



UK REAL ESTATE PROPOSITION UPDATE

Border to Coast

Teesside Pensions Committee 28.06.23

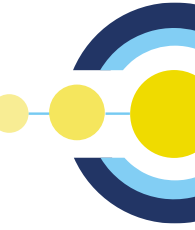
AGENDA

1. Team, vision & journey
2. Recap of propositions
3. Benefits of Pooling
4. UK Real Estate Portfolio
5. Principles and characteristics for new acquisitions



BORDER TO COAST – UK REAL ESTATE PROPOSITION

WHY ARE WE BRINGING THIS TO THE COMMITTEE TODAY?



Today

Introduce the UK Real Estate Propositions.

Outline the benefits of Teesside pooling their UK Direct Real Estate Holdings.

July: Finalise and share the fund prospectus.

Q3 2023

Summer 2023: Request feedback on the prospectus, business and investment case.

Autumn 2023: Present updates to Committee and seek agreement to commence due diligence on assets.

2024 Launch

July 2024: Subscription Period.

September 2024: Fund Launch.

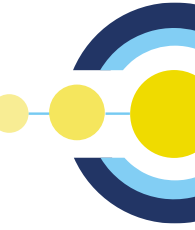
SECTION 1

TEAM, VISION & JOURNEY



TEAM, VISION & JOURNEY

REAL ESTATE TEAM



ALISTAIR SMITH
HEAD OF REAL ESTATE

- Joined 2022
- 36 years industry experience
- Head of Property Investment Management (abrtn), Fund and Asset Manager (Aberdeen Asset Management & SWIP), Director (Premier Property Group)
- Member, and Professional Assessment Panel Chair, of the Royal Institution of Chartered Surveyors (RICS)
- BSc Land Economics, Paisley

Border to Coast Teesside Pensions Committee



NICK MOORE
UK PORTFOLIO MANAGER

- Joined 2023
- 20 years industry experience
- COO (Yoooserv), Head of Real Estate (RO Real Estate), Director (Lloyds), Fund Manager (M&G)
- Member of Royal Institution of Chartered Surveyors (RICS)
- BSc Estate Management, Reading



PAUL CAMPBELL
GLOBAL PORTFOLIO MANAGER

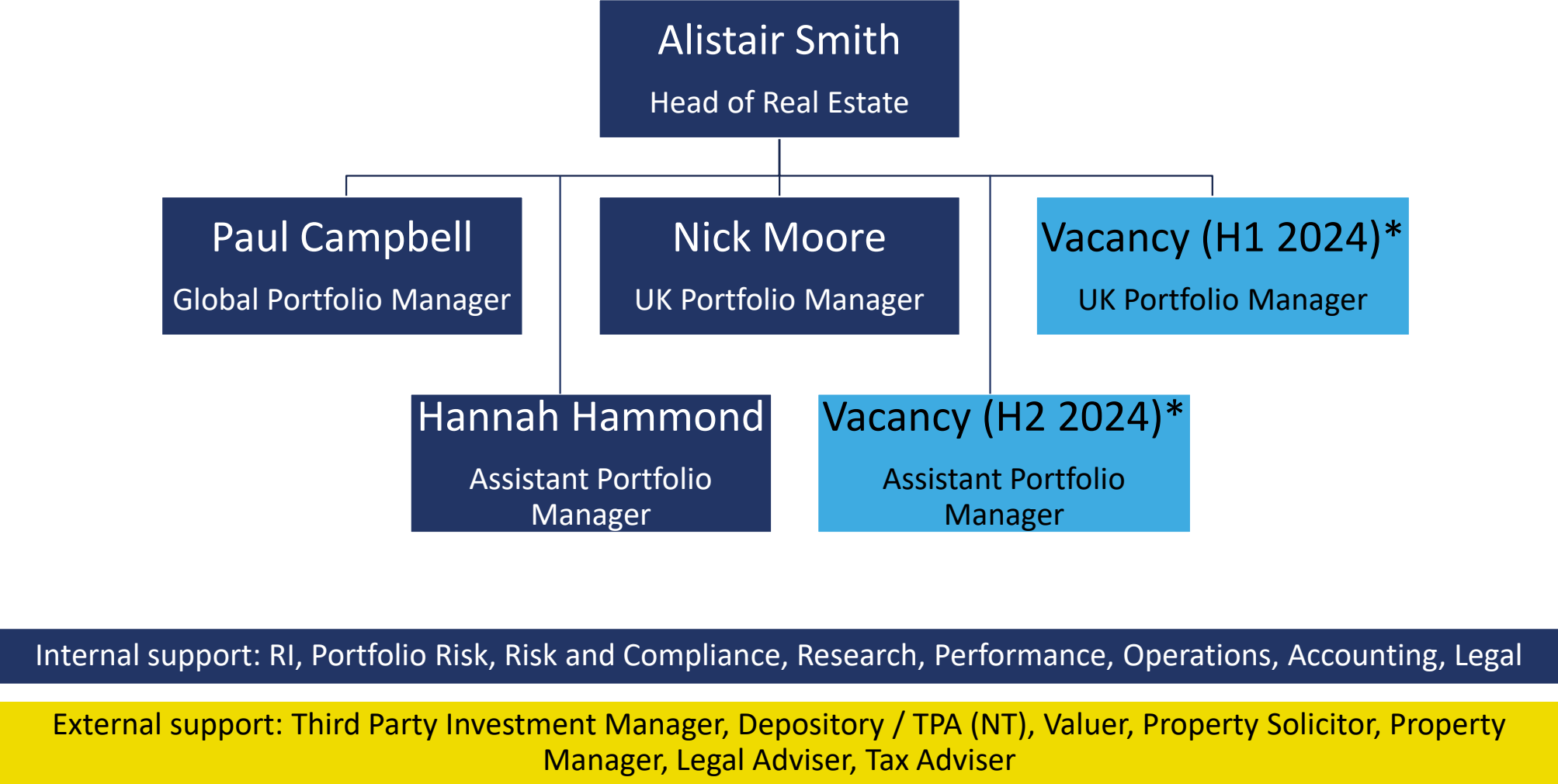
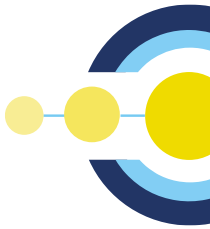
- Joined 2018
- 24 years industry experience
- Head of Investments (Teesside Pension Fund), Fund Manager (Teesside Pension Fund), Trainee Portfolio Manager (Teesside Pension Fund)
- Chartered Management Accountant, IMC Qualified

