

Report To:	GMPF MANAGEMENT/ADVISORY PANEL
Date:	24 March 2023
Reporting Officer:	Sandra Stewart, Director of Pensions Paddy Dowdall, Assistant Director (Local Investments and Property)
Subject:	LOCAL INVESTMENTS
Report Summary:	The purpose of this report is to update Members on progress with the local/impact investment profiles including recent promotional events.
Recommendation:	That the content of the report be noted.
Links to Core Belief Statement	<p>This report has been prepared in accordance with the Core Belief Statement, paragraphs: -</p> <p>1.1 The Fund has the necessary skills, expertise, diversity and resources to internally manage some assets, such as infrastructure, private equity, local investments and cash.</p> <p>3.1 Allocations to asset classes other than equities and government bonds (e.g. corporate bonds, private equity and property) offer the Fund other forms of risk premia (e.g. additional solvency risk/illiquidity risk).</p>
Financial Implications: (Authorised by the Section 151 Officer)	The benefits provided by the LGPS are funded via employer and employee contributions and investment returns made on those contributions. Successful implementation of measures which improve investment returns (net of fees) will ultimately reduce the contributions required to be made to fund the benefits.
Legal Implications: (Authorised by the Solicitor to the Fund)	The Administering Authority has a duty to ensure the Fund's assets are used to help deliver the security, stability and sustainability of the Fund. This must also be delivered with the objective of delivering value for money.
Risk Management	Increasing net investment returns needs to be delivered without materially increasing the Fund's exposure to investment risks such as volatility of capital values and counterparty credit risks. Collaboration discussions with other funds seek to highlight areas where we believe net investment returns can be improved whilst maintaining or reducing the Fund's risk exposure.
Access to Information:	<p>CONFIDENTIAL</p> <p>Not for publication: This report contains exempt information relating to paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 (as amended). On balance, under paragraph 10 of Part 2 of Schedule 12A, it would not be in the public interest to disclose this information to the public because disclosure would, or would be likely to, prejudice the commercial interests of the Fund and/or its agents which, in turn, could impact upon the interests of the local taxpayer and/or the beneficiaries of the Fund.</p>

Background Papers:

APPENDIX 11A	Local Investments Briefing
APPENDIX 11B	The Good Economy Report
APPENDIX 11C	GMPVF Report

For any further information please contact Paddy Dowdall,
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1. INTRODUCTION

- 1.1 The purpose of this report is to update Members on progress with the local/impact investment portfolios, including recent promotional events.

2. BACKGROUND

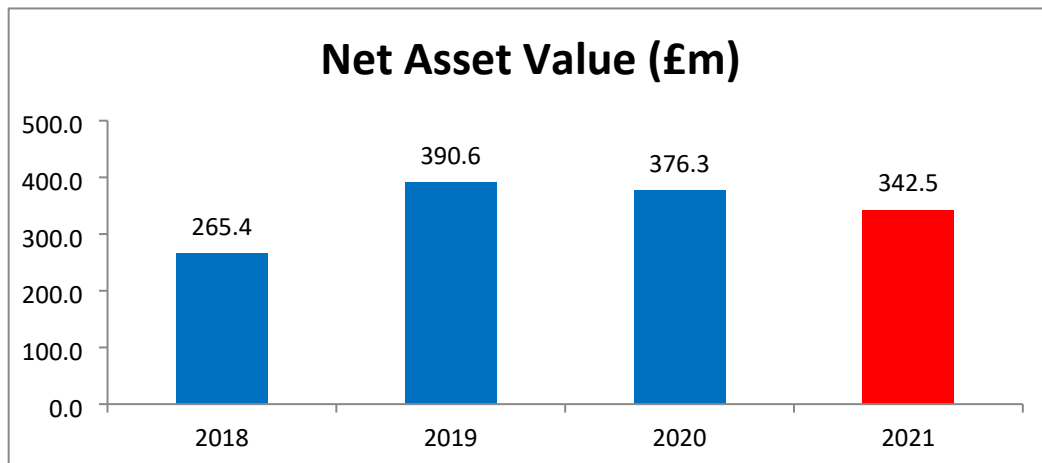
- 2.1 GMPF has had a programme of local/impact investments for a number of years. The strategy and performance is reviewed by the Policy and Development Working Group on an annual basis. The deployment and performance to date, has been satisfactory. However, there have been some matters requiring consideration recently: -
- (i) There is a concern that we are unable to measure the impact that has been achieved from our investment and this affects our ability to deploy capital in the most efficient way from an impact perspective.
 - (ii) There is a concern that we do not publicise our activities effectively to stakeholders and potential investment partners. Therefore, stakeholders may be unaware of the potential positive impact the Fund can provide and restricting our opportunity set.
- 2.2 We have sought to address these concerns by hiring a consultant (The Good Economy) to review and prepare a report on the impact achievements of GMPVF and the Impact Portfolio. We have also made efforts to improve communication with stakeholders and potential partners, most notably with a breakfast briefing held on 26 January. The slides used at that event are attached as an appendix to this report.
- 2.3 We are at an early stage of this process, but initial signs are positive, and the internal team is in the process of following up on potential opportunities. It is felt to be a good time to update the Panel on progress, so that Members can provide insights to help in the next phase.

