SOUTH YORKSHIRE
PENSIONS AUTHORITY

Place-Based Impact Investment Plan

June 2024

Contents

Introduction

This plan is produced to meet the emerging requirement from Government for LGPS funds to produce a plan to invest up to 5% of assets under management in projects that support "levelling up" across the UK.

South Yorkshire Pensions Authority does not recognise "levelling up" as framed in the Government's proposals as something that is necessarily investable. However, it does recognise that investing in specific places can achieve impacts which will support the Government's "levelling up" missions. Therefore, the Authority's plan to address the Government's requirement addresses place-based impact investing which is a recognised approach to investment. This means that this plan is framed in the context of finding new ways of delivering return to meet pension liabilities which also achieve positive impact as is right for a pension fund rather than solely focussing on the impact.

This plan is based upon work delivered by a Member Working Group in 2023 which framed a strategy for place-based impact investing for the Authority with a specific focus on South Yorkshire and sits in the context of the Authority's overall investment and funding strategies.

The Strategic Context

This plan needs to be seen in the context of the following overarching strategies:

- The Funding Strategy Statement which sets out the Authority's investment return targets and broad approach to achieving a balance between contributions from employers and scheme members and investment returns in meeting the Fund's liabilities.
- The Investment Strategy Statement which sets out a strategic asset allocation intended to deliver the returns required in the Funding Strategy Statement and in line with the Authority's investment beliefs including its risk appetite.

The Funding Strategy requires the Fund to return 4.45% pa to maintain full funding based on the data available at the 2022 triennial valuation. This is, therefore, broadly the minimum return target for any investment although SYPA expects fund managers to manage portfolios of assets to deliver return targets specific to the particular asset class, thus equity returns would be expected to be greater than returns from property.

Another key aspect of the Funding Strategy Statement is the need for investments to generate income to bridge the increasing gap between the value of contributions received and benefits paid out.

These factors are then reflected in the investment strategy along with a reflection of the Authority's investment beliefs which results in a strategy which aims to deliver the required return through:

- A lower volatility approach consistent with a moderate risk appetite,
- A focus on income generating assets,
- A focus on key themes supporting the climate transition as a means of delivering return,
- A broader focus on responsible investment and environmental, social and governance risks.

So, in developing a response to the Government's requirement for a plan to invest up to 5% of assets under management in projects that support "levelling up" across the UK we need to design something that achieves at least the returns set out in the Funding Strategy Statement and which is consistent with the aims of the Investment Strategy. The following sections set out our plan for doing this.

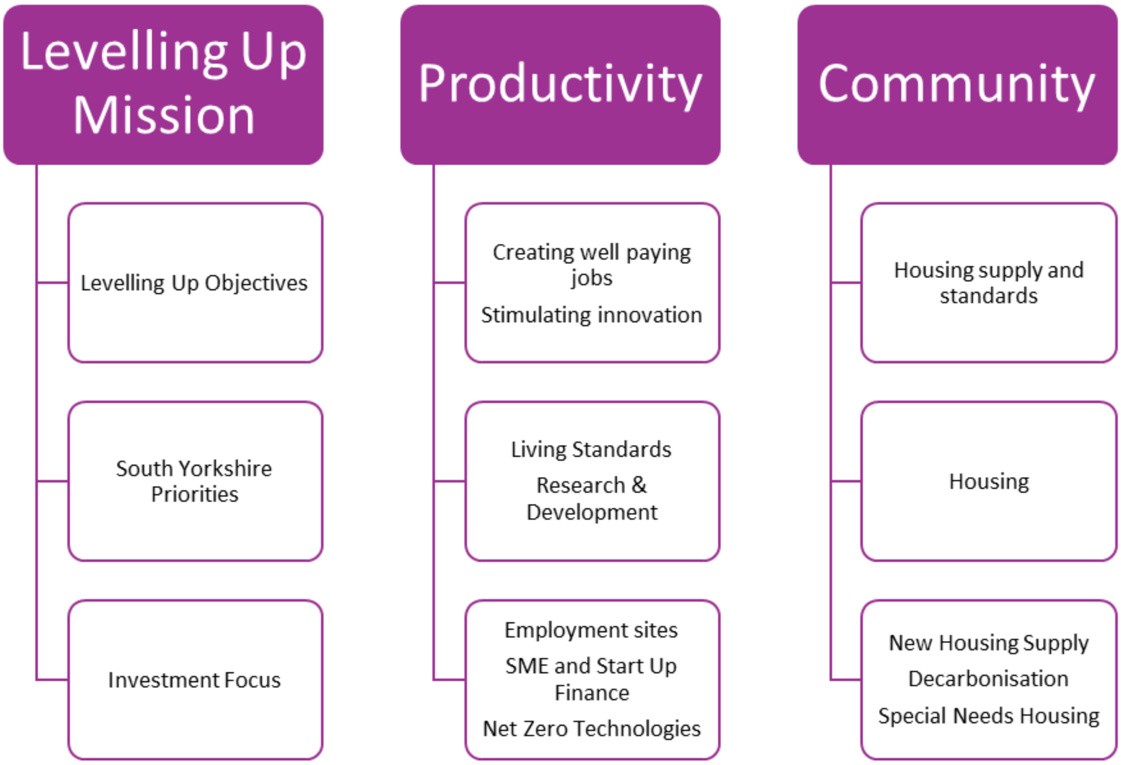
Place Based Impact as Part of the Investment Strategy

