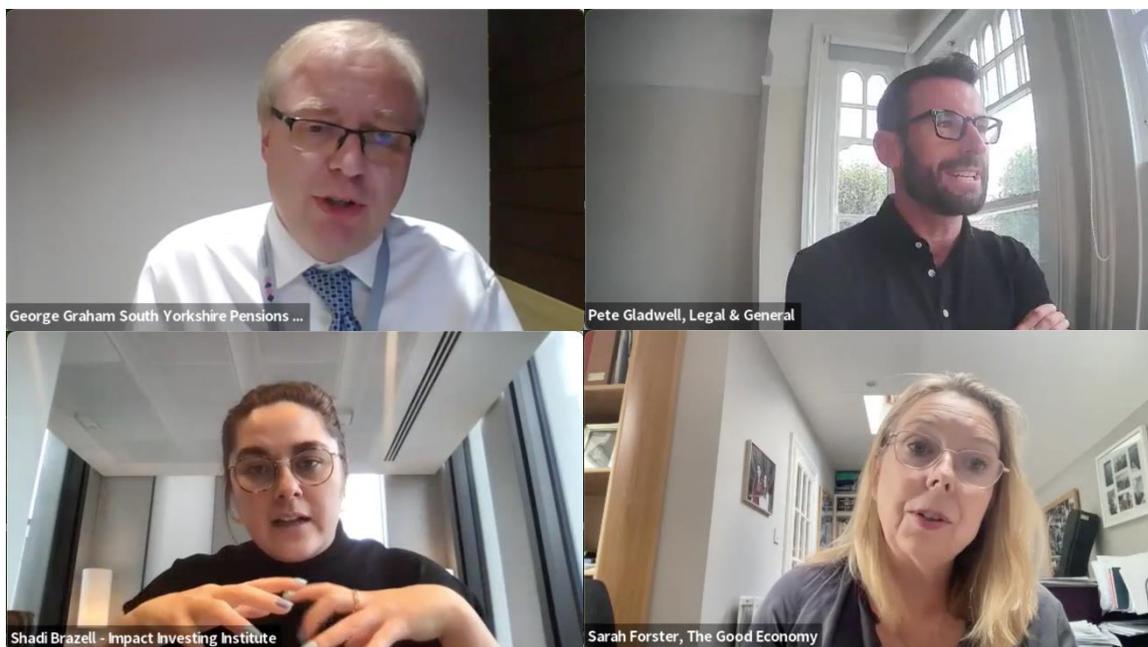


Pensions for Purpose's quarterly all-stakeholder event for the Place-Based Impact Investing Forum September 2022



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Progress in place: case studies on how place-based impact investing is being actioned among different stakeholders



Panel discussion with:

George Graham, Director, South Yorkshire Pensions Authority

Pete Gladwell, Group Social Impact & Investment Director, Legal & General

Shadi Brazell, Senior Programme Manager for Place-Based Impact Investing, Impact Investing Institute

Sarah Forster, CEO, The Good Economy

The PBII Forum runs quarterly events which are open to all members and this session on 26 September 2022 included a wide range of participants including pension funds, trustees, consultants, government representatives, social enterprises, asset managers and other supporters of the forum.

Karen Shackleton and Martin Pattinson of Pensions for Purpose co-hosted. Karen chaired the panel discussions by asking a series of questions of George Graham, Sarah Forster, Shadi Brazell and Pete Gladwell, representing a broad cross-section of opinion to understand the progress that is being made in PBII across these different groups of stakeholders.

Martin moderated the questions, which were followed by breakout sessions, each breakout room being asked to consider three questions:

1. Challenges faced?
2. Is investment **with** or **for** impact?
3. What is needed to progress effective PBII?

The outcomes of the discussions and the wider work of the PBII Forum are used to shape the work of the PBII Innovation Programme led by The Good Economy.

The rest of this note covers the discussion and feeds into the ongoing work of the PBII Innovation Programme.

Panel discussion

Karen opened the discussion by noting that in the past this Forum has considered the definition of place – how to measure it and what it means. This meeting focused on the action we are beginning to witness, brought to life by an excellent panel.

Turning to each panel member, Karen asked:

- What should pension fund consider first when thinking about PBII?
- Where was their current impact?
- What was their intention?
- What does place mean?

George Graham, Director, South Yorkshire Pensions Authority

George said it is important to consider what the investment objective is and what hurdle rate needs to be met before the investment can be considered further. The 'L' in LGPS refers to 'local' and this is important for LGPS funds as they have a strong connection to place. For South Yorkshire Pensions Authority, the place is South Yorkshire, and it is important to balance the interests of different places when considering a range of investment opportunities. The nature of the impact follows once the investment has passed the hurdle rate. Intention is important in place-based investing and typically the focus is on property programmes, with sustainability and environment considerations being important features in those programmes. The South Yorkshire Pensions Authority wants to achieve positive impact through PBII.

