GREATER MANCHESTER PENSION FUND - PROPERTY WORKING GROUP

Friday, 17 February 2017

Commenced: 9.30 am **Terminated:** 11.15 am

Present:	Councillors S Quinn (Chair), J Fitzpatrick, M Smith, Ward, Grimshaw, Halliwell, Hamilton, Mr Drury and Mr Allsop	
In Attendance:	Sandra Stewart	Executive Director of Pensions
	Paddy Dowdall	Assistant Executive Director of Pensions (Local Investment and Property)
	Nigel Driver	Investment Manager (Property)
	Andrew Hall	Investment Manager (Local Investments)
	Misodzi Dent	Investment Officer
	Neil Charnock	Head of Pension Fund Legal

19. DECLARATIONS OF INTEREST

There were no declarations of interest.

20. MINUTES

The Minutes of the meeting of the Property Working Group held on 4 November 2017 were approved as a correct record.

21. 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 in relation to the Fund's property investments.

With regard to 'Valuation, Performance and Allocation', it was reported that the performance of the portfolios would be discussed in more detail at the next meeting of the Working Group but early indications were that the main portfolio would be in line with the benchmark with a small capital fall for 2016 offset by income received. The allocations to property investments and their current weightings as at 31 December 2016 were outlined to the Group. It was noted that due to the high investment performance of the Fund in past 9 months overall money at work in property had remained at 6% of Fund assets despite investment programmes for property being on schedule.

The Group were informed that the quarter had been dominated by the implications of political uncertainty following the UK referendum on membership of the EU and the US presidential elections, the ramifications of which were unclear. The consensus view for medium term property returns had been reduced and transaction volume remained low.

RECOMMENDED:
That the report be noted.

22. OVERSEAS PROPERTY INVESTMENTS

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report detailing activity in the growth and management of the Fund's overseas property portfolio.

It was reported that the original investment strategy and investment guidelines for investing in overseas property were agreed by the Working Group on 30 January 2015 and updates were provided in the reports to the meetings on 6 November 2015 and 19 February 2016. Some minor amendments had been made relating to changes in governance, staffing and the approval process for new investments in addition to the introduction of a pacing strategy. The pacing strategy was a key element of investing in indirect pooled vehicles in private markets, which set the amount of capital needed in order to reach the set allocation. There was a requirement to model the pacing strategy due to the complex and variable nature of the cash flows and values arising from this method of investment, which was set out in the investment guidelines, a copy of which was appended to the report.

It was explained that the Fund needed to achieve and maintain an allocation of 2% in overseas property subject to the availability of suitable opportunities. Investment areas under consideration were Asia, alternatives and further exposure in Europe and US. The most common investment vehicle that had been used was a ten year limited partnership with an investment period of four years, which required the Fund to have an on-going commitment programme to achieve and maintain the 2% allocation in overseas property. In order to maintain diversification across vintages as per the investment guidelines, it was necessary to have a four year horizon when planning commitments, which would be reviewed periodically. Therefore, a four year pacing strategy was required.

Details of the overseas property portfolio were outlined to the Working Group. There had been four commitments to overseas property funds during 2016 and three during 2015, in addition to a recent commitment to a mezzanine debt fund. The team regularly reviewed the individual funds and, although it was too early to appraise the performance of the investments due to the nature of deployment, there had been steady measured progress to date.

RECOMMENDED:
(i) That the report be noted; and
(ii) That the Working Group RECOMMEND to the Management Panel to approve the revised Overseas Investment Guidelines (as attached), including the pacing model, and specifically the 4 year pacing strategy subject to annual review of £100 million per annum.

23. GMPVF - AMENDED INVESTMENT GUIDELINES AND 2 YEAR BUSINESS PLANS

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report, which detailed updated investment guidelines for GVA.

It was reported that investment guidelines provided to GVA had been reviewed and it was proposed to update these guidelines to include the ability for the Greater Manchester Property Venture Fund portfolio to hold income generating assets as well as development investments, such as direct property, indirect joint venture or loan opportunities. This would increase GVA's ability to fully utilise the allocation made by the Fund to the Greater Manchester Property Venture Fund, provide some risk diversification to the portfolio and generate income.

Also appended to the report were two year business plans for each investment held under the portfolio together with budgeted cash flows for both investments and related professional fees. Each plan provided a summary of each investment and further opportunities currently under consideration together with an action plan for the period up to September 2017 and a target position for September 2018.

RECOMMENDED:

(i) That the report be noted;

(ii) That the Working Group RECOMMEND to the Management Panel to approve the Greater Manchester Property Venture Fund Investment Guidelines (as appended to the report); and

(iii) That the two year business plans and budgeted cash flow be agreed.

