

West Yorkshire Pension Fund

Impact investing at the third largest local government pension scheme
January 2018



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Key points

- West Yorkshire Pension Fund (WYPF) originally implemented a socially responsible investment policy back in the 1990s.
- WYPF strives to support social impact investment across all asset classes, not just portfolios with this specific focus.
- The Fund currently has over £275 million invested in low carbon technology, green energy and other sustainable investments, with over £200 million further committed
- Investment in Retail Charity Bonds is a more recent example of the Fund being willing to participate in new investments which offer financial and social benefits. Investing in charities fits well and adds diversification to the Fund's other social impact investments.

WYPF quote

"WYPF originally implemented a socially responsible investment policy back in the 1990s. This gave the Fund the capacity to use its investment portfolio to make good investment returns and at the same time make a difference in social and environmental issues, not just locally but on a much broader scale."

"WYPF has a long track record of finding innovative ways of enhancing investment returns."

"From recycling water in industrial companies for both financial and environmental reasons; or investing in house builders that develop partnerships with local authorities for low cost social housing; or engaging with global oil and mining companies, the WYPF has a track record in making a difference."

Introduction

The West Yorkshire Pension Fund (WYPF) is the third largest local government pension scheme in England and Wales with total assets of £14,011m. The five Metropolitan Councils across West Yorkshire are the largest employers in the scheme; in total there are 422 employers across the UK in the scheme and 284,820 members.

WYPF is the most cost-effectively invested LGPS owing to economies of scale and almost all of its assets are managed internally by a longstanding and sizeable team of investment professionals based in Bradford.

Contribution to local region's economy and business activity

The Fund began focused investment in local property and private equity over 25 years ago with bespoke private equity funds and in partnership with the South Yorkshire Pension Authority. This has been a highly successful asset class for the WYPF and has continued to grow. The investment in St Bride's White Rose is a good example. It aims to provide investors with consistently high income return and to provide liquidity into the Yorkshire property market and contribute to the region's economy and business activity. Investments have included a loan note to local house builder Chartford homes, and in properties which have NHS and Housing Associations as tenants.

Supporting low carbon energy

The WYPF has been a keen investor in and supporter of low carbon energy such as wind, solar and hydro-electric power for many years, and has invested in these areas where the returns meet the necessary requirements of the Fund. Investment is made via Infrastructure Funds, Limited Partnerships and direct shareholdings. A small sector within the UK equity portfolio has been developed which invests in these technologies as well as biomass boilers and long-term battery storage.

Investments in innovative new areas

The Fund currently has over £275m invested in low carbon technology, green energy and other sustainable investments, with £200m further committed and awaiting drawdown on demand from the funds we are invested in. There are also investments in innovative new areas such as tidal power in Scotland. The internal investment team is regularly approached by funds offering new investment in these areas and has developed a reputation over time as a good source of funding for those companies which offer a good return for the long-term investor.

New investments in Retail Charity Bonds

The investment in Retail Charity Bonds is a more recent example of the Fund being willing to participate in new investments which offer financial and social benefits. The Fund was introduced to this asset class at the launch of the Charities Aid Foundation 5% 2026 issue in 2015. This became the Fund's first holding in Retail Charity Bonds. The Fund has participated in the launch of all of the last five new issues, and total exposure to Retail Charity Bonds now stands at £10.8m.

Whilst Retail Charity Bonds are not credit rated, the financial structure and security of cash flow tends to be straightforward and secure. Against a background of reducing yields on offer on investment grade bonds, these bonds offer both diversification and a good return on investment considering their stable financial structure. The secondary market value has exceeded the launch price but the main attraction for both institutional and retail investors is the yield. Investing in charities fits well and adds diversification to the Fund's other social impact investments.

Involvement in LAPFF and other bodies

WYPF joined the Local Authority Pension Fund Forum (LAPFF) soon after it was formed in 1990. A senior member of the WYPF Investment Advisory Panel has been Chairman of LAPFF for various periods since it started, most recently from 2008 to 2013 and is now the Deputy Chairman. The Director of WYPF has been on the executive committee since 2011. WYPF joined the Institutional Investor Group for Climate Change (IIGCC) on 20 May 2003 and was one of the earliest members to sign up. WYPF signed up to the Carbon Disclosure Project in 2007. WYPF signed up as a supporter (in an asset owner role) to the Climate 100+ project at launch in December 2017.

Diversification and uncorrelated returns

Prior to the 2008 financial crisis the Fund had a strategically low exposure to corporate bonds, just £119m equating to 1.9% of the total portfolio, viewing the additional return over gilts as incommensurate with the risk. In the aftermath of the crisis the extreme sell-off in this asset class provided the perfect timing for the Fund to increase exposure significantly. In addition to taking advantage of the cheap supply of corporate bonds the Fund started to look at other investment opportunities with good stable yields. Over the four years following the crisis the Fund was able to increase exposure in this type of asset by £160m.

An early example was Gravis Capital Partners who approached the Fund around this time with plans to launch a renewable infrastructure fund. The attractions were immediately obvious both financially and as a social good in supporting renewable energy. The Fund took 10% of the newly floated company. Over the years both the company and the investment has grown; the company is now capitalized at almost £1bn and the Fund has increased its holding to £40m and enjoyed a yield of 7% from inception.

The experience of GCP Infrastructure and other high-yield low-risk investments that the WYPF participated in around that time have demonstrated that it is possible to achieve further diversity and returns with low correlation to either the equity or bonds markets without the high management fees typical on hedge funds. The Fund has now established a listed alternatives portfolio with investments in excess of £200m and this includes substantial holdings in the Bluefield Solar Income Fund and the Renewable Infrastructure Fund.

Whole fund approach to social impact investment

The WYPF strives to support social impact investment across all asset classes, not just portfolios with this specific focus. Across the equity portfolios the investment managers are keen to encourage good practice environmentally and socially in companies in which it invests. From recycling of water in industrial companies for both financial and environmental reasons; or investing in house builders such as Countryside which develops partnerships with local authorities for low cost social housing; or engaging with global oil and mining companies, the WYPF has a track record in making a difference.

Further information

<http://www.wypf.org.uk/Member/Investments/SociallyResponsible/FossilFuels.aspx>

<http://www.wypf.org.uk/Member/Publications/PolicyStatements/ISS/ISS.aspx>

For further information about Retail Charity Bonds, please visit <https://allia.org.uk/social-finance/retail-charity-bonds/>

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/>.