capital commitments come from 6 of the UK's largest LGPS funds, as well as from Nest – a government-established, defined contribution (DC) workplace pension scheme provider. GLIL's funds are deployed in a portfolio of UK infrastructure assets, with a dual focus on renewable energy (solar and wind) and essential community services (including trains, ports, water, hospitals and schools). The Fund is a co-investment mechanism through which pension funds can pool both their capital and professional resources, allowing for large-scale investments in the infrastructure sector. GLIL targets a CPI+ 4-6% net annual return over ten years, but has an open-ended fund structure, aimed at facilitating participation by pension funds in the future.

Case study: Pensions Infrastructure Platform

Pensions Infrastructure Platform (PiP) is an Alternative Investment Fund Manager established in 2012 by UK pension schemes, to invest on behalf of UK pension schemes. They specialise in UK infrastructure, with expert knowledge in the market and its regulations, characteristics and risks. PiP is open to both private and public pension schemes of all sizes, allowing smaller schemes to gain exposure to the benefits of larger-scale investments in core infrastructure. PiP's portfolio reflects a commitment to responsible investment, focusing on 4 main areas: energy from waste, renewable energy (solar and wind), social infrastructure (hospitals and social housing) and transport. The Platform is a signatory to the UN's Principles of Responsible Investment. As of Summer 2020 when PiP was acquired by the Foresight Group, the Platform had £1.8 billion in assets under management. PiP also offers bespoke, single investor portfolios to larger investors and is currently managing 2 such single investor funds.

10 https://www.palatinepe.com

Proactive capital seekers (including places): The capital-seeking entities approaching investors and intermediaries are usually enterprises but, depending on the type of investor and their focus and ticket sizes, local authorities may also directly connect to investors to discuss pipeline projects. Capital seekers were found to rarely approach investors and intermediaries directly, and only when the investor or intermediary had already built a strong reputation. Given the broad range of types of investment opportunity, this limited proactive approach by capital seekers is not surprising, however it does raise questions about the usefulness of a tech-based platform to the origination of place-based impact investments.

Case study: Newcastle Helix

L&G is a leading British pension and financial services provider. In 2016, L&G became a long-term investment partner in the Newcastle Helix project alongside Newcastle City Council and Newcastle University. The £350m regeneration project brings together academia, business and the public sector and focuses on a former brewery site. Beginning as a 2005 national Government initiative to make Newcastle one of six 'Science Cities', the council and University have worked together to clearly articulate a vision for their place. As a result, the council was in a position to approach and work with appropriate investors to bring together diverse funding to achieve its goal. Projects with this scale of impact require large, highly capitalised, and well-connected actors, both private and public, which highlights the need for well-resourced local authorities capable of taking the initiative and facilitating deal origination with trusted and socially-aligned partners.

Network actors: Relationships are the most important channel for deal origination. The network actors that actively link or recommend deals to investors or intermediaries include professional services and advisory firms, particularly local firms, individuals working with enterprises with high-growth potential such as non-executive directors of the companies, and in some cases firms employed by local authorities. It is interesting to note that the network actors active in introducing deals to investors tend to be stakeholders with a local presence. One interviewee also specifically highlighted the role played by events and forums in bringing these actors together.

It was also found that some investors were open to recommending projects and enterprises that approach them or were recommended to them if they believed that another investor was better suited to offer the appropriate capital and terms.

Most of the investor interviewees were not using any tech-based origination platform, however two investors respectively mentioned using online platforms, such as LinkedIn, to access useful contact information for pipeline-building purposes and using events or similar (offline) networking opportunities. One interviewee mentioned that their only experience of advertising on an online platform did not achieve any results.

3.7. Challenges and obstacles to the use of origination platforms by institutional investors for place

Ultimately this scoping exercise has underscored that the PBII origination issue may not be solved with a tech solution. Institutional investors are not in the habit of using platforms, and more ways to network and share information may be more effective for both deals and investors.

A key challenge in the use of origination platforms when it comes to place-based impact investments is that PBII is a heterogenous space where each opportunity is nuanced, which includes social and political nuances; this is difficult to capture on a platform. PBII deals cannot be standardised and programmed in a platform because most deals must be developed in a bespoke manner. Furthermore, in the case of local authorities, it may be more fruitful to work with selected trusted partners; local authorities may even find it counterproductive to present investment opportunities to a broad range of capital providers via a platform.

