

London Pensions Fund Authority Investing in the UK Report



A collaboration between
the LPFA, LPPI and
The Good Economy

LPFA: Investing in the UK Report

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Introduction



“We support the Just Transition and we recognise the Government’s interest in Levelling Up. It is important that we move to a low carbon economy and that this is done in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind.”

We have created this report to show the impact that our Fund has on communities and places across the UK through our investment in physical assets: Infrastructure and Real Estate. Real Estate includes residential and commercial property and Infrastructure includes anything from ports and trains to wind and solar farms.

We are working with The Good Economy and our delegated investment managers, Local Pensions Partnerships Investments (LPPI) on a multi-year project to identify and map all our investments across the UK in in these two asset classes. In total, these asset classes make up 9.5% (Real Estate) and 12.2% (Infrastructure) of our £7.7 billion Fund¹, or around £1.7 billion. For the purposes of this project, we are only focusing on UK-based investments which make up around 64% of our total Infrastructure and Real Estate investments. This is about £1 billion in value.

This report represents one element of how we will communicate our findings. The second element will be an interactive map on our website where our stakeholders can see how we are investing across the UK.

We’ve done this research for three reasons.

Firstly, our members want to know where their pension is invested. We support their desire for transparency and, in fact, we already show our listed equity investments, around 50% of our total Fund, on our website². When the results of this project are also online, our members and stakeholders will be able to see where over 70% of our Fund is invested.

Secondly, understanding where our physical investments are is good risk management, particularly as the impact of climate change becomes more severe. We’ll be looking at our Real Estate and Infrastructure investments to make sure we’re investing in assets that are helping our society achieve net zero.

Last but not least, we support the Just Transition³ and we recognise the Government’s interest in Levelling Up. It is important that we move to a low carbon economy and that this is done in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no-one behind. It is also important to contribute to sustainable development and enhance local economic resilience across the UK, by supporting business growth and job creation and improving transport and other types of infrastructure.

Pension funds have a role to play here but it’s important to understand what is already taking place so that we can make informed decisions about the future. We will be evolving this report each year, adding more information for our stakeholders. We hope that this version is helpful and we welcome any feedback.

I would also like to thank our partners, LPPI and The Good Economy, in helping us reach this point.

Please do contact us if you have any questions.



Robert Branagh | CEO | LPFA

¹ As at 31 March 2023. See our 2022-23 Annual Report for more detail: <https://www.lpfa.org.uk/library/our-performance/annual-reports>

² Visit our Transparency Dashboard: <https://www.lpfa.org.uk/our-investments/transparency-dashboard>

³ <https://climatepromise.undp.org/news-and-stories/what-just-transition-and-why-it-important>

⁴ <https://levellingup.campaign.gov.uk/>

Section 1: Executive summary

Key findings⁵



£7.7 billion
is the value of our Fund.



Around **13%** of
our portfolio is already
invested in local
communities around
the UK.



Around **64%** – or £1 billion
– of our total Real Estate and
Infrastructure investments are
in the UK.



We are invested in over **250⁶**
properties, ports, hotels,
warehouses, trains, wind and
solar farms and other assets
across the UK.



Over **70%** of our UK
Infrastructure and Real
Estate Investments by value
are outside London.



Our Clean Energy investments
are concentrated in Wales,
Scotland and the East Midlands.



We're invested in over **100**
Clean Energy and Infrastructure
assets across the UK.
See Appendix for information
on our Asset Allocation.



80% of our housing
investments by value are in
London with the rest in the
South East.

⁵ As at 31 March 2023. See our 2022-23 Annual Report for more detail: <https://www.lpfa.org.uk/library/our-performance/annual-reports>

