

SUBJECT:	CHURCHES, CHARITIES, LOCAL AUTHORITIES PROPERTY INVESTMENT FUND
REPORT OF:	Resources Portfolio Holder
RESPONSIBLE OFFICER	Director of Resources
REPORT AUTHOR	Jim Burness email: jim.burness@southbucks.gov.uk
WARD/S AFFECTED	ALL

1. Purpose of Report

To provide advice to the Portfolio Holder as to whether to include the Churches, Charities, Local Authorities Property Investment Fund (CCLA) in the Council's list of approved investments, and if so what level of investment should initially be considered.

2. Recommendation

To advise the Portfolio Holder whether to invest in the CCLA, and if so what limits on amount and duration should be set.

3. Content of Report

CCLA

3.1 CCLA was founded in 1958 to provide managed investment funds for charitable and public sector organisations. One of the funds they provide is a managed property investment fund for local authorities to invest in. This essentially operates by using funds invested to acquire leasehold/freehold commercial properties in order to achieve income through rents and potentially growth in the value of the assets.

3.2 The value of the local Authority Property Fund at the end of October stood at £540m and there were 136 local authorities investing in it. More background on CCLA is contained in Appendix 1.

3.3 Investing in the fund would involve purchasing units in the Fund, the price of which would reflect the initial commission costs and expenses associated with joining. At the end of October the unit price for entry to the fund was £306.45 (the offer price).

Dividends would be paid quarterly and the latest quarterly dividend paid was £3.67. The dividend yield over the past year was 4.75% (based on the Net Asset Value of £289.79).

Exiting the fund requires giving notice and the advice from the Fund manager is that currently an investment could be liquidated within one to three months. At the end of October the sale unit price was £285.30 (the Bid price) i.e. on sale the Authority would realise a loss of 6.9% on the purchased value of the investment.

3.4 Details of CCLA price and value over the last year are shown in the table below.

CCLA PRICING DETAILS

	Oct 2015	Jun 2015	Mar 2015	Dec 2014	Oct 2014
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Offer Price	306.45	297.51	292.20	285.56	276.44
NAV	289.79	281.33	276.31	270.03	261.41
Bid Price	285.30	276.97	272.03	265.84	257.36

- 3.5 Based on information from a presentation to members by CCLA the case for considering investing in a property fund can be summarised as it would offer a better return in the medium/long term compared to cash investments. Appendix 2 contains some charts to illustrate this point.
- 3.6 As with any category of investment there are risks to consider. For the property fund these arise from the fact that commercial property markets tend to be cyclical being significantly influenced by the economic cycle. Therefore there will be times when dividends are depressed but also the value of the investments may fall (See Appendix 2). This latter point would have implications if there was a need to liquidate the investment at the time the fund value had fallen from that at the time of entering the fund, as this would crystallise a loss for the authority. A control on this risk would be to have regular performance meetings with the fund manager where trends in the commercial property sector would be discussed.
- 3.7 The amount of any investment made in the fund is a further means of limiting risk. As with any form of investment the Council would set parameters as part of its Treasury Management Policy. This would include setting a ceiling based on the total amount of cash available for investment over and above the sum required by normal cashflow management.
- 3.8 The current amount of cash reserves the South Bucks has available for investment for periods of greater than one year is £17m. Any investment in the fund would be viewed as medium to long term, therefore there will need to be reasonable certainty that the cash would not be required for other purposes. Maintaining a policy of avoiding over exposure with a single institution then any ceiling on investment with CCLA would be expressed as a percentage of this figure, e.g. 25% or £4.25m.

4. Consultation

Not applicable

5. Options

The options for consideration are as follows.

- To decide that CCLA is not an appropriate investment option for the Council.
- To decide that CCLA is a fund the Council should consider investing in, and as a consequence what are the limitations in terms of amount and duration that should apply.

