

Mapping the market in a land of impact investment opportunities

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Pensions for Purpose's quarterly All Stakeholder event for the Place-Based Impact Investing Forum, in partnership with The Good Economy and sponsored by Triple Point.

In conversation...



In [conversation](#) with Karen Shackleton, **Callum Stewart of Hymans Robertson** discussed **how pension funds can scope the impact market and identify suitable opportunities**, when considering a place-based impact investment allocation.

Callum began by discussing the **swathe of regulations** that have been introduced for pension funds, driven by environmental issues ranging from climate reporting to managing climate risks and opportunities to the duty imposed on trustees to consider the wider non-financial factors that could have an impact on the investments over the longer term. When it came to place-based impact investing, however, most of the duties expected of trustees, up until now, had focused on managing risks.

Callum felt it was now time to begin thinking about **investment opportunities**. He was clear on one point: **it was absolutely possible to invest locally, and have real world impact, without compromising on returns**. Place-based impact investing (PBII) did not conflict with trustees' fiduciary duties. He even went so far as to suggest that investing in PBII presented an opportunity to improve financial outcomes because of the diversification benefits of these types of investments.

Callum went on to acknowledge that **governance bandwidth** was an important consideration when allocating to a new type of investment such as PBII. The larger LGPS funds/pools were already very well placed to consider local impact opportunities, but he fully expected defined contribution schemes, particularly the **Master Trusts**, to develop expertise in this area over the next decade. **Smaller pension funds** with a more limited governance budget **would need product innovation** before PBII could be a reasonable option for them. Capturing impact through pooled solutions might be one answer, for example, and these are already beginning to be developed. This would allow smaller schemes to access place-based impact in a more cost-efficient manner.

In terms of how pension funds allocate to impact investment (e.g. a separate impact allocation versus part of an asset class decision), Callum felt this was academic. He observed that historically, some LGPS funds had **opportunistic buckets** which could source an impact allocation whereas others had brought impact funds into, say, an existing private equity allocation. Defined contribution funds, in particular Master Trusts, were more typically looking at impact as an **evolved way of investing within a particular asset class**. It was for the trustees and Pensions Committees to decide which governance structure worked best for them. Callum did not expect this to be a headwind for mobilising capital into PBII. Instead PBII offers an opportunity to think laterally about allocations, product innovation and structuring – to reimagine investing through the lens of place.

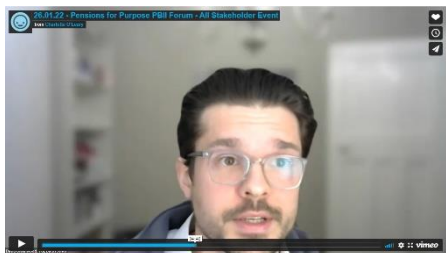
When considering an impact investment, pension funds were advised to consider the **Impact Investing Principles**, promoted by Pensions for Purpose in partnership with the [Impact Investing Institute](#) via the [Impact Investing Adopters Forum](#). There were **four key principles**: set impactful objectives; appoint investment managers and consultants with impact integrity who are aligned with the pension scheme's beliefs; use your voice to effect change, through stewardship activities; and manage and review your impact.

An information platform for the PBII marketplace – keynote presentation



Sarah Gordon, CEO of The Good Economy, observed that she saw the All-Stakeholder forum discussions as a knowledge community that wanted to pioneer in PBII. With globalisation of markets, **capital had become disconnected with its purpose** and this was an opportunity to reconnect the two, in order to create benefits for local communities.

Sarah finished with an inspirational quote from Margaret Mead, an American cultural anthropologist, who said **"Never doubt that a small group of thoughtful committed individuals can change the world. In fact, it's the only thing that ever has."** Sarah felt that this group was pioneering and capable of disrupting financial markets in a positive manner.



David Greenwood, Head of Data Science at The Good Economy, began by describing his utopian world where an investor could access online every investible opportunity, the impact it would have on the environment or in a local community, as well as the financial risk/return information, and where the investor could be confident that there was a deep and liquid market, thus optimising for positive impact and returns. He hoped that this information platform would deliver to those ideals, starting small with pioneers, but building gradually over time.

Place-based impact opportunities offered appropriate, risk-adjusted returns with positive local impact in specific areas that were aligned with ESG goals, the Sustainable Development Goals, the Just Transition initiative and the Levelling Up agenda. By raising awareness of PBII and lowering barriers to participation, demand and supply would grow, creating both a commercial and societal opportunity for [PBII forum](#) members.

David asserted that **information platforms unlocked opportunities** by helping to educate, for example, where to begin, which benchmarks to use, which managers to select, how to undertake due diligence and matching opportunities. They also lowered information costs, allowed for sharing of due diligence costs, and presented pooling or sharing of opportunities.

Nonetheless, there was **friction within the PBII ecosystem**. Asset owners perceived that there was **a lack of investable opportunities**. Platforms could lower the barrier to opportunity discovery or mapping the market. It could promote innovation by allowing investors to express interest in a type of PBII and managers could then come forward to engage in dialogue. It could also lower the cost of entry by offering pooled solutions or sharing of due diligence costs. Another common concern was around **conflict of interest**. Asset owners could direct managers to the platform, which would have transparency around what investors were looking for. The asset owner could then limit meetings to those managers who were aligned on purpose to their own fund's goals.

