LONDON BOROUGH OF CAMDEN	**WARD:** All
REPORT TITLE: Affordable Housing allocation	
REPORT OF: Executive Director Corporate Services	
FOR SUBMISSION TO: Pension Committee	**DATE:** 4 December 2023

SUMMARY OF REPORT:

This report builds on the Investment Strategy review that was agreed in July 2023 by this Committee and the affordable housing allocation of 5% (£97m). The London CIV affordable housing sub-fund has been reviewed compared to the Fund's investment expectations.

Local Government Act 1972 – Access to Information
No documents requiring to be listed were used in the preparation of this report:

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RECOMMENDATIONS:

The Committee is asked to:

1. Agree that the Fund invest £97m in the London CIV affordable housing sub-fund;
2. Agree that the funds invested with Partners Group are allowed to mature;
3. Agree that any balance on the July 2023 Investment Strategy Review is to come from the Legal and General Passive global portfolio;
4. Delegate all matters relating to this action to the Executive Director Corporate Services.

Signed by

Director of Finance ……………………**Agreed**……………………

Date ……………………**22/11/2023**………………

1. Introduction

1.1. The July 2023 Investment Strategy review set out that:

- The current strategy was expected to return 7.9% pa over the long term (50% probability)

- investment strategy options are available to the Fund which target a slightly lower return, for a reduced level of investment risk, whilst looking to increase flexibility within the investment strategy, with the aim of capturing attractive investment opportunities as these arise.

- the Fund’s key risks are its equity exposure and the inflation risk inherent within its liabilities

- The review set out the Fund's recommended direction of travel to
  - Reduce equity allocation
  - Increase exposure to inflation linked assets
  - Increase exposure to broader, more flexible mandates e.g. multi asset credit or others
  - Investment into affordable housing and renewable infrastructure.

1.2. This report looks at the Affordable Housing proposition in detail and examines the London CIV sub-fund as an investment option.

1.3. The report does two main things: provides an overview of key characteristics of residential housing market and details a review of the CIV sub fund.

2. The Residential Housing Market

2.1. Residential property is an alternative to commercial property. Returns are designed primarily to produce rental payments (income) and to a lesser degree to increase capital value.

2.2. Given the above, investments can be defensive and are less economically sensitive. Residential property has good ESG characteristics as many funds address social needs.

2.3. Returns are inflation linked and offer diversification from traditional asset classes. The Market is split into private rented and affordable/ social sectors.

2.4. Isio, our Investment consultants, favour affordable rented and social sectors which combine attractive investment characteristics and strong ESG characteristics.

2.5. Investment Managers in this space build and buy existing stock. These properties are leased to councils and Housing Associations as well as to private tenants.

2.6. Some of the risks inherent in affordable housing are:

- Vacancy risk and the ability of tenants to meet rental payments
- Regulatory risk - government policy regarding rental pricing could change
- Construction risk - time and cost overruns
- Illiquidity risk – assets can't easily be sold on the secondary market

3. CIV Affordable Housing sub-fund

3.1. Some of the key features of the CIV sub-fund are:

- An Investment target return of 5-7% p.a. (net of fees) - in- line with Isio expectations
- Income target of 3-4% p.a. - this is on the lower side but in-line with Isio expectations
- A 5-year lock-up of our funds but quarterly redemptions thereafter
- They launched the fund with £150m raised, with a further £45m raised recently. There are 3 other LGPS funds looking to enter the sub-fund (not including us). The total current expected fund size is £305m (not including our investment)
- They have committed £100m to CBRE. The first drawdown is expected to be Q2 2024 and the full £100m will be fully deployed in 2 years. The Octopus section (expected commitment of £50m) will be fully deployed in 15 months.
- The third manager being considered is Resonance and due diligence is currently being completed on them. The CIV are also in discussions with Savilles and Man Group on running parts of this portfolio.

3.2. Appendix A sets out Isio's work on the London CIV affordable housing sub-fund. It considers ESG and investment credentials of the investment and concludes that the CIV fund is appropriate for investment. Officers and advisers including the Independent Investment adviser agree that the Fund should invest its 5% allocation (£97m) in the London CIV affordable housing sub-fund.

3.3. The Camden Pension Fund currently has two property managers – Partners Group provide global property and CBRE manage UK property. The Partners funds are managed on a closed-ended basis (they call cash when needed and then return or 'distribute' cash when investments are realised). The CBRE funds are managed on an open-ended basis (i.e. funds are not returned but continually invested). Selling out of the open-ended funds would incur Stamp Duty.

3.4. The Implementation page of Appendix A in the July Investment Strategy Review earmarked £84m from commercial property to be used to finance movements. It makes sense to allow the Partners funds to mature (currently valued at £83m). That report also set out that any balance on the whole strategy review was to come from cash (£31m). If the cash balance gets too low it is recommended that the balance can come from passive global equity with Legal and General.

4. RESPONSIBLE INVESTOR COMMENT

4.1. The Fund is a responsible investor and has established and reviewed its Investor Belief Statement (IBS) in July 2023. Investing in Affordable Housing would target the following beliefs:

- 11 Sustainable cities and communities
- 3 Good health and well-being
- 10 Reduced inequalities
- 8 Decent Work and Economic Growth

4.2. The first three beliefs are all headline beliefs in our IBS and so this proposed investment has strong ESG and Impact credentials.

5. ENVIRONMENTAL IMPLICATIONS

5.1. Appendix A sets out the climate scores for both managers within the current London CIV sub-fund (CBRE and Octopus).

6. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

6.1. Appendix A sets out that target net returns for Affordable rented and shared ownership sectors are 6-7% and for social housing is 5-6%. The London CIV sub-fund is expected to return 5-7% net and so is in line with expectations. Furthermore the CIV sub-fund is expected to give distribution income of 3-4% which is in-line with income yields in the sector (Affordable and social housing yields are 3-4% and shared ownership is 4-5%).

6.2. Investment in this affordable housing sub-fund would achieve the Fund's investment objectives and would achieve significant impact in-line with the Fund's Investment Beliefs.

7. LEGAL COMMENTS OF THE BOROUGH SOLICITOR

7.1. The Committee is required to maintain an investment strategy statement under the 2016 management and investment regulations and to take expert advice on investment matters.

APPENDICES
APPENDIX A - UK Residential Housing Briefing paper