

South Yorkshire Pensions Authority remove the obstacles to investing locally

South Yorkshire Pensions Authority retained *Pensions for Purpose* to facilitate the Authority's process for delivering their place-based impact investing allocation in their portfolio

By Charlotte O'Leary



South Yorkshire Pensions Authority (SYPA) has been actively engaged in responsible investment since 2012 when they developed their responsible investment policy.

In 2016 to 2017 they signed up to the Stewardship Code, notwithstanding they had demonstrated compliance earlier. From 2017 to 2018 they began reporting using the *Taskforce on Climate-related Finance Disclosures (TCFD)* framework and during 2018 to 2019 they started their place-based impact investing (PBII) allocation.

SYPA is a member pension fund of the *Border to Coast Pensions Partnership* and works with other councils, including the *South Yorkshire Mayoral Combined Authority (SYMCA)*.

Pensions for Purpose

In November 2020, *Pensions for Purpose* held an investment beliefs workshop with SYPA where the spectrum of capital, the UN sustainable development goals (SDGs) and types of impact investment were

- discussed. Following this workshop, SYPA decided:
- An ultimate aim of up to 5% allocation to impact investments.
 - A focus on detailed mapping of these SDGs: #6 – clean water and sanitation, #7 – affordable and clean energy and #13 – climate action, but with a wider review of all 17 SDGs.
 - To achieve net zero by 2030.
 - To allocate 1% of the fund to place-based investment in South Yorkshire with a focus on real world outcomes, such as re-use of redundant buildings and the creation of affordable homes.

SYPA's board and committee viewed impact investment as a natural progression so, instead of having to achieve buy in, the focus was on where to look for sustainable returns and how to measure impact. Councillors had wanted to see a more impactful, local focus to the portfolio since 2015, when elements of the real assets portfolio began to be directed towards funds focused on issues like affordable housing.



Left: Gateway 36 now stands in place of the old former Rockingham Colliery, in Barnsley, a new high-quality mixed-use development next to the M1. The 51-hectare site is being developed in two phases, to provide a range of employment opportunities from logistics and warehouses, to leisure units.



PICTURES: HARMORTHS

Phases of the Gateway 36 project

Phase one

Stage one is complete and the development is let.

Phase two

Stage two is underway and it is expected to generate 2,500 new jobs.

South Yorkshire Pensions Authority

and *SCR Jessica Fund* provided a loan of £6.8mn for the development of three units totalling 10,220m². This forms part of the £80mn loan portfolio, SYPA set up in 2019 to support the ongoing economic growth of the region, managed by *CBRE Capital Advisors*.

Above: Advanced Manufacturing Plant, Rotherham

At their June 2022 annual meeting, SYPA were determined to form a member working group for PBII, comprised of six members, the Authority's Director and Assistant Director – Investment Strategy, and two colleagues from the *Pensions for Purpose* team. The group was established in response to two different but complementary pressures:

- 1 The requirement set out in the Government's 'Levelling Up' white paper for LGPS funds "to publish plans for increasing local investment including setting an ambition of up to 5% of assets invested in projects which support local areas."
- 2 A desire by elected members and the South Yorkshire Mayor to achieve more local impact from the pension fund's investments.

The programme for the five sessions was:

- September 2022 – introductory session understanding impact investment.
- October 2022 – ‘Levelling up’ the investable opportunity and the fund’s current exposure.
- December 2022 – discussion with SYMCA officers about sub-regional priorities and input from other parties in relation to their evolving thinking.
- January 2023 – agreement of priority impacts.
- February 2023 – sign off the final report for the *Pensions Authority*.

A synopsis of the output from the five meetings, drawn from the report of the member working group on impact investment, produced by SYPA in February 2023, follows.

The government's levelling-up agenda is a programme of activity to address deep-seated inequalities which

- Physical capital.
- Financial capital.
- Social capital.
- Institutional capital.
- Intangible capital.
- Human capital.

