Overseas Property

Statement of Investment Guidelines 17 February 2017

1. Executive Summary

1.1 The purpose of this document is to set out investment guidelines for the overseas property investment portfolio. This document will act as a guide for staff in running the portfolio and as a reference point for management and Members when reviewing the management of this portfolio.

2. Allocation within GMPF and Objectives

2.1 The table below shows the allocations to property including overseas property as approved at the GMPF Management Panel on 3 July 2015.

Investment	Proportion of Main Fund %	Management Arrangements
Direct Portfolio (direct and specialist indirect)	4-8	La Salle
Indirect	0-2	Executive Director, Governance, Resources and Pensions
GMPVF	0-3	GVA
Overseas	0-2	Executive Director, Governance, Resources and Pensions
Other	0-1	Executive Director, Governance, Resources and Pensions

2.2 The Fund has a core belief statement. The key elements of this that are relevant to overseas property investment are listed below.

- Recognition that the fund has a required investment return which is above that defined as the risk free return (i.e. that from government bonds)
- Recognition that the Fund is rewarded through additional returns for the taking of different type of risks including equity, liquidity and credit risks
- Recognition that active management can achieve excess returns and a belief that value will deliver superior returns in the long term
- Recognition that a long term approach is needed

2.3 These are incorporated in the strategy on overseas property investments. We are seeking additional return for the taking of additional risk in investing overseas and all property should generate additional return through taking liquidity and credit risk in a prudent manner. We will employ active management and take a long term perspective when assessing opportunities.

2.4 The portfolio will look to manage risk primarily through diversification. This will be done across:

Vintage, i.e. spreading investments over a number of years, property is extremely cyclical

Country: the portfolio will be spread globally looking for good opportunities at the time of investment
Sector, the portfolio will diversify across size and type of properties e.g. retail, office and industrial

2.5 A key element of investing in indirect pooled vehicle in private markets is the 'pacing strategy' this is dealt with in section 5. The pacing strategy sets the amount of capital needed to be committed to achieve the objective of reaching the allocation set in terms of money at work. This requires modelling due to the complex and variable nature of the cashflows and values arising from this method of investment.

2.6 The most common form of investment vehicle for the overseas portfolio has been a 10 year limited partnership which has an investment period of the first 4 years and then looks to return capital to investors by the end of ten years. This constant rotation of capital means that GMPF needs to have an on-going commitment programmes to achieve and maintain the allocation of 2% of the Fund in overseas property. The target is also complicated by the fact that the assets grow in value overtime as does the overall Fund.

2.7 The team have produced a model to pace the commitment programme using long term assumptions as detailed in the table below.

Whole Fund Performance	5.4% per annum
Overseas property performance	8% per annum
Assumed standard investment vehicle	10 year LP
Pace of deployment of commitments	25% per annum
Holding period	Average 4 years
Distribution period	Between years 5 to 10 (at 20% for4 years then 10% for 2)

2.8 In order to maintain diversification across vintages as per the Investment Guidelines it is necessary to have a 4 year horizon when planning commitments, however this four year horizon needs to be periodically reviewed with reference to how the model is impacted by out turn position on annual basis. Therefore it is recommended that these investment guidelines require a 4 year pacing strategy to be agreed and reviewed on an annual basis by this working group. It will also be subject to any strategic asset allocation changes. should be noted that this is not an exact science and actual deployment will be subject to the availability and timing of suitable investment opportunities.

3. Key Investment themes

3.1 The key investment themes that the portfolio will seek exposure to are:

- Sectors/Markets/Countries with a medium term expectation of higher returns than UK
- Use of specialist active management (both investment and asset management) to enhance returns
- Purchases from financially distressed sellers
- Prudent deployment of leverage

3.2 Current investments being considered are:

- Pan-Asian
- Alternatives, including farmland and healthcare
- More core orientated funds in US and Europe

4. Governance Structure

4.1 The policy on selection of investments for overseas property mirrors that for other investments.

GMPF Management Panel	Sets overall strategy for Investment allocation Receives reports from Working Groups on investment activity
Property Working Group	Receives reports on strategy for overseas property and agrees recommendations on areas/sectors of investments. Receives reports from internal managers and external investment managers on progress of investments. Agrees pacing strategy on a 4 year basis subject to annual review
Executive Director Pensions	Chairs Investment Committee and approves selection of individual investments within approved strategies under delegated authority Reports to Working Groups
Local and Property Investments team	Research investment opportunities Make recommendations for investment Monitor investments and record data Draft reports on investments for initial screening by the Assistant Director of Pensions prior to referral to Investment Committee

5. Operating Guidelines

5.1 The aim of the internally managed portfolio would be to manage risk through diversification across countries, sectors, investment managers and vintage of investments. The portfolio would invest primarily in fund vehicles, and potentially listed securities. There are difficulties in owning direct property overseas.

5.2 There are 5 keys stages in the selection of investments;

1. Identification of opportunities
2. Filtering of opportunities
3. Diligence on small number of proposals
4. Review of diligence work and recommendations
5. Final Appraisal of recommendations and approval by Investment Committee

5.3 Any investment selected for the portfolio would have been through these stages. Procedures for stages 2 to 5 are relatively simple to set up internally, but are critical to the success of the investment programme. These are comparable to procedures within the Investments team for Private Equity and Infrastructure. Stage 1 is a difficult process to get right as there is a fine balance between accessing all relevant market opportunities and being inundated with proposals many of which will not be appropriate.