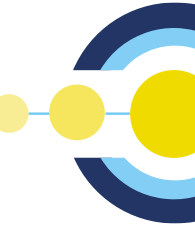


HANNAH HAMMOND
ASSISTANT PORTFOLIO MANAGER

- Joined 2023
- 5 years industry experience
- Investment Appraisal Manager (South Yorkshire Mayoral Combined Authority), Portfolio/Transaction Manager (Homes England, North East, Yorkshire & Humberside)
- BA Hons History, MA Law, PD Banking & Finance

TEAM, VISION & JOURNEY
REAL ESTATE TEAM STRUCTURE

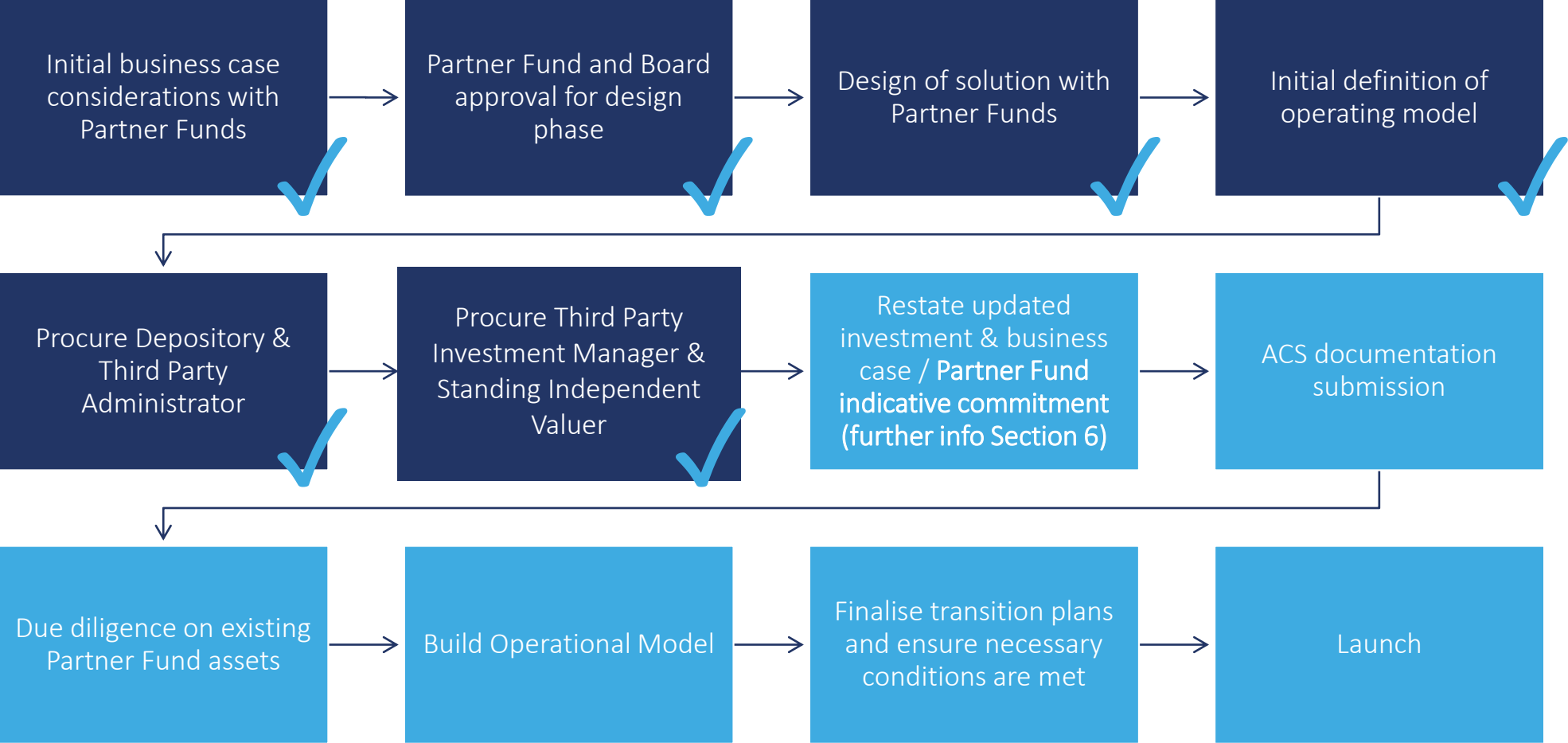
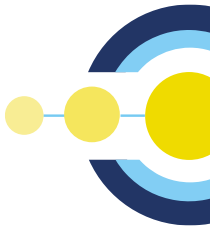