Physical capital – either through owning or financing ►



Aerial view of Sheffield

- ▶ the development of physical assets.
- Financial capital** – through the provision of either equity or loan capital to businesses.
- Intangible capital** – through investment in venture capital and start-ups which capture innovation.
- Social capital** – definitions vary but projects are potentially available to SYPA, for example, cemeteries and crematoria.

- Boosting productivity, pay, jobs and living standards by growing the private sector especially in those

...to inspire our stakeholders, particularly asset owners and advisers, to embed environmental, social and governance (ESG) factors and impact into how they think, operate and invest, transforming traditional business and investment models, and increasing the flow of capital to investments with a positive social and environmental impact.

To achieve our vision we offer a platform where members can share information and build their network through our events, Knowledge Centre, research and training services.



Funding level 99.9%



March 2021

Portfolio value £9.9bn



Employers 533

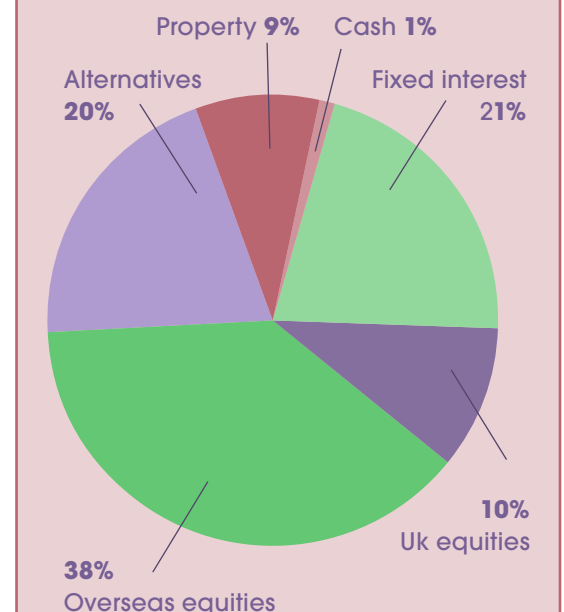


Members 166,869



31 March 2021

Asset allocation



March 2022

Funding level up, now 119%



March 2023

Portfolio value grown to £10.2bn



Employers up, now 548



Members up, now 176,000



The Principles for Pensions were created by the *Impact Investing Institute* in partnership with *Pensions for Purpose*, and provided *South Yorkshire Pensions Authority* with a validated framework based on good governance steps – *SYPA* went on to become one of the first ‘Adopters’ of the *Impact Investing Principles for Pensions*.



Place-based impact investing

- ▶ places where they are lagging.
- Spreading opportunities and improving public services especially in places where they are weakest.
- Restoring a sense of community, local pride and belonging, especially in places where they have been lost.
- Empowering local leaders and communities, particularly in places lacking local agency.

It was concluded that the current asset allocation strategy enables investment to be made in accordance with the levelling-up criteria, as long as it is made in the right places and fulfils the financial return criteria so fiduciary duties are met.

Two further considerations were:

- The investment achieves the desired impact.
- It is in a place where inequalities will be addressed.

Hence the term 'place-based impacting investing'.

Members were keen to direct investment to places in South Yorkshire, but this is not always possible:

- Some projects may not make the required return, although they may positively benefit the place.
- In private markets, allocations to the strategies of asset managers may not be invested locally, although 'sidecar' arrangements can ensure local investment is secured if return criteria can be met.
- Risk mitigation may preclude total investment restricted to one place.

Conversely, a fund may feasibly have a wider geographic remit and may enhance the local place through consequent benefits – for example, the investment in the *Gritstone Fund* which invests in spin-out companies from the *University of Sheffield* and other regional universities.

The *SYPA* working group concluded the required allocation to PBII opportunities could be achieved



PICTURES: CAPITAL&CENTRIC

Above left: **EyeWitnessWorks** is a former cutlery manufacturing premises in Sheffield's Devonshire Quarter which has been restored by **Capital&Centric** into a community of 97 apartments, duplexes and townhouses. **SYPA** lent £10.7mn towards the building's restoration, working with **Homes England**, and were advised by **CBRE Capital Advisors**.

Above middle: The **EyeWitnessWorks** accommodation is arranged around four landscaped courtyards that blend with the Grade-II architecture.