6. Corporate Implications

- 6.1 Any decision to invest in CCLA will need to be consistent with the agreed Treasury Management Strategy and the policies supporting that strategy. The key issue would be to agree what proportion of the overall investment cash will be placed on a medium to long term basis as a means of maximising returns. As at 1 April 2016, it is estimated that £17m of core investment cash will be available, of which £10m can be invested for durations of longer than two years.

6.2 Based on the information provided by CCLA having £1m invested in the property fund would yield £47,500. This would compare with the average return currently on cash investments of £15,000.

6.3 Accounting arrangements

- Purchase of the fund holding will be recognised on the balance sheet under Long Term Investments at the same value as the cash price paid for the units, plus direct transaction costs. This will be classified as an Available for Sale asset.
- Expenditure treatment. Unlike other property funds or direct property purchases, purchase of units in the CCLA Property Fund does not count as capital expenditure. The acquisition of share capital normally counts as capital expenditure under section 25(1)(d) of the Local Authorities (Capital Finance and Accounting)(England) Regulation 2003 (as amended). However the CCLA Property Fund is a scheme approved by HM Treasury under section 11(1) of the Trustee Investments Act 1961, and in accordance with section 25(3)(d) of the regulations, the purchase of units in the Fund does not count as capital expenditure in England.
- Dividend income is treated as revenue income.

7. Links to Council Policy Objectives.

The Council's Treasury Management Strategy is a key element to the Financial Strategy, which in turn feeds into the prudent use of Resources, one of the Council's Management Principles.

8. Next Steps

If the decision is to invest in CCLA then the following steps would be taken.

- Revise if necessary the Treasury Management Policy to ensure the fund would be an approved investment under the policy.
- Agree with CCLA a date for investment.
- Manage the South Bucks cash position to ensure sufficient funds are available on the designated investment date.
- Agree with CCLA the process for reporting to the Council on the performance of the Fund, its forward investment strategy and the state of the commercial property market generally.

Background Papers:	None
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CHURCHES, CHARITIES, LOCAL AUTHORITIES PROPERTY INVESTMENT FUND

The Fund manages investments only for charities, religious organisations and the public sector. Founded in 1958, it aims to deliver strong long-term returns and has unmatched experience in providing ethical and responsible investment to charities. It is independently owned by its clients, with about £6 billion assets under management for the three distinct client groups.

Fund Structure

The Local Authorities' Property Fund (the Fund) is an unregulated collective investment scheme established under a Scheme approved by HM Treasury under Section 11 of the Trustee Investments Act 1961 and is subject to the provisions of a Trust Deed dated 6 April 1972 and a supplemental Trust Deed dated 13 September 1978. The Fund is an AIF and is managed as an AIFM in accordance with the FCA Rules and the AIFMD Legislation.

The Trustee

The Local Authorities' Mutual Investment Trust (LAMIT) is the Trustee of the Fund. LAMIT is a company incorporated under the Companies Act 1948 (Registered Number 700132), limited by guarantee and not having a share capital. LAMIT is controlled by representatives of the Local Government Association, the Convention of Scottish Local Authorities, the Northern Ireland Local Government Officers' Superannuation Committee and investors in the Fund.

The Trustee's responsibilities include the approval of the property investment strategy, monitoring the diversification, suitability and risk profile of the Fund's investments, reviewing the performance and expenditure of the Fund and approving the payment of dividends. The Trustee Board meets four times each year. It receives quarterly written reports from the Fund Manager. In addition, the Property Sub Committee of LAMIT meets quarterly with the property manager to review the Fund's property portfolio, transactions and policies.

The Fund Manager

CCLA Fund Managers Ltd manages the Fund's properties and provides administrative and registrar services for the Fund and company secretarial services to the Trustee. CCLA Fund Managers Ltd is registered in England as a company (Registered Number 8735639), and is authorised and regulated by the Financial Conduct Authority (Registration Number 611707). CCLA Fund Managers Ltd is a wholly owned subsidiary of CCLA Investment Management Ltd. (Registered Number 2183088), and is authorised and regulated by the Financial Conduct Authority (Registration Number 119281).

