# APPENDIX 2

**GMPVF**

**Investment Mandate and Statement of Investment Guidelines**

## 1. INTRODUCTION

1.1 The purpose of this document is to set out the investment mandate and investment guidelines for Greater Manchester Property Venture Fund GMPVF. GMPVF has an investment manager (GVA) who are appointed on an advisory basis with the CIO retaining discretion on investment decisions. (Their role is detailed in section 11). This document will regulate the activity of the manager and act as a guide for staff of GMPF in overseeing the portfolio and as a reference point for Panel/Working Group Members of GMPF when reviewing the management of GMPVF.

## 2. NATURE OF GMPVF AND CONTEXT

2.1 GMPF has allocated 5% of the Fund to be invested locally. The table below shows the allocations made so far by GMPF to local investments.

| | **% of Fund allocated** | **£ equivalent** | **Approval** |
|---|---|---|---|
| GMPVF | 1-3% | Up to £450m<br>(was £300m) | BDWG<br>Man Panel |
| Housing ( The GMPVF manager has key role in implementation ) | 1% | Up to £150m<br>(was £100m | BDWG<br>Man Panel |
| Invest 4 Growth | n/a | £50m | BDWG<br>Man Panel |
| Impact Portfolio | Up to 1% | £150m | BDWG<br>Man Panel |
| | | | |
| **Total** | **Up to 5%** | **Up to £800m** | BDWG<br>Man Panel |

2.2 GMPF has a core belief statement. The key elements of this that are relevant to GMPVF in particular are listed below.

- Recognition that GMPF has the necessary skills, expertise and resources to internally manage some assets, including local investments.
- Recognition that GMPF is rewarded through additional returns for the taking of different type of risks including equity, liquidity and credit risks.
- Recognition that active management can achieve excess returns and a belief that value will deliver superior returns in the long term.
- Recognition that a long term approach is needed.

## INVESTMENT MANDATE

### 3. PURPOSE OF PORTFOLIO

3.1 To gain cost effective, diversified exposure to property development assets located predominantly in the North West of England and with a clear emphasis on Greater Manchester.

### 4. DEFINITION OF PROPERTY DEVELOPMENT

4.1 The mandate adopts a very broad definition of property development so as to be as flexible as possible to the opportunities available. However, examples of possible investments include direct development including purchase of land and property for development with or without a partner. They also include investment in financial instruments such as debt or equity in property development and investment in collective investment vehicles. This development can involve construction of new buildings or renovation of existing buildings.

### 5. OBJECTIVE

5.1 The GMPVF will be managed in order to achieve: 1) an investment performance at a total portfolio level, net of all fees, costs and expenses, which matches or exceeds Benchmark performance (see below); 2) Property development which is beneficial for economic growth in the North West of England, and 3) a programme of investments which seeks to deploy/commit the allocated capital within 4 years of inception.

### 6. BENCHMARK

6.1 RPI + 5% per annum (equivalent to 7.5%) at an aggregate portfolio level. This will be periodically reviewed with the GMPVF manager and equates to a marginally better return than that expected from the property market on a 5 year perspective.

### 7. HOLD PERIOD

7.1 Unconstrained – both open-ended and term-limited investments are permitted.

### 8. PERMITTED INSTRUMENTS

8.1 Land, Properties, Development Properties, Interests in collective funds, secondary fund interests, direct equity and debt instruments relating to real assets, and listed securities.

### 9. INVESTMENT RESTRICTIONS

9.1 Maximum exposure to a single investment is 15% of portfolio for both direct properties or a financial instrument or collective investment vehicle, normal aim is for 10% maximum position. Investments that exceed these limits require the explicit approval of the Management Panel.

## 10. RISK PARAMETERS

10.1 The mandate should be prudently implemented in-line with the Investment Guidelines, by the manager, and with due regard to appropriate diversification of exposure to assets and risks. Key risks to be considered are: general sensitivity to the macro-economy, development risk, Capital Structure (equity vs. debt and amount of leverage), levels of control over development phase, speculative or pre let development

## 11. GOVERNANCE STRUCTURE

11.1 The table below details key groups/individuals and their role and responsibilities.

| | |
|---|---|
| **GMPF Management Panel** | Sets overall strategy for Investment allocation of GMPF, including that to GMPVF |
| **GMPF Policy and Development Working Group** | Approves and Oversees special projects that GMPVF may become involved in such as Matrix Homes |
| **GMPF Property Working Group** | Appoints manager for GMPVF. Receives reports from manager on a quarterly basis |
| **CIO**<br>Peter Morris GMPF | Sign off required for any investment. This may fit in to formal Monthly meetings but it is likely that sign offs will be outside of these meetings due to nature of external deadlines. |
| **Transactions Team**<br>Current members are:<br>Paddy Dowdall, Andrew Hall, GMPF<br>Jonathan Stanlake, Gareth Conroy,<br>GVA | Meets monthly and informally on an ad hoc basis to<br>Identify new opportunities<br>Approve papers on new investments for approval by CIO<br>Discuss progress on live investments |
| **The Manager GVA** | Identify and Appraise Opportunities<br>Prepare Recommendations<br>Review Performance<br>Report to GMPF on GMPVF |

## 12. TAKING ADVICE

12.1 Investment decisions will be supported on a deal by deal basis by appropriate professional advice on matters such as property market, tax, legal, financial, structuring and industry specific factors.