3. GMPVF

- 3.1 The aim of the portfolio is 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. Also, to add value to the economy of the North West through property development to generate employment, improve long term employment prospects and generally contribute to the overall development of the local economy.
- 3.2 The mandate adopts a very broad definition of property development, 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, either 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. The development can involve construction of new buildings or renovation of existing buildings.
- 3.3 The allocation of the portfolio across the capital structure is detailed below.

Stage	Proportion of allocation	Return	Range %
Income Generating Property	33%	6.0%	n/a
Development Equity	15%	15.0%	5 - 26
Development Mezzanine Debt	26%	7.5%	21 - 31
Development Senior Debt	26%	5.0%	21 - 31
	100%	7.50%	

- 3.4 The presentation attached details progress with the GMPVF portfolio. The 2 charts below show summaries of deployment and performance.



	to 31 Dec 2021				To Dec 2020	
	NAV £m	Exit £m	IRR (%)	Bmk (%)	IRR (%)	Bmk (%)
Income Generating Property	192	-	10.5	7.1	5.8	6.8
Future Development Sites	6	-	-3.7	6.9	-2.3	6.7
Active Developments	17	-	6.0	6.9	5.7	6.3
Development Loans	94	-	8.9	7.5	9.0	6.6
Partner in development JVs	61	-	2.4	7.2	3.7	6.7
Exited Investments	-	277	6.1	6.9	6.4	6.7
All Portfolio	370	277	6.2	6.8	5.3	6.7

