

# Leicestershire County Council Pension Fund

Fund Presentation  
March 2025

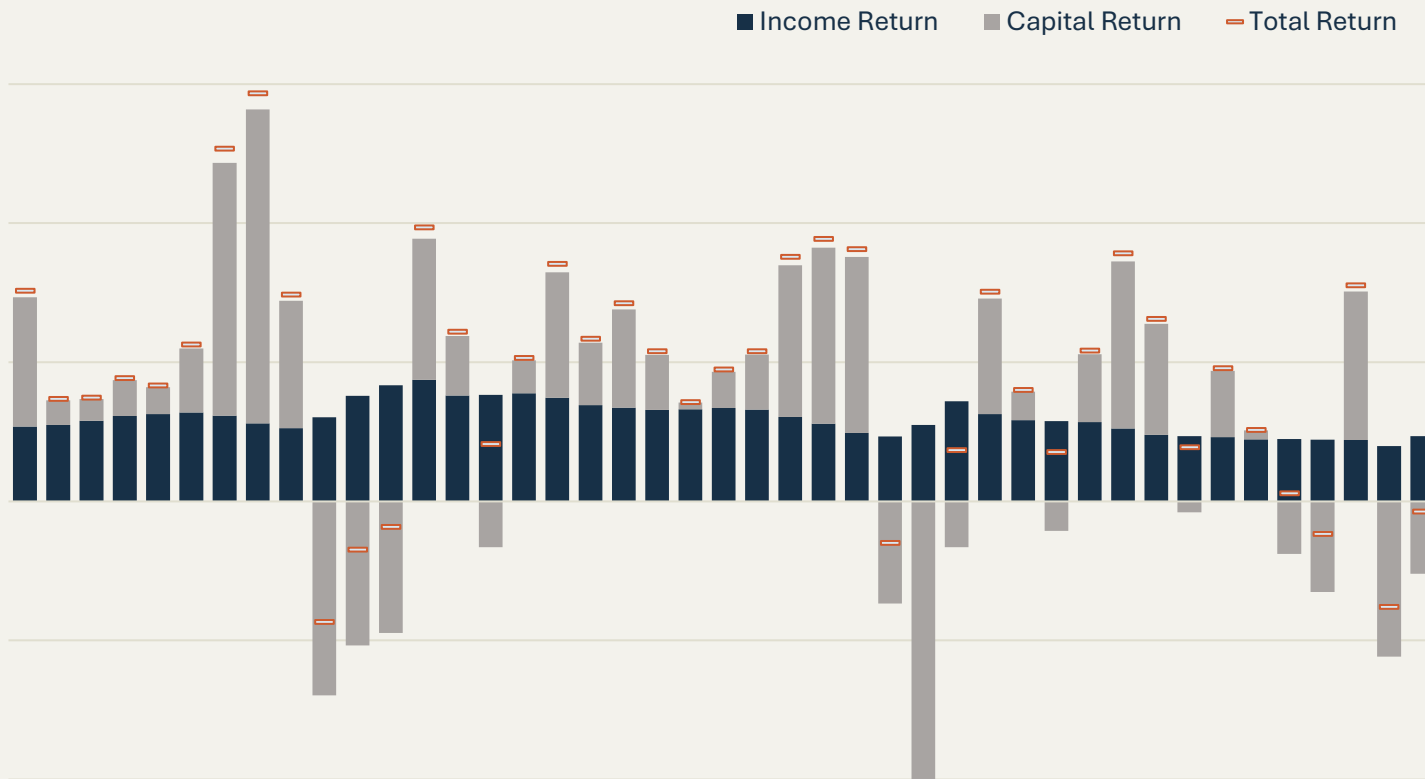


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# The Role of Property in a Multi-Asset Portfolio

Income has generated 75% of total returns over the long-term. There are four main real estate risks for long-term investors. Portfolios can tolerate exposure to each, but individual assets cannot do so easily.

