

PENSIONS COMMITTEE
16 JUNE 2017**INFRASTRUCTURE AND PROPERTY INVESTMENTS**

Recommendation**1. The Chief Financial Officer recommends that:**

- a) the appointments of Invesco, AEW, Stonepeak and First State be approved; and
- b) the following commitments be approved: £75m First State; £75m Stonepeak; £40m Invesco Residential; and £20m AEW.

Background

2. In December 2016 the Pension Committee approved recommendations to move to a new strategic asset allocation for the Fund as part of the Fund's strategic asset allocation review. The aim of the asset allocation change is to achieve lower volatility without reducing total returns to enable a closer correlation between the Fund's assets and the longer term liability profile. The new structure is summarised below in table 1:

Table 1: Summary Changes to the Strategic Asset Allocation

By Review Year	2013		2016	
Asset Type by %	Allocation	Tolerance	Allocation	Tolerance
Equities	80	75 – 90	75	70 - 85
Bonds	10	5 – 15	10	5 – 15
Infrastructure and Property	10	5 – 10	15	5 – 15

3. In February 2017 BFinance were appointed as a specialist procurement adviser to assist with the tender for property and infrastructure pooled funds. BFinance services included portfolio design of the proposed investments in terms of style, size and geographic exposure along with analysis of proposals from interested managers and preparation of a report in order to select a short list of suitable specialists capable of managing the mandates successfully.

4. As a result of BFinance's analysis and recommendations five pooled Infrastructure and Property Fund managers were interviewed by members of the Pension Investment Advisory Panel on 22nd May 2017.

Manager Interviews

5. Following the interviews, four managers were recommended for appointment by the Pension Investment Advisory Panel: Invesco, AEW, Stonepeak and First State
6. The unsuccessful manager at interview, ISquared, has been notified by BFinance and supplied appropriate feedback.

Procurement

7. The appointment of Stone Peak, a specialist U.S. infrastructure manager, and First State, a specialist European infrastructure manager, would provide good diversification away from the Fund's current UK focused infrastructure investments. Stonepeak and First State have been recommended by BFinance, following an in depth procurement, as the highest rated managers in these regions and are expected to provide returns in line with the Fund's requirements.
8. Given the Fund's current European property investments with Invesco and Property Debt with Venn in the UK and Walton Street in the U.S., a search was undertaken by BFinance for UK property pooled funds and U.S. pooled property funds (excluding debt funds) in order to provide diversification into the portfolio. Given the perceived late stage of the property cycle in the UK and the U.S. the search concentrated on investments that would provide good downside protection in the event of potential capital falls in these property markets. The search identified one possible U.S property pooled fund that met the Fund's requirements, however once the level of leverage, fees and potential tax leakage were taken into account the opportunity was rejected. The two recommended pooled funds for investment. Invesco and AEW, are both UK focused and should provide downside protection and an inflation hedge. Further details on these pooled funds, is set out in Appendix 1 to this report.

Pooled fund IRR blend and fees

9. The inclusion of the four recommended managers within the Fund's current pooled property and infrastructure portfolio increases the expected net IRR from 8.0% to 9.0%.
10. BFinance have negotiated significant fee discounts with all four of the proposed pooled funds. The managers are also willing to treat LGPS in aggregate, so the Fund will benefit from further fee discounts, as other LGPS funds invest with these managers.

Commitments

11. The Pension Committee's decision to increase the allocation to pooled property and infrastructure funds from 10% to 15% of the Fund's market value converts to a Sterling value of an additional commitment of £170m. However due to the analysis undertaken by BFinance modelling the drawdown profile and distribution profile of the Fund's infrastructure and property pooled funds, including the recommended new investments, as set out on slide 5 of the Appendix to the report, an additional £210m is required to meet a peak of 88% deployment in 2018/19. A £250m commitment would be required to ensure 100% deployment, and therefore 15% of the current market value of the Fund is invested at a peak in 2018/ 19.
12. It is however recommended that £210m is committed to the four pooled fund managers to be split: £75m First State; £75m Stonepeak; £40m Invesco Residential and £20m AEW. These commitments would ensure that there is not an over concentration

with the newly proposed managers and allows for further deployment of capital in the next twelve to eighteen months to help increase vintage year diversification and take advantage of any market opportunity as they arise given the changing market environment.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Email: worcestershirehub@worcestershire.gov.uk

Specific Contact Points for this report

Sean Pearce, Chief Financial Officer

Tel: 01905 846268

Email: spearce@worcestershire.gov.uk

Supporting Information

- BFinance report (Appendix)

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

Agenda papers and Minutes of the meeting held on 7 December 2016