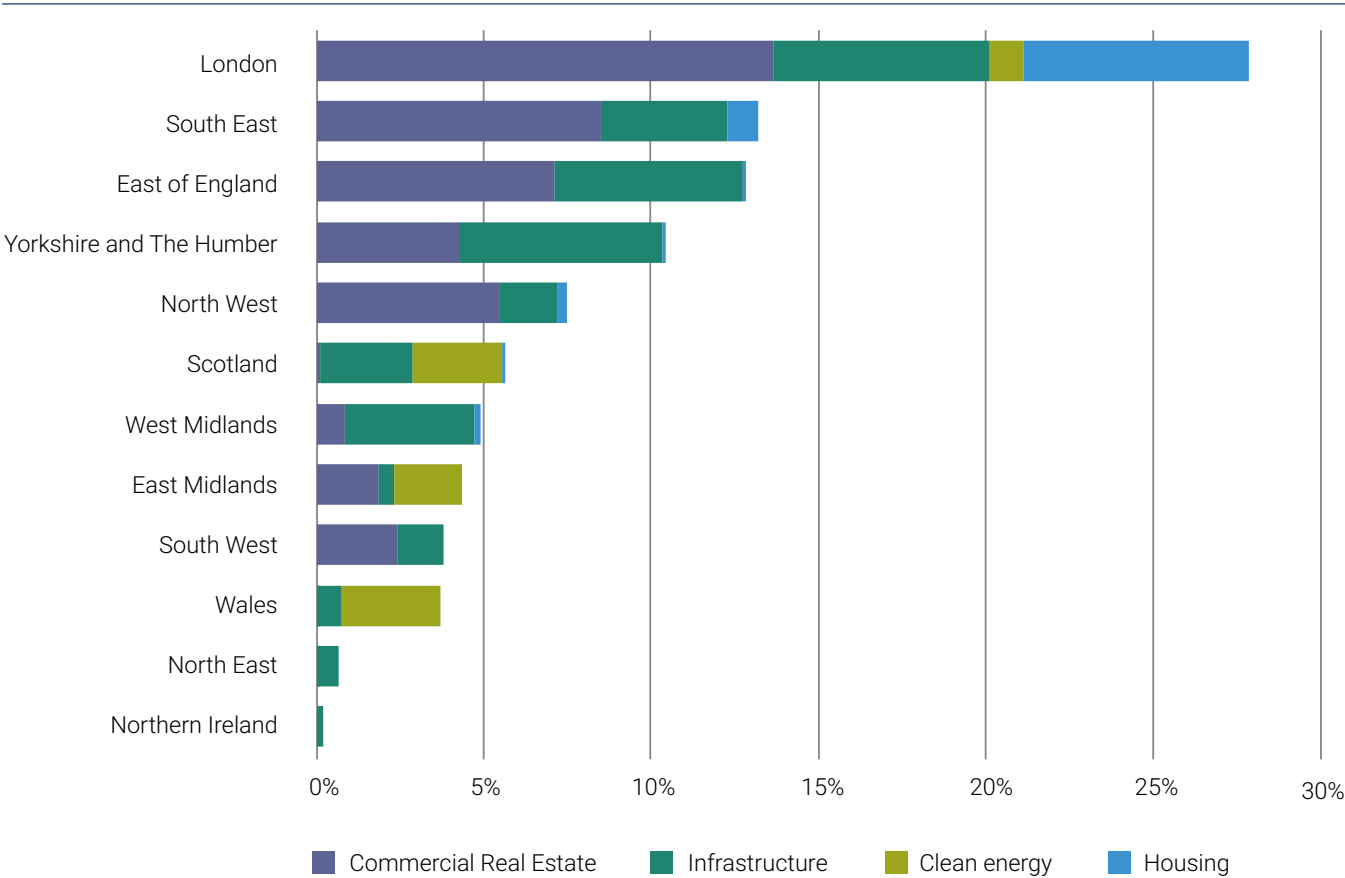
⁶ This is because, for example, a schools operator in which we invest may have multiple schools in a given area. Rather than count each individual building run by the school operator, we classify it as one investment.

Where in the UK do we invest?

The graph below shows where we invest in the UK.

- We invest in infrastructure projects across all regions of the UK.
- Over 70% of the value our Real Estate and Infrastructure investments are outside London (80% of assets are outside of London).
- Our commercial Real Estate investments are largely in London and the South East.
- 88% of the value of our clean energy assets are in Wales, Scotland and the Midlands, accounting for 60% of the number of Clean Energy assets.
- The majority (80%) of our housing is in London (see Case Study 1) with 11% in the South East, 4% in the North West, 2% in the West Midlands and 1% each in the East of England, Scotland, Yorkshire and the Humber*.

