

**Report To:** **GMPF MANAGEMENT/ADVISORY PANEL**

**Date:** 22 September 2017

**Reporting Officer:** Sandra Stewart - Director of Pensions

**Subject:** **MANAGEMENT SUMMARY**

**Report Summary**

The aim of this report is to provide a short commentary on issues and matters of interest arising during the last quarter. The Fund value at 30 June 2017 was £21.3 billion compared to £21.0 billion at 31 March 2017.

The performance of the Fund during the quarter was 1.2% compared to 1.0% for the strategic benchmark.

Work continues on a number of key projects for the Fund, which are the subject of specific reports later in the agenda:-

- Review of Investment Strategy
- Investment Pooling

This report also gives an update on the funding of Stone Harbour, Project Magpie and Housing Investment.

**Recommendations:** To note the progress on matters and issues raised in the Management Summary.

**Policy Implications:** None.

**Financial Implications:** These are set out in the report.  
**(Authorised by the Section 151 Officer)**

**Legal Implications:** Legal advice needs to be taken expediently on each of the individual projects referenced in the report as required.  
**(Authorised by the Solicitor to the Fund)**

**Risk Management:** The report is primarily for information only.

**ACCESS TO INFORMATION:** **NON-CONFIDENTIAL**

**This report does not contain information which warrants its consideration in the absence of the Press or members of the public.**

**Background Papers:** For further information please contact Paddy Dowdall, Assistant Director – Property and Local Investments, tel 0161 301 7140, email [paddy.dowdall@tameside.gov.uk](mailto:paddy.dowdall@tameside.gov.uk)

## **1. MULTI-ASSET CREDIT MANDATE – FUNDING OF STONE HARBOR**

- 1.1 At the July 2016 meeting of the Panel, it was resolved to institute a benchmark exposure of 5% points (£1.050 billion as at July 2017) to a Multi-Asset Credit Investments 'asset class' in line with a concomitant reduction in the weighting of public equity. Stone Harbor were selected as the preferred supplier.
- 1.2 Funding of the Stone Harbor Multi-Asset Credit mandate began in July 2017, following in depth due diligence and completion of the necessary legal documentation. The mandate is to be funded over seven fortnightly tranches of £150 million, with the final tranche scheduled to take place in October 2017.
- 1.3 The mandate will be funded by reducing the equity element of Capital's investment mandate by 10% of their assets under management (£287 million), as resolved at the September 2016 meeting of the Panel. The remainder (£763 million) will be taken from L&G equities. There is scope to adjust the final tranche amount to ensure that the mandate is funded with 5% of Main Fund assets. Representatives of Stone Harbor are scheduled to present to the Panel later on this agenda.

## **2. PROJECT MAGPIE**

- 2.1 As reported at previous Panel meetings, First Bus Group, one of GMPF's largest private-sector employers, has proposed to consolidate its two other LGPS arrangements (currently in the West Yorkshire Pension Fund and the South Yorkshire Passenger Transport Pension Fund) into GMPF. This proposal was approved by the Panel at its March meeting, subject to certain conditions being met.
- 2.2 The consolidation will be effected by a Direction from the Secretary of State, which was received last month, and the signing of admission agreements with the two Yorkshire operating companies. The effective date of the Direction is 1 November 2017.
- 2.3 Assuming the consolidation proceeds as planned there will be approximately 5,000 members and £600 million of assets transferring to GMPF. Work is ongoing to implement the transfer of member data and assets and regular updates will continue to be provided to the relevant working groups and the Management Panel as appropriate.

## **3. HOUSING INVESTMENT**

- 3.1 Following the successful outcome of the initial Matrix Homes development with Manchester City Council (MCC), the Fund is keen to develop the model to be a catalyst for the building of new homes whilst generating strong risk adjusted returns for GMPF. To this aim, the team have explored options for working in partnership with other LGPS Funds, other GM authorities and alternative financial models to devise further investments opportunities.
- 3.2 The results are that the Fund will seek to commit to build 750 homes, over the next 12 to 18 months. This should involve capital commitments of around £50-£75 million and a projected return of at least 7.5%. There are currently 3 schemes with early visibility to deliver this:-
  - A joint venture with Tameside focusing on funding arrangements with 3<sup>rd</sup> parties
  - A follow on joint venture with MCC
  - A development in Merseyside with MPF