*To assemble, and thereafter develop, a portfolio of high quality UK property that provides durable income and stable returns for our Partner Funds, **managed directly, sustainably and cost effectively.***

TEAM, VISION & JOURNEY

PROGRESS SO FAR



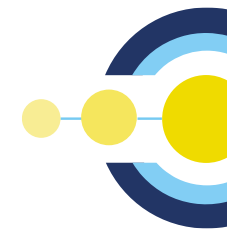
SECTION 2

RECAP OF PROPOSITIONS



RECAP OF PROPOSITIONS

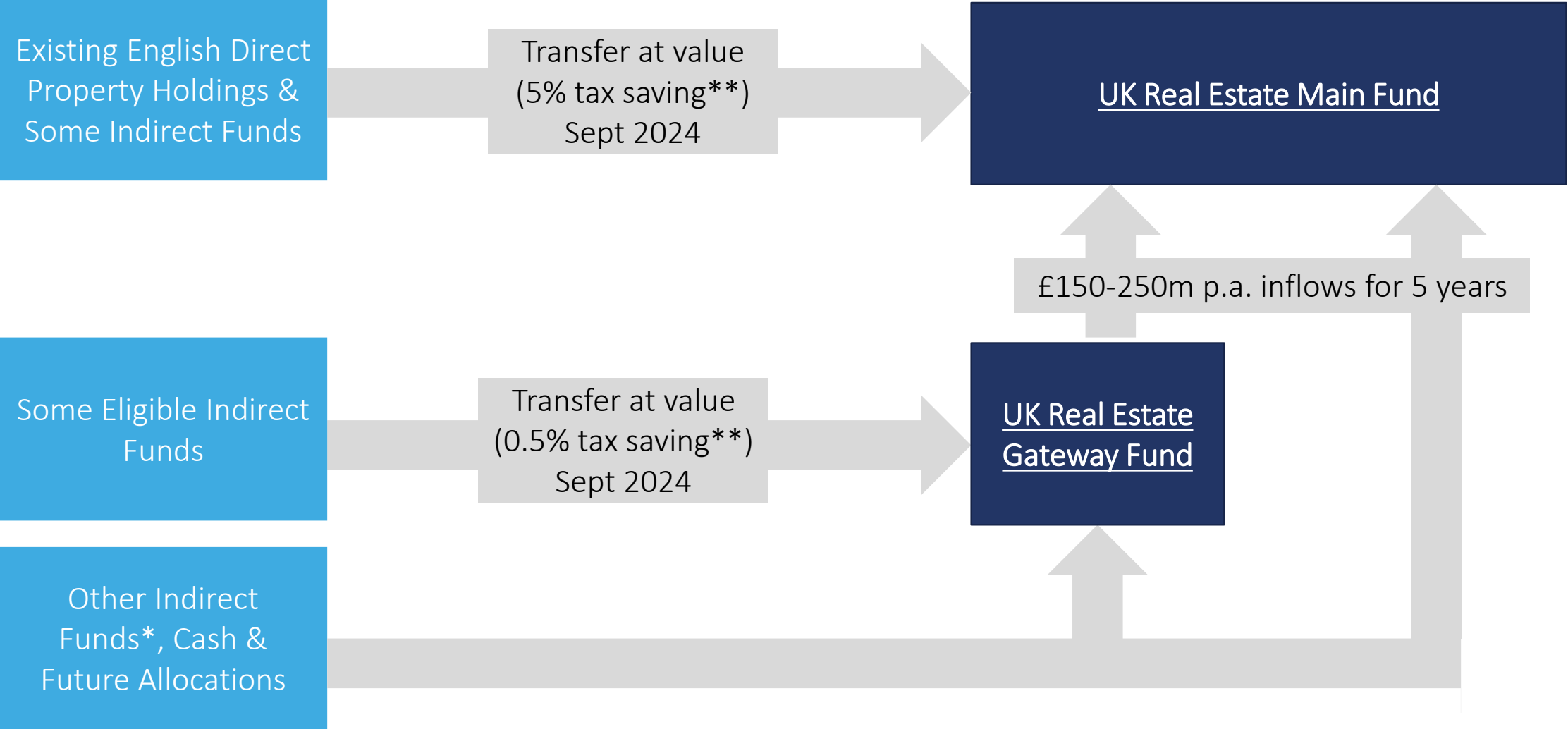
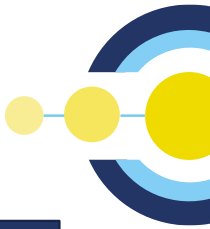
PROPOSITION OVERVIEW