* Figures have been rounded

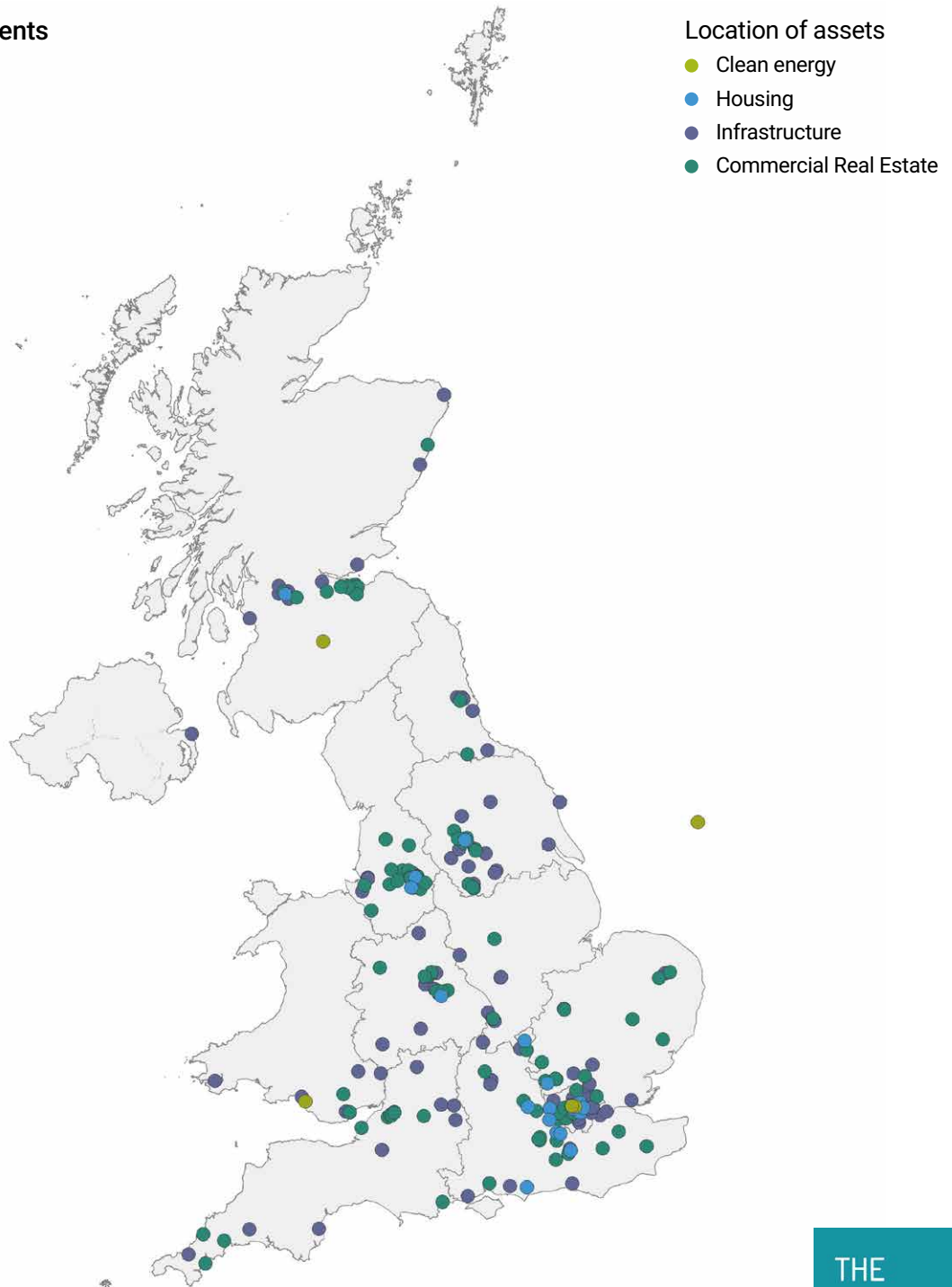


Where in the UK do we invest? continued

The map below shows more detail on the location of our investments. They are split by asset class including Clean Energy investments (for example, wind farms and solar farms), Housing (student and affordable), Commercial Real Estate and Infrastructure (from transport and water companies to ports and schools).

An interactive version of this map will be available on our website.

Location of investments



THE
GOOD
ECONOMY

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Investing in UK Real Estate

We are invested in 138 housing and Commercial Real Estate assets across the UK.

This is made up of:

- **24 housing investments, including:**

- 13 build-to-rent (BTR) sites and one BTR operator
 - 3,980 homes built, 5,170 planned
- Two sites also providing accommodation for 959 students

- Seven sites with planning entitlement for single family housing

- 1,011 homes planned, 32% affordable homes

- One registered housing provider to provide affordable housing
- One student accommodation development for over 504 students

- **114 Commercial Real Estate assets**

- Providing 692,500m² of employment space and...
- Supporting an estimated 19,600 jobs⁷ (FTE) across distribution, industrial, leisure, retail and office sectors



Case study 1: Investing in the UK's housing market

Through a £150 million investment in The London Fund, a collaboration between Local Pensions Partnership Investments and London CIV, we are providing homes for people in East Village, Lewisham and Elephant and Castle.