### **Tameside Matrix**

- 3.3 Officers from GMPF and Tameside Place department have been working on the feasibility of a Tameside Matrix deal along the lines of the original partnership with Manchester City Council. There have been various iterations of prospective portfolios of sites aimed at meeting financial viability for both parties. This has run into difficulties including, legal structuring and the financial viability of the package of sites available and consequently it is clear that a Matrix model is not optimal so other options are being considered for housing development.
- 3.4 GMPF has experience of providing development finance and has been successful in providing both senior and mezzanine debt to a range of residential developments. This type of funding is viewed as lower risk, as it usually secured against the value of the site and the development being undertaken.
- 3.5 The Fund is currently providing £8 million of mezzanine lending on a residential development being undertaken by Rowlinsons close to the City Centre, known as Pomona Island. The 2 apartment blocks of 164 apartments, have been purchased in advance by Hermes to operate as a private rental model. The GM Housing Investment Fund is also supporting this development, by providing £10 million of senior debt. Rowlinsons are an established North West based developer and contractor, with a long track record of working with end users such as Housing Associations and Property Funds. Currently, Rowlinsons are very active in the market, seeking land and property suitable for residential use and appointed as a main contractor building for a number of Housing Associations.
- 3.6 As previously mentioned, Rowlinsons has extensive contacts with end users such as Housing Associations. Using their knowledge of end users requirement, Rowlinsons has devised developments on the following sites in Tameside under Council ownership, which they believe to be viable and of interest to Housing Associations:-
- Arnside Drive, Hyde – 70 unit extra care facility (New Charter)
  - Fern Lodge, Ashton – 36 semi-detached homes (Great Places)
  - Morningside, Droylsden – 7 3 bed homes, 6 1 bed apartments (Adactus Housing)
- 3.7 A deal is being brokered whereby there is a land sale from the Council together with funding from GMPF to Rowlinsons to build the 119 units constituting an investment of £15 million for the Fund.
- 3.8 There are 2 other sites available for housing development in Tameside in council ownership at Mossley Hollins and Greenside Lane. From the Council perspective, there is a need for a capital receipt and to demonstrate a competitive process for the sale of these sites. Therefore a tender process similar to an exercise recently done by GMPF for Wilmslow Road in Chorlton on land owned by the Fund used for housing development, is proposed. This involved bidders being asked to buy the land and enter into partnership with the Fund for development through an overage agreement, and the Fund providing debt finance. Development of these two sites using this method would facilitate the building of 135 homes and an investment of £20 million from GMPF.
- 3.9 Whilst the precise terms of the funding agreement are yet to be determined, based on past experience and current market conditions the return for the Fund is in the region of 7%-10% on an IRR basis.
- 3.10 The key next steps are:-

| <b>Deadline</b>   | <b>Action Point</b>   |
|-------------------|---|
| 30 September 2017 | TMBC Agree Deal with Rowlinsons for sale of 3 sites                   |
| 31 October 2017   | GMPF Negotiate debt funding package with Rawlinson                    |
| 31 October 2017   | TMBC and GMPF to place advert for sale of other sites and development |

### **Manchester City Council (Matrix 2)**

- 3.11 Manchester City Council (MCC) has identified and has given formal approval to release 5 sites, which they believe are suitable for development using the Matrix Homes model. GVA has reviewed the sites and the updated financial model prepared by MCC, following which GVA has recommended that GMPF enters into the Memorandum of Understanding (MoU) to progress development. Both GMPF and MCC have now signed the MoU.
- 3.12 It is proposed to develop 341 homes for both sale and rent, with a total value of £53 million, the gross development costs are anticipated to be £42 million (excluding finance cost and land value), requiring a funding requirement of £27 million. This funding requirement will be met through a combination of senior debt to be provided by the GM Housing Investment Fund, GMPF Equity and recycling of sales receipts. As the joint venture will be 50/50 in nature, it is proposed that the GMPF equity will match the MCC equity contribution of land value (estimated at £4.9 million).
- 3.13 GMPF has committed up front capital of £798,000 to meet the costs of the project team assembled by MCC to progress the development. A soft market testing exercise has been carried out with a range of potential delivery partners, who provided comments that substantiated the assumptions made to date in the financial model on costs, sales values and the suitability of developments for each site. The quarterly Matrix Homes Board will consider the results from the project team, to ensure that viability is achievable before allowing work to proceed to the next stage of implementation. The MCC project team has recently appointed a technical advisor to Matrix 2 and an Employer's Agent, following which procurement packages for the construction and long leasehold partners will commence.

### **Partnership With Merseyside Pension Fund**

- 3.14 The Fund is formalising arrangements for pooling with Merseyside and West Yorkshire Pension Funds. The political leadership of MPF has expressed a desire to engage in a joint venture along the lines of Matrix Homes with GMPF.
- 3.15 Officers from GMPF Property and Local Investments team, together with a representative from GVA, attended MPF offices in early April 17 to brief colleagues from MPF and Wirral MBC on the Matrix model. The steps required in delivering a successful development were explained in detail to MPF, together with the learning points from Matrix 1. It was proposed that GMPF would be able to provide further assistance in investment management alongside a capital investment.
- 3.16 The action following the meeting, was for MPF to consider the information provided and to determine the level of interest from the Merseyside Councils in implementing a Matrix Homes type model. The option of GMPF to include MPF investment into a future Matrix investment in Greater Manchester was also discussed, which may have wider benefits.
- 3.17 There have been subsequent meetings with Merseyside Councils organised by MPF and there is interest in these projects but there may be some delays as the working arrangements with MPF, the new Liverpool City Region authority and the Councils are established.

## **4. RECOMMENDATIONS**

- 4.1 That the report be noted.