Components of Property Returns



Source: MSCI

Real Estate Risks

RISK ITEM	MANAGER INFLUENCE	DTZI RISK ATTITUDE
Location	Limited	AVOID
Credit	None	MITIGATE
Obsolescence	Moderate	SHARE
Leasing	High	ACCEPT

# Real Estate Update

2024 real estate returns remained polarised at sector level but investment volumes were up.

## Market Performance in 2024

- 2024 MSCI Quarterly Index total return: 5.5%.
- Polarised sector returns: -2% to +12% in 2024.
- Top performers: retail warehouses, shopping centres, industrials.
- Office underperformance narrowed through the year.



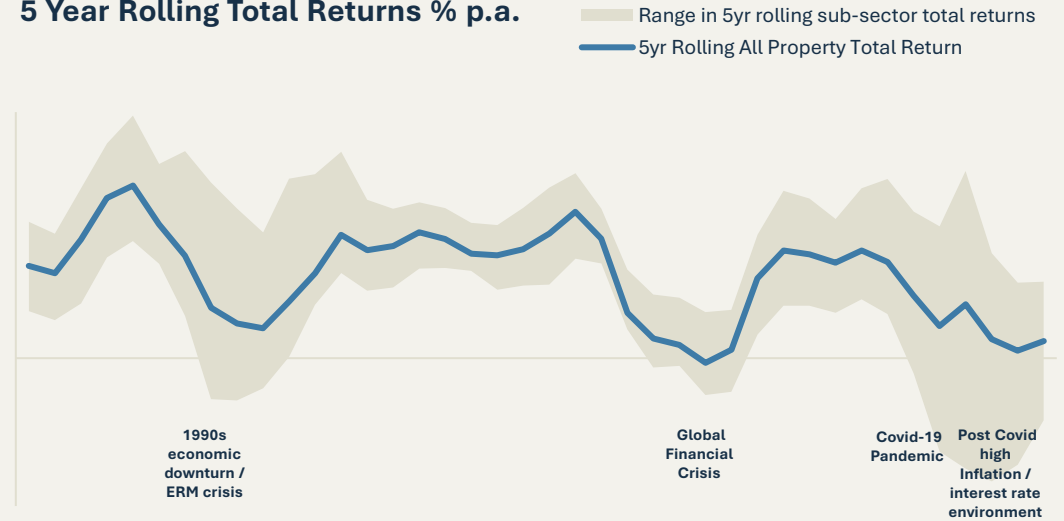
## Investment Markets

- 2024 investment volumes: £53.4 bn, up 35% on 2023.
- Traditional sectors accounted for the lowest proportion of activity on record.
- Alternative sectors and retail warehousing performed strongly.

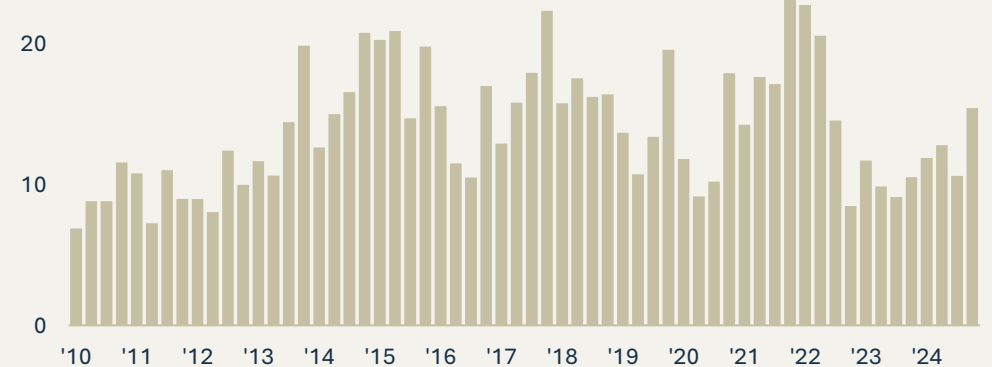
## What to expect in 2025

- Bond market volatility in early 2024 squeezed relative real estate pricing and increased the cost of debt.
- Gilt rates expected to decline in 2025, subject to market volatility and geopolitical uncertainty.
- Positive outlook for real estate in 2025
- A significant amount of capital is available for investment but has been limited by availability of stock at the start of the year.