Firstly, it must be recognised that place-based impact investments are not an asset class in themselves. They can be virtually any type of asset but for the purpose of this plan we are concentrating on assets which fall into the following asset classes:

- Infrastructure
- Private Credit
- Private Equity
- Real Estate

Within these asset classes we will want to look to achieve specific impacts in areas which relate to the Government's "levelling up" missions. However, it is also important to SYPA that the impacts which are targeted both align with South Yorkshire's own priorities and are also genuinely investable and deliver the return targets specified for the fundamental asset class.

Consequently the 2023 Member Working Group Report recommended the areas of investment focus shown in the graphic below which link specifically to both the Government's objectives and South Yorkshire's priorities as defined by the South Yorkshire Mayoral Combined Authority.

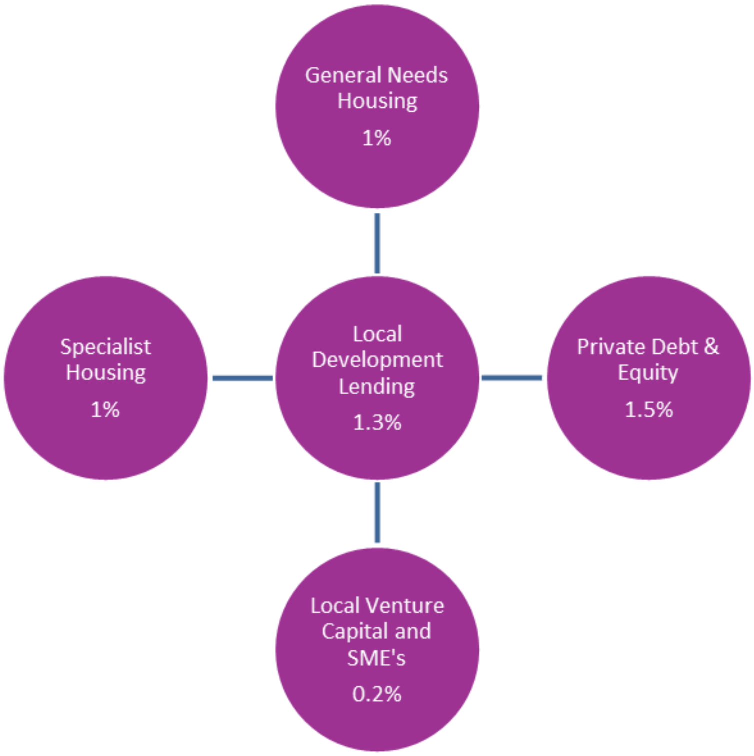


If this strategic approach is to be successful not just in terms of investment performance but in terms of delivering impact, then it is important to ensure that positive relationships are maintained with local partners which respect the different roles of the Fund as an investor and local authorities as stewards of place. To this end a Memorandum of Understanding has been agreed between SYPA and the South Yorkshire Mayoral Combined Authority (which brings together the 4 districts) which seeks to regulate the way in which information about potential investments will be shared between local partners and SYPA.

