

LONDON BOROUGH OF SUTTON

PENSION COMMITTEE

MONDAY, 22 JUNE 2015



7.00 pm at the

Civic Offices, St Nicholas Way, Sutton SM1 1EA

SECOND DISPATCH

To all members of Pension Committee:-

The following papers have been updated for dispatch with the agenda. Please bring them with you to the meeting:

SUPPLEMENTAL AGENDA

8. RESIDENTIAL PROPERTY FUND INVESTMENTS (Pages 1 - 10)


*Niall Bolger
Chief Executive
Civic Offices
St Nicholas Way
SUTTON
SM1 1EA*

15 June 2015

*Enquiries to: Susanne Wicks, Committee Support Team Leader, Tel: 020 8770 6540
Email: Susanne.wicks@sutton.gov.uk*

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Report to:	Pension Committee	Date:	22 June 2015
Report title:	Investing in Residential Property		
Report from:	Gerald Almeroth, Strategic Director, Resources		
Ward/Areas affected:	Borough Wide		
Chair of Committee/Lead Member:	Councillor Sunita Gordon		
Author(s)/Contact Number(s):	Sue Hogg, Interim Head of Financial Strategy and Planning (020 8770 5260)		
Corporate Plan Priorities:	<ul style="list-style-type: none"> • A Smart Council 		
Open/Exempt:	Open		
Signed:		Date:	11 June 2015

1. Summary

- 1.1. This reports sets out the investment case for residential property which includes the recommended investment criteria which will be used to guide the selection process and seeks agreement to follow a direct investment approach in selecting a suitable pooled fund.

2. Recommendations

- 2.1 The Committee approve the proposed investment in residential property of between 2% and 4% of Fund assets following the process as set out in this report.
- 2.2 That a report is brought back to the Committee to approve the proposed investment fund.

3. Background

- 3.1 At the last Pension Committee meeting it was agreed that we would undertake some research into investment in the residential property market. The aim is that the inclusion of residential property will offer diversification within the investment strategy and longer-term investment could achieve returns of between 6% and 7%.
- 3.2 Hymans Robertson's report attached at appendix A sets out the case for residential property investment and the process we would need to follow to select and invest with a provider.

4 Issues

- 4.1 The suggested criteria for considering a residential property investment is as follows:
- the mandate should be 100% focussed on the UK;
 - the mandate should be focused on the Private rented sector residential with a preference for high quality housing;
 - the target return should be in the region of 6-7% p.a. or RPI plus 3-4%p.a. net of fees;
 - the mandate size will initially be in the region of £10m to £20m;
 - the manager should have significant expertise in managing UK property investment including residential property and be of sound financial standing, and;
 - the mandate should ideally have diversified UK exposure rather than specific geographical focus.
- 4.2 Under the Local Government Pension Scheme regulations, manager appointments need to be carried out using the full OJEU procurement procedures. However direct investments can be made by funds without following these procedures. Where a Fund decides to purchase shares or units in an existing pooled fund this is interpreted as a direct investment rather than a manager appointment. This allows the investments to be made using a more streamlined and



cost effective selection process.

5 Impacts and Implications

Financial

5.1 The proposed investment in residential property would constitute between 2% and 4% of the Pension Fund with a value of between £10-20m. The investment is in line with the investment strategy as the Fund has a target exposure to property of 10% with current exposure at only 6%.

Legal

5.2 The approach being recommended by Hymans Robertson is to invest into an existing fund. The Pension Fund would be part of a larger fund and subject to the terms of the prospectus of the fund rather than having any contractual relationship. This appears to be a direct investment into a pool rather than a manager appointment. Therefore unlike the manager appointment which is subject to the Public Contract Regulations 2015 (“PCR 2015”), this direct investment is not subject to the PCR 2015. However, it is subject to the Pension Fund’s Statement of Investment Principles, its Investment Policy and any other internal processes of the fund which is relevant to what is being proposed.

6 Appendices and Background Documents

Appendix Letter	Title
A	Hymans Robertson paper on Investing in Residential Property

Background Documents
None

Audit Trail		
Version	Final	Date: 11 June 2015
Consultation with other officers		
Officer	Comments Sought	Comments checked by
Finance	Yes	Sue Hogg
Legal	Yes	Fabiola Hickson

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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