



City of Westminster

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	29 June 2023
Classification:	General Release (Appendix 1: exempt)
Title:	Affordable Housing Manager Shortlist
Wards Affected:	All
Policy Context:	Effective control over council activities
Financial Summary:	There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.
Report of:	Phil Triggs <i>Tri-Borough Director of Treasury and Pensions</i> ptriggs@westminster.gov.uk 020 7641 4136

1. EXECUTIVE SUMMARY

- 1.1 This paper summarises the investment manager shortlist for a proposed new affordable housing mandate, to fulfil the Pension Fund's outstanding 2.5% allocation.

2. RECOMMENDATIONS

2.1 The Committee is recommended to:

- consider the shortlisted managers for the proposed allocation to affordable housing, with Isio to prepare a manager selection report if approved.
- Approve that Appendix 1 to this report is not for publication on the basis that it contains information relating to the financial or business affairs of any particular person

(including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

3. BACKGROUND

- 3.1 At the 24 June 2021 meeting of the Pension Fund Committee, the investment advisor, (then) Deloitte, presented the Committee with a report on the residential property asset class, with the aim of exploring a suitable inflation protection mandate. The Committee decided to proceed with a manager shortlist and selection process for an affordable housing investment manager, with circa 5% asset allocation to be ascribed to the asset class, and to be funded from the allocation to equities. Subsequently 2.5% was allocated to the Man Group Community Housing Fund, with the remaining 2.5% still outstanding.
- 3.2 The residential property sector is split into private rented and affordable housing (AH). Affordable housing is aimed at low-income workers who are not in the financial position to buy their own properties. Median house prices have increased by over 200% in the last 20 years, compared with salary increases of 60%, leading to a substantial reduction in the supply of affordable housing. AH is covered by Section 106 agreements, with developers needing to allocate a proportion of housing developments as affordable.
- 3.3 These properties are typically let to local authorities, housing associations or directly to tenants, with additional security in that most of the lease agreements are government backed.
- 3.4 There are vast investment opportunities within the residential sector in the UK, reinforced by the following statistics:
- **Demand:** rapid growth in population forecast over the next 10 years;
 - **Supply:** 300,000 new homes needed per annum to meet this forecast, compared with the 170,000 currently delivered; and
 - **Affordability:** elevated house prices throughout the UK, driven by the imbalance in supply and demand.

4. MANAGER SHORTLIST PROCESS

- 4.1 The Fund's investment advisor, Isio, has prepared a report on the manager shortlist selection process, attached in Appendix 1. The purpose of this report is to provide a summary of the managers and strategies considered as part of the selection exercise.
- 4.2 Isio has researched a longlist of managers currently providing affordable housing strategies in the market, focusing on UK-wide exposure. From this list, Isio has proposed a shortlist of managers and assessed against a set of key criteria, for the Pension Fund, as follows:

- Investment managers targeting affordable housing;
- Strategies that are currently capital raising; and
- Strategies with strong expected cash yields and to be distributed relatively quickly.

5. RECOMMENDATIONS AND NEXT STEPS

5.1 The Committee is recommended to consider the investment managers highlighted within Isio's report, with the intention of commencing a manager selection process. The proposed strategies are the most suitable providers to meet the Fund's key investment criteria, investing predominately within affordable housing and all are currently open for investment.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Billie Emery bemery@westminster.gov.uk

BACKGROUND PAPERS:

None.

APPENDIX:

Appendix 1: Manager Shortlist – Affordable Housing (exempt)