	UK Main Real Estate Fund	UK Gateway Real Estate Fund
Expected holdings	<ul style="list-style-type: none"> • 85% direct UK real estate (incl. joint ventures) • 15% UK real estate funds • Minimal operating cash 	<ul style="list-style-type: none"> • Balanced UK real estate funds • Small allocation to passive REITs/cash
Investment objective	Long term investment in directly held UK real estate	Provide access to broad UK real estate exposure during transition to UK Real Estate Fund
Proposed target return	UK CPI +4% over rolling 10 year period (net of all fees and expenses)	MSCI UK Quarterly Property Index over rolling 3 year period (net of all fees and expenses)
Potential seed assets	Around 100 directly held English jurisdiction properties from 4 investors	Range of UK balanced real estate funds
Target AUM at launch	£1.7bn	£800m
Target AUM in year 5	£2.5bn	£750m

RECAP OF PROPOSITION

INITIAL SEEDING



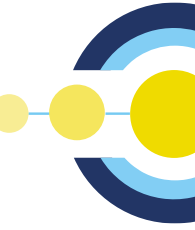
Border to Coast Teesside Pensions Committee. Values to be updated with Partner Funds ahead of business/investment case restatement

*Subject to appropriate Border to Coast asset advisory arrangements similar to stay behind properties

** Estimated tax saving, actual tax saving will be dependent on individual circumstances and fund terms and may be subject to change.

EVOLUTION OF THE PROPOSITIONS

THE CHANGING ROLES OF THE MAIN FUND & GATEWAY FUND – ILLUSTRATIVE



2024 Launch

Direct holdings transfer to Main Fund

Indirect holdings transfer to Gateway Fund

2025 -2026 Stablisation

Liquidated holdings transfer from Gateway Fund to Main Fund.

New Partner Fund money invested in either fund

2027.... Growth

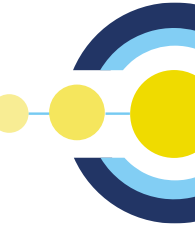
SECTION 3

BENEFITS OF POOLING



BENEFITS OF POOLING

OVERVIEW



OPPORTUNITIES OF SCALE

- Enables access to larger lot sizes and dominant assets, improving the asset quality of combined assets and long-term performance
- Value-for-money, with cost efficiencies from scale
- Direct Border to Coast sourcing of new investment opportunities through our market reach and real estate investment capability



RESOURCE, RESILIENCE & RISK MANAGEMENT

- Depth & breadth of professionally skilled real estate investment team
- Oversight by Real Estate Investment Strategy Committee (“REISC”) and Investment Committee
- Robust market procurement process and ongoing monitoring of external providers

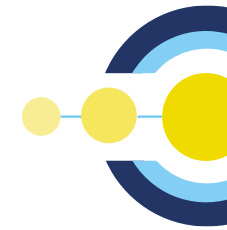


ALIGNMENT OF INTERESTS

- Focussed on long-term, like-minded LGPS investors
- Collaborative long-term investment policy
- Integration of consistent and bespoke RI & ESG policy across the investment process
- Ownership of Border to Coast enables continuity of management approach and service delivery

BENEFITS OF POOLING

REMINDER OF ANTICIPATED RUNNING COSTS



Description	Services	Original Business Case TER At £3bn	Current Estimate TER At launch £1.5bn	Current Estimate TER At Year 10 £3bn
Border to Coast Pooled Co-ACS Funds structure	Full service Third Party Investment Manager, ESG & RI, Property Manager* and Valuation services Border to Coast Oversight and support functions Third-party administration and accounting services	25 to-27.3 bps	21.9 bps	20.2 bps

Full service, management, valuation, support and oversight model

Tender based Business Case update indicates cost reduction upwards of 20% and clear improvement for participating Partner Funds.