Pete Gladwell, Group Social Impact and Investment Director, Legal & General

Pete stated that his position is not that different to George's as they are investing L&G's own capital in PBII. Additionally, he works closely alongside LGIM colleagues, being able to choose the partners that they work with and help in identifying place-based opportunities that will have the most impact. Tying their clients' savings and investments to PBII and the place where the clients live and work is difficult, so Pete has found working with Local and Combined Authorities has been one way of trying to achieve this. Pete cited the £4bn investment programme partnership they have with West Midlands Combined Authority, similar to others in their pipeline of impact opportunities. However, they also fund other groups, including housing associations and community groups, and he can see working partnerships evolving with niche impact managers. L&G recognise that one of their roles is to re-invest their client monies in place, identifying need, investing with impact, working with diverse groups and generating the returns for their clients.

Shadi Brazell, Senior Programme Manager for Place-Based Impact Investing, Impact Investing Institute

Shadi agreed with George that the financial determinants of any PBII programme are fundamental. What she wanted to clarify, though, is the definition of place – it does not have to be local and in your backyard. It will mean different things to different people. With a geographic intention, you do not have to be just investing locally; if you are investing with a mindset of solving problems and providing solutions in a place, then that is PBII. The 5% impact investment target is UK-wide and, for Shadi, PBII can be in infrastructure or SME finance, as well as real estate.

Sarah Forster, CEO, The Good Economy

Sarah said The Good Economy had decided place should be within the UK as that is where our financial systems should be investing more money. Unlike other OECD countries, the UK is relatively worse off, with long-standing and deeply entrenched social and spatial inequalities, brought about partly through our history of exporting capital. The UK needs to build bridges within its financial system to secure more PBII opportunities, generate returns and reap the benefits it can offer. Sarah also said the definition of place is at the heart of the issue. She cited the example of the Brunel Pension Partnership delivering the Cornwall Local Impact portfolio; in this case place is regional. Different pensions funds define place differently. Some of the largest pension funds may consider place as UK-wide whereas others, including local authorities, will be more local in their definition. It is important to understand the needs and opportunities of different places and recognise how connecting investment capital to those places will bring about impact.

1. How have you approached PBII and what is the process you are using to create objectives, align third parties and measure progress? Each panellist was asked to respond in relation to their particular entity and working with clients/peers.

George Graham, Director, South Yorkshire Pensions Authority

The South Yorkshire Pension Authority have taken advantage of some of the objectives that already exist with the combined authorities, focusing on what the council is doing in place and housing – particularly regarding diversification of the type, scale and size of housing. So, in Sheffield the Authority wants to see houses for graduates to buy so they remain in the city, whereas in other towns they want three- and four-bedroom family homes. George said they have worked on other objectives and provided funding focused on job creation, provision of new industrial floor space, improving the environmental features of buildings and recycling buildings which has resulted in significant carbon benefits. The South Yorkshire Pensions Authority have purposely aligned their objectives to those of the council's Strategic Economic Plan and the brief for asset managers is to bring forward PBII opportunities that meet the Authority's objectives. They have allocated £100mn to these initiatives but, to achieve a 5% allocation on time, George will need to invest more and in other asset classes, partly through the pool but also possibly through wider geographical-oriented pooled vehicles with a PBII focus.

Pete Gladwell, Group Social Impact and Investment Director, Legal & General

For L&G, the objectives are to improve people's lives, make a difference with the money they steward, and protect and grow their clients' assets. Investing in place is not a marginal activity for L&G, there is no specific allocation to PBII, there are different pools of assets within L&G from the £80bn retirement book, which may have a conservative 3% to 4% allocation for PBII, through to L&G's balance sheet which can take a higher level of risk and can fund, for instance, the modular housing factory in Bristol. At L&G, and Pete encourages others to think this way too, rather than having a specific allocation to PBII, place and social impacts should be embedded in the investment process by an asset owner and asset manager, like environmental considerations are today. Pete is enthusiastic that more capital will be deployed in these projects, when they work and collaborate more closely with local authorities, other asset owners and managers.

