Subject	**Development of the Border to Coast Property Proposition**	**Status**	For Publication
Report to	Authority	**Date**	9th September 2021
Report of	Director and Head of Investment Strategy		
Equality Impact Assessment	Required Not Required	Attached	Yes No
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1 Purpose of the Report

1.1 To provide members with an update on the development of the Border to Coast property proposition and gain approval for the required contribution to further development costs.

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2 Recommendations

2.1 Members are recommended to:

a. **Note the progress being made in developing Border to Coast's property proposition and the proposed next steps for the Authority.**

b. **Approve a contribution of £0.5m to the further development costs of the proposition.**

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3 Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

The development of an effective property proposition by Border to Coast will from SYPA's point of view complete the Border to Coast product set and ideally should provide additional sources of return within this asset class.

4 Implications for the Corporate Risk Register

The actions outlined in this report address the identified risks relating to the suitability of the Border to Coast product set.

5 Background and Options

5.1 Border to Coast have been developing proposals for a series of products covering the property asset class for some time. This process has now reached the next key decision point where partner funds need to agree to commit resources to the development of the relevant operating models and procurement of appropriate service providers.

5.2 Property is potentially the most challenging asset class in which to develop a pooled product, particularly given the significantly different starting points of the 11 Border to Coast partner funds, for example 4 funds (including SYPA) have direct holdings, others have only UK exposure while others only have global exposure, some have very traditional core commercial property exposure while others are exposed to a greater diversity of types of property. The illiquid nature of the asset class also means that the process of transition from current fund holdings can be very protracted, while the dynamics of the market can also make it difficult to invest large sums of new cash quickly.

5.3 It is also the case that the type of investments that a £3.5bn property fund (the current maximum potential for Border to Coast) will invest in are significantly different to those that will be invested in by a £600m fund like SYPA, creating the potential for a some "churning" of assets if existing holdings are transferred. Equally a fund of the potential scale of Border to Coast is likely to be able to address the widest possible range of opportunities.

5.4 The company is proposing to launch Global and UK products which addresses the demand from partner funds.

Global Products

5.5 Having reflected on initial feedback from partner funds around differences in risk appetite and return expectations the Company now propose to launch 2 "fund of fund" structures. One structure will focus on Core and Core+ holdings (similar assets to those that SYPA currently holds in the UK), while the other with a higher risk/return balance will target what are called Value Add and Opportunistic holdings and will consequently involve somewhat more development risk. Having two complimentary products of this sort allows partner funds to combine them and set their own risk return dial through the balance of investment between the two structures.

5.6 The Company will need to secure an adviser to work with them on selecting the specific funds to hold within these products and this procurement will be part of the next stage of development.

5.7 SYPA currently has no appreciable global property holdings. The strategy agreed for the property portfolio at this time last year allows for an initial allocation of 1% of the Fund to global property, and subject to due diligence on the developed Border to Coast proposition it would be the intention to use this route to secure this exposure.

UK Property

5.8 The main UK proposition is based upon the premise that the bulk of the fund will be invested in actual buildings with up to 15% invested through funds in more specialist areas such as residential. The UK proposition is more complex because it potentially involves the transfer of the existing directly held assets. The proposition also involves a “transition vehicle” which will hold cash in a variety of more liquid property fund investments pending deployment within the main fund. This is an approach which while not necessarily of immediate benefit to SYPA does mean that it will be possible for partner funds to maintain property exposure during the time it takes to make new investments in actual properties,

5.9 There are a range of non-trivial costs involved in transferring assets into a new structure such as legal fees. In addition, there are potential tax issues which may mean that it is not possible to transfer Scottish and Welsh assets into the Border to Coast structure, although an alternative solution is being worked on for this. All of this impacts the potential economic case for pooling existing investments.

5.10 The Company and the Authority’s Investment Advisory Panel are in ongoing dialogue over the detailed business case for the pooling of existing investments and these discussions will culminate in a recommendation later in the financial year. At this point the next steps are for Border to Coast to undertake the remaining detailed product design and procure service providers such as a depositary and the investment adviser (who will play a similar role to the one played by Aberdeen Standard for SYPA) and a managing agent to handle day to day interaction with tenants.

Resources for the next stages of development

5.11 The agreements supporting the creation of Border to Coast stipulate that the costs of developing new products are to be shared equally between the partner funds. The remaining development work will involve significant spend on legal and tax advisers to draw up the necessary documents for regulatory approval and create the required legal structures together with specialist support for the various procurement processes as well as the costs of a project team within the Company. The estimated contribution per partner fund is **up to** £0.5m which includes a significant contingency. Given that SYPA is the second largest fund within the Partnership and significantly larger than the next largest fund this equal sharing of costs actually works in our favour as our contribution is proportionately less relative to the assets to be invested. Any contribution to development costs is a direct charge to the Pension Fund rather than to the operating budget.

Next Steps

5.12 Agreeing to contribute to the costs of developing the pooled products is not, at this stage, a commitment to invest. While the case for the Global product is clear and it provides access to investments which SYPA does not currently make further discussion is required around the UK product and in particular around fully understanding the economic case and transition issues. The intention is to hold a workshop for members in February which can explore these issues in detail leading up to a decision based on a recommendation from the Investment Advisory Panel in March.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	The contribution to development costs will be made from the Pension Fund and will not impact the operating budget. As indicated in the body of the report the equal shares arrangement is favourable for larger funds such as SYPA.
Human Resources	None
ICT	None
Legal	None
Procurement	None

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Background Papers	
Document	**Place of Inspection**