Expected position across the launch to Year 10 period indicate that there is no cost driven imperative to insource in this timescale

Individual business cases per Partner Fund will follow once a Partner Fund current data refresh exercise and review is complete over Summer 2023

Costs are a mix of fixed or variable based on ad valorem rate cards and/or commercial arrangements.

Prior analysis of Teesside across 2018 to 2020 indicated that Investment Management and Valuer fees amounted to c.19.5bps on average

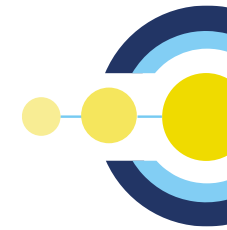
No figure was applied to account for any internal Teesside or peripheral costs of servicing the real estate model

Costs are estimated based on fee proposals from service providers and understanding of Partner Fund holdings as at 31 March 2023. They are not guaranteed and may be subject to change. Assumptions:
TER calculation based on full participation with c.100 properties

* Property Manager costs are based on expected novation of legacy appointments as long-term re-tender of these services will be actioned post-launch

BENEFITS OF POOLING

ANTICIPATED SEEDING AND TRANSITION ASSUMPTIONS



Holdings expected to transition to the UK Main Fund	Holdings expected to transition to the UK Gateway Fund	UK Holdings not expected to transition
<p>Teesside Direct Property Portfolio 25 assets, c. £400m Seeding cash*</p> <p>Note: One Scottish c.£5.5m will not seed due to absence of seeding relief. Option to avail of the stay-behind model with Border to Coast model and service partners.</p>	<p>Threadneedle PUT c. £3.4m</p>	<p>CCLA Local Authorities Property Fund c. £3.9m LGIM Managed Property Fund c. £6.4m Federated Hermes PUT (EUUT) c.£16.6m*</p>

* Prior underweight position now broadly resolved but clarity on any remaining allocation required.

** Where the assumption per the Q3 2021 Business Case presentations was that subject to eligibility checks, Federated Hermes PUT would seed to Gateway. Further enquiries as to eligibility have revealed that the Federated Hermes Property Fund is actually an Exempt Unauthorised Unit Trust (EUUT). Under current tax legislation a EUUT cannot recognize an ACS as an eligible investor therefor this holding can no longer be considered for seeding.

SECTION 4

UK REAL ESTATE PORTFOLIO - TEESSIDE AND MAIN FUND



PORTFOLIO CONSTRUCTION

UK REAL ESTATE FUND: TEESSIDE CURRENT BREAKDOWN

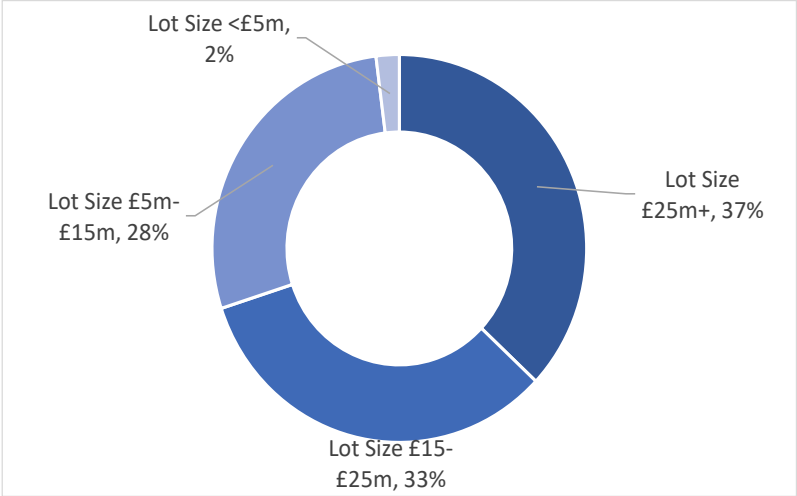
KEY CHARACTERISTICS

(BASED ON Q1 2023 VALUATION DATA)

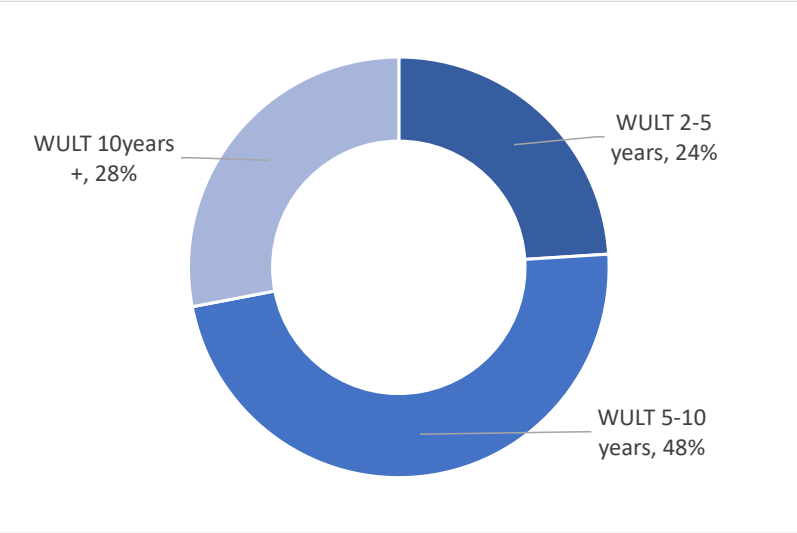
	31st March 2023
Total number of assets*	26
Total asset value*	£404mn
Average asset value	£15.5m
Annual passing rent	£23m
Estimated annual open market rent	£23m
Weighted unexpired lease term (WULT) to break	6.7years