The London Fund has invested in DOOR (Delancey and Oxford Residential), a dedicated residential investment vehicle and part owner of Get Living, the UK's leading build-to-rent operator of large-scale residential neighbourhoods.

DOOR in London includes over 3,000 homes under management, 1,126 homes under construction, a further 3,000 in the secured pipeline, with an overall target of 12,000 homes within the next five years.

Get Living provides long-term tenancies and resident-only break clauses giving residents security of tenure.

For further information on the developments, visit: <https://www.getliving.com/>

⁷ This is an estimation based on floor area only using the methodology in the Homes and Communities Agency (now Homes England) Employment Densities Guide: 3rd edition: https://www.kirklees.gov.uk/beta/planning-policy/pdf/examination/national-evidence/NE48_employment_density_guide_3rd_edition.pdf

Investing in UK Infrastructure



We are invested in over 100 Clean Energy and Infrastructure assets.

- **Our Clean Energy investments include:**

- One offshore wind farm, once the largest worldwide, capable of powering over one million homes (see Case Study 2 below)
- One onshore wind farm capable of powering 290,000 homes⁸
- One biomass facility capable of powering over 2,400 homes
- Three other Clean Energy assets including an energy storage platform (three near-term projects) and a renewable energy platform (18 projects: 12 solar and six wind).

- **We are invested in over 80 social infrastructure⁹ assets including:**
 - 23 operators of schools, managing 163 schools catering for over 141,200 pupils
 - 41 health and care facilities including hospitals with over 14,700 beds
 - 19 other public sector facilities including six prisons and a variety of other civic buildings including LBS Fire Service, Army Foundation College, Manchester Magistrates Court and Edinburgh University.
- **We are invested in 26 assets in other Infrastructure sectors such as transport (including trains, roads, and an airport), data centres, energy, water and waste.**

A large part of our Infrastructure investments come through our investment in the £3.6 billion GLIL Infrastructure¹⁰ fund (GLIL). GLIL was established in 2015 by Greater Manchester Pension Fund (GMPF) and LPFA with £500 million of capital commitments. Lancashire County Pension Fund (LCPF), Merseyside Pension Fund (MPF) and West Yorkshire Pension Fund (WYPF) and NEST are also investors. The collective nature of GLIL allows participating pensions funds to invest in larger projects than might be available to them individually.



⁸ https://www.guil.co.uk/assets/GLIL-Infrastructure-2020-Review_p10.pdf

⁹ Social infrastructure covers a range of services and facilities that meet local and strategic needs and contribute towards a good quality of life. It can include health provision, education, community, play, youth, recreation, sports, faith, and emergency facilities. For further information: https://www.london.gov.uk/sites/default/files/draft_london_plan_chapter_5.pdf

¹⁰ <https://www.guil.co.uk/portfolio>



Case study 2: Investing in the UK's energy infrastructure

Through GLIL¹¹, we are invested in Hornsea 1. Located in the North Sea, this wind farm generates enough green energy to power over one million UK homes. The wind farm is run by Orsted, comprises 174 turbines and covers an area of 407 square kilometres (157.2 square miles), which is over five times the size of the city of Hull.

Located 120 km (74.6 miles) off the Yorkshire coast, Hornsea 1 was the world's first offshore wind farm to exceed 1 GW in capacity and produces enough green energy to power well over one million homes. Hornsea 1 became fully operational in 2019 and is operated and maintained from Orsted's East Coast Hub in Grimsby which supports a workforce of more than 370 people.

According to Orsted, they have invested over £1 billion in the Humber region, including more than £45 million directly into local community, education, and skills development in the region to date, such as the £1 million donation to the Grimsby's Horizon Youth Zone, with significant further investments planned. The project also supports the UK's supply chain with contracts placed with hundreds of UK suppliers with £4.5 billion invested to date and a further £8.6 billion expected to be invested over the next decade.

For more information, visit:

<https://orsted.co.uk/energy-solutions/offshore-wind/our-wind-farms/hornsea1>

¹¹ <https://www.glil.co.uk/portfolio>

What's next?

