

London Borough of Hammersmith & Fulham

Report to: Pension Fund Committee

Date: 10 September 2024

Subject: Data Centres Opportunity

Report author: Siân Cogley, Pension Fund Manager

Responsible Director: Phil Triggs, Tri-Borough Director of Treasury and Pensions

Summary

The purpose of this report is to provide the committee with potential alternative options surrounding the placement of an fund allocation to property data centres.

Recommendations

The committee is requested to consider whether a data centre allocation is appropriate for the Fund and where it could fit into the Fund's investment strategy and asset allocation.

If the committee decides to proceed with further due diligence or move immediately to a fund allocation to data centres, it is recommended that they invite the prospective fund managers outlined in Appendix 2 to attend the next committee meeting.

Wards Affected

None.

LBHF Priorities

Our Priorities	Summary of how this report aligns to the LBHF priorities
<ul style="list-style-type: none"><li data-bbox="188 1608 612 1637">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 taxpayers.

Financial Impact

The financial implications of these investments will be continually monitored to ensure that members' pensions are safeguarded. There is no direct financial impact as all costs and returns are segregated within the Pension Fund.

Legal Implications

None.

Asset Class Review

1. Background

- 1.1. Data Centres are large industrial buildings, designed to accommodate racks of computer servers for the storage of data and connecting internet traffic. They are an increasingly critical component of corporate and consumer dependence on information technology.
- 1.2. This asset class sits alongside traditional real estate and property infrastructure investments. The portfolios are designed to produce returns primarily from rental payments (based on power capacity rather than traditional property leases) and asset sales.
- 1.3. Investments can offer higher returns, given the specialised nature of data centres and a favourable demand/supply imbalance currently seen in the property market.
- 1.4. In terms of the property tenants, operators run and lease the data centre capacity to the various users. Funds can target hyperscale cloud service providers, including AWS, Google and Microsoft.
- 1.5. These companies consume large quantities of data centre capacity and tend to have very high credit ratings, making them very high quality tenants.

2. Investment Strategy

- 2.1. As an initial step, Isio presented asset class training and their initial thoughts on the data centre opportunity to the committee at the 23 July 2024 committee meeting.
- 2.2. The Committee debated the presentation's information and agreed to proceed with further work in the area, with a focus on gaining increased comfort with several key areas, including:
 - Strategic fit of an allocation within the wider LBHF fund strategy.
 - Alignment with the regulatory environment (UK levelling up etc).

- ESG impact of the asset class.
- Attractiveness of the product/asset managers currently available in the market.

2.3 The appendices to this report address the concerns raised at the 23 July committee meeting and provide a further overview to the risks and benefits of the asset class.

3. Next Steps

3.1 The committee is asked to review the appendices to this report and consider whether a data centre allocation is appropriate for the Fund.

3.2 If the committee wishes to proceed, it is recommended that the three managers suggested in Appendix 2 are invited to the November 2024 meeting of the committee to present.

3.3 The proposed nature of the initial strategic allocation is suggested to be 2.5% (circa.£35m of the Fund) within the secure income section of the Fund's strategic asset allocation.

4. Risk Management Implications

4.1. Risks are outlined in the report.

5. Other Implications

5.1. None.

6. Consultation

6.1. None.

List of Appendices:

Appendix 1 – LBHF Data Centre Investment Opportunity – Asset Allocation Considerations Aug 2024

Appendix 2 - LBHF Data Centre Investment Opportunity – Manager Longlist Due Diligence Aug 2024 (EXEMPT)