* Includes Scottish (stay-behind) asset / to be managed outside ACS portfolio totalling £5.5m

LOT SIZE

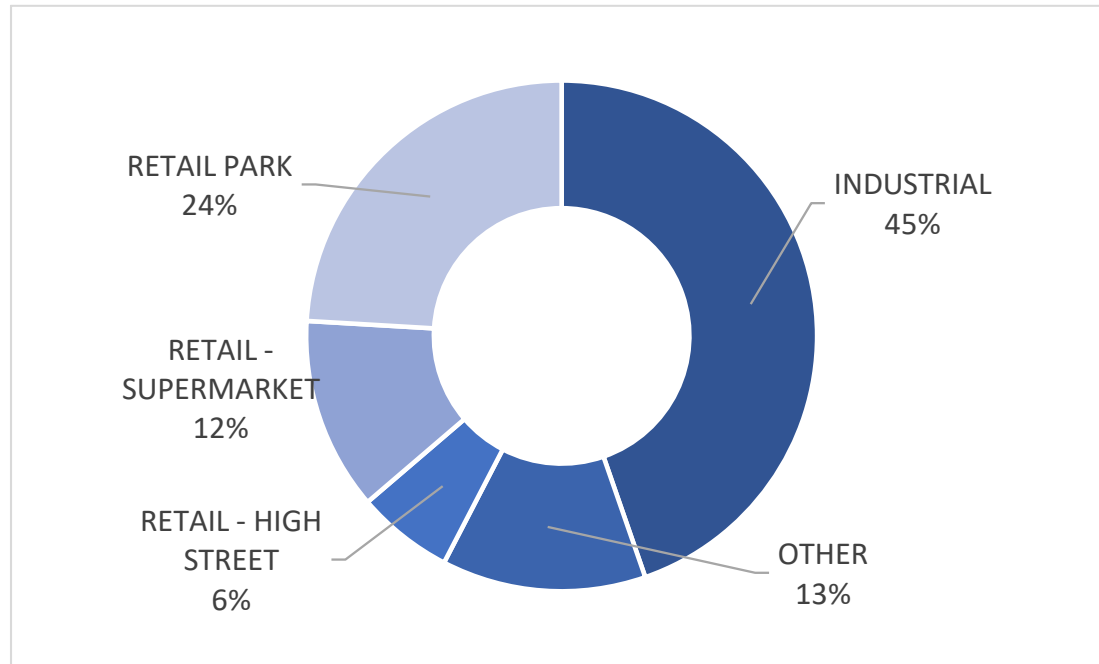
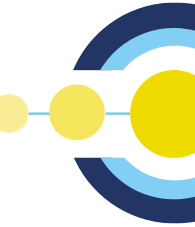