Above right: **Mesters' Village** in the Devonshire Quarter.



by gradually increasing the allocation as existing investments were realised allowing this capital to be deployed in new local projects. The group concluded two missions were possible in South Yorkshire:

1. To boost productivity.
2. To restore a sense of community.

However, they acknowledged the third mission:

3. To restore a sense of local pride – may also be achieved, a good example is *EyeWitnessWorks* an industrial building renovation in the Devonshire Quarter of Sheffield.

Fig 1 | Breakdown of SYPA place-based alternatives & property funds*

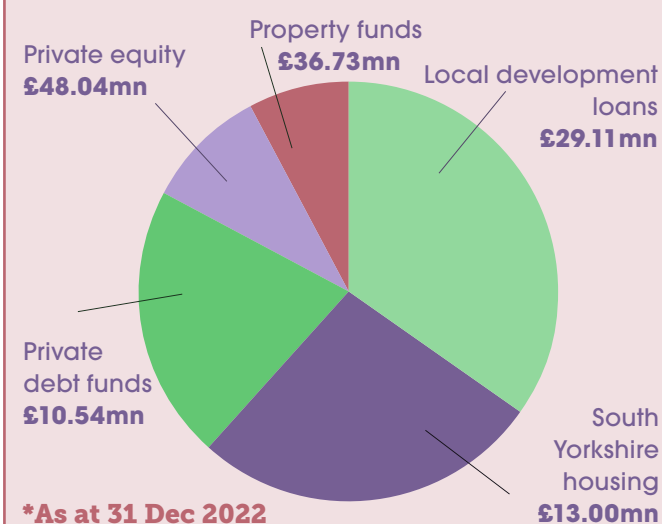
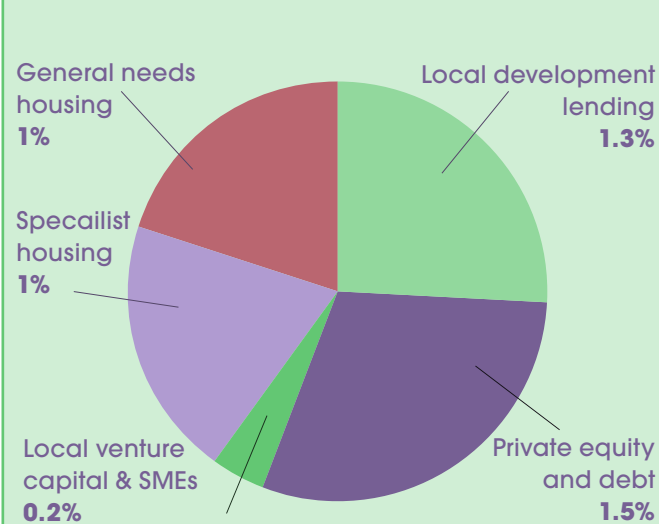


Fig 2 | SYPA place-based impact investment strategic allocation



- ▶ SYPA's focus on selected forms of capital and missions also link to their working group's priorities.

The starting point

On 31 December 2022, the allocation to impact focused investments in SYPA's alternatives and property funds totalled £137.42mn in drawn cash (see figure 1):

- Private equity – £48.04mn.
- Property funds – £36.73mn.
- Local development loans – £29.11mn.
- South Yorkshire housing – £13.00mn.
- Private debt funds – £10.54mn.

These investments comprise 22 allocations across vintage years from 2010-2023 of circa 1.5% of total investments, rising to 2-2.5% when undrawn commitments are included. The investments are spread geographically, although some are local to South Yorkshire.

It was determined that this investment would be used for building a place-based impact portfolio focused on, *although not exclusively*, South Yorkshire. As existing

investments are realised, the proceeds will be invested in funds which meet the place criteria. Investing this way will also diversify the J-curve effect.

Using existing local place-based investment exposure as a starting point, the working group decided additional investments will be made with a specific South Yorkshire focus through asset managers investing locally or through sidecar arrangements if the fund invests more widely. The strategy is to achieve a 5% allocation to PBII in South Yorkshire over time with a portfolio of diversified asset types (see figure 2).

