



By Constance Johnson



The future of place-based and productive growth investment by pension schemes holds immense potential for driving regional economic development and fostering sustainable returns. As pension funds seek diversified, long-term opportunities, investing in local infrastructure, housing and businesses can stimulate economic growth, create jobs and enhance community resilience. This approach aligns pension schemes' fiduciary responsibilities with the broader goal of supporting regional prosperity. In an evolving financial landscape, pension funds can lead in creating lasting impact, fostering both economic growth and social value, while ensuring secure and productive investments for future generation of retirees.



Charlotte O'Leary, CEO at Pensions for Purpose, invited Greater Manchester Pension Fund (GMPF) and The Good Economy (TGE) to discuss successful place-based investments, scaling up productive finance from defined benefit (DB), defined contribution (DC) and local government pension schemes (LGPS), and the pension industry's role in shaping policy with government and regulators.

### Why PBII matters

The discussion emphasised the significance of place-based impact investing (PBII) to address regional inequalities and social challenges.



Alex Jones, Investment Manager at GMPF, shared how PBII is already making a difference. With a 5% allocation to local investments, the fund is actively supporting projects that deliver commercial returns and tangible benefits to local communities. This demonstrates how pension funds can help reshape the future of the regions they serve by making investments that contribute directly to the local economy.



Debbie Fielder, Non- Executive Director at Pensions for Purpose and formerly of Clwyd Pension Fund, highlighted how PBII gives investors the opportunity to focus on specific regions and strategies, whether it's a diversified portfolio across a wider geography or a more dedicated allocation closer to home. There are communities across the UK and beyond who are in dire need of the capital and support and have been previously overlooked.

In July, the former Chancellor, introduced the phrase 'productive finance' in his Mansion House speech, referring to the importance of directing UK pensions schemes to invest in productive assets. The new Government is building on ways to stimulate economic growth – by increased investment in UK defined benefit, defined contribution, local government pension schemes and bond purchase annuity insurers



Anna Shiel, Chief Investment Officer at Better Society Capital, noted many social challenges are inherently regional – for example, the challenges certain communities and areas face, and the inequalities such as homelessness or access to healthcare that exist within areas – making PBII crucial for effective solutions.

### PBII strategy implementation

Alex explained how GMPF manage two local investment portfolios:

- A property venture fund, which makes direct real estate investments and seeks committee approval for recommendations.
- An impact portfolio with in-house due diligence,

# The future of place-based and productive growth investment

aiming for four to five annual investments of around £20mn overall. Over the past decade, GMPF have committed £1.4bn to local investments, with £900mn invested, and have begun publishing impact reports, the first released last year and a second in progress.

Anna explained how Better Society Capital adopts a two-pronged approach to national and local engagement. They identify asset classes and business models that tackle social challenges. Additionally, they collaborate with local stakeholders to understand regional needs and develop financial strategies to attract diverse investors. Central topics include social and affordable housing, which has grown significantly and is attractive to institutional investors due to its stable income streams, and the just transition to net-zero, focusing on community involvement in renewable

energy. The organisation also supports inclusive local economies through initiatives like the Community Investment Enterprise Fund, which has secured substantial commercial investment.

### Collaboration and communication

The importance of collaboration between stakeholders was a recurring theme. Sam Monger, Head of Place-Based Impact Investing and Strategic Advisory at TGE, said they enhance funding collaboration through three main initiatives. Firstly, the PBII Network, which brings together impact fund managers and local authorities to build trust and share knowledge, addressing gaps in understanding. Secondly, by developing a place-based impact

## Feedback from the audience: breakout rooms

During the audience participation session, each group discussed a different question, reflecting on the challenges and opportunities in the investment landscape. These questions guided their exploration of engagement, transparency and impact.

### Group one

– moderated by *Claudia Sanches* of AXA Investment Managers

**Challenges and barriers: why do schemes not engage enough or effectively?**

National versus local focus – some schemes prefer hyper-local engagement, which can limit exposure and opportunities for diversification.

Variability in experience with private markets – some schemes are familiar with them, while others are not – there is a learning curve for effective engagement. There are potentially high costs associated with transitioning and learning how to invest in private markets.

