Annex 5

Local Authorities Property Fund Briefing

General Points to Note

- This would require a change in the current Treasury Management Investment Strategy.
- A number of local authorities have invested treasury monies in property.
- There is an increased exposure to risk, so officers would need to be prepared to report to Members on possible short-term (or even long-term) capital losses.
- If a decision to invest in property funds is taken, this is a different investment opportunity than that under the current capital strategy. This would be a revision to the Treasury Management Strategy for the investment of surplus cash balances, not an investment purely for investment returns. CIPFA's treasury management guidance places security, liquidity and yield in that order as the investment objectives.
- The Treasury Management Strategy would be required to authorise to invest long-term in order to reduce the risk of having to call back a property investment at a time when capital values have reduced. As a comparison, the Surrey Pension Fund is able to invest in property funds without large exposure to risk because it can take a long-term view and has a large, diversified portfolio.
- Timing is everything: timings of initial investment and the withdrawal of investment are essential in order to minimise risk of capital loss. 11
- In an environment of future rising interest rates, timing is even more essential.

Pros and Cons of Property Funds

Pros	Cons
• Higher yield • Diversification	• Increased risk of capital loss • Illiquid investment • Manager fees

Property funds produce two sources of income:

- Rental income (yield)
- Increases (or decreases) in capital value: these are harder to predict and can be volatile. There is a need to be prepared to have to 'sit it out' if the council makes initial capital losses.

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