There are some specific challenges faced by investors when using existing origination platforms (even without including place or geographic specificity as a factor):

- **Supply and demand of deals:**
  - Platform providers are unclear on investor demand for platform intermediation in general as well as for place-based investments in particular.
  - Platform providers find it challenging to source promising deals, particularly geographically dispersed investments in the private market.
  - Platform providers find it challenging to provide value to various kinds of investors, particularly to small, non-specialist investors.
  - The experience of investors in using a platform has not been rewarding, in some cases investors have invested capital and time to access a platform but it has not converted into deals.
- **Scale:**
  - For large-scale institutional investors, the scale of opportunities listed in the platforms does not align with their ticket sizes and diversification requirements.
- **Regulatory requirements:**
  - Current regulations mean that it is difficult for anyone other than a “highly sophisticated” investor to access deal flows for place-based opportunities.
  - “Highly sophisticated” investors are those (either alone or together with their representative) who have sufficient knowledge and experience with financial and business matters to be able to evaluate the risks and merits of an investment. It is used as a general term, but can also be used to refer to investors formally defined by the FCA as “certified sophisticated investors”[11].
- **Stakeholder participation:**
  - It is difficult to find committed long-term partners.
  - Investors are unclear about whether the platform is impartial.

3.8. If not a tech platform, what other interventions might help to solve the PBII origination issue?

The current PBII market is small but growing. The investors interviewed in this study were found to be sourcing place-based deals either proactively, via their deal origination teams, or through referrals from their networks; very few investors were approached by organisations, including local authorities, directly.

Investors, particularly large-scale institutional investors, were also not using existing origination platforms. However, investors and other stakeholders acknowledged the gap in information flows. Most of the investors we spoke to for this project and through wider market engagement as part of our place-based impact investing programme were sceptical that a tech-based platform was the most appropriate solution to this gap at this time. They primarily cite the difficulties in reflecting the nuances of a place-based investment opportunity in a transaction-based online platform. Those same investors also noted the need to enable conversations and build relationships between investors and places, which would be unlikely to occur via a traditional web-based platform.

11 The self-certification statement can be found in the FCA handbook at COBS 1.12.8:
https://www.handbook.fca.org.uk/handbook/COBS/4/12.html#DES583

There was also no consensus among interviewees about the basic practicality of distributing information about early-stage PBII opportunities to a broad range of market actors. There was some concern that this could result in attracting unscrupulous investors seeking market share with little consideration of the priorities of a place and/or impact. It is therefore important to consider the types of deals and the appropriate audience for any PBII deal intermediation and origination activity.

Information sharing has a crucial role to play alongside networking as an a priori activity to a tech solution, if indeed a tech solution in the medium term is something that would add value to the field.

For example, building on the research and recommendations from the 2021 white paper, the Place-Based Impact Investing Forum[12] (PBII Forum or the Forum) was established in 2021 with the purpose to 'facilitate action-oriented discussions' on scaling up place-based institutional investment for regional social, economic and environmental impact. The Forum is hosted by Pensions for Purpose, co-managed by The Good Economy, and supported by the Impact Investing Institute.

The Forum facilitates topical keynote presentations, breakout discussions, training, peer-to-peer meetings for asset owners, opportunities to connect with PBII experts, and further discussions on topics relevant to PBII. Furthermore, the Forum also provides access to relevant and curated thought leadership content both within the Forum platform as well as to external materials.

The PBII Forum currently has 326 individual members, of which 192 are asset owners and managers.

While the Forum does not discuss specific opportunities and is not an origination platform in and of itself, by raising awareness of PBII and facilitating conversations and relationships as well as expertise sharing between different market actors it is supporting the growth of the PBII market.

There are some nascent efforts to create a further involved tech space around the PBII Forum, but they are at a relatively early stage.[13] The platform under discussion would aim to enable its users to:

Learn about the ecosystem:

- What to do, ie. where to begin, what standards to follow, what benchmarks to compare with and what fund rankings are available.
- How to perform activities like fund selection, due diligence, impact measurement, impact assurance.
- Who to connect to, including fund managers and funds, PBII capital sources, consultants and opportunities for pooling, such as potential co-investors.

Access optimised market conditions by:

- Lowering the cost of information by sharing information, good practice and criteria matching.
- Lowering the hurdle costs by sharing due diligence costs.
- Optimising the minimum ticket sizes by pooling capital and sharing investment opportunities.

12 Pensions for Purpose, https://www.pensionsforpurpose.com/Member-Forums/Place-Based-Impact-Investing-Forum.html
13 The Good Economy, together with Pensions for Purpose, are carrying out research and seeking funding to deliver a Learn-Match-Share platform to create a deeper and more liquid PBII market. - https://www.linkedin.com/posts/the-good-economy_the-good-economy-pbii-rd-and-info-platform-activity-6899295643064430593-LKHo

4. Conclusions and recommendations

Based on this study, and corroborated by our previous work, we find that there is a recognised gap in information intermediation for the purposes of originating place-based impact investments. Additionally, the costs associated with finding and implementing PBII deals are high, particularly compared with other approaches.

