



LOCAL PENSION COMMITTEE – 08 SEPTEMBER 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

DTZ INTERNATIONAL (DTZ) – UK PROPERTY UPDATE

Purpose of the Report

1. The purpose of this report is to provide the Local Pension Committee with information on the Leicestershire Pension Fund (Fund) direct property investments and the performance of the UK direct property fund and market outlook.
2. Appended to the report is a PowerPoint presentation which will be delivered at the meeting by representatives from DTZ.

Background

3. The Fund has direct property allocation currently managed by Colliers international which is valued at £118m at 30 June 2023.
4. The Fund also has property investments within open and closed ended products with two other managers which at 30 June 2023 total £303m.
5. Taken together the total property holdings of £421 or 7.3% of total Fund assets are a short of the target allocation of 10% as agreed at the Local Pension Committee meeting held on the 20 January 2023 when the target allocation was agreed.
6. As part of the decisions taken by the Investment Sub Committee (ISC) at the 27 April 2022 meeting it was decided to move management of the Colliers direct property investments to DTZ at the appropriate time. It was also agreed that when LGPS Central have finalised the mandate with DTZ to launch a UK direct property fund, the Leicestershire County Council Pension Fund would invest an additional £120m split over 2 financial years in order to close the gap to the target property allocation. This would allow DTZ to manage all the Fund's direct property via a product launched by LGPS Central.
7. DTZ were selected as the manager following a rigorous selection process conducted by LGPS Central later in 2022 and the fund was officially launched in early 2023. The Fund has committed the first £60m to DTZ. £60m remains to be committed.
8. As part of the changes agreed at the 27 April 2022 ISC officers have been working with LaSalle to reshape the UK and global mandate. It was noted that this change could take a number of years and will need to be carefully managed and once the portfolio had been reshaped the Director of Corporate Resources in consultation with the Chair of the ISC be authorised to agree a new benchmark and target objectives.

LGPS Direct Property Fund – managed by DTZ

9. The mandate's objectives and restrictions are listed below:
 - a. Benchmark – MSCI Quarterly UK property total return index.
 - b. Performance objective: Benchmark + 0.5%pa net of costs over a rolling 3 year period.
 - c. The Portfolio will be invested in the sectors defined in the Benchmark Index (Retail, Office, Industrial and Other, including hotels, leisure and care homes)
 - d. The weighting of the portfolio to the Benchmark sectors shall be within +/- 20% of the Benchmark weighting.
 - e. No single investment shall exceed 10% of the value of the portfolio (does not apply during the lock in period)
 - f. Ground up development shall not exceed 10% of the value of the portfolio (does not apply during the lock in period)
 - g. No more than 10% of the Portfolio value can be retained as cash for liquidity purposes.
 - h. The fund is permitted to borrow up to 20% of the value of the portfolio for short term purposes such as liquidity, funding acquisitions; for the payment of other property related costs.
10. Although no purchases have been made by DTZ they have been assessing opportunities. The market currently presents opportunities and new buyers such as the Fund can pick the right areas of the market that are likely to outperform. The presentation from DTZ covers this in more detail.
11. The DTZ presentation will cover the following:
 - a. A general market update
 - b. Sector updates covering, retail, offices and industrial asset classes
 - c. How DTZ approach ESG
 - d. Their forecasts for the next 5 years for property returns
 - e. Review of the LGPS Central direct property mandate

Recommendation

12. The Committee is asked to note the report and presentation.

Environmental Implications

13. The Leicestershire County Council Pension Fund has agreed a Net Zero Climate Strategy (NZCS). This outlines the high-level approach the Fund is taking to its view on Climate Risk. This will align with the Fund's Responsible Investment approach as set out in the Principles for Responsible Investment. The Fund is committed to

supporting a fair and just transition to net-zero. There are no changes to this approach as a result of this paper.

Equality Implications

14. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance (“ESG”) factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund’s fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund’s approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Human Rights Implications

15. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance (“ESG”) factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund’s fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund’s approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Background Papers

16. None

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