**GREATER MANCHESTER PENSION FUND - PROPERTY WORKING GROUP**

**Friday, 4 November 2016**

**Commenced:** 9.30 am **Terminated:** 10.55 am

**Present:** Councillors S Quinn (Chair), J Fitzpatrick, J Lane, Ward and Halliwell and also in attendance the Chair of the Pension Fund Cllr K Quinn

**Apologies for Absence:** Councillors M Smith, Hamilton, Mr Allsop, Mr Drury and Mr Thompson

## 11. DECLARATIONS OF INTEREST

There were no declarations of interest.

## 12. MINUTES

The Minutes of the meeting of the Property Working Group held on 5 August 2016 were approved as a correct record.

## 13. MANAGEMENT SUMMARY

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report, which provided a commentary on issues and matters of interest arising over the last quarter. The quarter was dominated by the implications of the referendum of UK membership of the EU, the consequences of which were unclear.

With regard to 'Valuation, Performance and Allocation', the headlines from the Investment Property Databank report were that performance had reduced from 6.97% as at 30 June 2016 to 6.05% as at 30 September 2016 based on the estimated total value of the Fund at both dates. The allocations to property investments and their current weightings as at 30 September 2016 were outlined to the Group.

The Group were informed that the two year review of GVA's contract would be discussed at the meeting. GVA would also be reporting to the Group, and their presentation would focus on their progress over the past two years. La Salle would present their quarterly report and focus on the key issues relating to transactional and asset management activity over the last year, prospective purchases and the current state of the market with particular reference to how they were continuing to change the portfolio to improve performance.

**RECOMMENDED:**
**That the report be noted.**

## 14. PROPERTY RELATED AGED DEBT AS AT 19 SEPTEMBER 2016

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report summarising the aged debt (31 days and over) for the two property portfolios (Main Property Fund and Greater Manchester Property Venture Fund (GMPVF)) as at 19 September 2016.

An overview of the debt position was given by the Head of Pensions Accountancy including a summary of debt across the two areas and totals. The value of Property Aged Debt for the Fund as at 19 September 2016 was £0.332 million compared to £0.315 million at 19 June 2016.

It was noted that procedures for collection of debt were complied with and were working well, GMPVF debt remained very marginally within amber status but this was not material at present.

The highest value debts for each portfolio were detailed as per the appendices to the report. The policies for debt recovery were unchanged and there were currently no payment plans in place.

A risk profile was provided, which showed that across the two funds, raised debtor invoices totalled £39.5 million with £0.332 million (0.8%) of this outstanding at 19 September 2016. The estimated value of debt unlikely to be recovered was £121,000 (0.3%).

**RECOMMENDED:**
**That the report be noted.**

## 15. GVA QUARTERLY REPORT

The Working Group welcomed Jonathan Stanlake and Gareth Conroy of GVA who attended the meeting to present the GVA quarterly report. The presentation focussed on the performance of the Greater Manchester Property Venture Fund (GMPVF), the progress to date on business plans of existing properties and identification of new investment opportunities. The report provided in advance setting out the progress against milestones of each of the current properties in the portfolio.

They opened by explaining that GVA had recently changed ownership but the client team acting on behalf of GMPVF would broadly remain the same. The investments were outlined to the Group and split into '*committed sites*', '*advanced due diligence*' and '*active review'*. It was highlighted that there was an increasing focus on larger scale investments with five projects and four potential investments all over £10 million. Details were provided of the active developers within the North West region and it was explained that GMPF were comparable.

Members enquired about the characteristics of an ideal GMPVF investment. It was explained that an ideal investment would be over £10 million, in an area of active growth within the market and they would also seek to concentrate on partnerships with a view to a deal flow rather than 'one off' transactions. Members were keen to explore 'one off' investment opportunities and in response GVA outlined that each opportunity was examined on a case by case basis and they would not be lost just because an ongoing relationship not feasible/achievable.

A risk profile was presented for all GMPVF investments, which showed that the overall return for 'committed sites' across the low, medium and high risk profiles was 7.8%. For 'advanced due diligence' the figure was 6.2% and for 'active review' the figure was 5.8% giving an overall total of 7%. Examples of recent completed and 'advanced due diligence' projects were provided, which detailed the completed value, the projected return, a timeline of the project and a risk profile for funding.

A two year business plan was outlined for the 'committed sites' and the future priorities were displayed on maps of Greater Manchester and Manchester city centre.

The Working Group was also provided with a RAG (Red, Amber, Green) analysis showing the progress of development activity undertaken during the last three quarters to March, June and September 2016 and the current prediction on final viability.

