



PENSIONS COMMITTEE

09 DECEMBER 2024

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

REPORT SUMMARY

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

RECOMMENDATION/S

That 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 BREEAM excellent space, brownfield regeneration and environmental measures, contributing to the improvement of the region whilst delivering a commercial return in line with the Fund's target return.
- 3.2 The Fund seeks returns commensurate with its broader strategies. However, it is recognised that local investments can bring a greater degree of risk in terms of counterparties, contractors and project scale. 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 Catalyst Fund has committed to date over £170 million in 9 assets across direct real estate and infrastructure debt investments and indirectly via private equity fund exposure, diversified across sectors such as residential real estate, commercial real estate, industrial real estate, utilities and SMEs.
- 3.4 Currently, the Fund has five active positions, with over £130 million in commitments to the wider Merseyside region. Catalyst debt investments are typically for shorter term, from 18 months to 48 months with an individual investment range of £5 million to £60 million to ensure greater support for local projects. Please see below a summary of the Catalyst investment activity.

3.5 Summary of Committed Loans

Catalyst Assets	Asset Class	Risk Exposure	Sector	Commitment	Active
North Western Hotel Loan	Real Estate	Debt	Commercial	£ 18,700,000	N
Mersey Heat Limited	Infrastructure	Debt	Utilities	£ 20,000,000	Y
ILIAD (Greenville Street) Liverpool	Real Estate	Debt	Residential	£ 10,250,000	N
Wirral Waters	Infrastructure	Debt	Commercial	£ 8,360,397	N
Foresight Regional Investment Fund III	Private Equity	Equity	SME	£ 10,000,000	Y

Royal Albert Dock Liverpool	Real Estate	Debt	Commercial	£	27,162,500	Y
Legacie Liverpool	Real Estate	Debt	Residential	£	56,452,000	Y
Croft Redsun Self Storage	Real Estate	Debt	Industrial	£	5,340,000	N
X-Docks Widnes	Real Estate	Debt	Industrial	£	18,000,000	Y
Total				£	174,264,897	

3.6 Mersey Heat Network (District Heating)

3.7 In 2021, 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 the UK Government's clean growth strategy. This project will be able to provide a district heating facility to around 9,000 homes and 4 million sq ft of commercial units.

3.8 District heating is the supply to multiple buildings of 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 are widely developed and mostly implemented in Europe (specifically in the Nordics), although not largely implemented in the UK. Mersey Heat Ltd initially aimed to serve residential and commercial units in the Liverpool Waters area, but this project has the potential to expand to serve adjoining developments.

3.9 In 2022, MPF committed to funding the next phase of the Mersey Heat Network and increased the existing commitment to £20m. The loan is expected to be repaid in full by the end of Q2 2026, with a repayment schedule having already been agreed with the borrower.

3.10 Royal Albert Dock

3.11 In 2023, Merseyside Pension Fund (MPF) committed £27 million in senior loan to fund the acquisition and refurbishment of the Royal Albert Dock in Liverpool. The Borrower – General Projects aims to proactively manage the asset to improve occupancy and grow rents by investing in hard costs in fitting out vacant food and beverage, leisure, and office space and significantly increasing the marketing budget to achieve the full potential of the Albert Dock.

3.12 This project has been selected for the Catalyst Fund not only due to its iconic location but also due to its excellent ESG (Environmental, Social and Governance) credentials. The business plan focuses on improving the energy efficiency and performance ratings of the units. Social initiatives include free workspaces for local businesses, youth mentoring for pupils at local schools, using only local supply chains, and developing a programme of skills and training with lectures hosted at the Royal Albert Dock.

3.13 Those initiatives aim to promote the city on a global scale, making it an attractive location for businesses and tourists, consequently boosting local growth, job creation, and entrepreneurship.

3.14 **Legacie**

3.15 Another new addition to the Catalyst Fund was a senior loan of £ 56.5 million to fund the construction of five residential blocks in Liverpool's Baltic Triangle by Legacie. The development will create 633 high-quality residential units, with the majority pre-sold and secured with large deposits of around 33%. The project has strong ESG credentials incorporated into the design: air source heat pumps and MVHR systems (Mechanical Ventilation with Heat Recovery). High-quality amenities such as rooftop terraces, swimming pool, gym, sauna, and spa will position the development in the premium sector.

3.16 The Borrower has an extensive proven track record in Liverpool and across the UK, including the development of Hotel Indigo – a brand new boutique style hotel and Reliance House – the restoration of an Edwardian building located within Water Street.

3.17 This investment is forecasted to enhance the city's residential offering and provide attractive returns to MPF with the risk minimised thanks to the pre-sale of the units and high deposits.