This is a multi-year project with The Good Economy and LPPI. Our intention in this report is to understand where we are invested.

In 2024, we will be building on this report, refining the data and investigating other areas. We'll be trying to determine what social impact our Fund is having on communities across the UK. We'll also be assessing how our Real Estate and Infrastructure investments support our net zero ambitions.

We also know that this report is only as good as the information that comes from our asset managers. We know that data is imperfect and that data collection is always evolving so we are committed to improving this report each year.



Section 2: Rationale and methodology

Our primary duty is to pay pensions to our members when they retire.

However, we are also a long-term responsible investor and we recognise that how we invest impacts the future of our economy, our environment and our society. Responsible Investment is about managing the risk and opportunities facing our Fund, but we know that our investments deliver positive environmental and social impact in places and communities across the country.

To help us quantify this and map our investments, we've used The Good Economy's Place-Based Impact Investing (PBII) approach. This is laid out in The Good Economy's landmark white paper [Scaling Up Institutional Investment for Place-Based Impact](https://thegoodconomy.co.uk/place-based-impact-investing-project/), developed with the Impact Investing Institute and Pensions for Purpose.

The paper defines PBII as "investments made with the intention to yield appropriate risk-adjusted financial returns as well as positive local impact, with a focus on addressing the needs of specific places to enhance local economic resilience, prosperity and sustainable development."

The LPFA is not an Impact investor, but we recognise the role that the PBII methodology can play in helping us map our impact.

We also see the link between the Just Transition, Levelling Up and the sentiments expressed in the white paper:

"Currently only a small fraction of UK pension money is invested directly in the UK in ways that could drive more inclusive and sustainable development, in sectors like affordable housing, small and medium-enterprise (SME) finance, Clean Energy, infrastructure and regeneration. This white paper offers a place-based approach to scaling up institutional capital, including pension fund investment, into opportunities that enhance local economic resilience and contribute to sustainable development, creating tangible benefits for people, communities and businesses across the UK. If we manage to accomplish this, the UK will be creating bridges between London and the rest of the country, and bridges between financial capital and the real economy."

Using their PBII Reporting Framework methodology, developed in partnership with a group of Local Government Pension Scheme funds and asset managers, The Good Economy has analysed data provided by fund managers in our Real Estate and Infrastructure portfolio. The methodology allows asset owners and managers to report on their portfolio in a standardised manner, specifically on how their investments support inclusive and sustainable development in the UK at a local, regional and national level. Only those funds with high levels of exposure to the UK have been included in the analysis accounting for 64% of the Real Estate and Infrastructure portfolio.



* <https://thegoodconomy.co.uk/place-based-impact-investing-project/>

About us and our partners

The LPFA

We are a £7.7 billion Local Government Pension Scheme (LGPS) Fund¹². Our main purpose is to ensure that our 97,796 members are paid their pensions when they retire and to help the 122 employers in our Fund manage the costs of pension provision for their employees. Our members work – or have worked – for organisations that make up so much of London’s cultural, educational, and administrative life – from schools to museums, from arts centres to government bodies and from universities to housing associations.

The LPFA team set the strategic direction of our Fund. Day-to-day Investment decision-making is delegated to our asset manager, Local Pensions Partnership Investments (LPPI). They make investment decisions for us including the selection of individual assets and choose the fund managers in which we also invest.

LPPI

LPPI was established in 2016 to enable UK Local Government Pension Scheme funds to pool resources and improve management of their assets for the benefit of employers and their scheme members. LPPI provides client funds with a whole scheme management approach, managing £25 billion of pension assets (as at 31 December 2023), allocated across numerous asset classes. LPPI also partners and collaborates with other LGPS pools and funds such as GLIL Infrastructure and The London Fund¹³.

The Good Economy

From consultancy to collaborative field-building, The Good Economy (TGE) is a recognised thought leader and the ‘go to’ firm for organisations looking to deliver and report on their impact and sustainability outcomes. TGE has assisted over 150 clients, representing over £24 billion AUM, to define, measure, monitor and report on impact investments that make a positive contribution to sustainable development. This research was carried out using The Good Economy’s Place-Based Impact Investing (PBII) Reporting Framework methodology which has been adopted by progressive local government pension funds. For asset owners including local government pension schemes, defined contribution funds and other pension fund managers, TGE provides an impact assessment and reporting service analysing the type and geography of investments and their contribution to local, regional and national sustainable economic development for asset owners to communicate this important information to their members and trustees.

