

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	09 September 2022	AGENDA ITEM NUMBER
TITLE:	Social Impact Portfolio	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Exempt Appendix 1 – Mercer paper		

1 THE ISSUE

- 1.1 The Committee discussed Impact Investing at its meeting in December 2021. It was agreed that the topic would be explored further as part of the Strategic Investment Review in 2022/23.
- 1.2 Since then DLUHC has announced its aspirations of how LGPS funds could support the Levelling Up agenda. We are still awaiting the consultation for the draft guidance on levelling up so any decisions may be impacted once the guidance is published.
- 1.3 Mercer have provided a more detailed report which considers the main strategic issues for discussion at the meeting. Further work will need to be done prior to the strategic review in 1Q23.

2 RECOMMENDATION

The Panel notes

- 2.1 **The report from Mercer.**
- 2.2 **That Officers will undertake feasibility studies of local / social impact opportunities to inform asset allocation decisions at the Strategic Review.**

3 FINANCIAL IMPLICATIONS

3.1 The budget has a provision for the Strategic review and Impact investing advice.

4 IMPACT INVESTING

4.1 The Fund already has exposure to “impact investments”, for example, at a high level through global sustainable equities, Paris aligned equities and renewable infrastructure, representing c.33.5% of the total strategic asset allocation, as well as a small (£10m) commitment to UK affordable housing in our UK Property portfolio. Our £140m investment in the Greencoat renewables fund is all invested in UK renewable energy and infrastructure projects.

4.2 Measuring the societal impact of specific strategies or assets is a growing area of interest for investors in the future, albeit doing this is not straightforward. One aspect that needs developing to assist decision making is the monitoring (on a look through basis) and reporting capabilities; this will enable investors to understand the impact of their investments held in generalist portfolios that do not have a distinct impact criterion. Brunel is working on this, but data availability is very poor and inconsistent and is resource intensive to collate. Currently the focus has been on quantifying the impact of ‘E’ of ESG using green revenues as a metric for example which is more readily available. On this basis around 11% of the revenues generated by underlying companies in the Global Sustainable Equity portfolio are assessed as ‘green impact’ (this compares to c. 8.5% for the index).

5 PORTFOLIO CONSIDERATIONS

5.1 Mercer have provided a report for the Panel to consider (see Exempt Appendix 1) which sets out the strategic issues that will need to be agreed as part of the framework for an impact portfolio. It considers how such a portfolio could be structured, including underlying asset classes, risk/return characteristics, consideration of local investment, and implementation approaches.

5.2 The specification for the portfolio will need to consider the following (in due course):

- a) Investment objective – mix of capital appreciation and income generation
- b) Performance target – net after fees and over what time frame. As it will be less liquid the time frame will need to reflect this
- c) Benchmark – as there is no index for social impact investments, we will have to have an absolute return target
- d) Strategy – we need to define what we mean by social, impact and local. Will need to consider how an ‘impact’ portfolio overlaps (or not) with other existing allocations e.g., to renewable, affordable housing so that we are aware of overall exposure
- e) Risk – will be moderate to higher risk. Diversification within the portfolio may be limited depending on whether it focuses on a few specific sectors and geographies or not. There could be higher political/reputational risk given target investment universe
- f) Liquidity – the investments will be illiquid so will need to consider any allocation within the context of overall liquidity of the fund (already have 32.5% allocated to illiquid private markets and property)
- g) Portfolio construction – will be relatively concentrated, driven by the amount allocated and sector decisions as well as how it is implemented

h) Responsible investment – will expect robust ESG approach

5.3 Ahead of the strategic review and to help determine the appropriate criteria for the portfolio framework, officers will undertake a review of the social / local impact opportunities across various asset classes. This would include engaging with Brunel and possibly other specialists in this area.

6 RISK MANAGEMENT

6.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

7 CLIMATE CHANGE

7.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Low Carbon Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

8 EQUALITIES

8.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

9 OTHER OPTIONS CONSIDERED

9.1 None.

10 CONSULTATION

10.1 The Director – One West has had the opportunity to input to this report and have cleared it for publication.

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Background papers	Mercer papers
Please contact the report author if you need to access this report in an alternative format	