

Bath & North East Somerset Council	
MEETING:	AVON PENSION FUND – INVESTMENT PANEL
MEETING DATE:	27 FEBRUARY 2024
TITLE:	LOCAL IMPACT PORTFOLIO
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: None	

1 THE ISSUE

- 1.1 The investment strategy recommended by the Panel includes a 3% or c.£170m allocation to 'local impact'.
- 1.2 It was envisaged that our local impact investments would be spread over three broad sectors:
 - Renewable infrastructure: 40% - 50%
 - Affordable Housing: 40% - 50%
 - SME funding: 10% - 20%
- 1.3 The Panel and Pensions Committee both agreed that local impact investments should align with some basic principles:
 - Investments with tangible positive impact which can be measured and reported.
 - Financial returns contributing to aggregate portfolio returns of c. 6.5%, with lower returns tolerated only where risks are lower, not because the investment is local or socially positive.
 - UK diversified geographic coverage with a preference for investments across South West England of at least 15-20% to meet the local test.
- 1.4 We have already completed our first local impact investment – the £50m allocation to Wessex Gardens. £35m has already been drawn by the fund to finance the acquisition of an operational solar portfolio, which in its final state, will comprise 17 solar farms across South West England, made in partnership with 6 other LGPS¹.
- 1.5 Looking forward we now have over 15 potential local impact proposals to assess. And we would like the Panel to discuss an assessment framework for local impact opportunities and, in closed session for reasons of commercial confidentiality, consider two separate investment ideas.

¹ Cornwall, Devon, Dorset, Gloucestershire, Oxfordshire, Wiltshire

2 RECOMMENDATION

The Panel:

- 2.1 Notes the proposed assessment framework for local impact opportunities, sharing its insights and suggestions with Officers to inform a final version of the framework.
- 2.2 Discusses the two investment ideas in closed session, to advise Officers which of the ideas should be explored in more detail, with a view to firm investment proposal being brought forward for agreement at a subsequent Panel.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no immediate financial implications arising from this discussion.
- 3.2 Once we know which ideas to explore in more detail, projected costs for advice, due diligence and other work will be brought to Panel.

4 PROPOSED ASSESSMENT FRAMEWORK

- 4.1 We are implementing a 2-stage review process to identify opportunities offering the most attractive mix of financial returns and local impact. It is key that all opportunities have clear strategic rationale underpinned by a sound business case. Additionally, we are not willing to compromise on the risk-return profile with lower returns in exchange for doing good.

4.2 The assessment process consists of:

a) Initial screening: to assess each opportunity objectively, we have developed an assessment matrix based on high level research and preliminary discussions with the investment manager. The matrix uses 12 criteria to capture factors such as the level of local impact, financial attractiveness, and environmental credentials. The scoring system is not designed to be mechanical, rather to help evaluate and rank opportunities, providing a short list for in-depth due diligence.

b) In-depth due diligence and independent advice: is applied to shortlisted proposals and undertaken by independent consultants or specialist advisers before a firm recommendation is brought to Panel to approve.

c) Criteria in the initial screening is summarised below:

Mission & Impact:

- Is there a clear mission with local impact?
- Define mission – what is the proposal and how will it be achieved?
- Define impact – what does the proposal aim to achieve?
- Affordable Housing – define affordable and target underlying tenant mix
- Impact – does the proposal have Article 9 status?

Strategic Case & Product

- What is the investment case and why is it needed?
- How will the proposal be executed/delivered?
- What are the economic considerations?

Returns

- Gross and net return targets
- Are revenues index-linked?
- Use of leverage
- Overall attractiveness of returns verses Fund target

Risks

- Are the risks known and can they be managed?
- Uncontrollable risks – e.g. economic risk, market risk, political risk
- Controllable risks – e.g. execution risk, development risk, counterparty risk

Localness

- Is the proposal national or regional/local?
- If national, is there an opportunity for a local sleeve?
- Is it relevant and can it connect with local communities?

Timeframe

- How quickly can capital be deployed?
- What stage is the proposal currently at – already investable, still in development, etc.
- Is the proposal open-ended?
- Time frame for achieving return on investment.

Climate Aligned

- Does the proposal have any explicit climate targets?
- Affordable housing – EPC targets? GRESB scores?
- How realistic are these targets?
- Absolute verses relative levels of carbon emissions.

Capital £

- Can capital be deployed at meaningful scale? i.e. >£15m
- What is the minimum level of capital the Fund can deploy?
- Is there a maximum level of capital the Fund can deploy into a specific proposal?
- Are there any liquidity considerations?

Management Quality

- Does management have experience in the relevant area?
- Does management have the necessary connections and relationships to develop credible development pipelines?
- Strength of board and external directors – credibility, experience etc.

Asset Management

- Who will manage the assets – project development, ops management, etc.
- Structure of investment vehicle and legal basis – e.g. open or close-ended vehicle, SPV etc
- Company structure – listed or private entity, PE backing etc

Fees

- Initial fee
- Annual management charges
- Do performance fees apply?
- Are any discounted fees available for scale or early investment?
- What fees are associated with a dedicated SW sleeve for national schemes?

Monitoring and Reporting Impact

- How can impact be quantified?
- Can this be independently verified?
- How reliable is this?

Each investment idea is summarised and assessed, with each criteria assigned a score of 1-10 with a colour code.



5 INVESTMENT IDEAS

5.1 The Panel will consider two investment ideas as part of a closed workshop.

6 RISK MANAGEMENT

6.1 An effective governance structure, defining clear responsibilities, and ensuring that the decision-making body has an adequate level of knowledge and access to expert advice, is a key aspect of the risk management process.

7 EQUALITIES STATEMENT

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

8 CLIMATE CHANGE

8.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change and addresses this through its strategic asset allocation to Paris Aligned Global Equities, Sustainable Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Panel.

9 OTHER OPTIONS CONSIDERED

9.1 None.

10 CONSULTATION

10.1 The Council's Director of One West has had the opportunity to input to this report and has cleared it for publication.

Contact person	Nick Dixon, Head of Avon Pension Fund
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Background papers	None
Please contact the report author if you need to access this report in an alternative format.	