



City of Westminster

Committee Report

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| Decision Maker: | PENSION FUND COMMITTEE |
| Date: | 29 November 2021 |
| Classification: | General Release, Appendix Not for Publication |
| Title: | Affordable and Social Supported Housing Manager Selection |
| 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> ptrigs@westminster.gov.uk 020 7641 4136 |

1. EXECUTIVE SUMMARY

- 1.1 This paper summarises the investment manager selection process for a new Affordable and Social Supported Housing mandate, as agreed at the Pension Fund Committee meeting on 21 October 2021. Three suitable investment strategies have been put forward to the Pension Fund Committee as fulfilling the Pension Fund's investment criteria, as detailed in Appendix 1.

2. RECOMMENDATIONS

- 2.1 That the Pension Fund Committee:
- Interview, decide and approve the selection of an Affordable and Social Supported Housing investment manager.

3. BACKGROUND

- 3.1 At the 21 October 2021 Pension Fund Committee meeting, it was decided to proceed with the selection of an Affordable and Social Supported Housing investment manager via an extraordinary committee meeting later in the year. The mandate will be designated a 5% (circa £100m) asset allocation to be funded by a 5% reduction in equities, which currently has a 71% asset allocation.
- 3.2 Shortlisted managers have been invited to present to the Pension Fund Committee on 29 November 2021, as advised by the Fund's investment consultant, Deloitte.
- 3.3 Affordable Housing (AH) is housing accommodation aimed at low income workers who are not in the financial position to buy properties. AH is covered by Section 106 agreements, with developers needing to allocate a proportion of housing developments as affordable. 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 Social Supporting Housing (SSH) is housing accommodation built specifically for vulnerable individuals with physical or psychological difficulties. Vulnerable individuals are typically in receipt of housing benefits, and the statutory duty for providing secure accommodation falls within the remit of local government. SSH agreements with housing associations are index-linked to annual inflation rates, with responsibility for administrative tasks and tenant care provided by the housing associations.
- 3.5 Investing within an Affordable or a Social Supported Housing mandate provides the following benefits to the Fund:
- Diversification from mainstream asset classes.
 - Properties benefit from both capital appreciation and inflation-linked rental income.
 - Potential to deliver positive social impact to low income families and vulnerable individuals.

4. SELECTION PROCESS CONSIDERATIONS

- 4.1 The investment manager selection process aims to provide the Pension Fund Committee with a broader understanding of the investment managers being considered and how these can meet the Committee's investment strategy going forward.
- 4.2 With regard to Affordable and Social Supported Housing there are two fund structures available to investors:
- **Close ended:** a closed ended fund operates within a predetermined lifespan, with income distributed to investors over

the life of the fund and capital repaid when assets are realised at maturity.

- **Open ended:** an open ended fund does not have a specified lifespan and offers a degree of liquidity for investors at set time periods.

4.3 The following considerations should be taken in regard to a new Affordable and Social Supported Housing investment manager selection:

- **Investment Strategy:** the manager's strategy and how this aligns with the Committee's views of the asset class;
- **Team and Process:** the team and its experience within the asset class;
- **Complexity:** investors should be comfortable with the level of risk associated with investment in an alternative asset class such as affordable and social supporting housing;
- **Drawdowns:** timing of drawdowns are determined by the fund raising period and how quickly these commitments can be deployed. Limited market opportunities can result in a manager finding it difficult to deploy capital, which could result in lower returns and less desirable assets within the fund;
- **Fund Size:** investors should ensure the fund is of an appropriate size to allow for sufficient liquidity in the case of a redemption;
- **Cashflows:** income distributions may vary in timing and size depending on the fund structure selected;
- **Credit Security:** the credit security of the proposed strategies reflects the security of the underlying providers, where strategies operate a leasehold model. These providers are typically housing associations, who manage the properties, liaise with tenants, collect rent and are responsible for property maintenance;
- **Sector and Geographic Allocation:** investors should consider if the fund is sufficiently diversified and not exposed to the risk of a single market sector or location;
- **Development and Construction:** due to the nature of the asset class, affordable and social support housing assets need to be built or developed which gives rise to development and construction risk. Investors should consider mitigating these risks by counterparty diversification and strong covenants;
- **Leverage:** the impact of leveraging on the strategies should be considered, as it will amplify both risk and expected returns within the fund; and

- **Fees:** the management fee costing structure of the strategies should be considered, as these costs will impact on the bottom line fund returns.

4.4 Appendix 1 to this report sets out more detail around the suggested selection process and the investment managers to be considered.

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

APPENDICES:

Appendix 1: Affordable and Social Supported Housing Manager Selection (Exempt)