

London Borough of Hammersmith and Fulham

Report to: Pension Fund Committee

Date: 21 July 2021

Subject: Investment Strategy Update

Report of: Phil Triggs, Director of Treasury and Pensions
Matt Hopson, Strategic Investment Manager

Summary

This paper provides an update on the Fund's latest investment strategy, including the decisions taken at the last Pension Fund committee meeting and the latest investment allocation following on from the decisions taken and latest updates.

The Committee will also need to consider in the next six to twelve months whether it wishes to maintain a 5% allocation to infrastructure. The current Partners Group allocation is almost fully committed and will begin to return capital from next year, thus an additional allocation will need to be allocated to maintain a 5% Fund allocation over the medium term.

The paper also provides an appendix with more detailed information on a niche alternative asset class in Leisure Development. This summary is provided by Darwin Alternatives, a leading asset manager in this field and with an established foothold in the LGPS.

The asset class is to be considered as a potential diversifier from mainstream asset classes in the next investment strategy review.

Recommendations

The Sub Committee is requested to:

1. Note the strategy update.
2. Invite Darwin to the next committee meeting to present their leisure development fund offering.

Wards Affected: None

LBHF Priorities

Our Priorities	Summary of how this report aligns to the LBHF priorities
<ul style="list-style-type: none"> Building shared prosperity 	Being an outperforming investor means that as part of the Pension Fund's fiduciary duty, its investments should be able to assist in making a positive financial contribution, sharing prosperity and lessening the financial impact on council tax payers.

Financial Impact

The financial implications of these investments will be continually monitored to ensure that members' pensions are safeguarded.

Legal Implications

None

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Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

Investment Strategy Update

1. Background

- 1.1. The Pension Fund Committee made three investment decisions at its meeting of 11 March 2021 which are as follows:
- Invest 5% of the Fund in Alpha Real Capital's ground rents fund.
 - Invest 2.5% of the Fund in Man Group's social housing fund.
 - Invest 2.5% of the Fund in Henley's secure income fund, subject to the fund achieving satisfactory statistics on certain factors and improved metrics by the first close deadline.
- 1.2. The Fund's investment consultant, Deloitte, has provided an update of the latest asset allocation attached at Appendix 1.

2. Investment Strategy

- 2.1. The two investment allocations to Alpha Real Capital and Man Group have been successfully agreed in principle, with all due diligence completed and paperwork now signed. Officers are waiting for the relevant capital calls before making the initial investments, which are expected to occur within the next few months.
- 2.2. However, the required improvements to the Henley fund that members were seeking have not been achieved by the fund closing period. As such, officers have not committed to the investment.
- 2.3. Henley have informed officers of their intention to raise a new fund should it be of interest. However, no commitment has been made to this new prospect as it was not discussed at the previous committee meeting. Members may wish to give some consideration to this new fund at a later date.
- 2.4. Members were provided with a short paper on Darwin's Leisure Development Fund at the previous committee meeting. A reminder of the benefits and risks to the Fund's strategy are listed below:

Benefits

- Long term stable cash flows with inflation-linked returns.
- Operating within an inefficient, fragmented market, leaving room for consolidation.
- High barriers to entry for new assets due to competing demands for land uses such as new residential housing.
- The current COVID-19 pandemic and ongoing environmental trends should cause the demand for UK based "staycations" to continue to rise in the coming years.

Risks

- Once the initial consolidation of smaller operators has been completed, the current surge in growth may be difficult to replicate.
- The asset class is still relatively new and untested relative to other mainstream asset classes, with few asset managers in the market.
- Reputational risk: any incidents at any of the parks could fall back on the Fund.

2.5 Should members be comfortable with the fund, it is recommended that Darwin be invited to the next committee meeting to present their fund offering in more detail as a potential replacement for the Henley allocation.

3. Risk Management Implications

3.1. Risks are outlined in the report and attached appendices.

4. Other Implications

4.1. None

5. Consultation

5.1. None

List of Appendices:

Appendix 1: Investment Strategy Update

Appendix 2: Partners Group Infrastructure

Appendix 3: Asset Class Review – Darwin Alternatives (exempt)