

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT**WORKING PARTY RECOMMENDATIONS****Purpose of the Report**

1. To seek agreement to the recommendations of the Pensions Working Party in respect of the Fund's property portfolio.

Information and Advice

2. A meeting of the Pensions Working Party was held on 27 January 2014 to discuss the Fund's property portfolio. The following members of the Sub-Committee attended:

Councillor Ken Rigby	County Councillor
Councillor Reg Adair	County Councillor
Councillor Darrell Pulk	County Councillor
Mr C King	Trade Union Representative
Mr N Timms	Scheduled & Admitted Bodies' Representative
Mr Eric Lambert	Fund Independent Adviser

3. Attached are the reports provided to the Working Party as background information. Two representatives from Aberdeen attended the meeting to present their proposals for the main portfolio. After the presentation, the Working Party discussed the following:
 - a. The desired level of risk and target allocations within the Fund's main property portfolio
 - b. The level of cash available to Aberdeen for additional investment
 - c. Whether to consider local property investments
 - d. Whether to make additional investments in property.
4. The Working Party members agreed that a reasonable long term return expectation for property is 6.5% pa net of fees. This exceeds the assumed returns from property within the actuarial valuation of the Fund and is in line with the average annualised income return over the last 42 years (as shown in Aberdeen's Paper 1, p3). By setting this target return, the implicit assumption is that only a small element of return is expected to come from capital growth (over the long term) and this indicates the portfolio will be relatively low risk.
5. Aberdeen's investment process is outlined in their Paper 2 and categorises assets within a portfolio to help manage risk. A 'Core' portfolio is recommended to 'deliver durable income over the long term'. The target ranges within each category of assets within a 'Core' portfolio are shown in Table 1 below. The Working Party members agreed that these target ranges were appropriate for the Fund within the investment approach used by Aberdeen.

Table 1

Categorisation	Core
Long term hold	50 – 70%
Asset manage long term hold	10 – 20%
Asset manage short term hold	0 – 20%
Immediate sale	0 – 10%

6. As described on page 8 of Aberdeen's Paper 2, a 'Core' portfolio is likely to underperform in a rising market (as investors favour more risky assets) but outperform when the market turns. Performance (and particularly performance relative to the benchmark) will therefore need to be viewed over the long term. Reporting to the Pensions Investment Sub-Committee has already been amended to focus more on returns over 3, 5 and 10 year periods.
7. Aberdeen have recently been recommending the sale of a number of lower quality assets and the purchase of higher quality assets with longer, more durable income streams. This process is ongoing and the Working Party members recommended that the proceeds of sales within the main portfolio continue to be re-invested in line with the recommended asset categories above.
8. As the attached Working Party report shows, the Fund is currently underweight in property compared to the strategic benchmark. This has come about more from relative movements in valuations of different asset classes than from an active decision of the Fund and has been of overall benefit recently as equities, in particular, have outperformed other assets. However, members of the Working Party felt that property investments should now be brought closer to the benchmark allocation, either from unallocated cash or from a reduction in the equities allocation (or a combination of both).
9. At the last Investments Sub-Committee in December 2013, the possibility of making 'local' property investments was raised and it was suggested that this should be discussed at the Working Party. Members of the Working Party felt that it would not be sensible to specify particular investments within the main portfolio as this would be likely to move the risk/return characteristics of the portfolio outside the parameters being recommended. After further discussion, no recommendation was made to include 'local' investments.
10. The recommendations of the Working Party are therefore that:
 - a. The long term return expectation for the property portfolio should be 6.5% pa net of fees
 - b. Aberdeen should be instructed to manage the main property portfolio as a 'Core' portfolio within their specified investment approach, with target asset category ranges as shown in table 1.
 - c. Proceeds from sales of assets within the main property portfolio should continue to be re-invested in line with this strategy.
 - d. Additional investment in property should be considered to bring the allocation closer to the strategic benchmark.
11. It is suggested that a further report is brought to the Pensions Sub-Committee in May 2014 regarding the final recommendation.

Statutory and Policy Implications

12. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That the Nottinghamshire Pension Fund Committee be recommended to approve the following:
 - a. The long term return expectation for the property portfolio should be 6.5% pa net of fees
 - b. Aberdeen should be instructed to manage the main property portfolio as a 'Core' portfolio within their specified investment approach, with target asset category ranges as shown in table 1.
 - c. Proceeds from sales of assets within the main property portfolio should continue to be re-invested in line with this strategy.
2. That a further report is brought to the Pensions Sub-Committee in May 2014 regarding possible additional investments in property.

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Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.