

Innovation in private debt – lending for social purpose

This bespoke *Pensions for Purpose's* research explored how LGPS can efficiently integrate private lending for impactful investments, revealing trends in allocation, preferred asset classes, impact themes and challenges in private debt investment, this recent event discussed the findings

Sponsored by **Allia C&C** and **Big Issue Invest**

By Bruna Bauer



In recent Impact Lens research, *Pensions for Purpose* focused on understanding how private lending can be shaped efficiently and effectively to create an attractive investment proposition for local government pension scheme (LGPS) funds while simultaneously achieving positive social impact. Our analysis involved deploying a questionnaire to understand LGPS funds' approach to impacting investing, including their target allocations, preferred themes, and their perspectives on utilising private debt within their impact investment portfolio, as well as their interest in residential care and specialised supported housing as an impact theme for investment.

At a morning coffee to discuss the research, Karen Shackleton, founder of *Pensions for Purpose*, shared the key findings of this research:

- **Target allocation:** Interviewees' approach to impact investing differed. An allocation of 3% to impact investing was the most popular among LGPS funds participating in this research. Some of them choose to designate specific fractions of their funds for impact-driven investments, while others set aside a

portion of their overall allocation within certain asset classes for this purpose.

- **Preferred asset classes for impact investing:** Interviewees typically opt for infrastructure, real estate and private equity when allocating to impact.
- **Preferred impact themes:** LGPS funds we interviewed mainly mentioned climate as a theme of interest. This was followed by affordable housing and renewable energy sharing second place; and biodiversity, human rights and support to small and medium enterprises (SMEs)/local SMEs in third place.
- **Impact investing through private debt:** Overall allocations to private debt ranged between 3% and 6%, which interviewees access either via their pool, via direct funds, or in some cases a fund of funds/managed account approach. Only one of our interviewees invested in individual direct loans. Private debt is not a popular asset class for LGPS funds allocating to impact. Some asset owners recognised limitations in aligning private debt investments with impact objectives due to the concentration on senior lending. Other potential hurdles centred around reputational risk. For example, one fund said "it



doesn't look great for our reputation earning great profit margins off social housing".

- **Return expectations in private debt:** Ranged from targets between 6% to 9% in a scenario of inflation of 3% to 5%. However, in a current scenario of government debt offering 5% returns, the market dynamics have shifted. As a result, some schemes are targeting higher returns of 8% to 9%, making it harder to allocate funds to other areas such as social bonds.

- Cost versus value decision-making processes

More information

If you are interested in a conversation on this topic, please e-mail [Karen Shackleton](mailto:karen.shackleton@pensionsforpurpose.com).

Help for asset owners

Pensions for Purpose offers bespoke pension committee training and facilitated workshops to help funds clarify their priorities, goals and how to achieve them. Our Knowledge Centre contains hundreds of articles on various topics.

Partner with us

If you are interested in collaborating with us on an impact-related piece of research, please get in contact. *Pensions for Purpose* offers published and bespoke research. Some sponsorship opportunities already available include:

- How do asset owners and their advisers measure, report and engage on impact performance?

Impact Lens

You can find our published Impact Lens reports here – the latest is 'Navigating diversity, equity, and inclusion (DE&I) – An asset owner perspective,' sponsored by Jupiter Asset Management.

