

# Greater Manchester Pension Fund

A 25-year track record in local impact investments

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[www.pensionsforpurpose.com](http://www.pensionsforpurpose.com)

## Key points

- GMPF is the largest local government pension scheme in England and Wales.
- GMPF has allocated approx. £1,050m to local and impact investments which they invest with their twin aims of creating commercial returns and having a positive local impact.

## GMPF quote

*"Through our property fund we have the twin aims of generating a commercial rate of return and supporting the area"*

## Introduction

GMPF has 350,000 members and serves 10 Greater Manchester local authorities plus over 450 other employers (as at 2016). Being the largest LGPS in England and Wales, it is able to benefit from economies of scale through lower unit costs and using external advisors and in-house staff. It has been investing with a focus on commercial return and positive social impact for over 25 years.

In complying with its fiduciary duty, it focuses first and foremost on its commercial returns (i.e. those meeting the average return of the fund: real 3%-5% or nominal 6%-8%). As a secondary focus, it aims to create positive local social impact. Such local investment is restricted to 5% (~£1,050m) of main fund value, and was recently raised from 3%. At the time the strategy was initially developed, the North West of England was in need of property regeneration and as such property investments became the primary vehicle for creating the social impact. This case study will focus on the housing investments, though as the strategy has developed GMPF have also invested in other areas such as providing investments to local Small to Medium Enterprises (SMEs), Social Impact Bonds (SIBs) and renewable energy infrastructure.

## What impact investments were made?

|  | Allocation |
|--|------------|
| <b>GMPVF and housing</b>               | £750m      |
| <b>Impact Portfolio and legacy I4G</b> | £300m      |
| <b>Total</b>                           | £1,050m    |

GMPF's social impact investments are classed as 'local investments' and sit within their own standalone portfolio. The majority of its investments into social impact have been made through the Greater Manchester Property Venture Fund (GMPVF), a specialised £750m fund that invests specifically into commercial property and local housing projects. This fund undertakes direct development and redevelopment of commercial property, with an upper limit per investment of around £60m and is focused on the North West of England and Greater Manchester Region.

In addition to this, the GMPF also participated in the "Invest 4 Growth" (I4G) initiative with 5 other LGPS funds, as part of the LAPFF (Local Authority Pension Fund Forum). This initiative aimed to deliver both commercial returns and positive social impact and was largely driven by Manchester's engagement with this topic. Due diligence was shared between the participating funds and GMPF invested in opportunities targeting property, loans to SMEs (focused on those in the media, technology and business services sectors), and social

impact bonds. A couple of examples of investments that came through from the I4G were the Bridges Social Impact Bond Fund and Bridges Evergreen Holdings, where GMPF invested £2.5m in each. It was through the I4G initiative that GMPF trustees became more comfortable with the alignment of social impact investments and fiduciary duties.

Consultants also played, and continue to play, a part in ensuring the social impact investments are in line with fiduciary duties. They do this through ongoing financial modelling which confirms the investments fit within the overall asset allocation.

### Why were these investments made?

There were two main reasons which encouraged GMPF to apply a local and impact lens to some of their investments.

Firstly, the fund was motivated by investing locally and with impact because of a drive to take into account all its stakeholders. Being a LGPS, they saw their duty to provide pensions for employees but also to consider the needs of the local authority and local taxpayers (who underwrite the fund). By investing with impact and within their geographical focus, their stakeholders were able to benefit from the economic activity their investments were likely to generate. At the time this policy was being drawn up, GMPF identified a need to invest in property, which is why the subsequent years of investments focused on this.

Secondly GMPF began to invest with impact during challenging macroeconomic conditions. GMPF felt that there was a lack of long term capital available and as long-term investors they felt they could take advantage of this and deliver on their twin aims. Their requirement to think long term is particularly “valuable” in difficult economic environments.



*1 St Peter's Square, Manchester – 270,000 square feet prime office development in Manchester city centre.*

### Successes

**Returns:** Over the long term the Main Fund has consistently outperformed the average local authority by around 0.7% per year and, over the last 25 years, has ranked in the top 5 of such funds. They attribute this success to taking a long-term approach and in having governance arrangements which allow the internal management of some assets with accountability to the management panel of the fund.

**Local economy:** The funds' flagship development is 1 St Peter's Square, it has a prime location and sits alongside many of Manchester's civic and historical buildings. This investment acted as a catalyst for further development and regeneration. They have found that their local investments have created:

- Improvements to the local economy securing the revenue base for employer organisations which also help them to meet contributions to the Fund.
- Creation of jobs.
- Improvement of business environment.
- Affordable housing

**Diversification:** GMPF believe that diversification is important to reduce volatility of the overall Fund return, and that local investments have provided such benefits.

## Challenges

**Reputational risk:** In choosing to invest locally, GMPF has been subject to additional reputational risk should the investment not perform in line with the original investment thesis. To counteract this, they have:

- Put arrangements in place to demonstrate commerciality of the investment opportunity, including other investors participating on the same terms, external management, external advice and the development of in house capacity and expertise.
- Limited all local investments to in aggregate no more than 5% of Fund value (recently raised from 3%).
- Adopted a branding for local investment funds to emphasise commerciality.

**Resource-intensive:** Investing with impact is demanding at a Board level from a governance perspective and operationally. GMPF has working groups which meet quarterly to consider detail opportunities for local investments that may satisfy the twin aims of commercial returns and supporting the area and make recommendations on these categories of investment and where appropriate the range of allocations to the Management Panel. Though the investment management costs of these investments are higher than those associated with a standard securities portfolio, GMPF is convinced about the merit of these investments.

## Next steps

GMPF has a strong track record of leading investment initiatives and delivering leading investment performance and is now looking to encourage and support collaboration across LGPS schemes. In particular, they are considering a second phase of investing for growth, with a particular focus on the North of England.

## Further information

GMPF reports and accounts: <http://www.gmpf.org.uk/publications/annualreport.htm>.

## About Pensions for Purpose

Pensions for Purpose is an online collaborative initiative to raise awareness of impact investment amongst pension funds. Our members consist of Influencers (eg. impact managers, trade bodies and consultants) who want to promote the understanding of, and discussion around, impact investment, and Affiliates (eg. asset owners, government bodies, independent advisers and journalists) who want to deepen their knowledge of this important topic. Affiliates are able to register for free, which allows them to access additional, Affiliate-only material and to receive monthly updates of new content posted on the platform. For more information see <https://www.pensionsforpurpose.com/>.