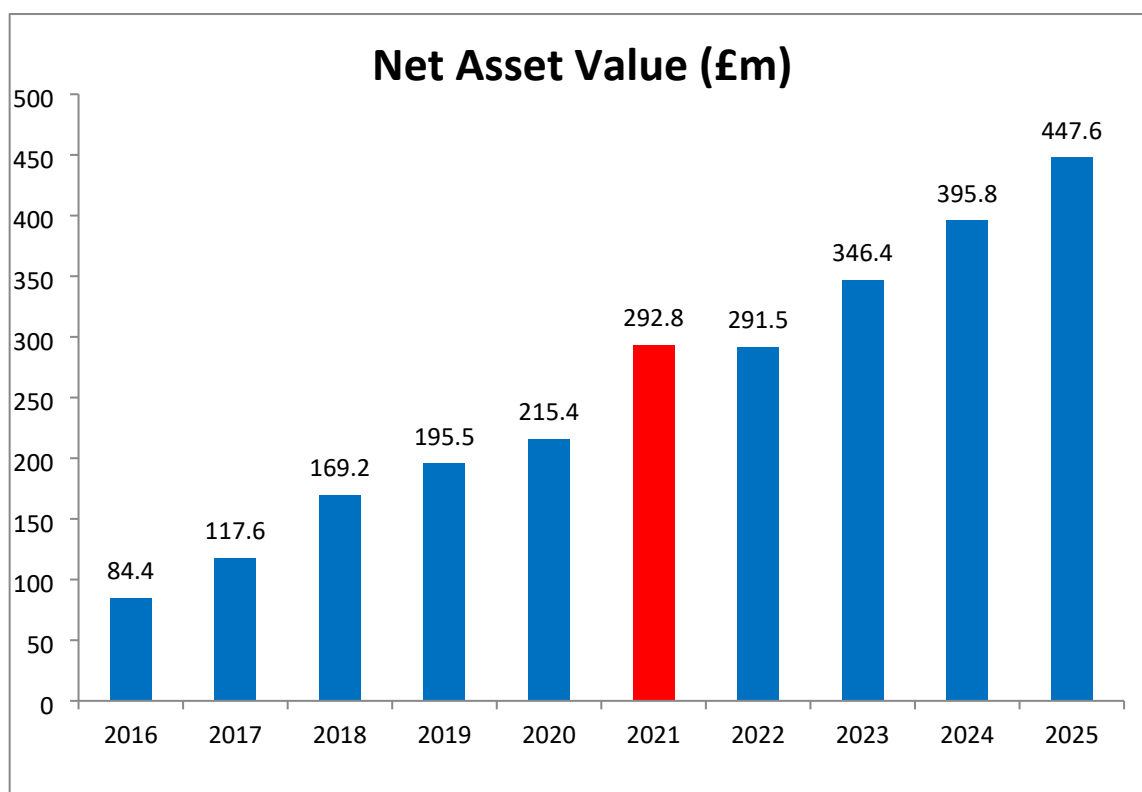
4. IMPACT PORTFOLIO

- 4.1 The Impact portfolio has been active since 2014. Investments have been made into a range of Limited Partnerships, this being the most common form of investment vehicle for the private markets.
- 4.2 The purpose of the allocation is to gain cost effective, diversified exposure to a portfolio of “impact” investments located predominantly in the North West of England. The principal aims used to define impact investing being: -
- Targeting underserved markets
 - Promoting health and well being
 - Supporting Improvement in Education and Skills
 - Supporting Sustainable Living
 - Renewable energy generation
 - Job creation/safeguarding
- 4.3 Panel has previously agreed, that to meet the aims of the Impact portfolio, investments would be diversified across the following key themes. Actual deployment will be subject to the availability and timing of suitable investment opportunities:

Impact Themes	Target Range %
Loans to SME's	30% - 40%
Social Infrastructure	20% - 30%
Property Dev in underserved markets	15% - 25%
Renewable Energy Infrastructure	10% - 20%

Social Investment	5% - 10%
Equity Invest in Underserved Markets	20% - 30%

4.4 The presentation attached details progress with the impact portfolio. The 2 charts below show summaries of deployment to date/expected and performance.



Current

Impact Portfolio	31-Dec-21 £m
Portfolio Value	241.7
Distributions	13.2
Portfolio Value + Distributions	255.0
Paid in capital	217.4
Multiple	1.17
IRR	6.0%

Exits

Impact Portfolio	31-Dec-21 £m
Sales	23.5
Distributions	5.7
Sales + Distributions	29.2
Capital Invested	24.0
Multiple	1.22
IRR	8.5%

Total Current IRR inc Exits	6.3%
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5. THE GOOD ECONOMY

- 5.1 The Good Economy (TGE) are a respected Impact Advisor, they are well known to officers, producing Impact Reports for some of our Local Investment Fund Managers and also for other LGPS Funds. They participated in producing the 2021 Government White Paper on “Place Based Investment”, which mentioned GMPF as a leading example of a LGPS Fund having an allocation to local investment.
- 5.2 The Good Economy, has been directly appointed from the National LGPS Framework for Stewardship Services, to prepare an independent report on the outputs achieved from the Funds Local Investment Portfolios. The work is underway but not yet complete.
- 5.3 A summary of their initial work is attached as an **Appendix** to this report.

6. RECOMMENDATION

- 6.1 Members note the report.