WULT



PORTFOLIO CONSTRUCTION

UK REAL ESTATE FUND: TEESSIDE CURRENT BREAKDOWN



ACCELERATING AND STRENGTHENING POTENTIAL

➤ SIZE OF PORTFOLIO



➤ AVERAGE LOT SIZE



➤ INCOME GROWTH

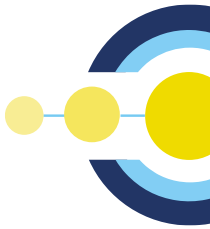


➤ SECTOR EXPOSURE



PORTFOLIO CONSTRUCTION & INVESTMENT PROCESS

UK REAL ESTATE MAIN FUND: STARTING POINT

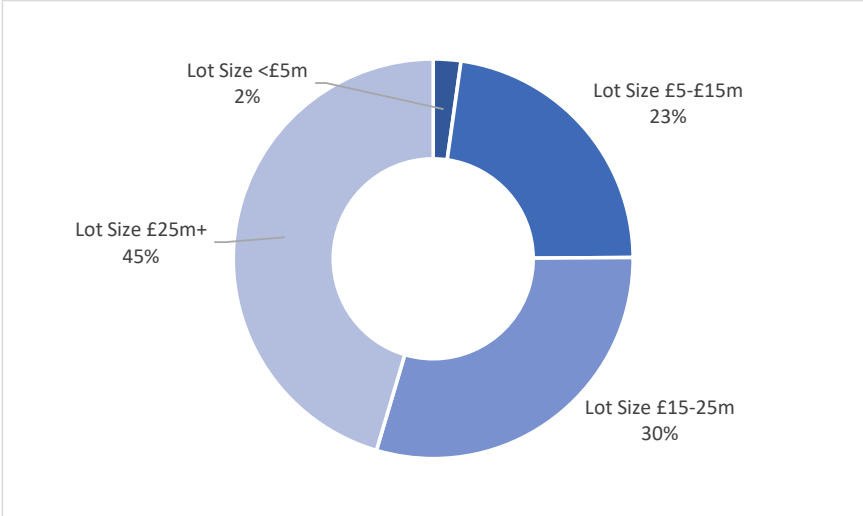


KEY CHARACTERISTICS

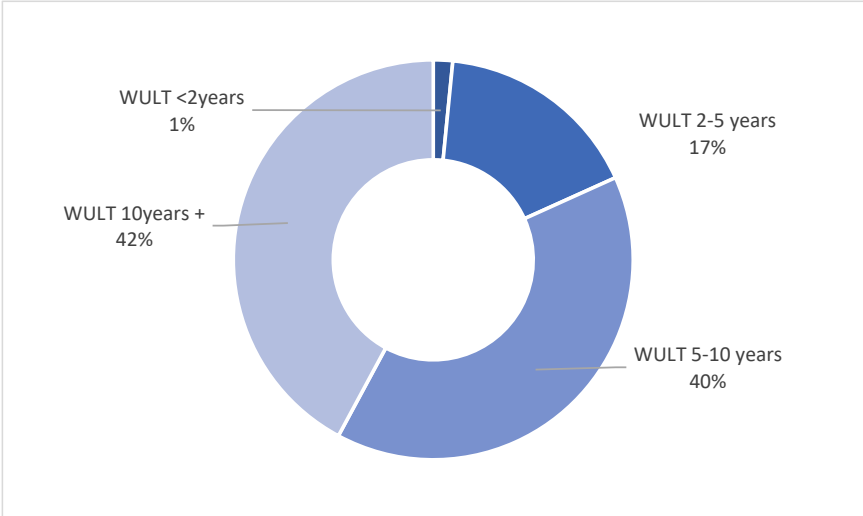
(BASED ON Q1 2023 PARTNER
FUND VALUATION DATA)

	31st March 2023
Total number of assets*	98
Total asset value*	£1.64bn
Average asset value	£16.4m
Annual passing rent	£79.2m
Estimated annual open market rent	£88.2m
Weighted unexpired lease term (WULT) to break	9.11 years

LOT SIZE



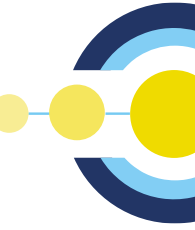
WULT



* Includes Scottish and Welsh (stay-behind) assets / to be managed outside ACS portfolio totalling £127m across 11 assets.