## 5 Year Rolling Total Returns % p.a.



## Quarterly investment volumes £bn



Source: MSCI, RCA, C&W Research

# Economic Outlook

Slower economic growth, higher inflation and geopolitical factors have softened near-term forecasts.

## BOE Economic Forecasts

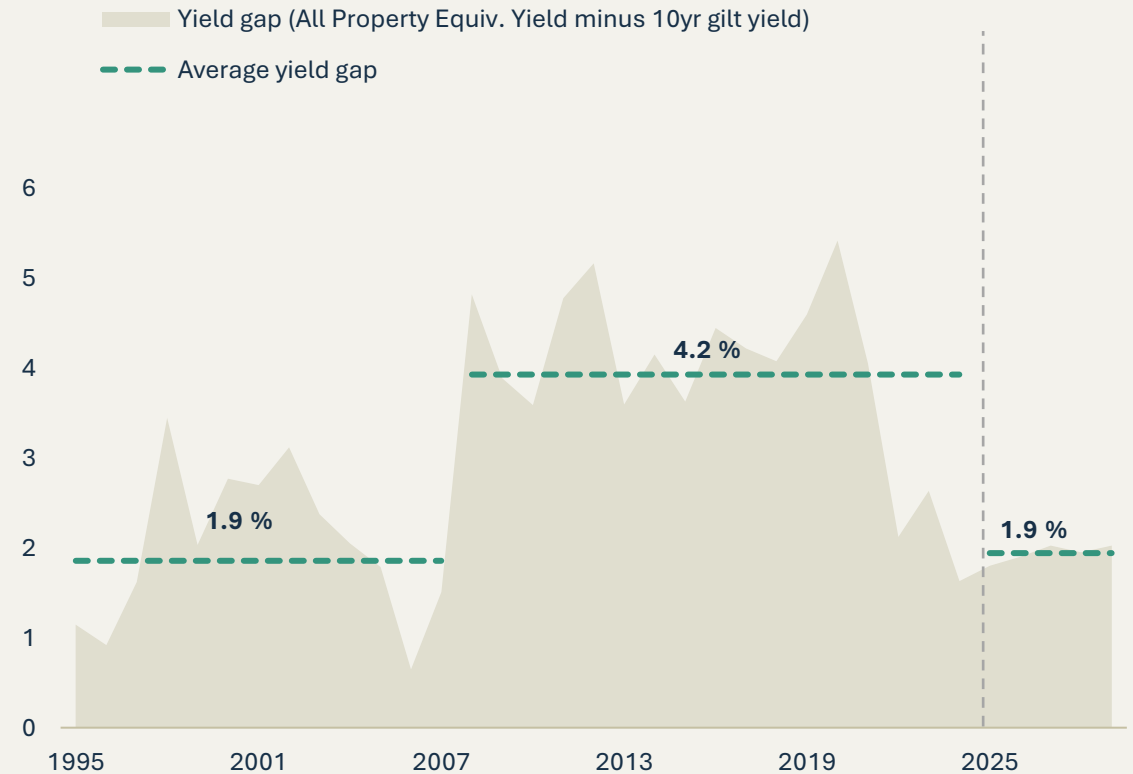
	2024	2025F	2026F	2027F
<b>GDP Growth</b>	0.8%	0.8%	1.5%	1.5%
<b>CPI Inflation</b>	2.5%	3.5%	2.5%	2.0%
<b>Unemployment Rate</b>	4.5%	4.5%	4.8%	4.8%
<b>Base Rate</b>	4.9%	4.2%	4.1%	4.0%



## Economic Outlook and Impact on Real Estate Pricing

- Global headwinds, inflation risks and bond market volatility.
- The Bank of England (BOE) predict GDP will grow by 0.75%.
- CPI Inflation is forecast to rise to 3.5% in 2025; 2% target not met until 2027.
- Uncertainty over timing of rate cuts.
- Gilt yields to impact on transactions and property yields in the short term.
- Property yields forecast to remain flat as spread between yields and gilt rates has narrowed.

