Appendix 1

Impact Investing Portfolio Framework

1. Investment objectives:

- Invest in assets / investment funds where there is an intention to provide a local impactful outcome or there is additionality whereby the investment generates a return / outcome that would otherwise not have been realised.
- Target the Fund's overall return objective of c. 6.5%, net of fees over a 10-year period. Within the portfolio there will be a range of returns reflecting the underlying assets.
- Due to the heterogenous nature of the proposed impact portfolio, the return target will also serve as the benchmark.

2. Geographic Coverage:

The focus will be the South West region but can invest more widely in the UK if broader investment enables a material SW component. There is an expectation that some of the assets will be within the Avon area but not at the expense of return or diversification.

3. Capital allocated and investment time horizon:

An initial allocation of 3% (c. £170m) of the Fund's assets will be invested in the Impact Portfolio, expected to be invested within 5 years depending on the opportunities that arise.

4. Portfolio Specification and Implementation:

- Core portfolio: this will deploy capital at scale. This will include climate solutions and affordable housing as they address two major challenges for the local area and can generate attractive returns for the fund.
- Specialist portfolio: this will be for smaller niche investments that could be higher risk and potentially higher return. Such assets could include SME finance that generates a stronger local economy, better employment opportunities or regeneration.
- Social portfolio: this could include investments such as supported living property, housing for the homeless to provide targeted housing; schemes to assist offenders gain meaningful employment.

All investments will be managed by 3rd party managers. Implementation will be via Brunel portfolios or Brunel management of the assets where possible, or directly into managed funds or pooled funds where Brunel is not able to provide a portfolio or manage the assets. All managers selected, including Brunel, will be required to provide look through reporting of the local impact from the underlying assets. The Fund will collaborate with other Brunel funds where this is in its interest and Brunel is not able to provide a portfolio or manage the assets.

A summary is shown in the following table:

	Approx. Split	Asset Class	Expected Return	Implementation Route	Indicative fee (bps)
Core	75%	Climate Solutions	7%	Brunel / External Manager	TBC
		Affordable Housing	6-9%	Brunel / External Manager	50-75
Sector Specialist	20%	Sector Specialist 1 (e.g. Local Private Equity / SME Finance)	6% +	Brunel / External Manager	TBC
		Sector Specialist 2 (A.N. Other - assumed return neutral)	x-6%	Brunel / External Manager	TBC
Social Specialist	5%	Social Specialist 1 (e.g. Supported Housing)	6-7%	Brunel / External Manager	75-100

Implementation options:

a. **Brunel management (governance burden LOW)** - Brunel facilitates investments through Brunel portfolios or manages them as they do for some private markets where Avon holds units in external funds rather than Brunel portfolios. The governance around this would be in line with other private market portfolios.

b. **Pooled funds (governance burden MEDIUM)** - Alternatively some of the opportunities may be wrapped up in a pooled vehicle managed by the external manager in which we could directly hold units (not via Brunel). In this case the governance burden would be higher than if Brunel manages the assets, but not as high as establishing an SPV.

c. **Special Purpose Vehicle SPV (governance burden HIGH)** – If Avon were to invest directly into projects managed by an external manager but not via a fund (council housing projects for example), then an SPV could be needed to hold the assets. Would only need to explore if such investments will form part of the opportunity set and cannot be wrapped up in a pooled vehicle as it would increase the governance burden significantly.

5. Advice:

Where Brunel manages the opportunity, Brunel conducts all due diligence and Avon would obtain external advice to confirm it meets our strategic objectives for the portfolio. Our retained consultant should provide this as they do for other portfolios.

For non-Brunel led investments, the Fund will procure its own external advice. As some of these could be very small, niche opportunities, it may be more cost efficient to appoint a specialist advisor to do the due diligence for the Fund. Each opportunity should be assessed on a case-by-case basis as to whether the retained consultant or a specialist advisor is best placed to provide due diligence. Tax and legal advice will be procured separately as needed.

6. Decision making:

There are 3 options for decision-making. Involving the full committee in the decision-making to establish a portfolio would not be line with the current Terms of Reference for other aspects of the investment strategy.

In each option officers and advisors would provide the due diligence and take recommendations to the relevant decision-making body.

	Option	Advantages	Disadvantages	Governance process
1.	**Delegate decisions to officers**	Quick process. Knowledgeable.	PC/IP not involved. No internal challenge.	Would report all decisions to IP. Would require ToR change.
2.	**Delegate decisions to Investment Panel**	Knowledgeable group, internal challenge to recommendations. Manage elevated risks in a new investment area. Will be responsible for monitoring.	Formal meeting cycle will slow decisions. Less easy to meet at short notice.	Would report all decisions to PC. No change to ToR required.
3.	**Delegate to a Working Group of Panel members and officers ***	Knowledgeable group, internal challenge to recommendations. Manage elevated risks in a new investment area. Smaller group would be able to meet at short notice. Retain accountability within the Panel. As members of Panel will be responsible for monitoring.	Extra group to support within governance framework.	Would report all decisions to IP. Would require ToR change.

* For option 3 it is proposed that the working group would consist of at least 3 panel members including the Chair of the Panel and 1 independent member, plus the Head of Pensions, Group manager, Investments and Investments manager.

7. **Portfolio monitoring and reporting:**

The portfolio will be monitored by the Panel as part of the quarterly investment performance and portfolio monitoring process. The committee will be informed of any decisions through its quarterly Investment Strategy report.

In addition an annual portfolio report will be prepared for the Committee and wider stakeholders providing an update on activity and the impact of the assets on the local area.

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