3.18 The development will include a self-storage unit, a Starbucks Drive-Through unit, four trade counter units and two further industrial units.

3.19 **X-Docks Widnes**

3.20 A collaboration opportunity between MPF and Greater Manchester Pension Fund (GMPF) to provide a £36 million club development loan (split 50/50) to support the forward funding of a speculative development of a 550,000 sq ft warehouse unit in Widnes. The site is close to the M62, M56 and M57, and 10 minutes driving journey to Liverpool John Lennon Airport, and constitutes an established logistics location with low vacancy, high demand and benefits from the new "freeport" status, tax breaks, including stamp duty, business rates and capital expenditure relief.

3.21 Upon completion, the site is expected to create employment space for approximately 450 jobs. The site has close proximity to areas ranked in the UK's 10% most deprived areas, such as Netherley, Upton, Widnes and Speke.

3.22 The site will be developed to high environmental standards (EPC A, BREEAM Excellent, 20% reduction on embodied carbon vs. benchmark new build). The site will also contain a large solar array unit to generate 950 kWp.

3.23 **Foresight NW Regional Fund:**

3.24 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.

3.25 In May 2021, MPF committed £10m to the Foresight Northwest Regional Investment Fund III enabling it to take equity stakes in local SMEs. The Foresight Regional Fund III 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.

3.26 To date, Foresight Investment Funds I and III created over 1,600 high-quality, sustainable jobs and supported c. 1,200 hospitals and institutions and invested a combined total of £10m in four companies across the Merseyside region to date, spanning sectors such as property maintenance, manufacturing, businesses services and healthcare.

3.27 **Northern Gritstone**

3.28 MPF committed £5m to Northern Gritstone (NG) which is involved in dialogue with University of Liverpool (UoL) to support its inclusion in this transformational strategy bringing targeted early stage capital to support the university spin out sector across northern England.

3.29 UoL identified as a critical partner in expanding the Liverpool City Region (LCR) knowledge economy and bringing in NG can deliver vital encouragement to the growth of the LCR innovation ecosystem. MPF kept the Combined Authority informed of its plans and shared information with them to the point that they are now considering direct investment in NG having identified synergies with the cornerstone LCR Knowledge Quarter development and with their support for the Lyvva Labs VC accelerator initiative.

3.30 **Completed Developments**

3.31 **Croft Red Sun Self Storage, Bromborough**

3.32 In August 2023, MPF has committed £5.34 million to Redsun Projects (the “Borrower”), to fund Phase 1 of a mixed-use development site in the Wirral, which provided an attractive risk adjusted return and significant local economic and social benefits, including significant employment space creation. The site was adjacent to Croft Retail Park in Bromborough – an established retail and leisure destination, with the development planned to include a self-storage unit, a Starbucks Drive-Through unit and four trade counter units.

3.33 In June 2024, the MPF received notification from the Borrower of its plans to pay down the drawn facility through funds raised by the disposal of the pre-sold unit, having called only 2% of the initial commitment facility.

3.34 **Wirral Waters**

3.35 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 helped to accelerate the delivery of an important regeneration project in the City Region, facilitating creation of new employment space outside of Liverpool City Centre.

3.36 This commitment from the Catalyst Fund was 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 was also a £4.50 million Grant Funding in place for this project which was invested alongside the Fund's Loan. This funding was provided 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).

3.37 This loan was repaid in full in Q2 2023.

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

3.39 Ropewalks was 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 and created 12 jobs. The development is a 10-minute walk from Liverpool City Centre, Liverpool One and Liverpool Central Station.

3.40 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.

3.41 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.

3.42 North Western Hotel:

3.43 North Western Hotel is another exit from the Catalyst Portfolio. The Fund had committed £19 million of senior debt to support the conversion and refurbishment of The North-Western Hotel. Originally built as a railway station hotel in 1871, it is located on the corner of Lime Street, adjacent to Liverpool Lime Street Station.

3.44 The Project is now complete with 202 rooms that have been pre-let to the Radisson Hotel Group and are operating under their Radisson Red brand. Thanks to this redevelopment 67 new jobs were created.

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. Guidance to the Local Government Pension Scheme (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

There are no appendices to this report.

BACKGROUND PAPERS

Local Government Pension Scheme: Guidance on preparing and Maintaining an Investment Strategy Statement
Impact Investing Institute: Place based impact investing

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section a of its Terms of Reference:

- (a) To be responsible for the overall investment policy, strategy and principles of the Fund and its overall performance.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee.	11 December 2023
Pensions Committee.	22 February 2022
Pensions Committee.	29 March 2021