

By: Chairman Superannuation Fund Committee
Corporate Director of Finance and Procurement

To: Superannuation Fund Committee – 15 November 2013

Subject: **FUND STRUCTURE (Open)**

Classification: Unrestricted.

Summary: To report on a number of issues relating to the structure and management of the Fund.

FOR DECISION

INTRODUCTION

1. This report will cover a number of issues relating to the structure and management of the Fund. Items will be split between this open report and a confidential report.

DTZ UK PROPERTY

2. At their Quarterly Investment Committee on 23 October the Fund Director updated on a number of issues:
 - (1) The IPD All Property total return for the 3 months to September was 2.9%, the highest since July 2010, this was driven by capital growth of 1.2%..
 - (2) DTZ have made some significant purchases:
 - The purchase of Walkergate, Durham for £13.4m. This is a reduction of £100,000 after due diligence.
 - A £20m investment in the £2bn Blackrock UK Property Fund. Details of the fund are attached in Appendix 1.
 - A bid has been accepted of £27.35m for the Lakeside Village, Doncaster a retail outlet centre. The property has been sold by the LaSalle Venture Fund and was won against strong competition in the 3rd round of bidding. The initial yield is 8% and DTZ see considerable scope to add value through asset management.

And Capital Interchange, Brentford was sold for £10.89m on 25 October.

DTZ INDIRECT PORTFOLIO

3. The latest quarterly report is attached in Appendix 2.
4. DTZ will periodically identify opportunities to sell out of funds and decisions on this are required quickly. The Committee is asked to give the Corporate Director of Finance and Procurement delegated powers to agree a sale in consultation with the Chairman.

DTZ AURORA EUROPE PROPERT FUND

5. In 2007 KCC made a £25m commitment to a European Property Fund managed by DTZ. DTZ then invested in a wide range of European property funds with a focus on Northern Europe.
6. As has previously been reported the Fund launched as the financial crisis started and into markets entering a prolonged recession. Many of the funds are leveraged and therefore have faced difficulties in refinancing and increased costs. As at 30 June 2013 the Fund had fallen 49% since inception.
7. At the AGM in October 2012 there was considerable criticism from investors and DTZ in response proposed a strategic review of the Fund. This document is available if members wish to see it.
8. In August the Head of Financial Services received documentation from DTZ redrafting the constitutional arrangements and these were referred to KCC Legal Services. The documents were an amended Limited Partnership Deed and an Extraordinary Resolution from the Fund's legal advisers.

The main changes are:

- No new investments will be made;
- No new capital will be accepted;
- No new redemption requirements will be accepted; and
- A new strategy will be approved to dispose of partnership assets by 31 December 2017.

These changes are all reasonable from an investment perspective.

Legal Services have liaised with DTZ and are now satisfied that the documents can be signed but it needs the authority of the Committee to do so.

9. At the AGM in October 2013 DTZ presented a well thought through approach for how investments will be withdrawn from or sold (Appendix 3). Over the next 3 years there are good prospects for appreciating values to be achieved.

M&G GLOBAL DIVIDEND FUND TRANSITION

10. On 10 September members appointed M&G to manage a £200m global equity fund. This is a £7bn fund managed by Stuart Rhodes focussing on companies with dividend growth and strong capital discipline. M&G is owned by Prudential and M&G manage funds totalling £238bn including £31bn of unconstrained equities.
11. As with the last two equity manager changes State Street (SSGM) were asked to act as transition manager. The transition manager looks to minimize both the trading costs of the transaction but also to ensure exposure to the market is maintained during the transition.
12. The transition has been overseen by the Treasury & Investments Manager and Senior Accountant Investments and has involved State Street, GMO, M&G and JP Morgan, our custodians.
13. The transition has been fully documented and costed. Assets with a value of £242m were transferred from GMO on 23 October, and £200m settled to M&G on 8 November. Of the surplus proceeds £12m was invested in the SSgA Global Fund and the balance is being held to fund future property purchases. The costs of the transition will be reported to the next meeting of the Committee.

RECOMMENDATIONS

16. Members are asked to:
 - (1) Note the UK Property position.
 - (2) Agree to delegate to the Corporate Director of Finance and Procurement in consultation with the Chairman any sale decisions proposed by DTZ on the Indirect portfolio.
 - (3) Agree that the revised Aurora Fund documentation may be signed.
 - (4) Note the position on M&G.

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