Value of our Fund:

£7.7bn

Managed pension assets:

£25bn

Assets Under Management (AUM):

Assisted over

150

clients, representing over

£24bn

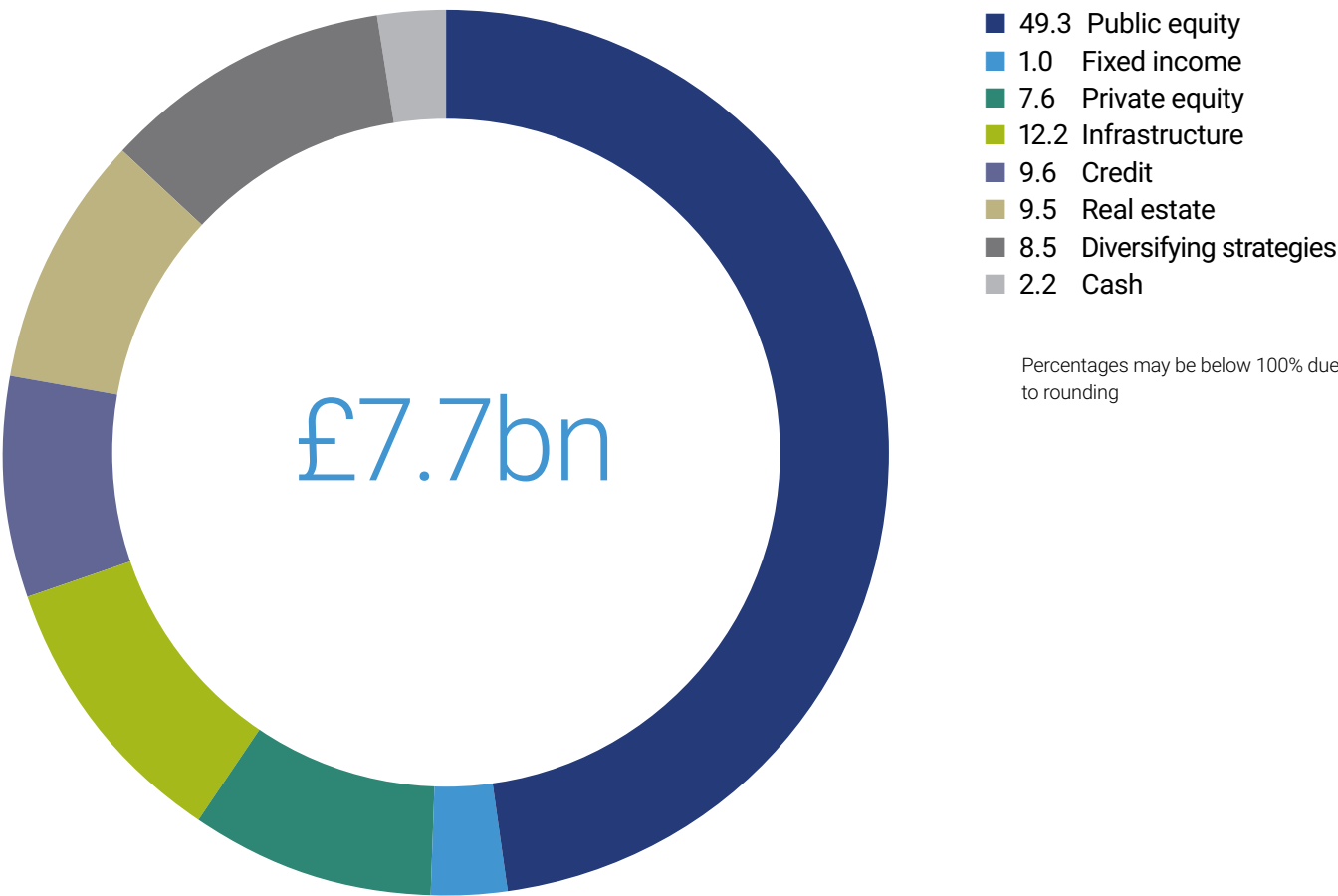
in assets

¹² As at 31 March 2023. <https://www.lpfa.org.uk/library/our-performance/annual-reports>

¹³ <https://www.localpensionspartnership.org.uk/Investment-management>

Our Asset allocation

Asset allocation (%)*



* As at 31 March 2023. <https://www.lpfa.org.uk/library/our-performance/annual-reports>

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