Shadi Brazell, Senior Programme Manager for Place-Based Impact Investing, Impact Investing Institute

Shadi said it is important to partner with local entities, such as authorities, who really understand a place. This ensures the issues, challenges and potential opportunities can be identified, defining a vision for the place and helping to identify suitable investment opportunities. These impact measurement frameworks, developed by The Good Economy and the Impact Investing Institute, offer a range of measures and metrics that can be used by asset owners and investors in PBII projects. Shadi also highlighted their pilot project with Wakefield Council, working with the leadership team to build the capacity and vision of the council, focusing on originating investable projects and supporting interaction with finance partners. The Impact Investing Institute is working with other local authorities and government to bring PBII more into the mainstream.

Sarah Forster, CEO, The Good Economy

The Good Economy's position in the market is as an impact advisory firm, helping stakeholders scale up and develop the PBII market. They achieve this in two ways: through their reporting framework and PBII Labs. They set out an impact measurement and management framework, ensuring alignment around common impact objectives and clear KPIs, which allows firms to measure and report results and learn from past performance. The reporting framework ensures impact is engaged alongside financial reporting. It is aligned with the government's levelling up agenda. The Good Economy has also set up a working group of 15 local government pension schemes and asset managers, who have fleshed out an approach and set out different pillars, from affordable housing to clean energy.

The Good Economy is working on their PBII Labs with local stakeholders. Four of the five labs are local authority driven and one is community-led. By using the labs, The Good Economy developed a shared vision and objective. The PBII Labs consist of a community-led regeneration in Dunoon, Scotland; re-provision of social housing in Manchester; affordable housing in Bath; and Essex and Doncaster host the other labs. The goal is to align investors to offer financing solutions and prioritise the alignment of all actors. Sarah clarified there is a lot to learn about PBII and the Forum is a great place to share knowledge.

2. What does or will good PBII look like? What should investors be wary of and how do they set guidelines around what they will and will not accept?

George Graham, Director, South Yorkshire Pensions Authority

It is important to set ground rules in advance and stick to them rigidly. Once a pool of capital is available, some people think you're going to be a 'soft touch' and may attempt to persuade you to invest. You must be clear on what you are and are not going to do. If you have achieved an investment return and improved quality of life in a place, then that's a success for members because they spend their career trying to improve the quality of life in these places. So, there is a strong alignment between what the South Yorkshire Pensions Authority do in the PBII space and what members do in their careers. Investors should not be drawn away from their guidelines because they could inadvertently take on too much risk by getting drawn into inappropriate transactions for a pension fund. They are rigid on what transactions they do, said George.

Pete Gladwell, Group Social Impact and Investment Director, Legal & General

For Pete, it's moving away from personal objectives for impact and towards what affects the community. Local people need the investment to deliver – it's about involving them in their definition of success. Investors must be clear on the outcomes they're seeking to deliver. Along with this, there must be an auditable process to look back on impact success.

Shadi Brazell, Senior Programme Manager for Place-Based Impact Investing, Impact Investing Institute

As well as contributing solutions to local problems, good PBII takes a holistic approach to place. Partnership and collaboration with organisations are a successful way to represent the views and opinions of that place, this means not just the local councils but the people. The key is how you tie it together to deliver improvement to people's lives.

Sarah Forster, CEO, The Good Economy

To reiterate, success is what local communities want and, at a macro level, a positive outcome would make the map of Britain very different, by reducing social and spatial inequality over time to transform the economy to a good economy. Also, there is a lack of trust in Britain between local authorities, community organisations and the financial sector. There is a lot of work to do in building trust and aligning values and interests. What should investors and local communities be wary of? Sarah said that the investees are on the demand side, not the investors. There are a multitude of investors with different risk and return profiles. So, it is important to understand the range of finance and choices out there. Using this understanding to build relationships with investors will help you finance and deliver your objectives - it is about building an ecosystem of actors.

Karen Shackleton, Founder and Chair, Pensions for Purpose

Karen added that it's important for pension funds to be wary of impact washing, look into the whites of investment managers' eyes and ask if they are genuine with the impact they are trying to achieve. It's also important to ask yourself whether your goal is deliverable and aligned with your pension fund's investment beliefs.

The Q&A

The panel discussion was followed by a short question and answer session. Topics included:

Q - What does place-based mean for London CIV?

A - [Christopher Osborne, London CIV](#)

Every London borough would love to have their investments based in their own backyard, which isn't always possible. London CIV have the London Fund which invests in real estate and infrastructure inside the M25. But, while there is a secondary objective to create impact, they are also aware they want to generate commensurate returns, so they have to look at UK-wide strategies. For example, for housing it's better to explore nationwide investment because there is a bigger pool of opportunities.

Q – What are the processes of local collaboration and consultation for taking the priorities from the community to the local authority?