24. PROPERTY RELATED AGED DEBT AS AT 19 DECEMBER 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) as at 19 December 2016.

An overview of the debt position was given including a summary of debt across the two areas and totals. The value of Property Aged Debt for the Fund as at 19 December 2016 was £0.271 million compared to £0.332 million at 19 September 2016.

It was noted that procedures for collection of debt were complied with and were working well, Greater Manchester Property Venture Fund 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 £0.271 million (0.68%) of this outstanding at 19 December 2016. The estimated value of debt unlikely to be recovered was £108,500 (0.27%).

RECOMMENDED:
That the report be noted.

25. 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 report provided in advance summarised the financial allocation to the committed projects and the indicative allocation required for projects currently undergoing due diligence.

The presentation focussed on the performance of the Greater Manchester Property Venture Fund, the progress to date on business plans of existing properties and identification of new investment opportunities. The investments were outlined to the Working Group and split into ‘committed sites’, ‘advanced due diligence’ and ‘active review’. It was reported that there had been an increase in sites under ‘active review’ compared to the previous quarter as new opportunities were being pursued.

Charts detailing the portfolio overview by sector showed greater diversification over the four sectors (office, suburban residential, city centre residential and other) with an overall increase in committed and pipeline sites. Examples of rejected opportunities and reasons for rejection were also provided. Priorities for the forthcoming year were outlined and included converting existing deals to advanced due diligence status, continuing to balance the portfolio and increasing residential development.

An update on progress achieved during the last quarter was provided in addition to actions to be carried out over the coming quarter across all the Greater Manchester Property Venture Fund development sites. Financial performance information was provided for each site to show the current market valuation compared to the cost value to GMPF, together with the return to the Fund from the acquisition date. A schedule of fee expenditure incurred on development activity during the previous quarters was also detailed.

New and progressing opportunities were presented and included Circle Square, Owen Street Manchester, Princess Street Manchester, First Street Manchester, Chorlton shopping centre, Irwell Riverside, Matrix Homes Tameside and Manchester, Wilmslow Road Didsbury and Island Site.

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 October, November and December 2016 and the current prediction on final viability.

RECOMMENDED:
That the report be noted.

26. LASALLE QUARTERLY REPORT

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

Mr Agnew began by providing an economic and property market overview for 2016 and an outlook for 2017 with a risk analysis. It was reported that following the EU Referendum result there had been a decline in activity, however, during the last quarter of the year there had been a resurgent in transactions with overseas buyers taking advantage of a weaker pound. The market had been affected by political risk in the UK, Europe and US, which was likely to continue during 2017. Other risks included exchange rates and inflation rises.

The total return during 2016 was 3.6% with positive returns within all sectors; the strongest performers were industrial and alternatives. It was anticipated that the alternative sector, along with student accommodation, would be strong performers in 2017. The projected return for 2017 was around 0% and up to a 5% per annum return over the next five years.

He concluded by outlining the most suitable strategy for the coming months. It was important to reduce risk wherever possible, reduce void rates and maximise the income potential of properties. The Fund was well positioned and could take advantage of the opportunities available in the current climate and would benefit from concentrating on large, high quality, dominant assets.

Mr Rose highlighted the following areas:-
- Portfolio Performance
- Portfolio Structure and Composition by Sector
- Activity Update and Annual Strategy Progress
- Purchases and Sales
- Asset Management Summary

With regards to portfolio performance, it was reported that at the end of quarter four the size of the portfolio and rental income received had increased, the vacancy rate remained low at 2.1% and the net initial yield was in-line with the market at 5%.

The structure and composition of the portfolio by sector was outlined to the Working Group. It was highlighted that the weighting for retail and industrial were below the benchmark and alternatives and offices were above the benchmark. The weighting in the alternatives and industrial categories had increased since quarter three. A key objective for the coming year was to reduce the in-directs weighting, maintain the overweight position in the alternatives sector and seek large retail opportunities in addition to a continued focus on investment.

An activity update for the quarter focussing on acquisitions, sales, asset management and in-directs in addition to progress on the annual strategy was provided. Details of one completed sale and one sale under offer were given alongside information relating to lettings and lease renewals, rent reviews and vacancies.

It was reported that five lettings, five lease renewals and four outstanding lease renewals had been completed during the quarter, one tenant had vacated and there had been one new renewal. Six new rent reviews arose during the period and four were settled. Detailed information was provided in relation to the portfolio's indirect holdings and it was highlighted that business plans had been identified for each holding.

RECOMMENDED:
That the report be noted.

27. URGENT ITEMS

There were no urgent items.