12.2 All costs and expenses in relation to external advice must be authorised in advance by the GMPF members of transaction team.

## INVESTMENT GUIDELINES

## 13. KEY INVESTMENT THEMES

13.1 The following sectors will be targeted initially:

- Commercial Development Property
  - Office
  - Retail
  - Leisure
  - Industrial
- Residential Property
  - PRS
  - Owner Occupier
  - Greenfield/Brownfield
  - City Centre / Suburban
- Social Infrastructure
  - Supported Living
  - Specialist residential
  - Municipal Developments

13.2 The investments made should feature some or all of the following aspects:

- Advantageous entry price due to timing or introduction method
- Clear development strategy
- Identifiable users of underlying building
- Exit Strategy
- Identifiable benefit to economic growth in region
- Commerciality of returns if a financial instrument
- If a collective vehicle, strong management team and competitive terms

## 14. PORTFOLIO CONSTRUCTION

14.1 There are a number of ways of categorising investments for portfolio construction and risk control purposes. These include geography, type of investment i.e. directly in a property or indirect through a collective investment vehicle or financial instrument, and the position in the capital structure. The following tables show target positions and tolerances across these categories. The target position and ranges are expressed as percentages of the total amount committed to GMPVF (currently £450m), or of the indirect allocation which is 50% of this, but actual exposure may vary considerably from these ranges depending on the overall level of investment. When considering an in-direct investment the manager will make estimation for the underlying investments in factors such as geography, influence, capital structure and tenancy.

| **Geography** | | |
|---|---|---|
| | **Core** | **Range** |
| | % of GMPVF | % of GMPVF |
| **Greater Manchester** | 80 | 60-100 |
| **North West ex GM** | 20 | 0-40 |
| **Outside North West** | 0 | 0-10 |

| Direct or Indirect | | |
|---|---|---|
| | **Core** | **Range** |
| | % of GMPVF | % of GMPVF |
| **Direct Development** | 50 | 30-70 |
| **Indirect : Collective Investment Vehicle/ Financial Instrument** | 50 | 30-70 |

| Indirect Passive or Active | | |
|---|---|---|
| | **Core** | **Range** |
| | % of Indirect | % of Indirect |
| **Active** | 70 | 40-100 |
| **Passive** | 30 | 0-60 |

| Indirect :place in capital structure | | |
|---|---|---|
| | **Core** | **Range** |
| | % of Indirect | % of Indirect |
| **Senior Debt** | 25 | 0-50 |
| **Subordinated Debts** | 25 | 0-50 |
| **Equity** | 25 | 0-50 |
| **Unitranche** | 25 | 0-50 |

| Across portfolio Pre let or Speculative | | |
|---|---|---|
| | **Core** | **Range** |
| | % of GMPVF | % of GMPVF |
| **Pre Let** | 50 | 30-90 |
| **Speculative** | 50 | 10-60 |

14.2 The aim of the indirect investments would be to manage risk through diversification across sectors, investment managers and vintage of investments. The portfolio would invest in a variety of investment vehicles including funds and co-investments. The collective investment vehicles could involve both active participation in the property development and also, potentially a passive role. The portfolio would also look to gain exposure to different parts of the capital structure including equity, mezzanine and senior debt, to achieve the targeted return and to control costs. This solution will allow the portfolio access to opportunities and leverage relationships for specialist advice and support.

## 15. INVESTMENT PROCESS

15.1 There are 5 keys stages in the selection of investment:

1. Identification of opportunities (can be by manager or from GMPF staff)
2. Filtering of opportunities by GVA.

3. Diligence on small number of proposals by GVA leading to the drafting of an initial paper.
4. Initial Paper to GMPF staff/Transaction Team, if approved a detailed proposal is then prepared.
5. Review of final proposal and approval by CIO.

## 16. POST INVESTMENT

16.1 Follow-on investments will be provisioned for at the time of initial investment with permitted level of follow-on investments agreed at the time of initial investment and included within "committed" capital calculations for the purpose of internal reporting.

## 17. EXIT PROVISIONS

17.1 Exit of individual investments will be an investment decision to be considered by the Manager and CIO in the normal cycle of review and it will be part of the final proposal.

17.2 Termination of the manager will be limited to the provisions set out in the IMA.

## 18. DISTRIBUTIONS

18.1 The default position of GMPVF will be to distribute any income to GMPF as it is received from the underlying investments.

## 19. LEVERAGE

19.1 GMPVF will not use leverage at a portfolio level. GMPVF may make investments into collective vehicles that use leverage

## 20. ENVIRONMENTAL, SOCIAL AND GOVERNANCE

20.1 GMPVF will encourage environmental, social and corporate governance best practice in the companies in which it invests, as we believe this will deliver the best long-term returns. As GMPF is a signatory of UNPRI GMPVF in its activities, will incorporate the following principles (the "**Principles**"):

- *Principle 1:* We will incorporate ESG issues into investment analysis and decision making processes.
- *Principle 2:* We will be active owners and incorporate ESG issues into our ownership policies and practices.
- *Principle 3:* We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- *Principle 4:* We will promote acceptance and implementation of the Principles within the investment industry.
- *Principle 5:* We will work together to enhance our effectiveness in implementing the Principles.
- *Principle 6:* We will report on our activities and progress towards implementing the Principles.

20.2 GMPVF will also encourage the following in its direct developments:

- Use of local firms
- Use of local apprentices
- Provide job opportunities or training to long term unemployed where possible