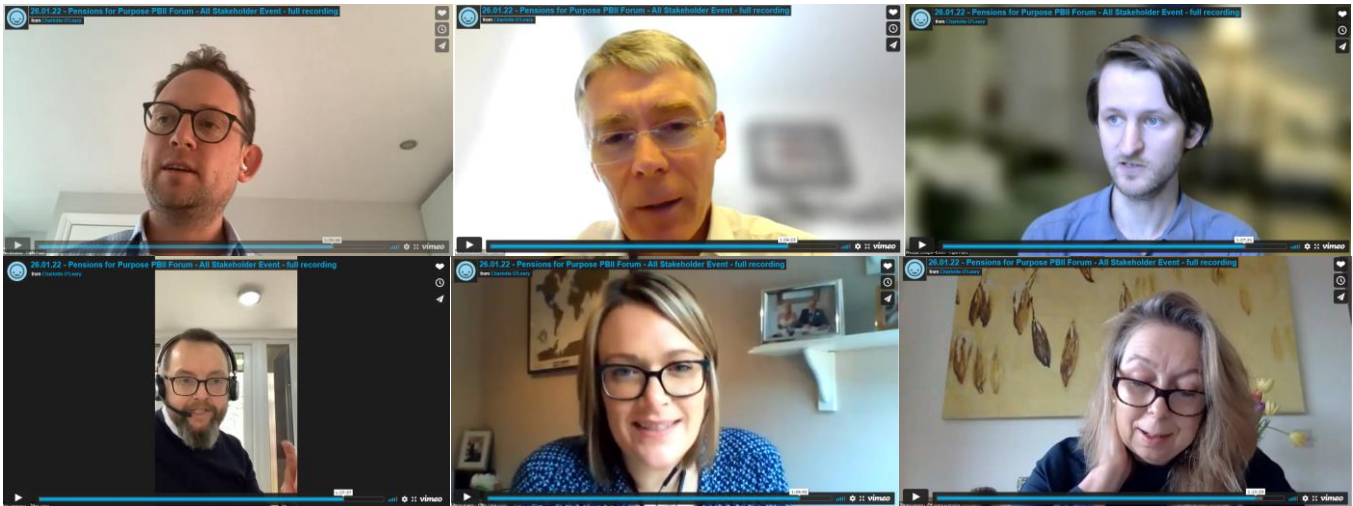
Asset managers had concerns around **scaling up assets under management and capacity**. By matching asset managers with investors who were specifically looking for opportunities that were aligned to their product range, the process of raising capital would be more efficient.

On the buy-side, **scaling up opportunities for investment** would also be improved. The platform could show a depositary of opportunities that exist, which met the manager's screening criteria. Ultimately, the platform would allow those in need of capital and unsure where to go, to find a potential investor. The platform could help educate, how to meet the screening criteria and who they should approach.

To scale PBII, we needed a successful and inclusive platform which focused on **learning, matching and sharing**.



Breakout room discussions



During the breakout room discussions, our moderators (shown here) from Triple Point, our forum sponsor, and The Good Economy, asked the following questions:

- **How would an information platform help you with the challenges you face within the impact sector?**
- **What types of information or features would be valuable for your role within the PBII ecosystem?**

Our moderators shared the following key insights from their discussion rooms:

- The **quality of the data** uploaded to the platform **would 'make or break it'** in terms of success. It was important to have some sort of independent policing of data to ensure integrity and quality and to avoid speculative ideas being aired.
- There was **an opportunity to help educate** those seeking capital on how best to do that.
- **Key performance indicators** (KPIs) were important - for example, return on investment, location, credit quality, local impact and carbon footprint.
- There was a desire to see a **link between the platform and regulatory reporting requirements** such as the Taskforce for Climate-related Financial Disclosures (TCFD), Sustainable Finance Disclosure Regulation (SFDR) and EU taxonomy regulations.
- Asset owners were keen to see the **track record of managers on the platform**, so that they could understand the volatility of cashflows on the underlying investments. They also wanted a dialogue facility within the platform so that discussions around a particular opportunity could take place with like-minded investors.
- The platform represented a great opportunity for **standardisation in reporting**.
- It also represented **an opportunity to map the universe**, allowing new managers who were not as well known in the pension fund space to thrive. The idea of it becoming a clearing house for PBII deals was explored, with it potentially becoming a repository of opportunities that meet screening criteria.
- There was **an opportunity for other asset owners**, such as faith-based organisations and charities, to join the platform, access information and share experiences.
- The ability of the platform to **facilitate pooling opportunities to allow scaling** was seen as a positive.
- The **two-way feature** of the platform was a positive – not just for asset owners looking for investment opportunities but also for **originators of projects** to be able to tap into capital and to help shape their projects to meet investor requirements from both a financial and impact perspective
- Even with the platform, **government or public money may still be needed** for less viable opportunities to make them attractive to institutional investors.

Final remarks from our speakers

Callum Stewart of Hymans agreed that this was a platform that could make a difference in the mainstream as it grows. Shorter term success would be if an asset owner identified an opportunity via the platform that they wouldn't otherwise have found. Connecting those with shared interests was also a key benefit. Longer term, success would be measured by improved data quality and having ready access to like-minded investors.

David Greenwood of The Good Economy was heartened that people wanted to have discussions on the platform. It was now a question of ironing out the details with a focus group and rolling the development out.

Forthcoming events

22 February 2021 – Afternoon tea discussion – Is LGPS investment in housing making a positive impact on communities, the environment and frontline services? – BMO Global Asset Management. Please join us at 14.30 GMT for an afternoon tea with BMO Global Asset Management on the different types of residential investment available to LGPS and the impact these have. For more information see [here](#) or register to attend [here](#) (*open to LGPS funds and their advisers only*).

23 February 2021 – Afternoon discussion – Investing in Place – Impact Investing Institute. Please join us, in partnership with the Impact Investing Institute, at 3.30 pm for a discussion on place-based impact investing by asset managers. For more information see [here](#) or register to attend [here](#) (*open to asset managers only*).

If you would be interested in joining or participating in the PBII Forum, please [contact Charlotte O'Leary](#).