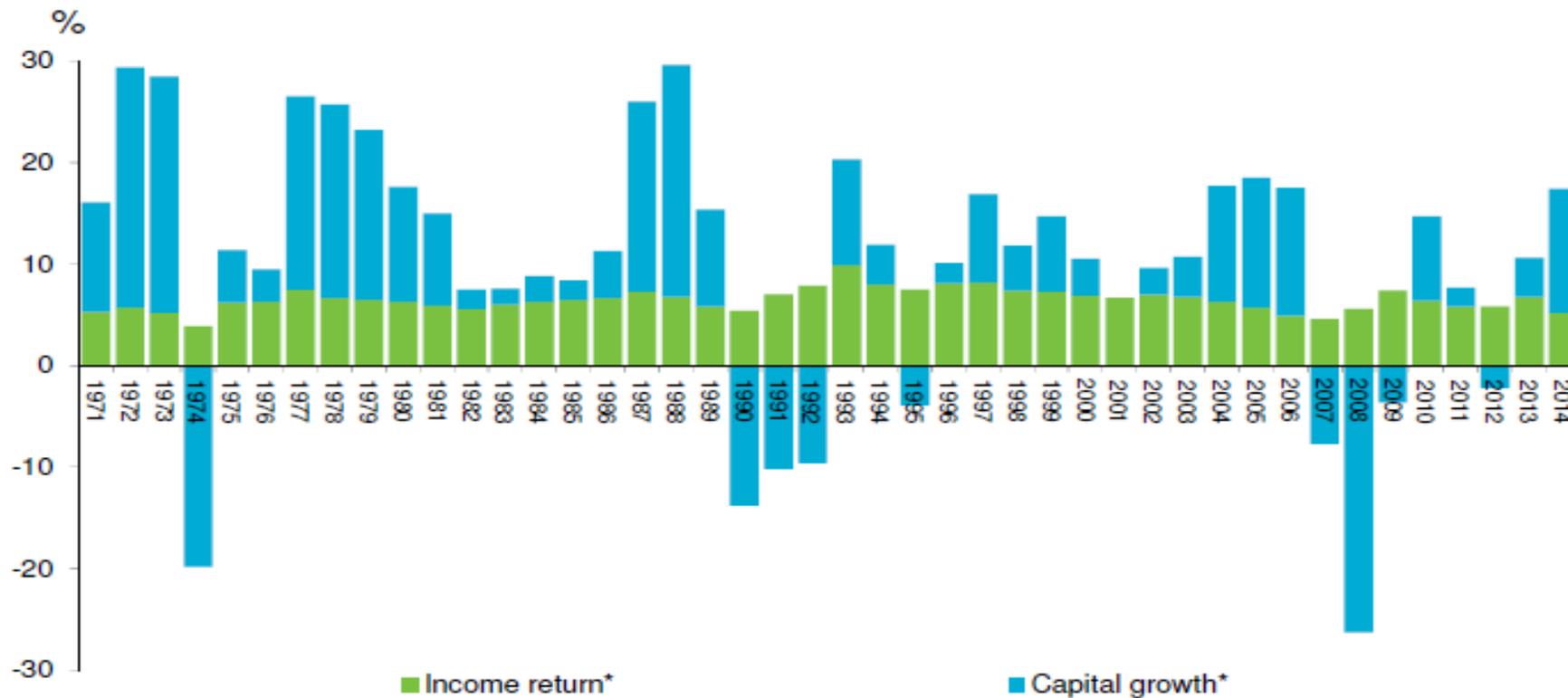
CCLA Investment Management Ltd has over 50 years of investment management experience, and on a group basis currently manages assets of more than £5.0 billion on behalf of its charity, church and public sector clients, via its segregated management service and a wide range of pooled funds. LAMIT owns 14% of the share capital of CCLA Investment Management Ltd, with the remainder owned by its charity, church investment funds and executive directors. This unique ownership structure means that CCLA is in a position to very well understand the particular needs of the public and voluntary sectors.

