

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

**13 April 2017**

**Commenced:** 11.00 am

**Terminated:** 12.15 pm

**Present:** Councillors S Quinn (Chair), J Fitzpatrick, M Smith, Ward, Halliwell, Hamilton and Mr Allsop

<b>In Attendance:</b>	Sandra Stewart	Executive Director of Pensions
	Paddy Dowdall	Assistant Executive Director of Pensions (Local Investments and Property)
	Nigel Driver	Investment Manager (Property)
	Misodzi Dent	Investment Officer
	Richard Thomas	Investment Officer
	Tracey Boyle	Head of Pensions Accountancy
	Christine Weston	Principal Auditor
	Mark Powers	Advisor to the Fund

**Apologies for Absence:** Councillors J Lane, Grimshaw and Mr Drury

### **28. DECLARATIONS OF INTEREST**

There were no declarations of interest.

### **29. MINUTES**

The Minutes of the meeting of the Property Working Group held on 17 February 2017 were approved as a correct record.

### **30. MANAGEMENT SUMMARY**

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report, which provided an overview of property investments and a commentary on issues and matters of interest arising over the last quarter in relation to the Fund's property investments.

The allocations to property investments and their current weightings as at 31 March 2017 were outlined to the Group. It was noted that the Fund were slightly below their allocation as a result of the recent success of the Fund overall. Overseas deployment had been increased and any risk would be controlled through diversification

It was reported that the Management Panel would consider an investment strategy for the whole Fund at their meeting in July, which would include some revision of predicted cash flows and performance benchmarks for specific portfolios to reflect increased use of debt. The Group were advised that there were no intentions to make any significant changes to the existing strategy.

### **RECOMMENDED:**

**That the report be noted.**

### **31. INTERNAL AUDIT REPORT POST AUDIT REVIEW OF CONTRACT MANAGEMENT**

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report, which detailed the internal audit report post audit review of contract management.

It was reported that the audit had moved from an internal arrangement to an external auditor and the review had been undertaken to set-out points of consideration. The team had worked extensively to establish systems and procedures. The majority of the issues and points of consideration had been implemented, with some areas, in relation to La Salle, to be refined.

#### **RECOMMENDED:**

**That the report be noted.**

### **32. LONG TERM PROPERTY PERFORMANCE (INCLUDING IPD REVIEW OF THE MAIN UK PROPERTY PORTFOLIO FOR 2016)**

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report detailing the recent and longer term investment performance of the LaSalle managed portfolio and the UK balanced property pooled vehicle portfolio and Overseas property portfolio.

It was reported that after a period of good relative performance, returns for UK commercial property decreased in 2016 with concerns over pricing levels and future occupational demand with cautious investment activity, which were exacerbated following the UK's decision to leave the EU. The longer term property underinvestment by the Fund had been generally detrimental to overall performance and the main portfolio had lagged its benchmark.

LaSalle were in their third year of managing the main portfolio and had made steady progress in turning performance around, with performance for 2016 matching the benchmark. They had changed the Fund's directly owned property portfolio composition to match the theoretical structure of the Investment Property Databank with a slight overweight allocation to 'Other' and a slight underweight in 'offices'. This position would be advantageous in the current market for short to medium term performance.

The Fund's directly held properties had outperformed the benchmark, which was a significant improvement on 2014 and 2015, but the specialist indirect funds had reduced performance. The UK balanced portfolio had performed well in recent years but had slightly underperformed against its benchmark in 2016. With regards to the Overseas property portfolio, as a new portfolio, it was too early to judge and report on return profiles and performance of the funds, however, the team were satisfied with progress made during 2016 but the fall in sterling against other currencies could adversely impact in future drawdowns on overseas funds.

The Group were informed that the team were committed to delivering steady and measured progress towards meeting the Fund's target property allocation and would control overseas and alternative investment risk through diversification across geography, vintage, sector and other macroeconomic factors.

#### **RECOMMENDED:**

**That the report be noted.**

### **33. PROPERTY RELATED AGED DEBT AS AT 19 MARCH 2017**

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 March 2017.

An overview of the debt position was given including a summary of debt across the two areas and totals. Total debt had increased slightly from £0.271 million in December 2016 to £0.316 million as at March 2017.

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 £39.6 million with £0.316 million (0.79%) of this outstanding at 19 March 2017.

**RECOMMENDED:**

**That the report be noted.**

### **34. GVA QUARTERLY REPORT**

The Working Group welcomed Jonathan Stanlake and Gareth Conroy of GVA who attended the meeting to present the GVA quarterly report for Quarter 2 2017. The report 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' and 'committed sites' when compared to quarter 4 2016.

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. A year by year portfolio investment projection was shown, which detailed a steady increase in capital deployed and examples of rejected opportunities was 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.

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 January, February and March 2017 and the current prediction on final viability.

**RECOMMENDED:**

**That the report be noted.**

### **35. LASALLE QUARTERLY REPORT**

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

Mr Rose and Ms Gates highlighted the following areas:-

- Portfolio Performance
- Portfolio Structure and Composition by Sector
- Activity Update and Annual Strategy Progress
- Purchases and Sales

With regards to portfolio performance, it was reported that the size of the portfolio had increased and the total property returns were 3.6%, which had increased the Fund's overweight position. The vacancy rate had increased since the previous quarter, mainly due to the acquisition of Airport City, but remained below the benchmark at 6.3% and the net initial yield was in-line with the market at 4.8%

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. A chart detailing the performance of direct and indirects was provided in addition to market indicators, which showed a recovery of property returns following the post-referendum dip during quarter three.

An activity update for the quarter focussing on purchases and sales was provided. There had been no acquisitions or sales during the quarter, however one sale was under offer and one acquisition was currently under offer. Details of six recent sales and acquisitions were highlighted to the Group. It was confirmed that LaSalle would continue to sell underperforming assets and grow the portfolio through acquiring large, high quality, dominant properties.

**RECOMMENDED:**

**That the report be noted.**

**36. URGENT ITEMS**

There were no urgent items.