## Property yield premium over the 10yr Gilt Yield %

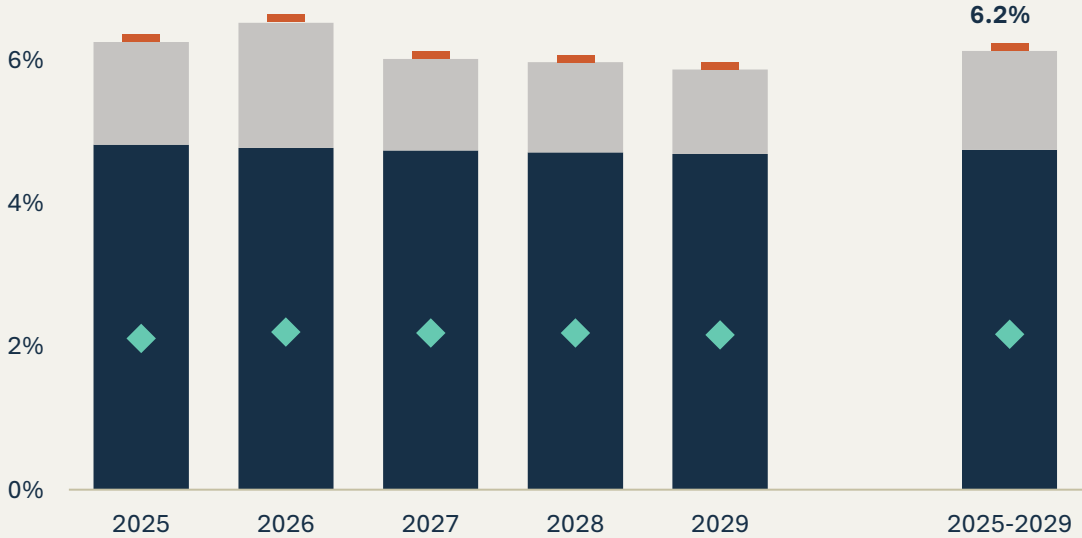


Source: BOE, PMA, MSCI, C&W Research

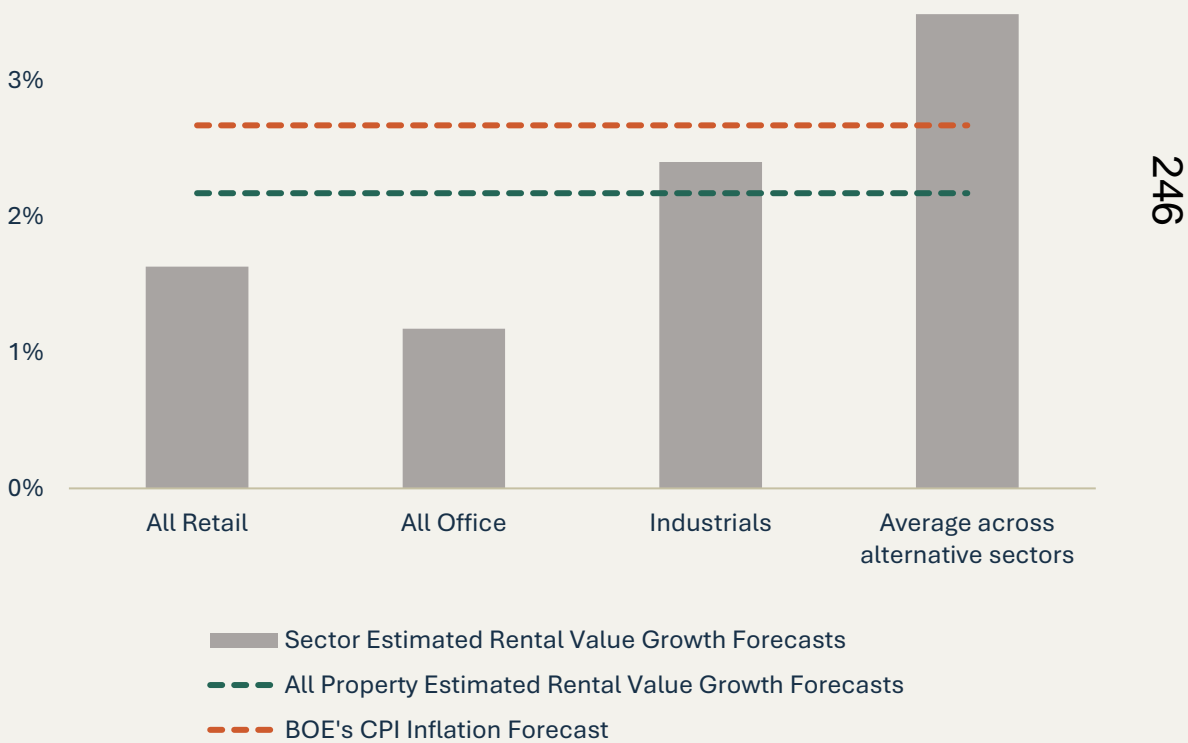
# Property Prospects

Income will continue to be the primary driver of all property total returns over the next 5 years. Rental growth will vary by sector; the alternative and industrial sectors will offer the best rental growth prospects.

DTZ Investors 5yr All Property Forecasts (2025-2029)



DTZ Investors 5yr Rental Growth Prospects by Sector



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# **02 LGPS Central UK Direct Property Fund Update**

# LGPS Central UK Direct Property Fund requirements

The UK Direct Property Fund (the “UKDPF”) investment strategy has been developed based on clear objectives and key considerations.

## 1. ALLOCATION

**Phase 1:** Build and manage a £150m diversified commercial real estate portfolio.

**Phase 2:** Medium term objective to grow to £500m through further acquisition.

## 2. INVESTMENT PERFORMANCE

Benchmark: MSCI Quarterly UK Property Total Return Index

Target 0.5% above the Benchmark on a rolling 3-year period, net of all fees and expenses.

## 3. ESG PERFORMANCE

Implement policies to manage ESG risks, capture opportunities, plan for Net Zero target of 2040 and comply with all environmental legislation.

## STRATEGY

- 1) Allocate capital across **lower risk investment styles** with more than 75% of the Fund invested **Core Income, Market Growth and Active Income** investment styles;
- 2) Concentrate capital in **sustainable locations** in dynamic urban centres with at least 50% of the Fund invested in London and the southeast and the balance in major regional centres;
- 3) Mitigate credit risk through a **high level of tenant diversification** with an average tenant income exposure of less than 5%;
- 4) Adopt an **active approach to asset management** to enhance portfolio income while targeting **low risk lease arrangements** with an average unexpired portfolio lease term of 6-10 years and a void rate that is in line with the Benchmark of 7-8%; and
- 5) **Invest in flexible assets** that are capable of adaption for future alternative uses and plan for asset improvement and enhancement to meet future ESG requirements and **transition to net zero**.



# Allocation Targets

At this early stage, capital is being focussed in sectors and geographies with higher relative performance expectations. The underlying assets meet our strategic targets.