A - [Shadi Brazell, Senior Programme Manager for Place-Based Impact Investing, Impact Investing Institute](#)

The Impact Investing Institute is working with the Involve Foundation to answer this question. They are understanding what level of direct community engagement is appropriate and what 'good' looks like. Local authorities are a great starting point for investors who're wanting to understand local needs but they shouldn't stop there. This project is also about what to expect from investors and is a step removed from impact on the ground.

[George Graham, Director, South Yorkshire Pensions Authority](#)

There can be conflicts of interest, which is why LGPS often go through fund managers. LGPS expect their fund managers to engage with the community being developed but also local authorities and other interested bodies. How much they communicate will depend on what they're investing in. For example, there's community interest in housing because of planning permission. In the past, the South Yorkshire Pensions Authority has invested in a community-led Wiltshire solar farm, where community engagement was high, but that type of local opportunity is rare. Communities would not directly involve themselves in investing at scale, as the projects that they're investing in would need to include community involvement and engagement. Investors are one step away from the field. However, they need to set expectations for investee projects in community engagement. There's no point in investing in white elephants because the community don't want it. They also need to be careful in choosing who to work with. Pete Gladwell (Legal & General) is doing good on-the-ground engagement but the South Yorkshire Pensions Authority don't have the networks or contacts to do this directly so they rely on the people they work with while setting expectations.

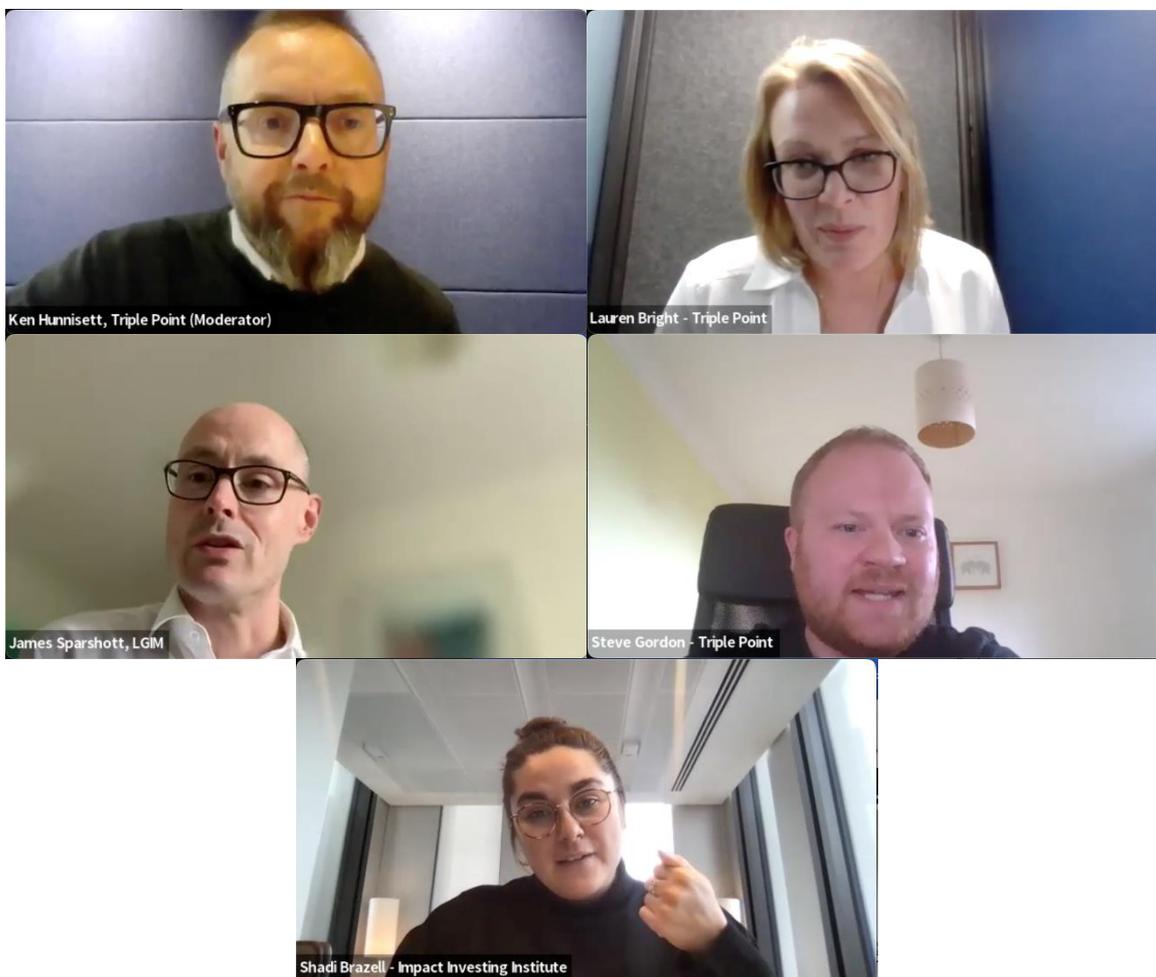
The breakout discussion

Small, mixed breakout rooms, including experts and practitioners in each area, spent 25 minutes sharing their experiences and considering the questions:

- What issues are you facing in terms of getting buy-in for PBII? What support is needed?
- How do you see the issue of investing with impact or for impact?
- What would help you take the next steps?

