

	Pensions Fund Sub-Committee 20 February 2023
	Report from the Corporate Director, Finance and Resources
Housing Allocation Recommendation	

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	PART EXEMPT –Appendix 1 is 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: Product Assurance Review – London CIV UK Housing Fund (Exempt from publication)
Background Papers:	<ul style="list-style-type: none"> ▪ N/A
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1.0 Purpose of the Report

- 1.1 This report details the analysis and review undertaken by the Fund’s investment advisor, Hymans Robertson, of the London CIV UK Housing Fund and recommendations for investment and implementation.

2.0 Recommendation(s)

That the Pension Fund Sub-Committee:

- 2.1 Note the analysis set out in Appendix 1 undertaken by the Fund's investment advisors, Hymans Robertson in relation to an initial investment in the LCIV UK Housing Fund.
- 2.2 Approve an investment commitment of 2.8% of total Fund assets (c. £30m) to the LCIV UK Housing Fund subject to the Corporate Director, Finance and Resources, in consultation with the Chair of the Pension Fund Sub-Committee, being satisfied with the conditions as set out in section 3.16 of this report.
- 2.3 Note that subject to approval in relation to 2.2 above, Officers will rebalance the appropriate mandates to move towards the Fund's strategic asset allocation to fund this investment as set out in section 3.17 of this report.

3.0 Detail

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.
- 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. Unfortunately, as there were no plans to offer such a fund, officers have explored options outside London CIV.
- 3.3 In 2021, the Committee agreed an initial allocation of 3% in two UK commercial property funds: the Fidelity UK Real Estate Fund and UBS Triton Property Fund. The Fund has made investments in both of these Funds with a total of £29m invested to date.
- 3.4 In the 2021 report to the Sub-Committee, it was discussed that the Fund would assess the performance of the portfolio and for the initial 3% allocation to be topped up in future years as new opportunities became available across a number of property sectors, notably residential property and global property.
- 3.5 The investment strategy review, included as a separate item on this agenda, has recommended that the 10% allocation is built up as follows:

Component	Allocation (£m)	Percentage Split (%)
UK commercial property	40	36
UK Housing	30	28
Global Property	40	36
Total	110	100

- 3.6 Except for the initial allocation to property outlined above, the remainder of the allocation is currently unfunded, with the assets being held with two Diversified Growth Funds (DGF) mandates¹ until suitable investment opportunities are identified. An allocation to property funded from DGFs would have a positive impact on the Fund's net zero ambitions because the DGFs are relatively carbon intense holdings for the Fund.

London CIV UK Housing Fund

- 3.7 As previously reported to the Sub-Committee, the London CIV have been developing a dedicated UK residential property fund over the last 12 months. Officers have been taking part in the Seed Investor Group (SIG) meetings to develop this opportunity.
- 3.8 The UK housing sector can be generally split into four segments: Private Residential sector, General needs social and affordable housing, transitional supported housing and specialist housing. Each of these segments has its own characteristics such as the target residents, the level of rent compared to market rent, the income source such as housing benefit or private income and the level of rent indexation.
- 3.9 The London CIV UK Housing Fund aims to invest indirectly through third party funds with the purpose of increasing the supply of good quality, affordable housing in the UK while also generating a competitive risk-adjusted return. It focuses on three strategies within the residential housing sector: general needs affordable and social housing, traditional supported housing and, specialist housing. These can broadly be defined as:
- 3.10 **General needs affordable and social housing:** Social and affordable properties are typically leased to councils or housing associations who sub-lease the properties to eligible tenants to meet their social housing obligations. Eligibility criteria depends on income, requirements due to disability, children, and state of existing accommodation.
- 3.11 **Transitional supported housing:** These are properties typically leased to council or housing association or charities who provide supportive but temporary accommodation to bridge the gap from homelessness to permanent housing.
- 3.12 **Specialist housing:** These are properties typically leased to councils, housing associations or charities who provide additional support including physical and mental health counselling. Councils typically contribute towards some or all of these care and support costs.
- 3.13 A broad characteristic of these segments is that they have a dependency on council, housing association or charities which are, in turn, reliant on stable government policies and funding – this a therefore a risk to the future returns generated by the Fund.

¹ London CIV Diversified Growth Fund (Baillie Gifford) and London CIV Absolute Return Fund (Ruffer)

- 3.14 London CIV have conducted their own internal manager research process and shortlisted potential investment managers for the UK housing fund to fit within the strategy defined above.
- 3.15 Attached in restricted Appendix 1, the Fund's investment advisors Hymans Robertson, have carried out a detailed appraisal of the LCIV UK Housing Fund. This covers the following areas:
- Structure, governance & senior leadership of the pool manager
 - Investment team
 - Philosophy & Process
 - Product design & investment strategy
 - Responsible Investment integration
 - Fund structure
 - Fees & additional costs
 - Performance & risk
- 3.16 Hymans Robertson are generally supportive of investment into the residential and housing sector however it should be noted that the strategy is still in its development phase therefore the Sub-Committee may wish to wait for further details to be provided by London CIV before confirming the commitment. In light of this, it is recommended that the Sub-Committee approve an investment commitment of £30m (c. 2.8% of total Fund assets) to the LCIV UK Housing Fund subject to the Corporate Director, Finance and Resources, in consultation with the Chair of the Pension Fund Sub-Committee, being satisfied with regard to completion of the manager appointments, further detail being provided and due diligence being completed in relation to the underlying investment managers, and the strategy remaining as specified in Appendix 1. A report at the next Pension Fund Sub-Committee meeting detailing the actions taken will be shared.
- 3.17 Similar to other private market funds, there will be a delay between funds being committed and investments being made by the underlying managers. Additionally, there may be queues to access certain funds. Therefore, any commitment to the UK housing fund is likely to take many months (potentially years) before it is fully invested. Officers will use any excess cash holdings in the first instance to meet capital calls. Thereafter officers will rebalance the appropriate mandates to move towards the Fund's strategic asset allocation whilst also minimising transaction costs.

4.0 Financial Implications

- 4.1 These are discussed throughout the report and included in Appendix 1.

5.0 Legal Implications

- 5.1 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.

5.2 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.

5.3 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.

6.0 Equality Implications

6.1 Not applicable.

7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable.

8.0 Human Resources

8.1 Not applicable.

Report sign off:

Minesh Patel

Corporate Director, Finance and
Resources