**Appendix 1**

**Impact Investing Portfolio Framework**

**1. Investment objectives:**

- Invest in assets and investment funds which can generate material local impact and attractive financial returns.
- Target the Fund's objective of c.6.5% returns net of fees over 10-year periods. There will be a range of returns above and below 6.5%, reflecting each asset.
- 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 (at least 15-20%) SW component. There is an expectation that some of the assets will be within the Avon area but not at the expense of return, impact, or diversification.

**3. Capital allocated and investment time horizon:**

An allocation of 3% (c.£170m) of Fund assets will be invested, expected to be deployed within 5 years depending on the opportunities which arise.

**4. Portfolio Specification and Implementation:**

- Core portfolio: this will account for the majority of local impact capital. It includes climate solutions and affordable housing as they address two major regional challenges and can generate attractive returns for the fund.
- Specialist portfolio: this comprises niche investments which are typically higher risk and higher return. Such assets could include SME funding which generates a stronger local economy, employment opportunities, and regeneration.
- Social portfolio: this includes investments such as supported living, housing for the homeless, and schemes to assist offenders gain meaningful employment.

All investments will be managed by 3rd party managers. Implementation will be via Brunel portfolios where possible, or directly into pooled funds where Brunel is not able to provide a portfolio or manage the assets. All fund managers will be required to provide look through reporting of local impact. The Fund will collaborate with other Brunel funds where there is common interest.

A summary of potential investments is shown in the table below:

| | 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 – in order of preference**

a. **Brunel management (governance burden LOW)** - Brunel facilitates investments through Brunel portfolios or external funds. 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 invests directly into projects managed by an external manager not in a pooled fund (e.g. social housing) then an SPV could be needed to hold the assets. We would need to explore this route only if such investments cannot be held in a pooled vehicle.

**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 niche opportunities, it may be more cost efficient to appoint a specialist advisor to undertake due diligence. 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:**

To ensure flexible and agile decision-making, decisions to invest within this portfolio will be delegated to a named Officer (Head of Pensions) in conjunction with a Working Group consisting of Investment Panel members and officers. This working group will 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 the Investments Manager. Officers and advisors will provide the due diligence for the working group to consider; decisions taken by the named Officer will be based on the agreed recommendation of the Panel members on the working group.

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.