The intention is that local development lending, general needs housing, local venture capital and SME exposures will be invested in South Yorkshire, whereas SYPA will work with managers looking after the other two allocations – private debt and equity, and specialist housing – to tilt exposure to South Yorkshire where possible.

The two housing and the local development lending portfolios are expected to generate regular income to contribute to paying pensions.

The allocations to the local venture capital and small

Place-based impact investing

- to medium-sized enterprises (SMEs) were purposely set at a low-level to be pilot investments which could grow over time as demand is established and SYPA becomes more familiar with their dynamics.

Cornwall Pension Fund worked with its pool, *Brunel Pension Partnership*, to create the local impact portfolio which invests in affordable, private-rental housing and renewable energy in Cornwall. This initiative could provide a good example for SYPA. By appointing a manager, SYPA could design a similar fund investing specifically in general needs housing in South Yorkshire.

These investments will mostly be outside the pooling structure, which limits such investments to 5%. However, including other private market investments already in place, the 5% limit will be exceeded, so some exposure will have to be made through the *UK Opportunities Fund* being developed by *Border to Coast*. This will provide diversity within the private equity and private debt parts of the SYPA portfolio and ensure they can influence the development of the *UK Opportunities Fund*.

Implementation

The working group understands implementing PBII will not be straightforward. It will take time to achieve the 5% allocation in the portfolio, as proceeds from their closed-ended funds will be re-invested on release and these timings are unpredictable. Disinvestment from existing open-ended funds will be made as exit and liquidity options arise, while annual commitments to the various alternative portfolios will need to be re-structured to account for new investments.

SYPA took advice from their independent advisers on how an allocation of this sort should be reflected in the strategic asset allocation and concluded the exposure to each asset class should be reflected in the investment strategy statement versus referring to a PBII allocation.

The business planning process should account for the procurement of investment managers offering appropriate funds, which will delay the PBII portfolio being fully established by five to 10 years.

Measurement and reporting

It is important the impacts SYPA are working to secure are being delivered in accordance with the 'levelling up' agenda, and can be identified, measured and reported so they can be demonstrated to stakeholders, alongside clear evidence that return targets are being met.

SYPA is working with *The Good Economy* to develop the reporting framework for their PBII portfolio. Over time, new funds will be added and more granular output will be delivered.

The levelling up white paper contains metrics

Lessons learned

Pensions for Purpose were warmly welcomed by the members and the officers of SYPA during this project. We are grateful to them and hope we fulfilled our brief to the working party in helping them arrive at their conclusions and recommendations. For our part, we gained valuable insights from the workings, the deliberations and the different views that were expressed in the meetings before the conclusions and recommendations were agreed.

attached to the missions which, if appropriate, can be used in the reporting framework. This may influence the adoption of best practice. Over time, reporting will need to be increasingly stringent and vigilant to avoid the risk of greenwashing.

Conclusions and recommendations

It is clear SYPA can invest in local assets which support the levelling-up agenda, while meeting fiduciary responsibilities and diversification benefits. Where possible, investments will be focused to benefit South Yorkshire, but it is understood some investments will have to be allocated outside the authority area.

As a result of the work undertaken by the working group and the proposals set out in their report, the following recommendations were made:

- The authority should, within its investment strategy, commit to creating a PBII portfolio structured as described with an ultimate target allocation of 5% of the fund's asset value, to be achieved by a process of earmarking parts of the relevant underlying asset class allocations.
- Officers should work up more detail on the reporting and measurement framework; in particular the metrics for reporting to members need to be agreed.
- Officers should develop proposals for the procurement of investment managers for elements of the general needs housing and local venture capital and SME allocations, involving appropriate sub-regional stakeholders.
- Progress on delivering on these recommendations should be included in the regular investment reports provided to the Authority. ■

● Charlotte O'Leary is CEO of Pensions for Purpose.

Pensions for Purpose would like to give special thanks to the officers of South Yorkshire Pensions Authority for their help and support in compiling this case study.