Therefore, there is scope for intermediation activities that facilitate the links between different stakeholders and help drive down the associated costs. However, as PBII deals are nuanced and ideally involve co-creation by multiple stakeholders, any proposed intermediation solution for PBII should not be limited to a web-based origination platform. Web-based origination platforms are based on a transactional model, and even though platforms are undergoing iterations and developments, it is difficult for such platforms to capture the social and political nuances of place-based investments. This is particularly pertinent given that these platforms are not currently widely used by institutional investors, fund managers or their advisors.

It is therefore our conclusion that a web-based origination platform is unlikely to itself mobilise private capital into place-based impact investing. This is because such a platform would require significant resources in order to keep it populated with opportunities (particularly if there was an element of quality control), and use of such a platform would require a significant shift in how institutional capital providers currently originate deals.

Recommendation 1 – Create market conditions in which PBII opportunities can be co-created by improving awareness and strengthening capacity across the ecosystem.

Some of this work has already started through the place-based impact investing programme to which this report belongs. Other workstreams from the same programme from the Impact Investing Institute (supported by the Department for Digital, Culture, Media & Sport) have included raising awareness of place-based impact investing through workshops and roundtable events, making information about best practice widely and readily available.

It is important that this work continues as the community of investors, consultants, fund managers and places grows. The Place-Based Impact Investing adopters forum mentioned above is just one example of this trend.

Potential activities which could be supported include:

- Events which both raise awareness and understanding of the opportunities of place-based impact investment, and encourage connections between places, communities and investors across the spectrum of capital.
- Specific support (as per the below recommendation 2) for a few specific local authorities to enable them to become stronger advocates for responsible private investment in their jurisdictions, thereby providing a blueprint for others to do the same.
- Specific support for asset owners to enable them to adopt a place-based impact investing approach through their investment strategies, and then to find and invest in place-based impact investments.
- Use of public money as concessionary or blended capital in order to grow the number of PBII vehicles which are investable by institutional investors, and therefore grow the whole PBII market.
- Events, online activities and real-world network building which:
    - Raise the profile of successful place-based impact investments, demonstrating to the market what is already possible.
    - Draw attention to opportunities for pooled investment and shared due diligence, or initiatives by local authorities to publicise their investment projects.

These activities will continue to support the PBII market to grow, which will be an iterative process. As noted above the market is already starting to scope and pilot solutions to gaps in information flows – as demonstrated, for example by the emergence of a Regionally as the only platform we found with geographic intention and focus, by the existence of GLIL as a co-investment vehicle for pension funds, and by the work that The Good Economy are undertaking on information intermediation as part of the PBII Adopters Forum. If the problem persists as the PBII market grows, it is likely that the market will deliver its own solution. Therefore, the focus of the public sector and its partners in market-building activities should be growing the market itself.

Recommendation 2 - Encourage and support local authorities to develop the capacity to create and articulate their visions for their places in ways that attract and enable private investment

There are existing efforts by the government which recognise the need for local capacity building, such as the indication in both in the Levelling Up White Paper and in the UK Infrastructure Bank (UKIB) strategy paper that UKIB will provide technical assistance to local authorities seeking private investment in local infrastructure projects, and recent work by the Towns Fund Delivery Partner (a consortium of consultancy firms). However, this capacity needs to be more general, rather than focused on one particular transaction or Fund.

Essentially, local authorities need to be supported to create investment prospectuses for their places, translating their existing multi-year development strategies into an inventory of opportunities for institutional investors to consider, supported by a clear vision of what the place wants to achieve or become. Local authority leadership then needs to be resourced across finance, strategy, commercial, and legal teams to be able to approach and work with appropriate investors to build structures which enable private capital to flow into those projects.

Recommendation 3 – Reduce due-diligence costs through enabling these to be shared and/or subsidised where appropriate.

Place-based impact investments, particularly direct investments in private market transactions, are often bespoke and sometimes differ from traditional investments (as investing in specialist organisations requires a detailed understanding of their operating landscape and business models). Therefore, due diligence costs are often higher than market average.

Therefore, it could prove useful to the market in originating place-based impact investing opportunities to establish a process by which due diligence costs could be shared, with the potential to introduce a subsidy element for investment opportunities which meet certain criteria. We believe this could encourage more institutional investors to enter the PBII market, particularly if there was an element of subsidy.

As outlined above, there are several ways in which this could be structured, from investors clubbing together to fund due diligence on a particular prospective investment with public sector support or a cornerstone investor (which in some cases may itself be the public sector) making their due diligence transparently available to enable prospective investors to avoid duplicating that work and incurring cost for work already undertaken.

Capital providers and capital seekers would still need the ability to build relationships in order to originate projects, but a mechanism by which the cost of independent, trusted due diligence could be shared may accelerate origination by lowering one of the barriers to entry for institutional and mainstream investors.

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