

Pension Fund Committee

Meeting to be held on 6 September 2013

Electoral Division affected: None

Property Investment Strategy

(Appendix 'A' refers)

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Executive Summary

The Fund has a long standing property portfolio and as part of its programme of work to review the investment strategy in relation to each asset class the Investment Panel has reviewed the Fund's strategy in relation to property in the context of the Fund's overall investment strategy and the report at Appendix 'A' sets out the strategy which the Panel recommend is adopted going forward.

Recommendation

The Committee is recommended to approve the strategy for property investment as set out at Appendix 'A' and in particular:

- a) The target long term absolute return target of 8% per annum.
- b) The split of the total property allocation between a diversified core portfolio representing 70%-80% of the allocation and a specialist / opportunity portfolio representing 20%-30% of the total allocation.
- c) A limit on the gearing in funds in which the allocation can be invested of 50%.

Background and Advice

As part of the ongoing programme of developing specific investment strategies for each asset class the Investment Panel has considered a revised strategy for property investment which is set out in Appendix 'A'.

This strategy brings the investment approach for this asset class in line with the investment strategy for the fund as a whole in seeking to look more globally, to look to achieve longer term stable returns and to seek out "best ideas".

The most significant changes to the current approach are in terms of the proposal to split the portfolio between what is in essence the current diversified core approach and a new specialist / opportunity allocation. The diversified core allocation will use fund investments to gain geographic diversification, while the specialist / opportunity

allocation will use fund investments to take advantage of the expertise of particular firms in delivering return in these areas.

Increasing investment in property through the Fund route will expose the Fund to the effect of leverage (that is borrowing by the manager of the fund in order to support their programme of activity). While this is not something the Pension Fund would look to engage with in other investment settings it is common in property funds and a limit on the level of gearing to which the Pension Fund might be exposed in any individual investment is proposed.

The other significant change is to set an absolute target for longer term performance rather than solely use an index relative target, although this will be maintained for short term measurement purposes. The 8% net return per annum used for the infrastructure portfolio is recommended as the appropriate level for this longer term target.

Consultations

This strategy has been developed through a process of consultation between the Investment Team and the Fund's existing property manager, and the Fund's Independent Advisers, prior to it being endorsed by the investment panel.

Implications:

This item has the following implications, as indicated:

Risk management

The proposed strategy seeks to address the key risks that exist in the current property investment approach which derive from geographic concentration and sectoral concentration, that is properties in the same place of the same type, through creating opportunities for both geographic diversification and investment in a wider range of different types of property, building on the existing core of direct property holdings.

Local Government (Access to Information) Act 1985 List of Background Papers

None

Reason for inclusion in Part II, if appropriate

N/A