



## **LOCAL PENSION COMMITTEE – 14 MARCH 2025**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **DTZ INVESTORS (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 as at 31 December 2024 has direct UK property allocations currently managed by Colliers international which is valued at £94million and a newer UK direct property allocation managed by DTZ valued at £68million.
4. The Funds other large manager is LaSalle who manages via investments into property funds £272million.
5. There are also two smaller closed ended funds which are in the process of returning capital. Taken together they are valued at £50million and invest solely in UK direct property.
6. Taken together the total property holdings of £484million or 7.3% of total Fund assets are a short of the target allocation of 7.5% as agreed at the Local Pension Committee meeting held on the 31 January 2025 when the target allocation was agreed and moved from 10% of total Fund assets to 7.5%.
7. 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. The process to move the management of the existing UK estate has now commenced and is planned to be completed during the first quarter of 2025.
8. It was also agreed that when LGPS Central launch a UK direct property fund, the Leicestershire County Council Pension Fund would invest £120million split over 2 financial years. This commitment is currently in the process of being called by LGPS Central.

##### **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 a mix of sectors as defined in the Benchmark Index (Key sectors include 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 single tenant is to represent more than 10% of portfolio rent roll at the point of acquisition (does not apply in the lock in period)
  - h. No more than 10% of the Portfolio value can be retained as cash for liquidity purposes.
  - i. 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. Actual purchases made by DTZ will be covered during the presentation which will also cover:
  - a. A market outlook covering the role of property, how returns are generated, backward looking returns and forward estimates
  - b. Prospects for property sector returns and drivers
  - c. Overview of the LGPS Central Direct property mandate, including assets acquired to date, performance and ESG considerations
  - d. Update on the transition process for the legacy UK direct property estate

### **Recommendation**

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

### **Environmental Implications**

12. The Leicestershire County Council Pension Fund (LCCPF) 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**

13. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material economic, 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 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**

14. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material 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 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**

Local Pension Committee 31 January 2025, Overview of the Current Asset Strategy and Proposed 2025 Asset strategy – item 130:

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7986&Ver=4>

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