Other Local Authority References

South Oxfordshire and Vale of Oxfordshire District Councils have been investors in the CCLA fund for two years. They were attracted to the Fund by its clear investment strategy based on sound returns and avoidance of speculative investments. Between the two authorities they have £7m invested in the Fund representing about 5% of their total investments. They view the investments as long term holdings, not tying up cash they might need in the foreseeable future. This enables them to mitigate any risks from the property asset value cycle. They are considering further investments up to a maximum of 10% of their investment portfolio.

Why hold property?

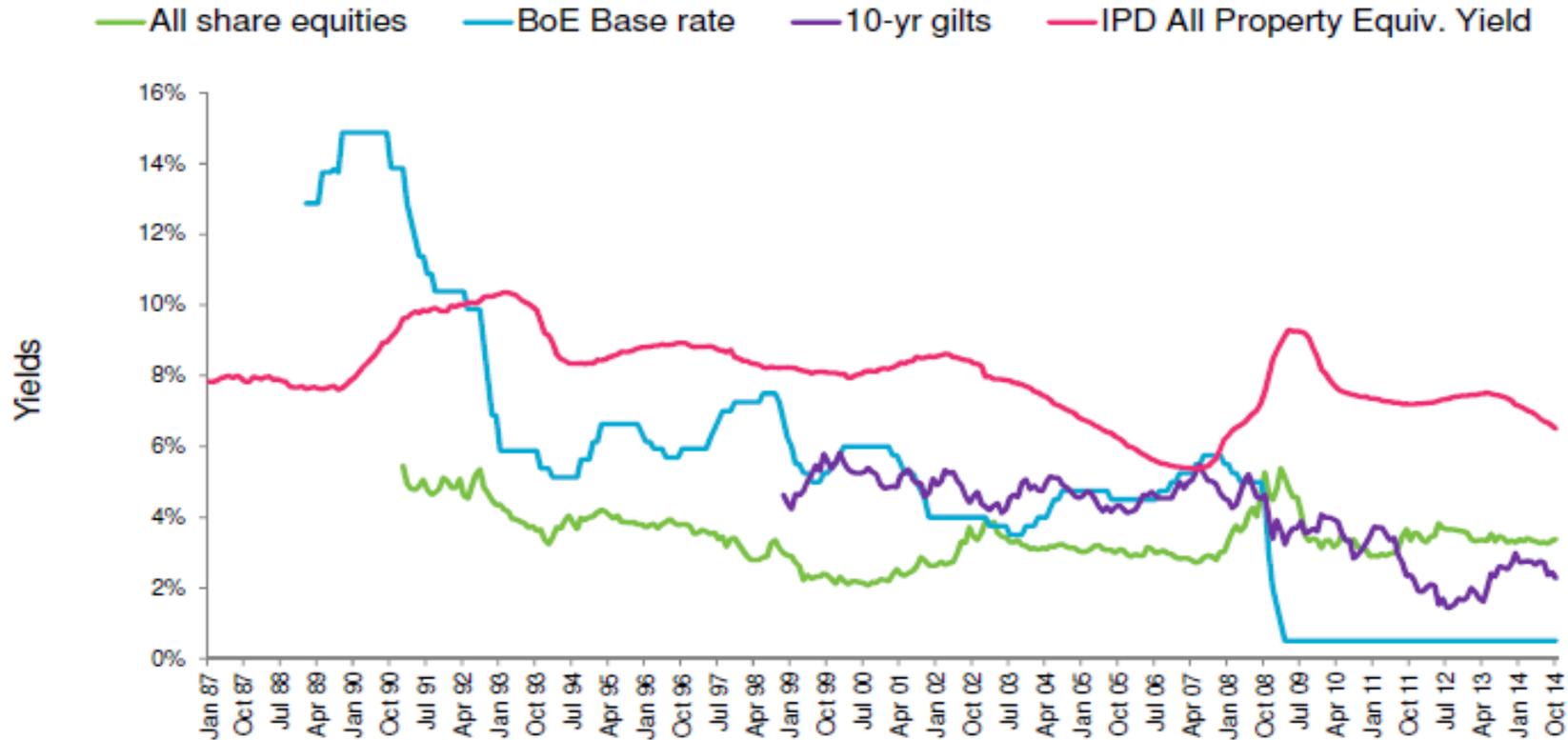
Property investment returns since 1970



Source: CCLA and IPD

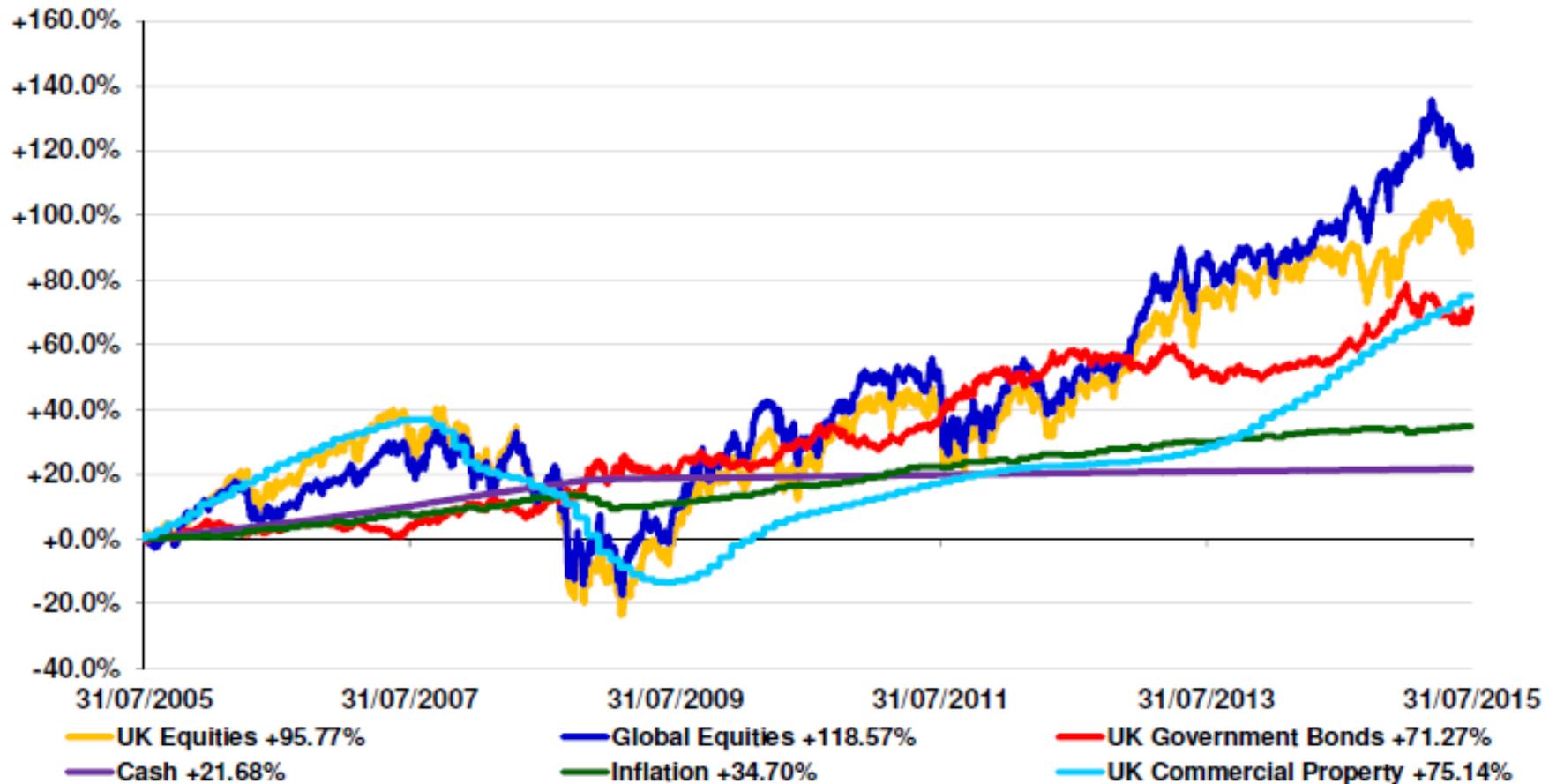
*Past performance is no guarantee of future returns

