Brent	**Pensions Fund Sub-Committee** 5th October 2021
	Report from the Director of Finance

Property Allocation

Wards Affected:	All
Key or Non-Key Decision:	n/a
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	PART EXEMPT - as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: "Information relating to the financial or business affairs of any particular person (including the authority holding that information)"
No. of Appendices:	One: Appendix 1 Property Allocation Report (exempt from publication).
Background Papers:	None
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1.0 Purpose of the Report

1.1 This report presents analysis and results of investment options for the Committee to consider and agree which fund to invest in. It provides an overview of the Fund’s strategic allocation to property, an introduction to the UK property market, a summary of four potential property funds, and recommendations for investment and implementation.

2.0 Recommendation(s)

The Committee is asked to:

2.1 To note the analysis set out in Appendix 1 undertaken by the Fund’s investment advisors, Hymans Robertson in relation to an initial investment in a property fund(s).

2.2 To review the four property fund opportunities outlined in Hymans Robertson report and approve the proposed investment of 3% total (c. £30m) in:

- Fidelity UK Real Estate Fund (1.5%)
- UBS Triton Property Fund (1.5%).

3.0 Background

3.1 The Fund currently has a long-term target allocation to property of 10%. This has been in the Fund’s strategic asset allocation since 2018 and is currently unfunded, with the assets being held in a combination of the Fund’s equity and two Diversified Growth Funds (DGF) mandates until a suitable investment opportunity is identified.

3.2 According to our current investment beliefs London CIV is the Fund’s preferred approach to implementation and the original intention for the property allocation was to invest in property funds made available by London CIV. To date, the London CIV pool has not made a property fund available to London Boroughs. It is understood that there are currently no plans to offer such a fund therefore officers have explored options outside London CIV.

3.3 The Fund’s investment advisors, Hymans Robertson, believe a sensible approach to reaching the 10% allocation is to start with an initial 3% allocation (c.£30m in monetary terms), and then top-up the allocation in future years.

3.4 This allows the Fund to assess the performance of the portfolio periodically and allocate future funds to the best opportunities in the property market as they become available, including alternatives, notably residential property, and global property.

4.0 Strategic case for property and suggested initial allocation

4.1 UK commercial property has been a core asset for lots of UK pension funds for many years and it generally has been effective at reducing overall risk within portfolios.

4.2 There are a number of options available to UK pension schemes:

- Investment in property, mainly whether to buy individual properties directly; or
- Aggregate capital with other investors by buying units in a pooled fund.

4.3 Investing directly is only an option for larger investors. For the Brent Fund, the size of the assets to be allocated to property are insufficient to make direct investment.

4.4 Indirect property investment is the most practical option for the Fund. Pooling assets with other investors will allow the Fund the opportunity to consider investing in range of property sectors and geographies.

4.5 As a starting point, it is recommended that a substantial proportion of the strategic allocation is invested in 1 or 2 core UK commercial property strategies. Once these core allocations are in place, other areas of the property market such as a global property allocation or residential property allocation can be considered.

4.6 Pooled property funds can be open-ended (almost perpetual) or closed-ended with a fixed term (e.g. 7 years). 'Core' or lower risk property assets have limited exposure to what would be deemed riskier 'opportunistic' properties/strategies. There will usually be some form of value-add through refurbishments or change of use but speculative development is less common 'core' strategies. In the UK, the majority of balanced property funds are open-ended.

4.7 There is merit in splitting the core property allocation to reduce potential risks in the future. Investing in 2 complementary funds diversifies:

- Underlying property asset risk;
- Tenant exposure; and
- Manager risk, particularly when future change could result in significant cost.

4.8 Attached in Appendix 1 (exempt), the Hymans Robertson have a detailed property allocation recommendation for the Fund. From their on-going research they have presented high level data, historic performance and current positioning for 4 preferred funds. Of these 4 Funds, it is recommended that the following two funds are the best options for the Fund:

- Fidelity UK Real Estate Fund; and
- UBS Triton Property Fund.

4.9 The report also explains the reasons why the remaining two preferred funds have been excluded from the recommendation.

4.10 The Committee may prefer to appoint a single manager so as to limit the overall governance burden. However splitting the allocation between both recommended funds would be complimentary and further diversify risk.

4.11 The Fund’s long term allocation to property is being held in a combination of the Fund’s equity and two Diversified Growth mandates. It is envisaged that the Funds for this investment will be made available from these investments. The Director of Finance and the Fund’s investments advisors will rebalance the appropriate mandates to move towards the Fund’s strategic asset allocation whilst also minimising transaction costs.

5.0 Financial Implications

5.1 Any transition of property assets tends to be costly due to stamp duty and other transaction fees. A secondary market is often available for many funds, which can reduce transaction costs at times but this relies on a two-way flow and may result in a significant price difference from Net Asset Value (NAV). Liquidity of balanced funds can sometimes be better than that of the direct market but at times of market stress, liquidity can quickly become an issue.

5.2 The Fund’s investment advisors believe the two recommended funds – the Fidelity UK Real Estate Fund and the UBS Triton Property Fund – would be complementary and by splitting the allocation, the Fund would further diversify risk (property asset specific risk, tenant exposure and manager risk) in an asset class that can become difficult to change at times.

5.3 By investing in two funds it would provide the Fund with more options over the longer term for both topping up exposure and for drawing liquidity through time if needed. In monetary terms, this would represent an investment of £15m per fund.

6.0 Legal Implications

6.1 The Pension Fund Sub-Committee holds a key fiduciary responsibility to manage the Fund’s investments in accordance with its investment strategy and in the best interests of the beneficiary members and the council tax payers, where the primary focus must be on generating an optimum risk adjusted return. It is vital that any investment decision must not negatively impact on this primary responsibility.

6.2 The administering authority has fiduciary duties both to scheme employers and scheme members and the investment strategy must be exercised for investment purposes, and not for any wider purposes. Thus, investment decisions must be spread across a wide variety of investments classes and achieve a balanced risk and return objective.

6.3 Subject to the above responsibilities and duties, the choice of investments and the sums invested are at the discretion of the Pension Fund Sub-Committee so long as that does not risk material financial detriment to the Fund.

7.0 Equality Implications

7.1 Not applicable.

8.0 Consultation with Ward Members and Stakeholders

8.1 Not applicable.

9.0 Human Resources

9.1 Not applicable.

<u>Report sign off:</u>

Minesh Patel
Director of Finance
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