Target allocation	Assets Under Management
Phase 1: £150m	Current portfolio value: £76.95m
Phase 2: £500m (over medium term)	Value at acquisition: £73.95m
	Total spend inc. costs: £78.6m

## Compliance with strategic targets

Risk profile	Lower risk investment styles
Sustainable location	Urban locations Strong tenant demand Potential alternative uses
Lease terms	Short / medium term leases
Void	0% vacancy  1 tenant in administration (equivalent to 2.9% vacancy)
Diversified income	33 tenants  8 tenants per asset
Active asset management	New leases completed New leases under negotiation
Environmental compliance	100% compliant with Minimum Energy Efficiency Standards (EPC)  65% of units rated A-C

Dec 2023

### Multi-let Industrial Investments

Dec 2023



Mar 2024

### Retail Warehouse Investments

Oct 2024

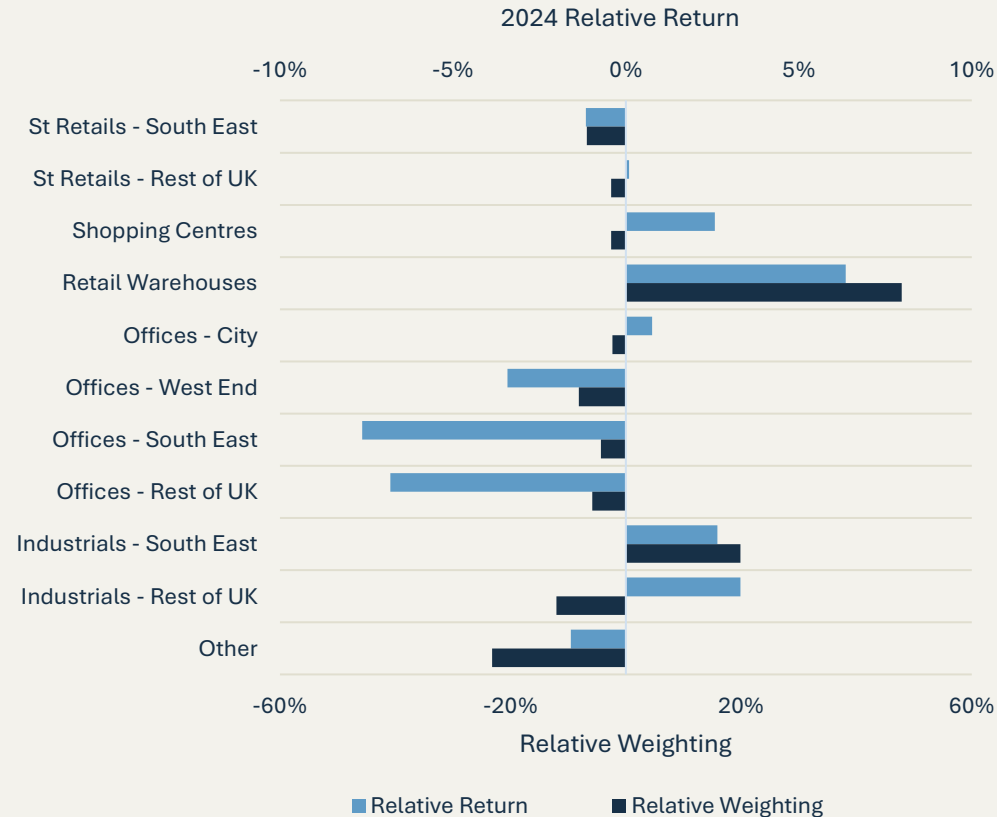


# Investment Performance

The UKDPF outperformed its Benchmark in 2024 with performance driven by allocation to higher performing sectors and asset management.

## Market Performance and Relative Weightings

Fund weighting relative to the Benchmark and 2024 Benchmark sector returns relative to 2024 All Property Total Returns



## Asset management wins



### Clayton Business Park, Hayes, London

- Average rent at acquisition: £13 psf.
- Rent agreed post-acquisition: £24 psf.
- Uplift in rent vs the average at acquisition: 78%.



### Goodmayes Retail Park, Chadwell Heath

- Low average passing rent at acquisition: £15 psf.
- Uplift in rental tone established through recent marketing activity.
- Plans to extend lease terms underway.

# ESG Performance

DTZ Investors has set a target date for Net Zero of 2040; the plan has been adopted by the UKDPF where we are identifying strategies to make improvements to meet our Net Zero targets.

