APPENDIX 3

NORTH WEST IMPACT JV

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 the North West Impact JV between GMPF and partners. This document will regulate the activity of the JV and act as a guide for staff in running the portfolio and as a reference point for management and Board / Panel Members when reviewing the management of the portfolio.

2. Nature of the JV and Context

2.1 The table below shows the allocations made so far by GMPF and other partners to the joint venture.

	GMPF	
Overall Fund Size	£17bn	
Allocation to JV	£250M	

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

- Recognition that the fund has the necessary skills, expertise and resources to internally manage some assets, including infrastructure private equity local property and local investments.
- Recognition that the Fund 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.

2.3 Other Partners.

INVESTMENT MANDATE

3. Purpose of Portfolio

3.1 To gain cost effective, diversified exposure to a portfolio of 'impact' investments located predominantly in the North West of the UK.

4. Definition of Impact

4.1 The definition of impact is an ill-defined concept but the following 4 aims are widely used by the sector.

- Targeting underserved markets
- Promoting health and well being
- Supporting Improvement in Education and Skills
- Supporting Sustainable Living

5. Objective

5.1 The JV 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; and 2) a programme of investments which seeks to deploy/commit the allocated capital within 3 years of inception.

6. Benchmark

6.1 RPI + 3%-5% at portfolio level or 6%-8% nominal.

7. Hold Period

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

8. Permitted Instruments

8.1 Interests in collective funds, secondary fund interests, direct equity and debt instruments relating to real assets, direct assets (inc. property) and listed securities.

9. Investment Restrictions

9.1 Maximum exposure to a single, unlisted investment is 20% of committed capital.

9.2 Maximum exposure to any single listed asset is limited to 15% of issued share capital (and should normally be less than 10% of issued share capital).

10. Risk Parameters

10.1 The mandate should be prudently implemented in-line with the Investment Guidelines, and with due regard to appropriate diversification of exposure to assets and risks. Key risks to be considered are; Capital Structure (equity vs debt and amount of leverage) and Revenue Profile and general sensitivity to the macro-economy).

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 infrastructure JV. Receives reports from JV in a joint presentation on an annual basis and formal annual report as owner of interest in JV
GMPF Policy and Development Working Group	Reviews progress of JV and receives reports from GMPF staff on a quarterly basis
Other Partners Governance	
CIOs : Peter Morris GMPF	 Unanimous sign off by both required for any investment This may fit in to formal JV Investment Committees but it is likely that sign offs will be outside of these meetings due to nature of external deadlines.
JV Investment Committee Members are Peter Morris, Paddy Dowdall, Andrew Hall	Role is to be Authorised Representatives of the LLP Meets twice a year on a formal basis to review portfolio construction and progress of individual investments and to discharge formal duties. Also meets "on request" to review Investment Proposals and to agree sign off of expenditure
JV Transaction Team Core members will be Paddy Dowdall, Andrew Hall, Richard Thomas Plus other team members as needed	Role is to identify opportunities, decide which to take to due diligence and then investment paper. Writes investment papers for consideration by CIOs/Investment Committee Meets informally at least monthly and by phone weekly

12. Taking Advice

12.1 Investment decisions will be supported on a deal by deal basis by appropriate professional advice on matters such as 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 JV Investment Committee.

INVESTMENT GUIDELINES

13. Key Investment themes

13.1 The following sectors will be targeted initially:

- Loans to Small and Medium Sized Businesses
- Social Infrastructure
- Property Development in underserved markets
- Renewable Energy Infrastructure
- Social Impact Bonds
- Equity investment in underserved markets

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

- Consistent Identifiable Cashflows
- Inflation linkage
- Material yield component of the return
- Long duration assets
- High barriers to entry
- Early income generation
- Strong Management Teams
- Targeted Development contribution to economic growth

14. Portfolio Construction

14.1 There are a number of ways of categorising investments for portfolio construction and risk control purposes. These include sectors, stage of development, revenue profile and 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 the JV (currently £150m), but actual exposure may vary considerably from these ranges during the investment phase. Once the investment phase is completed, if the portfolio crosses these ranges it will be reported to the Investment Committee.

Sector		
	Core	**Range**
Lending to SME	**25**	**0-50**
Renewable Infrastructure	**25**	**0-50**
Social Property	**25**	**0-50**
Alternative Finance	**25**	**0-50**
Capital Structure		
	Core	**Range**
Debt	**30**	**0-50**
Equity	**70**	**50 - 100**
Geography		
	Core	**Range**
North West UK	**100**	**75-100**
Overseas	**0**	**0-25**

14.2 The aim of the internally managed portfolio 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 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.

14.3 Co-investment opportunities to the joint venture will be considered according to the same process as other investments with initial allocations being used within the JV where capacity exists.

14.4 Where there is excess co-investment capacity this will be initially offered to each of the partners on an equal basis. If either fund declines the excess co-investment capacity the other fund may seek to take up this capacity unilaterally.

15. Investment Process

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

1. Identification of opportunities (can be outside JV)
2. Filtering of opportunities by transaction team
3. Diligence on small number of proposals by transaction team leading to the drafting of an initial paper.
4. Initial Paper to Investment Committee, if approved a detailed proposal is then prepared.
5. Review of final proposal and approval by Investment Committee

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 JV Investment Committee in the normal cycle of review.

17.2 Termination of the JV will be limited to the provisions set out in the partnership documents. These allow for term based exit notifications and relevant pre-emption rights.

18. Leverage

18.1 The JV will not use leverage at a portfolio level. The JV may only enter into finance facilities for hedging purposes or for ongoing working capital needs.

19. Environmental, Social and Governance

19.1 The JV 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. If partners are signatories of UNPRI the JV will incorporate the following 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.