



PENSIONS COMMITTEE

23 FEBRUARY 2022

REPORT TITLE:	CATALYST FUND UPDATE
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

This report provides Members with an update on the progress of the Fund's local investment activities.

RECOMMENDATION/S

The Pensions Committee be recommended to note the report.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 The Catalyst Fund aims to support development and refurbishment projects in the Merseyside area that are additive to the regeneration of the Liverpool City Region, align with the economic plans for the area whilst producing a commercial return for the Fund.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 Not relevant for this report as elected members have requested regular updates on the Fund's local investments.

3.0 BACKGROUND INFORMATION

- 3.1 The Catalyst Fund was established in 2016 with the strategy of supporting development and refurbishment projects in the Merseyside area with the aim to create jobs, promote Building Research Establishment Environmental Assessment Method (BREEAM) excellent space, brownfield regeneration and carbon savings, contributing to the improvement of the region whilst delivering a commercial return in line with Fund's target return.
- 3.2 The Fund is able to accept a modestly reduced return in comparison to the broader strategy. The Fund can invest both via equity and debt; however, at inception it was assessed that market conditions were such that lending was preferred due to better risk adjusted returns and opportunities to recycle capital.
- 3.3 The Catalyst Fund currently has two committed loans, totalling £21.7m, across two sectors in and around the Liverpool City Region. Catalyst debt investments are typically for shorter term, from 18 months to 36 months with an individual investment range of £5 million to £30 million to ensure greater support for local projects.

Summary of Committed Loans

Loan Name	Sector	Expected Repayment	Loan Facility	Principal Drawn
Mersey Heat	Infrastructure	Q2 2022	£13.2m	£10.3m
Wirral Waters	Office/Industrial	Q3 2023	£8.5m	£2.6m
		Total	£21.3m	£12.9m

Mersey Heat Network (District Heating)

Catalyst Fund provided an unsecured corporate debt of £13.17 million to a district heating project. The project is being developed by Mersey Heat Ltd (a subsidiary of Peel Group). This investment will accelerate the delivery of an important regeneration project in the Liverpool City Region as well as facilitate low carbon heat and energy in keeping with UK Government's clean growth strategy. This project will

be able to provide district heating facility to around 10000 residential units and some commercial units.

District heating is the supply to multiple buildings with heating and hot water from a centralised generation source, typically Combined Heat & Power plant via insulated underground pipes. Buildings collectively served by the same central heating plant is widely developed and mostly implemented in Europe (specifically in the Nordics), although not largely implemented in the UK. Mersey Heat Ltd initially aim to serve residential and commercial units with Liverpool Waters area but this project has the potential to expand to serve adjoining developments.

Wirral Waters

In September 2020 MPF committed a £8.53 million unsecured corporate facility to Wirral Waters Finance Ltd which is a wholly owned subsidiary of Peel Holdings Land and Property (UK) Limited. This investment will accelerate the delivery of an important regeneration project in the City Region, facilitating creation of new employment space outside of Liverpool City Centre. Continues to build on the good working relationship with the Peel Group.

This commitment from the Catalyst Fund is being used to fund a Grade A 30,000 sq ft office (Tower Road South) and a 70,000 sq ft light industrial Unit (MEA Park). The Development is part of the Mersey Waters Enterprise Zone, meaning Wirral Borough Council can retain 100% of the business rates generated by tenants at MEA Park and Tower Road South. There is also a £4.50 million Grant Funding in place for this project which will be invested alongside the Fund's Loan. This funding is provided for by the Liverpool City Region Combined Authority (£3.00 million in support of Tower Road South) and the Wirral Waters Investment Fund (£1.50 million in support of MEA Park).

3.4 Ropewalks (The Eight Building - Iliad) – Development Loan

Ropewalks is the first successful exit from the Catalyst Portfolio. The Fund had committed £10.25 million of senior debt to provide for the construction costs to deliver a 120-unit residential development at this 0.70-acre site in the Rope Walks area of Liverpool. This project was delivered by Iliad Group. The development is a 10-minute walk from Liverpool City Centre, Liverpool One and Liverpool Central Station.

The Project is now complete with 120 residential units (a mix of 1-, 2- and 3-bedroom apartments), 2,519 Sq. ft of commercial space (the long leasehold already pre-sold for £250k to Liverpool City Council) and 19 car parking spaces.

The Fund benefited from a first charge over the property and a full senior debt security package. The development was refinanced in November 2021 with the Fund receiving repayment of £11.45m, a strong return for this debt investment.

3.5 Foresight NW Regional Fund:

Since inception of the local investment strategy and considering the inherently risky nature of small-scale local investments, the Fund invested in debt instruments favouring property backed investments. However, the Fund has been looking at ways of investing in regional Small and Medium Enterprises (SMEs), providing equity capital in order to help these viable local businesses grow with positive impact on the local economy and job creation.

In May 2021, MPF committed £10m to the Foresight Northwest Regional Investment Fund enabling it to take equity stakes in local SMEs. The Foresight Regional Fund held a first closing on 21 May 2021 with £66.33m of capital commitments. The Fund is focused on making investments in established, profitable, small cap companies with operations in the Northwest region of the UK.

4.0 FINANCIAL IMPLICATIONS

4.1 As set out in the report.

5.0 LEGAL IMPLICATIONS

5.1 There are no implications arising directly from this report. The guidance to LGPS Investment Regulations states that the pursuit of financial return should be the predominant concern but investment may be made into projects that deliver a social impact where administering authorities have good reason to think scheme members share the concern for social impact and there is no risk of significant financial detriment to the fund.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 Local investments are often more resource intensive in the sourcing, structuring and ongoing monitoring of opportunities. Conducting very detailed due diligence and effective monitoring of the investments requires adequate staffing resources in place for a successful and effective roll out of the strategy.

7.0 RELEVANT RISKS

7.1 Local investments are inherently risky due to their direct nature, a more limited opportunity set and exposure to sometimes less financially credible, smaller-scale counterparties. Under or non-performance of one investment may have a significant influence on the overall performance of the portfolio.

8.0 ENGAGEMENT/CONSULTATION

8.1 There has been no consultation planned or undertaken for this report. There are no implications for partner organisations arising from this report.

9.0 EQUALITY IMPLICATIONS

9.1 There are no equality implications arising from this report.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 The Fund has regard to the environmental, social and governance implications of the local investments which are made.

11.0 COMMUNITY WEALTH IMPLICATIONS

11.1 The Catalyst Portfolio directly supports economic growth of the region and its objectives cover local employment creation, regeneration, floor space and carbon savings all of which contribute towards collective community wealth enhancement.

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APPENDICES

BACKGROUND PAPERS

Impact Investing Institute: Building Strong Places

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee.	29 March 2021