## DTZ Investors' ESG Policy

Our policy is embedded at acquisition and throughout our asset management and reporting processes

### Acquisition

- Identify assets that are in alignment aligned with our key Fund targets
- Undertake climate related due diligence at purchase – climate resilience, net zero audits, energy audits

### Assets under management

- Asset Improvement plans identify key initiatives and realisable targets
- Asset plans are embedded throughout our management process

### Reporting

- Progress is measured and monitored throughout our quarterly and annual reporting processes



# **03 LCC Pension Fund Portfolio Transition Update**

# LCC Pension Fund - Introduction

DTZ Investors is appointed to manage and maintain the LCC Pension Fund real estate portfolio alongside the Fund's investment in the LGPS Central UKDPF.

## Fund Objectives

- Allocation**
  - New Investment: none permitted – new allocations to be invested in the UKDPF
  - Sales and re-investment: assets to be sold if underperforming; proceeds re-invested in the UKDPF

- Investment Performance**
  - Benchmarked against the UKDPF
  - The Fund's performance target is to perform in-line with the UKDPF

- ESG Performance**
  - Portfolio to be managed in accordance with DTZ Investors' Net Zero policy
  - Compliance with environmental legislation including Minimum Energy Efficiency Standards

## Fund Transition

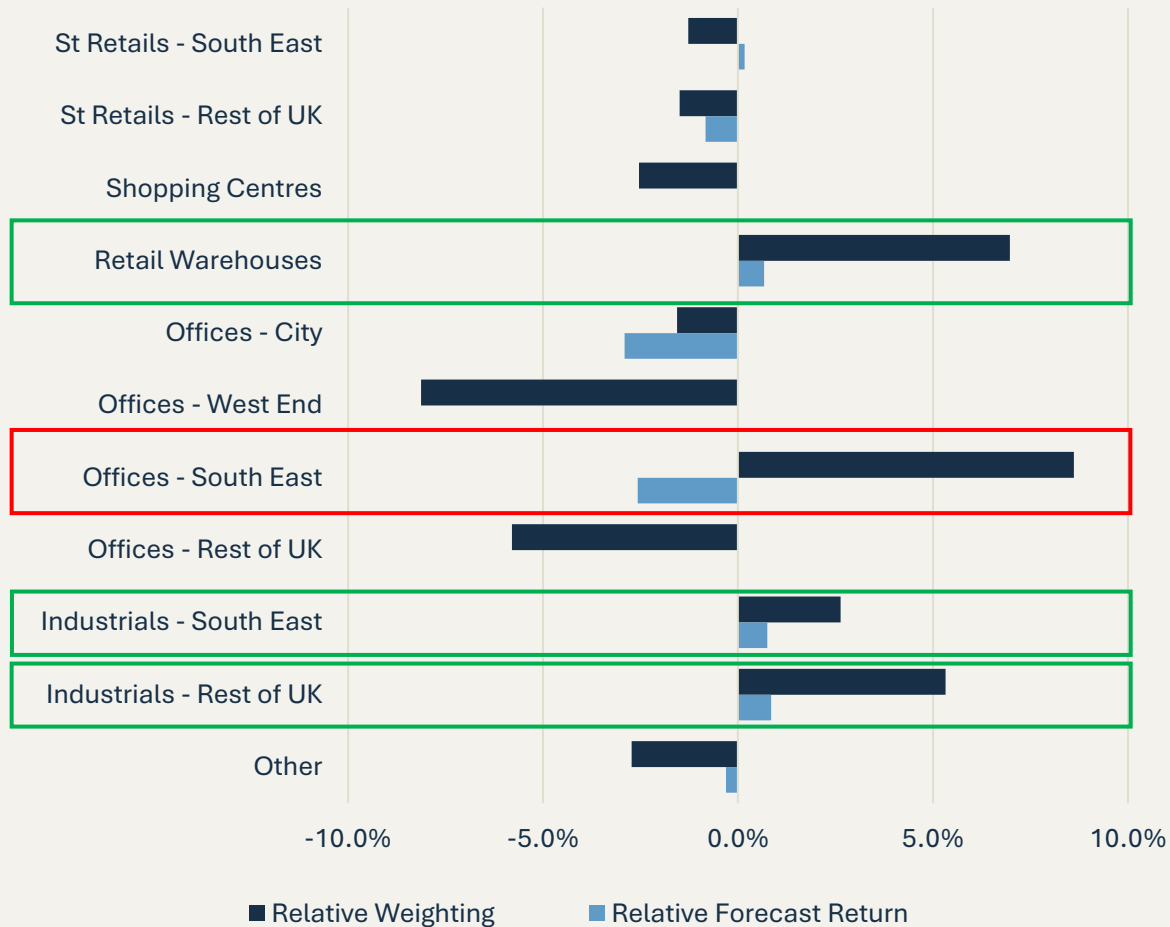
The transition of the portfolio to DTZ Investors is underway

