Minutes of a meeting of the Investment Subcommittee held at County Hall, Glenfield on Wednesday, 27 April 2022.

PRESENT:

Leicestershire County Council
Mr. T. Barkley CC (Chairman) Mr. D. Grimley CC

District Council
Cllr. Malise Graham

Staff Representative
Mr. G. Lawrence

Independent Advisers and Managers

Hymans Robertson
Phillip Pearson

DTZ Investors (Minutes 35 and 38 refer)
Christopher Cooper
Samuel Brice
Jennifer Linacre

LGPS Central (Minutes 35 and 38 refer)
Mike Hardwick

29. Minutes.

The minutes of the meeting held on 13 October 2021 were taken as read, confirmed and signed.

30. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 35.

31. Questions asked by members under Standing Order 7(3) and 7(5).

The Chief Executive reported that no questions had been received under Standing Order 7(3) and 7(5).

32. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.

There were no urgent items for consideration.

33. Declarations of interest in respect of items on the agenda.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

No declarations were made.

34. Strategic Asset Allocation Update and Cash Deployment Plans.

The Subcommittee considered a report by the Director of Corporate Resources which provided members with information in respect of cash deployment plans and an update on the strategic asset allocation. A copy of the report is filed with these minutes marked 'Agenda Item 7'

The Subcommittee noted that as at 31 March 2022 the Fund held £116million in cash, 2.0% of the Fund's total assets as a result of the Fund's positive cashflow nature and previous investment returns. The Fund aimed to keep its cash holding as low as possible, and keep the Fund fully invested in line with the Strategic Asset Allocation, to that end the Fund would continue to deploy its funds to underweight areas.

Arising from queries raised the following points were noted:-

i. The lag of committed funds being invested varied between asset classes; for example, Private Equity commitments could take up to four years to be fully invested. Members were assured that where a manager did not deploy capital in the specified investment period, capital would be returned to the Fund. Where the Fund felt uncomfortable within the investment period there was little scope to act, unless the Manager breached its mandate restrictions and/or contractual terms. Members noted it was for that reason it was key to undertake due diligence on potential managers, especially in relation to closed-ended funds.

ii. The mandate characteristics for LGPS Central's UK direct property mandate, for which DTZ was appointed, included a restriction that the void rate should not exceed 10%. Given DTZ could not prevent tenants from not renewing their lease, the restriction signalled that the manager needed to act as quickly as possible to reduce the void rate, where it occurred.

[At this point representatives from DTZ Investors and LGPS Central joined the meeting]

The Subcommittee received a presentation by representatives from DTZ. A copy of the presentation is also filed with these minutes. Arising from question and answers the following points were noted:-

iii. DTZ Investors had set a Net Zero Carbon date for its portfolio of 2040, and integrated responsible investment (RI) principals throughout its culture and asset improvement plans. It would continue to work with funds on delivering an effective RI programme.

iv. In response to a question on how tenants engaged DTZ shared positive examples such as the Printworks in Manchester which following its asset improvement plan won an international Green Apple Award for businesses that demonstrated environmental best practice. In other cases, it was recognised tenants could be slower engage, however once tenants understood the value that could be gained, they welcomed and collaborated with DTZ as a responsible landlord.

v. DTZ set out their different approaches to asset improvement plans. For warehouse and industrial sites, DTZ would request energy, water and waste data and then identify changes or improvements that could be made, such as on-site renewables, transport plans and increasing energy efficiency ratings. Other improvements aimed at positive social change could involve the addition of green space and benches into an industrial estate.

vi. DTZ explained the four base risks it considered before acquisition of an asset namely, location, lease, credit, and asset obsolescence. Members understood it was vital to understand assets prior to acquisition and be mindful of what risk compounded another.

vii. DTZ focused on sustainable locations with a view to hold property for the long term, where there was deep occupational demand and/or high alternative use value, among other key characteristics. Despite such properties being in high demand DTZ took a measured approach to acquisition and would not pay excessively.