Feedback and round-up

The groups returned from their breakout sessions and each group's moderator highlighted areas of discussion including:



Ken Hunnisett, Triple Point

There is a question of how we address the issues surrounding a desire to focus on the needs of individual communities, regarding this idea of the specificity of place while at the same time producing investable opportunities at a manageable scale, that an LGPS could realistically invest in. Potential solutions include lowering the cost of origination and, through platforms like Pensions for Purpose and The Good Economy, shining a light on investment managers. However, it is still clearly an issue.

Lauren Bright, Triple Point

Our members, boards and colleagues think everyone is excited about PBII but it is important to ensure intentionality is understood and there is lots of support available. This breakout room talked about London specifically and the fact that there's a huge number of London boroughs who want funding themselves. They talked about how they could draw in capital funds from all their London partners and about how wider stakeholders are using the decarbonisation label. It often helps partners to understand.

James Sparshott, LGIM

When private and public sector actors come together, there can be some suspicion. Talking to an LGPS that deals with fund managers regularly, there's clearly trust but for local authorities who only deal with fund managers every now and then, the trust may not be there and it has to be built. A relevant case study is a DIY store being converted into an industrial estate, where councillors drive past and see the progress and the jobs created.

Steve Gordon, Triple Point

Returns came up, as well as having a concise definition of what impact means. Often if you're replacing something that's been taken away it's easier to get by than if you're creating something new, like PBII.

Shadi Brazell, the Impact Investing Institute

Shadi highlighted an interesting counterpoint around the definition from Steve - maybe it's good to have a broad approach because stringent over-definition can put you into a corner; it's about evolving your investment approach and considering the role of private capital in the wider economy. Case studies are a useful tool for taking next steps and changing your strategy. Clarity of government policy is needed, regarding the 5% target for local investment for LGPS funds, but also for whether it's levelling up or trickling down. A clear approach and long-term consideration would be helpful.

Closing and final comments

The panel gave their final thoughts on the meeting with key observations being:

George Graham, Director, South Yorkshire Pensions Authority

One insight is that, if we're moving PBII to the next stage, everybody in the process needs educating. George wrote an article including Roosevelt's quote, "We have nothing to fear but fear itself". We've got to address the fear PBII is low returning with higher risk. These anxieties are either false or can be overcome with proper governance. We need to keep talking and educating people while 'getting on with it'.

Pete Gladwell, Group Social Impact & Investment Director, Legal & General

Pete valued the LGPS input. There is this dilemma where a pension fund is coming under pressure to invest in PBII but, on the other hand, the local place is unclear about what they're after, what the investment will achieve or what's required. It does require a huge amount of resource to bridge that gap. It's not like a bond market where you can throw £100 million at a fund manager and they'll have it invested by end of the day. It's

BLOG: Place-Based Impact Investing Adopters Forum – all-stakeholder event – progress in place

incumbent upon those of us trying to set a lead on place-based investing as to how we can bring others in. If invested, we must focus on how we can enable the investment to multiply the impact.

Karen closed the meeting thanking all the panelists and the forum sponsors, Legal & General and Triple Point.

Martin Pattinson and Cameron Turner

The Place-Based Impact Investing Forum

The Place-Based Impact Investing Forum was established by Pensions for Purpose and The Good Economy, and is run in partnership with the Impact Investing Institute, to help pension funds and other asset owners make informed decisions about place-based investments. We do this by sharing place-based-related thought leadership written by our members (asset managers, consultants and lawyers), by running training workshops for trustees and by engaging in industry-wide conversation through our quarterly all-stakeholder and asset-owner events. To find out more please [click here](#). The Forum is sponsored by Legal & General and Triple Point.

To join the Place-Based Impact Investing Forum please email martin.pattinson@pensionsforpurpose.com.

Pensions for Purpose

Pensions for Purpose exists as a bridge between asset managers, pension funds and their professional advisers, to encourage the flow of capital towards impact investment. Our aim is to empower pension funds to seek positive impact opportunities and mitigate negative impact risks.

For more information, please email membership@pensionsforpurpose.com.