Property: a consistent source of higher income



Source: IPD/BoE/BNP

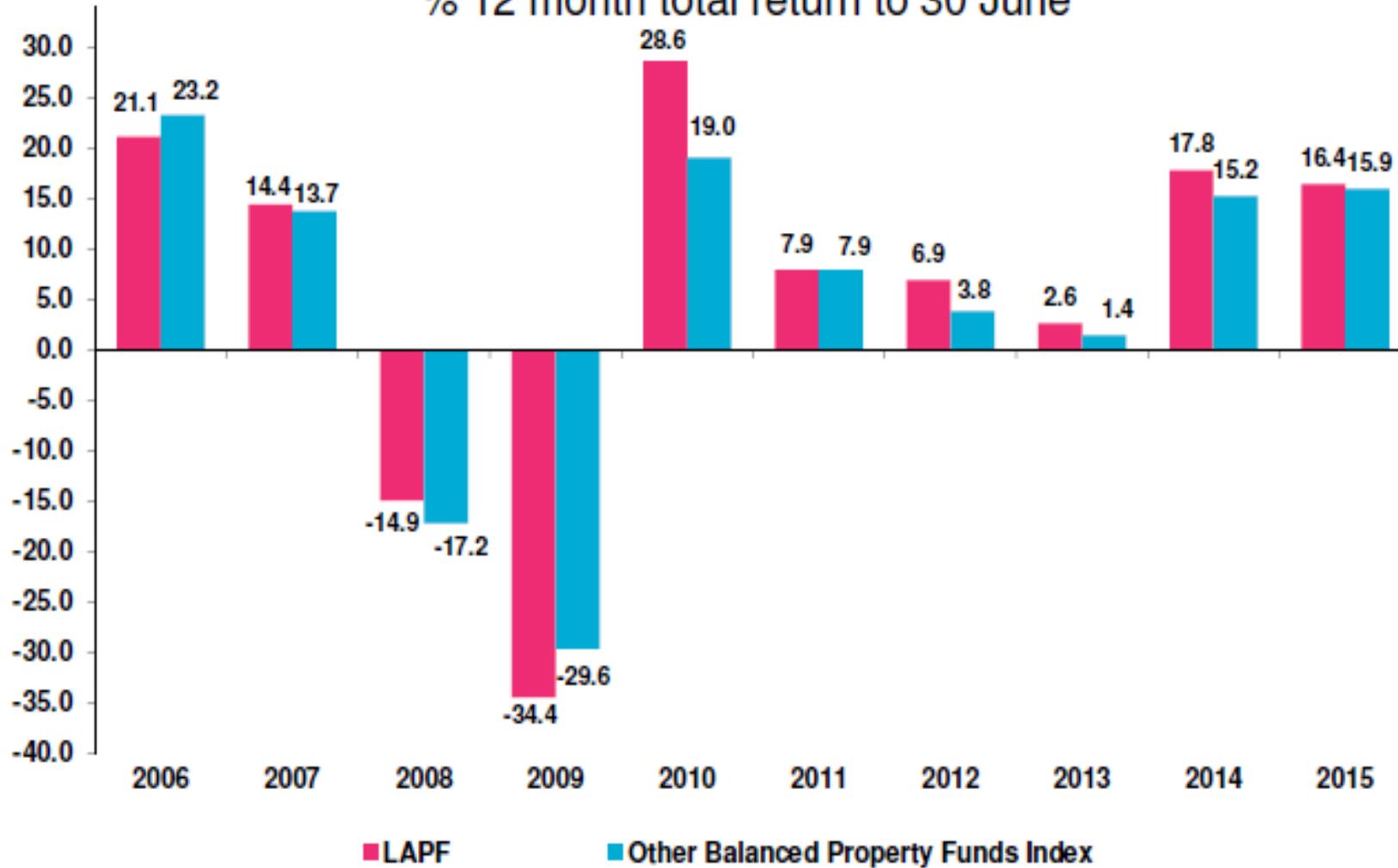
Property in a wider context–10 year returns to 31 July 2015



