

**Report for:** Pensions Committee and Board – 27 April 2022

**Title:** Property Portfolio Review

**Report authorised by:** Thomas Skeen, Assistant Director of Finance (Deputy Section 151 Officer)

**Lead Officer:** Tim Mpofu, Head of Pensions and Treasury,  
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**Ward(s) affected:** N/A

**Report for Key/  
Non Key Decision:** Not applicable

## **1. Describe the issue under consideration**

1.1. This report provides the Pensions Committee and Board (PCB) with a review of the Pension Fund's property portfolio and outlines the options to address the investment portfolio's current underweight position to property.

## **2. Cabinet Member Introduction**

2.1. Not applicable

## **3. Recommendations**

The Pensions Committee and Board is recommended:

3.1. To note Mercer's Review of Property Portfolio Paper, appended as Confidential Appendix 1, and the advice contained therein.

3.2. To agree that the Pension Fund commits to invest an additional £30 million to the Aviva Lime Property Fund.

3.3. To approve a change to the Pension Fund's strategic asset allocation within the Investment Strategy Statement, as shown in Confidential Appendix 1, namely to:

- (i) Reduce the allocation to Core Property (managed by CBRE), from 7.5% to 6.5%.
- (ii) Increase the allocation to Long Lease Property (managed by Aviva), from 5% to 6%.

3.4. To delegate authority to the Assistant Director of Finance (Deputy S151 Officer) to implement the above changes (if approved), after consultation with the Chair of Pensions Committee and Board. This will include determining whether to make a commitment to the Long Lease Property strategy through the 'queue', or whether

to seek to purchase units in the fund on the secondary market. This will be done after taking proper advice from the Pension Fund’s investment consultant.

- 3.5. To delegate authority to the Assistant Director of Finance to update and republish the Pension Fund’s Investment Strategy Statement (ISS) to be consistent with the decisions made above.

#### 4. Reason for Decision

- 4.1. The Pension Fund currently has an underweight position to its property allocation which is likely to persist into the foreseeable future if no action is taken.

#### 5. Other options considered

- 5.1. All the options under consideration have been outlined in Mercer’s Review of Property Portfolio Paper, appended as Confidential Appendix 1. Alternatively, the Pension Fund could opt to wait until the actuarial valuation exercise is completed and an investment strategy review is undertaken, before making any changes to its current asset allocation.

#### 6. Background information

- 6.1. At the September 2021 meeting, the PCB requested for officers, in consultation with the Pension Fund’s investment consultants, to review the Pension Fund’s investment portfolio with a view to rebalancing it back in line with the strategic asset allocation.
- 6.2. The outcome of this initial review acknowledged the Pension Fund’s underweight position to the property asset class, and it was agreed that the Pension Fund should consider reviewing options for addressing this, with a follow up paper to be brought to the next PCB meeting.
- 6.3. The Pension Fund invests in three property sub-asset classes managed by three separate investment managers as shown in Table 1 below.

**Table 1: Haringey Pension Fund property investments as at 31 January 2022**

Sub-Asset Class	Investment Manager	Strategic Asset Allocation	Current Asset Allocation
<b>Core Property</b>	CBRE	7.5%	6.4%
<b>Long Lease Property</b>	Aviva	5.0%	4.5%
<b>Residential Property *</b>	London CIV	3.0%	0.3%

\* Not a standalone allocation but part of the London Fund, which aims to invest around 55% of the fund in Real Estate, with the remainder allocated to infrastructure and growth capital.

- 6.4. As shown in Table 1, the Pension Fund currently has a combined underweight position across Core Property and Long Lease Property of approximately 1.5%.

6.5. The Pension Fund’s investment consultant, Mercer, have prepared a strategy review report which outlines several options the Pension Fund can take to address this. This is attached as Confidential Appendix 1 to this paper.

**Summary of options**

6.6. The table below provides a summary of the options for the PCB to consider.

**Table 2 – Summary of options to address underweight position**

<p><b>Option 1: Core Property</b></p>	<p>The Pension Fund could allocate additional assets to CBRE, either retaining the existing UK focused approach or allocating globally via the CBRE Global Alpha Fund.</p> <p>It is anticipated that the UK focused approach would take over a year to implement and any allocation to Global Alpha would require a guideline change.</p>
<p><b>Option 2: Long Lease Property</b></p>	<p>The Pension Fund could allocate additional assets to the Aviva Lime Property Fund.</p> <p>It is anticipated that this option could be implemented in under a year via the ‘queue’ or through a secondary market transaction. Additionally, this would require the Pension Fund’s strategic allocation to Core Property and Long Lease Property to be adjusted to reflect the change.</p>
<p><b>Option 3: Social/Affordable Housing</b></p>	<p>The Pension Fund could seek a standalone allocation to Social/Affordable Housing through existing managers, the London CIV, or a new provider.</p> <p>This option potentially has a long lead time for investment and may be worth considering as part of the upcoming investment strategy review following the next actuarial valuation.</p> <p>The London CIV are currently exploring the options for setting up this type of fund and officers will be participating in the Seed Investor Groups to input into the fund design process.</p>

**Summary of proposal**

6.7. Based on the assessment of the above options, Mercer recommend that the Pension Fund commits an additional £30m to the Aviva Lime Property Fund to address the current underweight position in the near term.

6.8. The outlook for the long lease property and social/affordable housing sub-asset classes is considered to be more compelling than core property. These sub-asset classes have relatively low risk, are income focused, and often provide some degree of inflation linkage.



- 6.9. In the medium-long term horizon, social/affordable housing could be an attractive consideration for the Pension Fund. However, given the amount of time required to get invested in this type of fund, a potential future standalone allocation can be considered separately as part of the upcoming investment strategy review. This would provide the Pensions Committee and Board with the opportunity to assess the sub-asset class in greater detail.

## **7. Contribution to Strategic Outcomes**

- 7.1. Not applicable

## **8. Statutory Officers comments (Director of Finance (including procurement), Head of Legal and Governance, Equalities)**

### Finance and Procurement

- 8.1. The report of Mercer, attached as the Confidential Appendix 1, highlights that the recommended course of action would, if implemented, likely result in reduced investment risk, and provide inflation linked income which the Pension Fund can use to pay its members pensions.

### Comments of the Head of Legal and Governance (Monitoring Officer)

- 8.2. 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.
- 8.3. The administering authority must also periodically review the suitability of its investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with its overall investment strategy.
- 8.4. Regulation 7 sets out what the Investment Strategy should contain, and any revision must be published. The Fund must invest, in accordance with its Investment Strategy, any fund money that is not needed immediately to make payments from the fund. Members of the Committee should keep these obligations in mind when considering this report and take proper advice on the matter.
- 8.5. The administering authority must review and if necessary, revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions. The delegated authority will authorise the Assistant Director of Finance to carry out the revision required and published the revised statement

### Equalities

- 8.6. None applicable.

## **9. Use of Appendices**

9.1. Confidential Appendix 1: Review of Property Portfolio

**10. Local Government (Access to Information) Act 1985**

10.1. Not applicable.