viii. A member queried DTZ in relation to the UK Government’s Levelling Up ambitions, and other public investment programmes, and how that might affect future investment. DTZ informed the Subcommittee that it focused on drivers of long-term sustainable demand and aligned itself to such programmes where its values and risk profile was satisfied.

ix. DTZ looked to avoid bespoke specialist warehouse deals, as they felt it had the risk of becoming an obsolescent asset if an operator chose not to renew its lease. In such cases it was difficult to gain new tenants for extremely large, multi-story warehouses, that were often in a peripheral location.

x. DTZ’s view on warehouse longevity was that for bespoke buildings it should last at least as long as the lease. Members noted DTZ held warehouse assets that were over 50 years old as through its improvement plans, new roofs and double glazing could keep assets going indefinitely. It was recognised with new legislation old buildings needed significant capital expenditure to meet new regulations. Depending on the value differential between age and specification a warehouse originally built to, decided whether improvements could be made, or more comprehensive redevelopment was needed.

RESOLVED:

That the report and presentation provided by DTZ Investors be noted.

[At this point representatives from DTZ Investors and LGPS Central left the room]

35. Date of Next Meeting - 27 July 2022.

It was noted that the next meeting would be held on 27 July 2022.

36. Exclusion of the press and public.

RESOLVED

That under Section 100(A) of the Local Government Act 1972 the public be excluded from the meeting for the remaining items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12(A) of the Act.

37. Property Portfolio Review and Proposed Investments.

The Subcommittee considered a report by the Director of Corporate Resources which provided members with information in respect of the property portfolio review and proposed investments and the paper and presentation produced by the Fund’s investment advisors, Hymans Robertson, which was followed by questions from members.

A copy of the briefing note is filed with these minutes marked ‘11’. The note was not for publication by virtue of Paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

Representatives from Hymans Robertson set out their review of the Fund’s Property structure, and recommendations that had arisen. It was noted that Hymans recommended a further review, on the Fund’s indirect global allocation, be undertaken in 2023.

Members welcomed the proposal to increase residential property weighting in the Fund’s property allocation.

[At this point representatives from DTZ Investors and LGPS Central joined the meeting]

The Subcommittee questioned DTZ on its risk appetite and noted that they were least comfortable taking a locational risk. Members were assured by their understanding on risk profile and their ability to see opportunity, not just threat, such as introduction of a multi-let strategy in order to not be reliant on one or minimal retailers.

DTZ were active responsible owners that looked through the property life cycle with its approach to carbon efficiency, energy ratings as well as flood and other risks. It considered all factors in conjunction with the cost to reach net zero.

DTZ targeted Building Research Establishment Environmental Assessment Method (BREEAM) certification, however noted there would be nuances dependant on the asset.

In response to a question on the valuation of the Fund's Property assets, Members noted that LGPS Central had undertaken a procurement exercise for a framework for partner funds to utilise in order to seek an independent valuation.

[At this point representatives from DTZ Investors and LGPS Central left the room]

RESOLVED:
The Subcommittee agree:

a. That a £120m commitment to the LGPS Central Direct UK property fund, be approved, to be split over two years, £60m per financial year.

b. That transfer of the management of the existing Colliers UK direct legacy (£113m at 31st December 2021) assets to DTZ be approved.

c. That movement of the Colliers UK indirect funds (£18m) to the LaSalle mandate be approved.

d. That the Director of Corporate Resources, following consultation with the Chairman of the Investment Subcommittee, be authorised to agree new benchmarks and target objectives for the UK and global mandate with LaSalle, as detailed in paragraphs 50, 51 and 52 of the report.

e. That subject to d. the Director of Corporate Resources, following consultation with LaSalle, be authorised to determine the appropriate time to switch reporting to new benchmarks and a transition plan that balances the time taken to transition, and fees incurred, noting the transition will need to be carefully managed over a number of years.

Wednesday, 27 April 2022
CHAIRMAN