Sources: Bloomberg, IPD: FTSE All-Share Total Return Index, FTSE All-World Total Return Index, FTSE UK Govt All-Stocks Total Return Index, IPD Monthly Total Return Index*, 7 Day LIBID, Retail Price Index* (*lagged a month to give a contemporaneous picture).

Fund performance – total returns (NAV basis)

% 12 month total return to 30 June



Source: CCI A and IPD – Past performance is no guarantee of future returns. NAV basis is after the deduction of all expenses

Latest trends by sector

Components of total return



Source: IPD UK Quarterly Property Index

Office – pick up in rental growth extending further beyond Central London

Retail – flat rental growth returns in Q1 2015 as supermarkets and SC's decline

Industrial – rental growth supporting strong investor interest driven by higher income returns

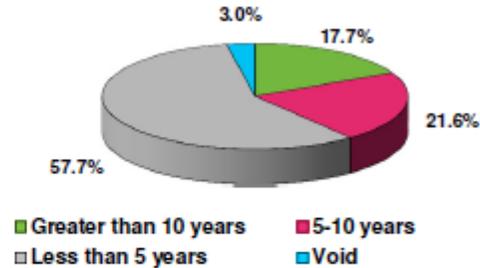
Other – strengthening returns but losing ground to the mainstream sectors

The portfolio (I)

Diversification of rental income* as at 30 June 2015

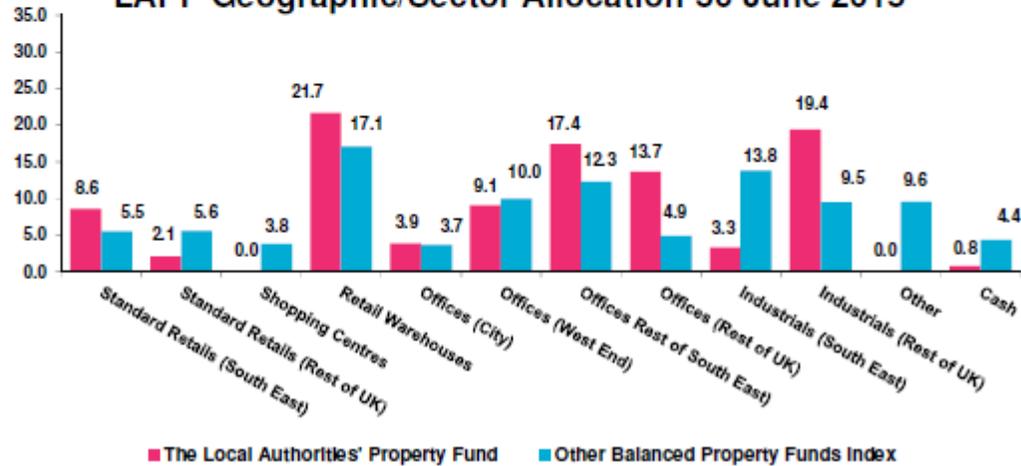


Income expiry profile – 1st break



*Income from direct property holdings

LAPF Geographic/Sector Allocation 30 June 2015



Source: CCLA