The Place Based Impact Portfolio

This is not an area where SYPA is starting from scratch. As set out in the Appendix SYPA has a significant scale of legacy holdings which provide a foundation on which the Place Based Impact portfolio will be built.

The portfolio designed to deliver the intentions of the Member Working Group in terms of the areas where impact should be achieved balanced with the Authority's overall risk appetite is shown in the diagram below. The percentages in the diagram reflet the percentage of the whole Pension Fund to be invested in the various types of investment. At the time of writing 1% of the Fund is approximately £109m.



The vertical spine of the portfolio as set out in the diagram above is South Yorkshire focussed while the remainder is UK focussed as it consists of strategies that are unlikely to be deliverable solely on a South Yorkshire footprint. Over time the intention is that investments in the spine will grow as a proportion of the Fund while those in the satellite areas will reduce as a proportion of the Fund although it is unlikely that they will reduce in cash terms.

This portfolio is likely to evolve at future strategy reviews to include some forms of local infrastructure investment. However, at this stage the capacity does not exist to implement a further form of local mandate.

Pooling As Part of the Place Based Impact Strategy

SYPA's investment strategy starts from the point of view that assets will be managed through pooled structures unless there is extremely good reason otherwise and the Authority's transition plan aims to achieve well over 90% of assets managed within the pool once legacy alternatives have run off. However, elements of the place-based strategy, particularly those with a South Yorkshire focus, cannot effectively be implemented through pooled structures because:

1. They are direct investments (e.g., a development loan) which is a one-to-one relationship.
2. The lot sizes are too small to be accommodated in a pooled structure. This can be true of both fund investments and direct investments.
3. There is a degree of geographic concentration which is not acceptable within the pooled structure.

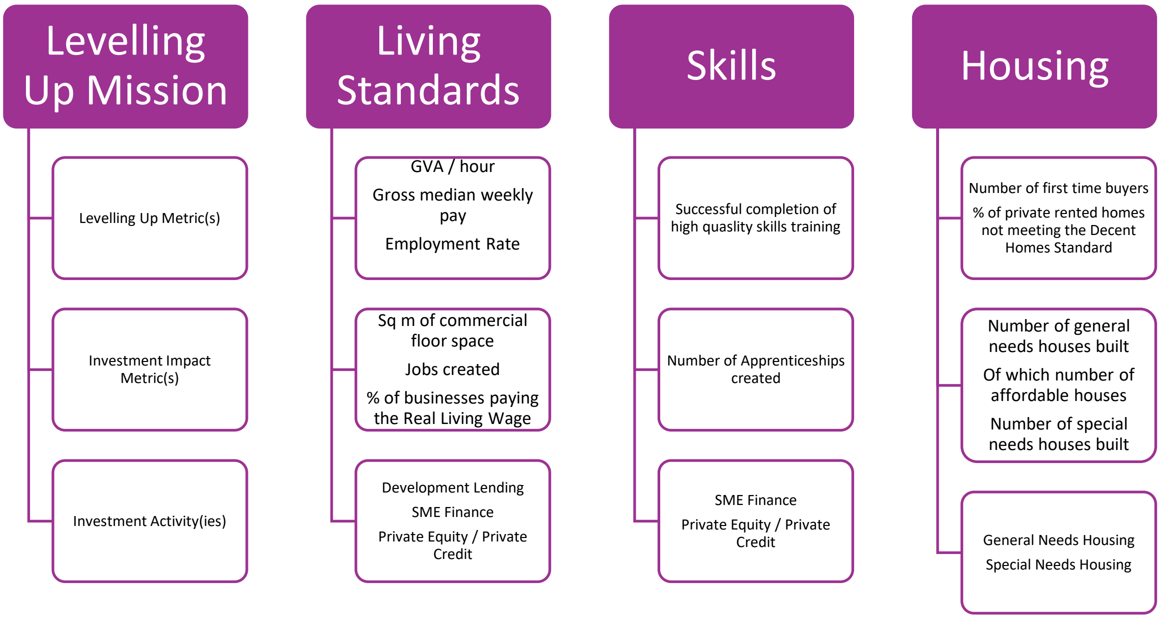
However, the Border to Coast operating company does have resources in terms of skilled staff and relationships with technical advisers that SYPA can and will leverage in relation to issues such as due diligence in relation to investments that will ultimately be made outside of the Pool.

