

Agenda Item:

Pension Fund Committee

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Dorset County Council



Date of Meeting	12 September 2016
Officer	Chief Financial Officer
Subject of Report	Review of Investment Management Arrangements
Executive Summary	<p>The Pension Fund’s investment managers are generally subject to formal review by the Committee on a triennial cycle. However, performance of each is measured on a quarterly basis and any concerns are reported to the Committee.</p> <p>The Fund’s property manager, CBRE, are now due for their triennial review.</p>
Impact Assessment:	<p>Equalities Impact Assessment:</p> <p>N/a</p>
	<p>Use of Evidence:</p> <p>N/a</p>
	<p>Budget:</p> <p>Investment management fees are charged directly to the Pension Fund and are budgeted for.</p>
	<p>Risk Assessment:</p> <p>N/a</p>
	<p>Other Implications:</p> <p>None</p>

Recommendation	That the Committee : i) Agree that CBRE be reappointed for review in three years' time.
Reason for Recommendation	To ensure that the Fund has the appropriate management arrangements in place.
Appendices	HSBC Risk and Return analysis
Background Papers	HSBC performance statistics
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1 Background

- 1.1 The Pension Fund's managers are generally subject to formal review by the Committee on a triennial cycle. However, performance is measured quarterly and any concerns are considered by officers and, if necessary, brought to the attention of this Committee. Managers are required by the Local Government Pension Scheme (LGPS) regulations to be on one month's notice. The current manager review position is:

Manager	Date of previous review	Date of next review	Review to be based on performance to
Internal Manager - UK Equity	September 2014	September 2017	31 March 2017
CBRE - Property	September 2013	September 2016	31 March 2016
RLAM - Bonds	September 2014	September 2017	31 March 2017
AXA Framlington -UK Equity	September 2015	September 2018	31 March 2018
Schroders - UK Equity	September 2015	September 2018	31 March 2018
HarbourVest - Private Equity	Appointed April 2006	November 2017	31 March 2017
SL Capital - Private Equity	Appointed April 2006	November 2017	31 March 2017
JP Morgan - EM Equity	September 2015	September 2018	31 March 2018
Insight - Liability Matching Bonds	Appointed March 2012	September 2017	31 March 2017
Barings - DGF	September 2015	September 2018	31 March 2018
IFM - Infrastructure	Appointed September 2014	September 2017	31 March 2019
Hermes - Infrastructure	Appointed September 2014	September 2017	31 March 2017
Allianz - Global Equities	Appointed December 2015	November 2018	31 March 2018
Investec - Global Equities	Appointed December 2015	November 2018	31 March 2018
Wellington - Global Equities	Appointed December 2015	November 2018	31 March 2018

- 1.2 CBRE Global Investors are the only fund manager due for review at this time.

2 CBRE Global Investors

- 2.1 In November 2011 the Fund's property manager ING Real Estate was sold to CBRE Global Investors, and since then the portfolio has been managed by CBRE. A number of the individuals transferred from ING to CBRE, including the Dorset

portfolio's fund managers, and this has allowed a good level of consistency in the management arrangements.

- 2.2 Prior to the CBRE takeover, the Dorset Fund had employed ING Real Estate Investment Management (ING REIM) since 2002, and in various forms since the mid 1980's. The Fund originally appointed Rothschild as property manager in 1983, the Rothschild property team moved to Baring, Houston and Saunders in 1997, and subsequently, following ING Bank's purchase of Barings, to ING REIM in 2002.
- 2.3 This arrangement is the longest standing of all of the Dorset fund management arrangements, and has proved very beneficial over the years. The Fund has benefited from close working relationships with the manager, which has given them a good understanding of our requirements.
- 2.4 The portfolio managed by CBRE falls in to two distinct categories; the Direct property and Indirect pooled vehicles. The Direct portfolio is approximately 90% of the total investment by value, and as 30 June 2016 consists of 26 properties, and ranges from the smallest, an industrial unit in Croydon, worth £2.55M, to the largest a retail park in Norwich, valued at £17.45M. The majority of these direct holdings will be held as longer term investments. For example the retail park in Norwich has been in the portfolio since 2010, and industrial unit in Croydon since 1988.
- 2.5 Investments are also made into indirect pooled property vehicles, which are designed to complement the direct portfolio, and allow the Dorset Fund to access types of investment that might not be possible in a direct manner. The Fund is currently invested in 2 indirect funds, a reduction of 3 since the last review. It is also worth noting that indirect vehicles give an additional potential for returns with the addition of an element of debt; this can of course have the opposite effect in falling markets. Given the Fund's previous experience in this area, the Fund's exposure to debt is now less than 1% of the portfolio.
- 2.6 When measuring the performance of the portfolio it is useful to look at both types of investment. The table below shows the performance of the portfolio for the periods to end of June 2016. The second table shows the performance in each of the last 5 years. Given the long term nature of property investing it is appropriate to show longer term performance.

	Quarter	1 year	3 year	5 year
Direct Property	1.6%	11.5%	15.5%	10.8%
Total Portfolio	1.4%	10.4%	14.7%	10.8%
IPD Quarterly Benchmark	1.4%	9.1%	13.8%	10.1%

- 2.7 It is clear from the performance data, the mixture of direct and indirect property investments has, on the whole, worked well for the Dorset Fund. Over the last 5 years the portfolio has been a consistently strong performer both relative to the total Fund and its benchmark.
- 2.8 The performance of the direct portfolio is very pleasing, considering the level of buying activity that has taken place over the last 3 years. The size of the direct portfolio has increased from 18 properties valued at £162M in June 2013, to 26 properties valued at £239M in June 2016. Having been underweight against the target allocation of 10% of the Fund for most of this period, the holdings are now slightly overweight at 10.2%. Over this period 2 properties have been sold and 9

purchased. Given this level of turnover, and given that the average cost of buying a property is around 7%, the portfolio has continued to perform well.

- 2.9 CBRE have traditionally performed well in terms of the level of void (vacant) properties. Performance in this area had declined slightly during 2015 with a tenancy problem at the student accommodation property in Newcastle. The void rate peaked at 6.43% in March 2015 from a historic low of 1.96%. It now stands at 3.1%, which is well below the benchmark of 7%. The industry average is 5.1%.
- 2.10 Based on the consistently solid performance and well balanced property portfolio it is recommended that the arrangements with CBRE continue for a further three years.

Richard Bates
Chief Financial Officer
August 2016