PORTFOLIO CONSTRUCTION & INVESTMENT PROCESS

UK REAL ESTATE FUND: STARTING POINT

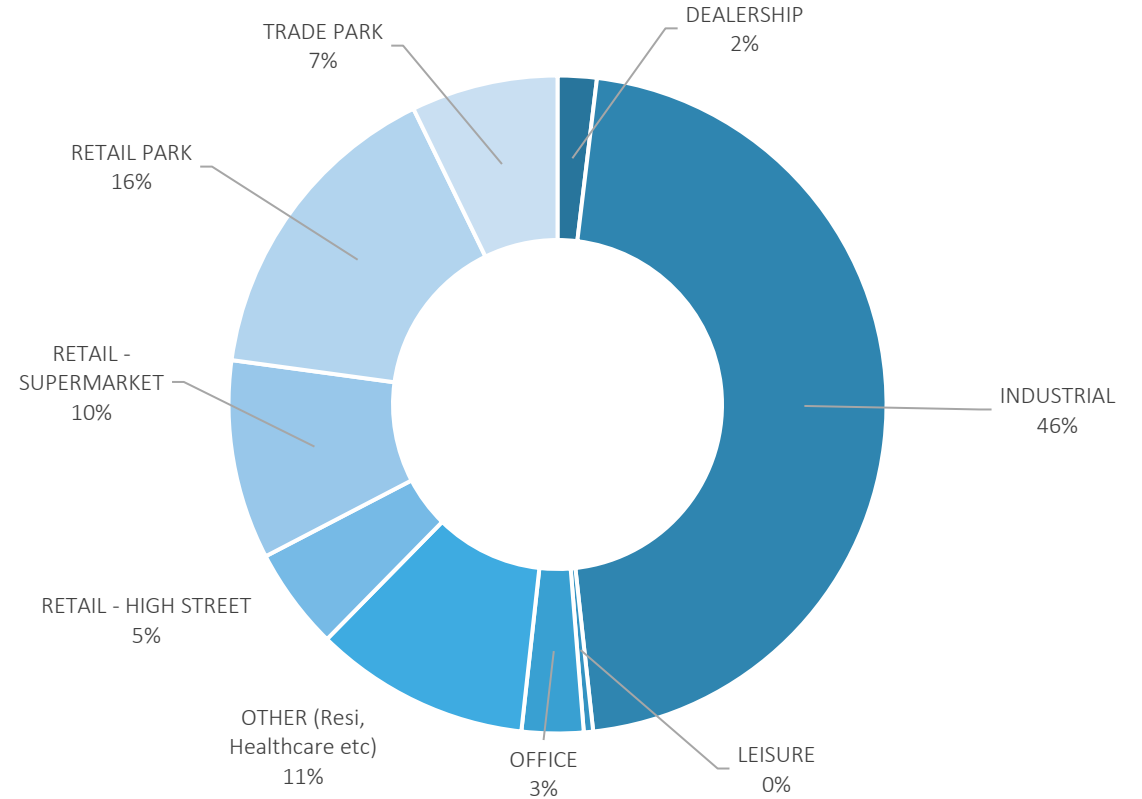


QUALITIES AND FEATURES MAIN FUND

- **SIZE AND SCALE**
- **AVERAGE LOT SIZE**
- **INCOME GROWTH POTENTIAL**
- **LENGTH OF INCOME**
- **STRONG AND DIVERSE SECTOR ALLOCATION**

OPPORTUNITIES FOR MAIN FUND

- **ACCESS TO A LARGE COLLECTIVE INVESTMENT CAPITAL POOL**
- **SUBSTANTIAL PORTFOLIO & ACQUISITION OPPORTUNITIES**
- **INVESTMENT COUNTERPARTY BENEFITS**
- **TARGET GROWTH SECTORS AND/OR LOCATIONS**

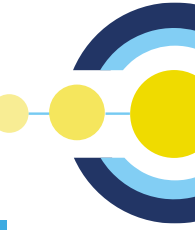


SECTION 5

PRINCIPLES AND CHARACTERISTICS FOR NEW ACQUISITIONS



UK REAL ESTATE FUND: PRINCIPLES AND CHARACTERISTICS FOR NEW ACQUISITIONS



Estimated in flows of £150-250m p.a. in years 1-5 provides opportunity to shape and grow portfolio characteristics

WHAT ASSETS WILL THE FUND
BE LOOKING TO ACQUIRE
POST LAUNCH ?

Large Lot Size

Sectors with Long Term Growth Potential

ESG Classification

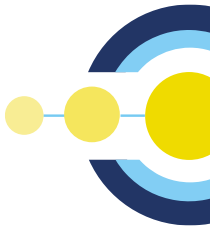
Core Dominant Locations

Highest Building Quality

Income Stability and Quality



EXAMPLES OF POTENTIAL NEW ACQUISITIONS – LIFE SCIENCE



1-3 Hills Road, Cambridge

£60m

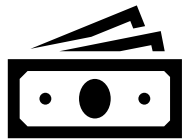
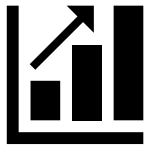
6.4% YoY increase in knowledge intense jobs, over last 6 years.

Net carbon zero scheme

Europe’s largest tech cluster. University ranked 3rd in the world

New build campus in partnership with the University

Forecast 5% YoY growth



EXAMPLES OF POTENTIAL NEW ACQUISITIONS - OFFICES



c.£80m

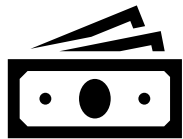
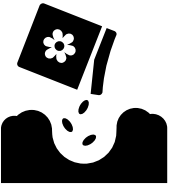
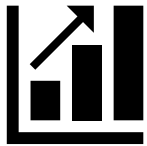
10yr ave rental growth
3%

EPC A

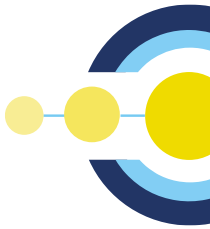
Leeds is UK's 3rd largest
City

BREEAM Excellent

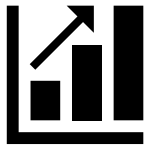
80% let to DLA Piper
for 15 years



EXAMPLES OF POTENTIAL NEW ACQUISITIONS – RETAIL PARKS



c.£80m



61% income RPI linked



ESG initiatives throughout, including solar on roof



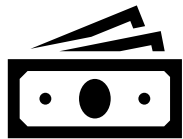
Dominant retailing location in South London

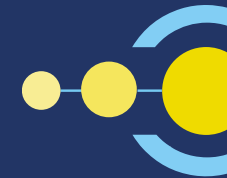


Modern, well sized units, site coverage 34%



WULT of 12.5yrs





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