**RECOMMENDED:**
**That the report be noted.**

## 16. REVIEW OF GVA APPOINTMENT AS FUND MANAGER

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report, which detailed the relevant information for the two year review of GVA. Members were notified that the appointment of GVA as the Greater Manchester Property Venture Fund (GMPVF) Fund Manager in September 214 was subject to a further review after two years.

A review of progress to date on business plans of existing properties, identification of new investment opportunities, reporting to Members and officers, the market environment, the future GMPF Strategy and alternatives to GVA were all outlined. A RAG analysis (Red, Amber and Green) was appended to the report showing GMPF officer's view of the progress made by GVA in achieving the targets set in the agreed business plans for the development sites held by the Fund. It was reported that the assessment was broadly positive overall with an appraisal of 75% on delivery.

The analysis showed that for the 13 development sites, GVA had achieved the objectives in ten cases with three sites having some actions outstanding and none showing significant underperformance. The majority of the sites should deliver the target returns with some risk associated with two sites.

With regards to the identification of new investment opportunities, the pace and completion compared favourably with the previous two year period and the reporting mechanism had improved. It was reported that GVA had engaged in significant market activity on behalf of GMPVF. Members also gave consideration to the agenda for pooling of assets within the LGPS, and in particular the plans for the Northern Pool, and GVA's competitor's based on the tender process carried out in summer 2014.

A detailed discussion took place on the various options available to the Working Group in terms of making a recommendation to the Management Panel. The advantages and disadvantages of each of the options were examined. It was noted that the Fund could seek other investment providers alongside GVA to deliver specific opportunities for local property investments in accordance with the investment guidelines, whilst ensuring that each individual activity was compliant with the procurement requirements.

The Executive Director for Governance, Resources and Pensions commented that clear objectives and milestones needed to be set to ensure that added value was being examined rather than the underlying value of property. Going forward, presentations should focus on the overall performance of the wider portfolio rather than focussing on individual sites in addition to opportunities which had been considered by GVA. It was agreed by all present that the previous presentation of GVA had set the tone for what was to be expected with emphasis on professional advice on what would add value and give good return together with opportunities out there with their written reports setting out progress. There was also a consensus that a good discussion had been undertaken on the performance and members welcomed more such discussions going forward.

**RECOMMENDED:**

**(i) That the report be noted;**

**(ii) That GVA be retained and a rolling one year monitoring programme be commenced based on new business plans to be agreed;**

**(iii) That a review of the Portfolio investment principles and parameters be reviewed to ensure sufficiently wide enough to ensure opportunities to increase income are maximised; it being noted that a particular opportunity being considered which the Executive Director in conjunction with the Chair of the Fund and the Working Group would be authorised to bid at auction at a price that would provide the Fund with returns in line with the benchmark.**

**(iv) That the use of other service providers for local property investments be agreed in principle subject to a further report setting out the detail.**

## 17. LA SALLE INVESTMENT MANAGEMENT QUARTERLY REPORT

The Working Group welcomed Tom Rose and Rebecca Gates, La Salle Investment Management, who attended the meeting to present the GMPF main property portfolio quarterly report for quarter three 2016.

It was reported that the market remained uncertain four months post the EU Referendum result. This uncertainty had affected property transactions but the occupational market had remained robust. It was anticipated that returns for 2016 and 2017 would be in-between -2% and 2% with a total return of up to 5%.

Mr Rose and Ms Gates highlighted the following areas:-

- Portfolio Performance
- Portfolio Composition
- Transactional Activity (completed and planned)
- Key Estate Management Issues, including rent reviews and lease renewals

It was reported that for the one year period to December 2015 the portfolio had produced a total return of 10.5%, compared to the benchmark of 13.3%. The total return for directly held assets was 11.7%, indirects had underperformed the benchmark returning 7%, four sales throughout the year contributed 0.3% to the return and three purchases dragged returns by 1%.

The structure and composition of the portfolio by sector was outlined to the Group. It was highlighted that the weighting for 'in town retail' had reduced significantly since October 2014 and now represented 26% of the portfolio composition. 'Alternatives' had increased from 6.3% as at October 2014 to 16.6% as at 30 September 2016.

An activity update for the quarter focussing on acquisitions, sales and asset management in addition to a progress on the annual strategy was provided. Details of completed purchases, purchases under offer, completed sales and sales under offer were given alongside information relating to lettings and lease renewals, rent reviews and vacancies. It was reported that five outstanding renewals had been completed, one unit had been sold, two tenants had vacated with one relocating and four new renewals arose.

The Chair thanked Mr Rose and Ms Gates for their presentation.

**RECOMMENDED:**
**That the report be noted.**

## 18. URGENT ITEMS

There were no urgent items.