Transitioning to local investments – there are also challenges in transitioning to local investments if schemes have traditionally focused on national or broader markets.

### Group two

– moderated by *Guinevere Taylor* of Cardano

**What works well for engagement with investment consultants, asset managers, trustee, Chief Investment Officers and scheme managers?**

Communication challenges – effective communication while pursuing opportunities directly when required is key. Local authorities often communicate with their pools, but sometimes lack the expertise or capacity to handle time-sensitive opportunities.

Supply and demand issues – greater identification of credible investment opportunities that meet fiduciary duties.

Visibility – communication and education to bridge gaps between housing departments, the investment community and other stakeholders is essential. Concerns were raised that large consultants would potentially overlook PBII opportunities.

### Group three

– moderated by *Douglas Anderson* of Downing

**How can we create greater transparency among stakeholders in the investment chains?**

Education networks – there was an emphasis on the importance of creating and enhancing networks for education.

Transparency – there is a need for improved transparency regarding investment offerings. Consistency and

clarity in the information provided by asset managers to asset owners is needed in relation to investment and impact performance.

Observation – site visits are valuable for PBII as they allow first-hand observation of the investment and action taking place.

### Group four

– moderated by *Bill Manahan* of Federated Hermes Limited

**How do we make impact an integral part of the approach?**

Alignment – clearly define impact goals and ensure manager alignment, aligning with partners who share the same vision and objectives.

Understand performance – assess both impact performance and financial performance of investments. Ensure communication is transparent and consistent.



investing reporting framework, now used by *GMPF* and others, to standardise investment criteria and evaluate financial performance and impact. Thirdly, they provide strategic advisory services; for example, their work with the *Midlands Engine* to increase regional investment and retain valuable local spin-out companies from universities.

The panellists agreed effective communication is essential for aligning interests, and ensuring opportunities are identified and acted upon. Collaboration is vital to overcome knowledge gaps and foster a supportive environment for PBII.

### Challenges and opportunities

Alex emphasised the importance of securing buy-in from stakeholders and adopting a broad definition of 'local' to uncover sufficient investment opportunities. Debbie highlighted that while private markets present significant potential for PBII, they also come with challenges such as the need for extensive resources, expertise and governance. She pointed out transitioning to local investments involves understanding private market complexities, which can strain a fund's resources and require careful planning.

Debbie also stressed implementing PBII strategies necessitates thorough due diligence, whether carried out by internal teams or external consultants, and emphasised the need for effective collaboration with these advisers. The higher fees associated with private markets – often comprising a substantial portion of a fund's fee budget – must be considered. Despite these challenges, PBII can offer substantial rewards, including impactful local benefits and alignment with broader social goals. Strategic planning and collaboration can help overcome these hurdles and see pension funds successfully navigate the complexities to reap the benefits of PBII.

### QUESTIONS AND ANSWERS

**Q What are the target returns for place-based impact investing?**

**A Debbie Fielder:** Target returns depend on asset class and are set by consultants based on actuarial valuations. *Clwyd Pension Fund's*

impact and local portfolio have been exceeding expectations with returns of 24-40%.

**A Alex Jones:** *GMPF's* overall target is RPI plus 4%, with individual investments ranging from 2-4% to the high teens.

**Q How do LGPS investors consider new place-based strategies requiring significant capital?**

**A Alex Jones:** *GMPF* often act as first investor in new funds, taking calculated risks based on due diligence. For diversification reasons, they prefer not to hold too high a percentage of any one fund.

**Q How do you manage reputational risk in place-based impact investment?**

**A Alex Jones:** The importance of due diligence and regulation. *GMPF* invest through fund managers who work with regulated entities like local councils and NHS groups. This multi-layered oversight helps mitigate reputational risk. The need for thorough vetting processes to ensure investments avoid negative outcomes, was noted, highlighting the responsibility pension funds have in maintaining their reputations.


**A Charlotte O'Leary:** Understanding impact at the outset, and using various levers like stewardship and market standards, can also help manage reputational risk.

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● **Constance Johnson is an Intern at Pensions for Purpose**

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