In addition, Border to Coast has developed a UK Opportunities product as a response to the Government's call for "levelling up" investments. This is a £500m (at launch) UK focussed multi-asset fund of funds which will in its first iteration be invested over 3 years. This is defined as an "impactful" rather than an impact fund with no targeting of specific impacts. This Fund will provide a useful diversifier in a portfolio which over time is intended to become more concentrated on South Yorkshire and a commitment of £100m (c.1% of the Fund) has been made to the first iteration of this product.

Measuring Impact

It is important that the impact delivered by the various investments within the place-based portfolio is measured and reported. This will be done annually as part of the process of producing the Authority's Annual Report with the work being undertaken by an independent specialist firm to ensure that neither the Authority nor fund managers are "marking their own homework".

The graphic below sets out the broad framework we will use to demonstrate that the investments we are making within our place-based impact portfolio are delivering positive impact in terms of the Government's "levelling up" missions and the associated metrics.



The Government's "Levelling Up Metrics" are not easily measurable for individual investments and therefore metrics which will contribute to improvements in the "Levelling Up Metrics" and which can be relatively easily provided by fund managers have been identified here.

We will also look to report against the following additional metrics:

- The proportion of businesses invested in / jobs created which are located within the 20% most deprived areas as measured by the indices of multiple deprivation (IMD).
- Tonnes of Green House Gas (GHG) emissions avoided because of clean energy investment.

The first of these is important as an indicator that investment is being made in the areas where it might have most impact, while the second represents a further important priority for the Pensions Authority in terms of its overall journey to Net Zero.

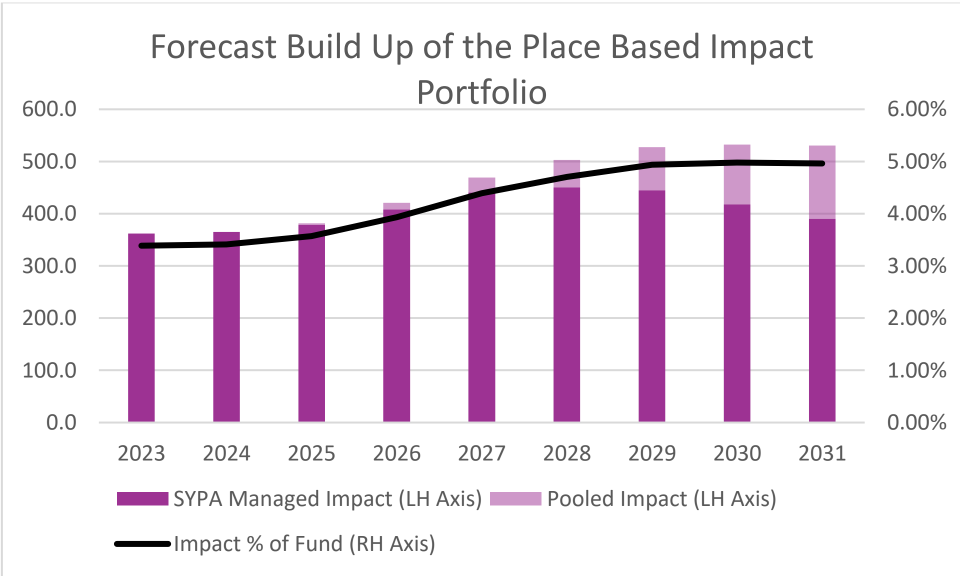
At this stage reporting will simply be based upon data gathered from fund managers. However, it will be necessary to introduce a degree of verification into the process once the portfolio is fully established. It is likely that this will be introduced in 2026 following the next review of the Investment Strategy.

Implementation

Implementation of the Strategy will be undertaken by SYPA's internal team who will be responsible for

- Overall portfolio design and construction.
- Manager and fund selection.
- Performance monitoring.
- Approval of direct investments subject to advice from relevant fund managers or advisers.
- Commissioning of impact measurement services.

