The Cornwall local impact portfolio takes shape

This blog sets out a case study of the Cornwall local impact portfolio and how the partnership between *Cornwall and Brunel Pension Partnership* helped create their impact sleeve.

The background to the portfolio was presented at a recent Place-based Impact Investing Forum all-stakeholder event by **Chris Crozier**, Senior Client Relationship Manager at *Brunel Pension Partnership*, and **Sean Johns**, Pensions Investment Manager at *Cornwall Pension Fund*.

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By Cameron Turner

Cornwall Pension Fund decided to create a strategic allocation to social impact to directly benefit Cornwall and the wider area as part of its investment strategy review in 2021. Also, when they looked at the carbon emissions produced by their fund, they examined where they could have a positive impact on climate change mitigation and thus came up with a strategic allocation to impact in the private markets, looking across real estate, infrastructure, private equity and private debt.

The intention of the impact sleeve is to generate a positive financial return with measurable impact. High-impact investments can target a range of returns, and below market-rate investments were acceptable to *Cornwall Pension Fund but* only if, in the aggregate, they were consistent with the overall return expectations of the fund. In this way, *Cornwall* are trying to deliver true impact while meeting their fiduciary responsibilities. As part of this, they chose to target large scale institutional asset managers.

But how can they target higher-impact investments if industry impact standards are elusive? *Brunel Pension Partnership* has been working with the wider industry to try to establish a standard definition of impact, so each investment can be considered on a level playing field and they can assess impact opportunities comparatively.

The framework *Cornwall* eventually decided to use to assess their impact, because it is commonly used in the industry, was the UN sustainable development goals (SDGs). SDG alignment was set out in the investment management agreement (IMA) with the eventual managers and *Cornwall* have set key performance indicators (KPIs) to assess the impact of their investments in this portfolio.

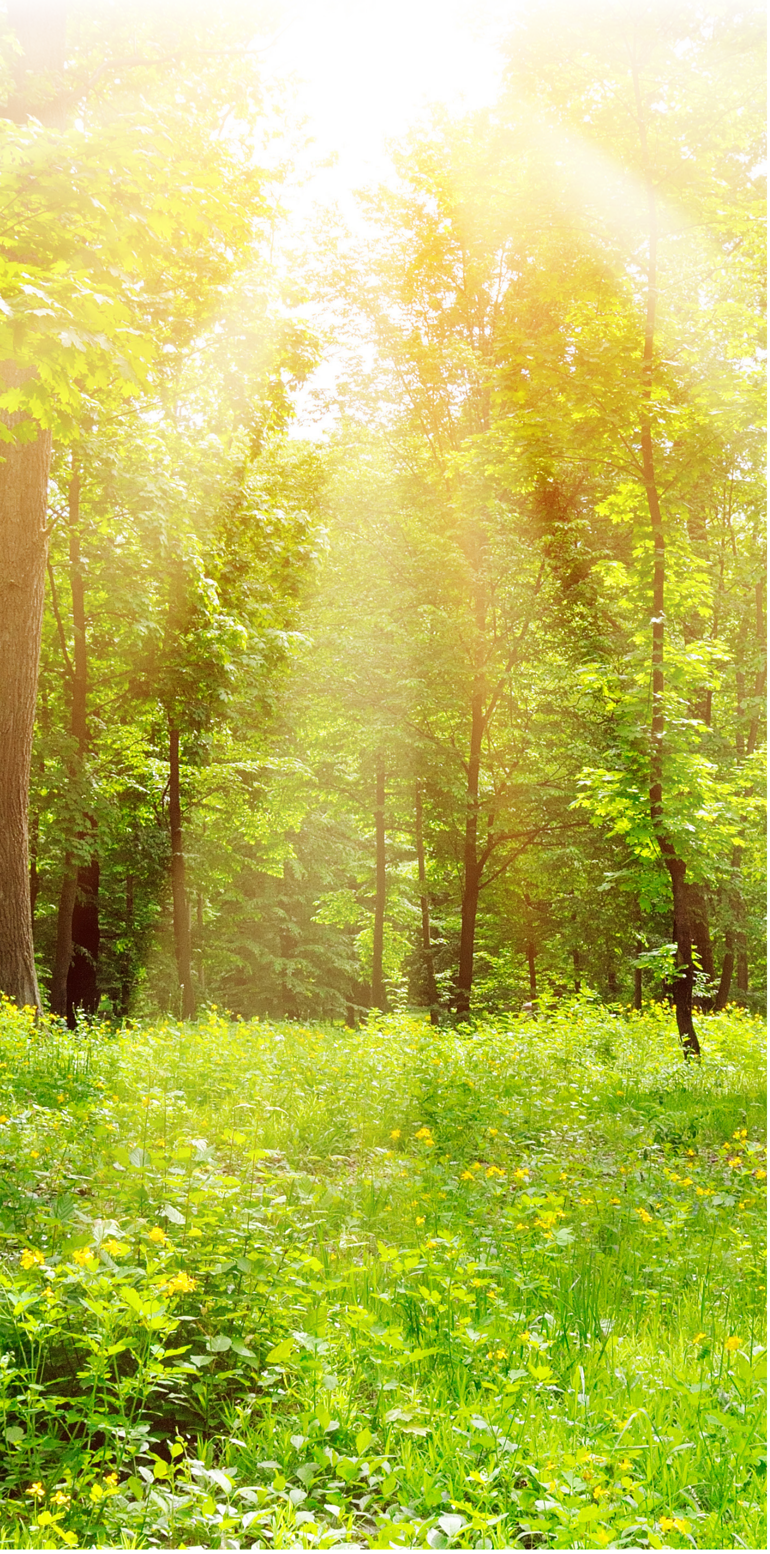
Another consideration for *Cornwall*, as they are a local government pension scheme, is appropriate delegation. As the decision makers for the fund are elected members, they did not want there to be any conflicts of interest regarding the decision as to where the fund's impact investments should be made within Cornwall. Consequently, in the IMA, they made sure the responsibility for individual investment decisions lay entirely with their investment managers.