- Formal handover undertaken on 14<sup>th</sup> February
- Rent demands issued in late February for rent collection from 25<sup>th</sup> March
- New valuers have been appointed to produce December 2024 and ongoing quarterly valuations
- Over 80% of the properties (by income) have been inspected; all will have been visited by the end March
- Q1 2025 Quarterly report to be issued in May 2025
- 2025 Fund strategy and business planning to be completed in Q2 2025

# The Investment Strategy Process

The process will analyse the Fund's weightings, performance prospects and risk profile to highlight strategic priorities.

ALLOCATION – RELATIVE SECTOR WEIGHTING AND FORECAST TOTAL RETURN



PROPERTY RISK ASSESSMENT (EXAMPLE)

Asset	Location	Credit	Obsolescence	Leasing
Property 1		Low-Moderate Risk		
Property 2		Low-Moderate Risk		
Property 3		Low-Moderate Risk		Moderate Risk
Property 3		Low-Moderate Risk		
Property 4		Low-Moderate Risk		Low-Moderate Risk
Property 5		Moderate Risk		Low-Moderate Risk
Property 6		Low-Moderate Risk	Moderate Risk	
Property 7		Moderate Risk	Low-Moderate Risk	
Property 8		Moderate Risk	Moderate Risk	
Property 9		Moderate Risk	Low-Moderate Risk	Moderate Risk
Property 10		Moderate Risk	Low-Moderate Risk	Moderate Risk
Property 11		Moderate Risk	Low-Moderate Risk	
Property 12		Low-Moderate Risk	Moderate Risk	Moderate Risk
Property 13		Low-Moderate Risk	Moderate Risk	Low-Moderate Risk
Property 14		Low-Moderate Risk	Low-Moderate Risk	Moderate Risk
Property 15		High Risk	Low-Moderate Risk	Moderate Risk
Property 16		High Risk	Moderate Risk	Low-Moderate Risk
Property 17		Moderate Risk	High Risk	Moderate Risk
Property 18		High Risk	Moderate Risk	High Risk

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# We have identified four early key priorities

While developing the LCC Pension Fund strategy, immediate actions will focus on maximising returns and mitigating risk.

## Maximising returns

<b>Key Priority 1:</b> Develop the Fund Strategy	Develop strategy through portfolio risk review, forecast property returns against the Risk Adjusted Target Rate, produce asset improvement plans incorporating ESG targets.
<b>Key Priority 2:</b> Immediate actions to create and protect value and liquidity	Focus on ongoing high-priority issues and active management of forthcoming lease events.

## Mitigating risk

<b>Key Priority 3:</b> Develop strategy for the leasehold estate	Understand Fund's potential liabilities at reversion to plan and manage key stakeholders, mitigating and reducing risk exposure.
<b>Key Priority 4:</b> Maintain environmental compliance and create ESG strategy	Immediate portfolio review of Minimum Energy Efficiency Standards and EPC compliance and pathway to Net Zero, understand flood and climate-related risks and embed green lease clauses.

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