The intention is to build the strategy from the current level (set out in the Appendix) to 5% of the Fund over several years as set out in the Authority's published transition plan and illustrated in the graph below. This graph also calls out as additional information the elements of the portfolio to be managed through the pool and managed directly.



As can be seen this forecast indicates that the portfolio will reach around 5% of the Fund by 2028 with cash inflows and outflows then stabilising once the allocation has reached the planned level. Clearly increases in the overall value of the Fund could result in delays in reaching the 5% level, although the absolute level of cash invested might as a result increase beyond the currently forecast levels, with the reverse being true should the absolute value of the Fund decline.

The remaining key tasks required to fully implement the place-based impact allocation are:

1. The appointment of fund managers to run South Yorkshire focussed mandates for General Needs Housing and SME / Start Up Capital. [By Dec 2024]
2. Negotiation with existing managers to increase the South Yorkshire focus of private equity and private credit investments. [Ongoing]
3. Establishing the performance track record of the portfolio based on the performance of existing investments to establish a performance baseline. [By Dec 2024]
4. Establishing a clear reporting framework for this portfolio encompassing both financial performance and impact. [By March 2025 for inclusion in the 2024/25 Annual Report]

Appendix – Existing Holdings

Fund	Vintage Year	Value at 31.3.24 £000	Outstanding Commitment £000
Private Equity			
BRIDGES SUSTAINABLE GROWTH IV (B)	2021	13,772	6,418
BRIDGES VENTURES FD III L	2012	2,102	-
FORESIGHT REGIONAL INV FD	2016	10,761	861
FORESIGHT REGIONAL INV FD III	2024	-	15,000
NORTHERN GRITSTONE	2023	6,000	14,000
PALATINE IMPACT FUND II	2022	4,488	10,215
PALATINE PEF II LP	2012	2,766	-
PALATINE PEF III LP	2015	5,909	1,710
PANORAMIC ECF	2010	865	-
PANORAMIC GROWTH FUND 2LP	2015	2,800	614
PANORAMIC SME 3	2023	1,535	-
SCOT EQUITY PARTNERS VI	2022	6,126	13,384
SCOT.EQTY.PART.III LP		19	-
SCOT.EQTY.PART.IV LP		4,205	-
SCOT.EQTY.PART.V LP	2017	25,047	1,956
WESTBRIDGE SME FUND LP	2012	991	-
WESTBRIDGE II LP	2018	18,213	2,071
WESTBRIDGE III LP	2023	3,741	11,321
Total Private Equity		**109,340**	**77,550**

Fund	Vintage Year	Value at 31.3.24 £000	Outstanding Commitment £000
Private Debt			
BEECHBROOK UK SME CR I LP	2015	1,317	-
BEECHBROOK UK SME CR II L	2019	7,459	550
BEECHBROOK UK SME CR III	2023	9,275	5,853
INDUSTRIAL LENDING 1	2014	10,001	-
INDUSTRIAL LENDING 2	2018	4,495	-
PALATINE GROWTH CREDIT	2023	190	9,810
PREFEQUITY	2024	-	10,000
Total Private Debt		**32,737**	**26,213**
Development Lending (CBRE S Yorkshire Loans)		**84,856**	**84,331**
Real Estate			
BRIDGES PROPERTY ALT III	2014	6,220	997
BRIDGES PROPERTY ALT IV	2016	8,373	823
BRIDGES PROPERTY ALT V	2020	19,426	9,281
BRIDGES PROPERTY ALT VI	2023	16,414	13,586
CHEYNE IMPACT REAL ESTATE TRUST		6,603	3,377
DARWIN BEREAVMENT SERVICES FUND		20,922	-
HEARTHSTONE RESIDENTIAL	2021	23,504	3,472
HENLEY SIPUT II		4,710	5,000
NATIONAL HOMELESS PROPERTY 2 TRUST		7,399	1,595
ST BRIDE'S WHITE ROSE LP		12,324	-
ST BRIDE'S WHITE ROSE RESIDENTIAL LP	2021	25,900	-
Total Real Estate		**151,795**	**38,131**
Total Portfolio		**378,728**	**226,225**