Partnership with Brunel

The partnership with *Brunel* made sense for *Cornwall* for a variety of reasons:

- Working with *Brunel* and the nine other member funds allows them to target larger scale investments as well as the benefit of lower fees.
- The depth of *Brunel's* manager network is greater than *Cornwall's*.
- The pool has a dedicated and experienced private markets team as opposed to *Cornwall's* team of three

> "Hopefully the opportunity set will increase as demand grows, helping to address the blatant need there is for impact investing."
>
> SEAN JOHNS, *CORNWALL PENSION FUND*



investment professionals.

Brunel offers core and elective services to their client funds. This allows them to benefit from economies of scale, while also catering to bespoke requests such as Cornwall's local impact portfolio, which was the first elective service they delivered.

Brunel asked *Cornwall* to set out their requirements in a clear and consistent way, maintaining the ability to reject the unviable requests. An assurance framework was set out with agreed standards on engagement and reporting.

Cornwall's requirement was that 5% of the overall fund should be allocated to local, Cornish impact. However, they quickly discovered the opportunity set in Cornwall was quite small, ruling out investments in private equity. Given that one of the main sources of the fund's income is contributions from Cornwall-based employers and employees, it was important to build a diversified portfolio to avoid concentration risk.

Cornwall pension fund's local impact portfolio

It was noted many of the impact opportunities on the market were not as established as *Cornwall* had hoped. Brunel, however, came up with a proposal from two large-scale institutional investment managers to fit *Cornwall*'s brief, having undertaken an extensive due diligence process.

Their solution comprised a £50mn investment in *Greencoat*, where 50% of the money was allocated to their renewable energy income fund and the other 50% was invested in a Cornwall-based renewable energy sleeve, and a £65mn investment in *PGIM*'s co-investment vehicle of affordable housing in Cornwall.

This solution ticked several boxes for the Cornwall team:

- Inbuilt geographical diversification.
- Two large-scale asset managers.
- Competitive ongoing fee rate as Brunel were already invested with the managers.
- Previous investment in the managers allowed them to leverage existing due diligence.
- Securing required social impact.
- Meeting several SDGs, eg SDG 7 – clean energy.
- Decision making independent of the pension fund, meeting required governance standards.
- Return expectations were aligned.

Click here to watch the video of the event.

Cameron Turner is an Intern at Pensions for Purpose and recent Durham University graduate.