

Report for: Pensions Committee and Board 14 March 2019

Item number:

Title: Long Lease Property Investments

Report authorised by: Jon Warlow, Director of Finance (S151 Officer)

Lead Officer: Thomas Skeen, Head of Pensions, Treasury & Chief Accountant
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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key decision

1. Describe the issue under consideration

- 1.1. This paper provides information to members of the pensions committee and board regarding the fund's existing commitment to long lease property investments, and the London Collective Investment Vehicle's (CIV) inflation plus subfund.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

- 3.1. That the Committee consider the report, and information and advice outlined by Mercer, the fund's Investment Consultant in Confidential Appendix 1.

4. Reason for Decision

- 4.1. N/A this is an information item.

5. Other options considered

- 5.1. None

6. Background information

- 6.1. Currently, the fund has a 12.5% allocation to property, with two fund managers, CBRE (conventional property 7.5%), and Aviva (long lease property 5.0%). The Aviva Commitment was made in early 2016, and £50m was agreed to be invested in the Aviva Lime Fund. The CBRE investments are outside the scope of this report.
- 6.2. It should be noted that although in early 2016, 5% of total assets equated to £50m, the fund has grown significantly since then, and based on the current size of the fund, this £50m will equate to roughly 3.5% of total assets. This has been noted at previous pensions committee and board meetings (in particular September 2018).
- 6.3. The £50m has been in an investment queue since 2016, and has not yet been invested. The latest update is that this is expected to be invested in Q2 or Q3 of 2019. Although, the timescales for drawdown on the funds have continually been pushed back since 2016.
- 6.4. The London CIV has recently completed a procurement process to appoint a fund manager for an inflation plus subfund, as part of their range of investment product offerings. Aviva are the proposed manager for this mandate, and there are some similarities between this, and the Lime fund which Haringey has committed to invest in.
- 6.5. Under the government's pooling agenda, Haringey is required to pool investment assets. The Ministry for Housing, Communities and Local Government (MHCLG) released statutory guidance for funds in January 2019 which is currently being consulted on, (as reported to the Pensions Committee and Board in the prior meeting). This statutory guidance makes clear that new investments should normally be made via the pool, and that assets should be transitioned to the pool in as expedient a manner as possible. However, the guidance also makes it clear that funds should not unduly disadvantage themselves simply to pool all assets, and if the costs of such transition outweighs the benefits, then some assets may remain outside the pool temporarily, and should be subject to regular review.
- 6.6. The Fund's commitment to the Lime Fund was made in 2016, so should not be considered a 'new' investment, however, it will be outside the pool. As Aviva has been appointed by the CIV to manage a similar product to the Lime fund, officers have commissioned a review and advice from the fund's Investment Consultant, Mercer, to highlight whether there is any action that the fund should take at this time, cognisant of the pooling agenda, and with the aim of not holding assets outside the pool where it is possible instead to use CIV options, unless that are clear benefits for doing so.
- 6.7. Given the content of the advice produced by Mercer in Confidential Appendix 1, it is not proposed that any change to current strategy is

made at this time, and that the fund will invest the £50m in the Aviva Lime fund later in 2019 (or later should the investment queue push out to a later timescale). At a future stage, the fund will be able to review whether to make a commitment to the London CIV inflation plus fund separately, and whether there is any further action that can be taken regarding the investment in the Lime Fund, which will sit outside the pool initially. Officers will report back to the Pensions Committee and Board with an update on this matter over the course of 2019/20.

- 6.8. The Independent Advisor has considered the contents of the information in the confidential appendix provided by Mercer the Investment Consultants to the Fund. The Independent Advisor is satisfied that the contents of the Mercer paper are both considered and logical.

7. Contribution to Strategic Outcomes

- 7.1. None.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

- 8.1. The Pension Committee and Board has previously made the decision to invest £50m in the Aviva Lime Fund. This is a highly rated investment product by the Fund's Investment Consultant, and will be a positive addition to the fund's investment portfolio, once invested, as it will provide the fund will highly creditworthy asset backed security, and an inflation linked income stream.
- 8.2. Transitioning investment assets can incur significant transaction costs, so this should be avoided unless absolutely necessary. The Fund would not, for example, wish to invest in the Lime Fund outside the pool, and then shortly afterwards sell this investment, to move funds into the London CIV subfund. This has been a key consideration in commissioning the advice from the fund's Investment Consultant, Mercer.
- 8.3. The fund is required to pool assets, as mentioned earlier in this report. The fund's approach with the Aviva investment will be consistent with the MHCLG statutory guidance on pooling.

Legal

- 8.4 The Council as administering authority for the Haringey Pension Fund has the power to invest fund monies as set out in Local Government

Pension Scheme (Management & Investment Funds) Regulations 2016.

- 8.5 Any changes to the allocations must comply with the Pension Fund Investment Strategy Statement. There are no legal implications in respect of the proposal.

Equalities

- 8.6 There are no equalities issues arising from this report

9. Use of Appendices

- 9.1. Confidential Appendix 1 – Long Lease Property Review

10. Local Government (Access to Information) Act 1985

- 10.1. Not applicable.