

AUDIT COMMITTEE
13th OCTOBER 2025

PROPERTY FUNDS

SUMMARY REPORT

Purpose of the Report

1. This report provides Audit Committee with information concerning the Council's property fund investments.

Summary

2. The 2017/18 Treasury Management Strategy approved by Council on the 28th February 2017 included the provision to invest in units in property funds up to £20m per fund with a total maximum of £40m.
3. After due diligence and review Lothbury, CCLA and Hermes were selected and investments of £10m were made in each fund.
4. Following the termination of the Lothbury Property Fund the Council has reinvested the proceeds to date into another property fund, UBS Triton Property Fund.
5. In addition to greater revenue returns there is potential for capital gains (increases in the fund price) but as capital prices fluctuate with wider economic activity, investments of this nature need to be a long term commitment usually 10-25 years.
6. To date the property funds have provided over £8m in income (dividends), providing the Council with additional resources to invest in services through the Medium Term Financial Plan (MTFP).

Recommendations

7. It is recommended that:
 - (a) The information concerning property funds in this report be noted.

Reasons

8. The recommendations are supported to keep the Audit Committee informed of investments in property funds.

Brett Nielsen
Assistant Director Resources

Background Papers

Brett Nielsen: Extension 5403

Council Plan	The Council's investments provide income to contribute towards all the priorities outlined with the Council Plan.
Addressing inequalities	There is no impact as a result of this report.
Tackling Climate Change	There is no impact as a result of this report.
Efficient and effective use of resources	The recommendation supports the effective and efficient use of resources.
Health and Well Being	This report has no implications for the Council's Health and Well Being agenda.
S17 Crime and Disorder	This report has no implications for S 17 Crime and Disorder.
Wards Affected	All Wards.
Groups Affected	All Groups.
Budget and Policy Framework	This report does not recommend a change to the Council's budget or policy framework.
Key Decision	This is not an executive decision.
Urgent Decision	For the purposes of call in this report is not an urgent decision.
Impact on Looked After Children and Care Leavers	This report does not impact on Looked After Children or Care Leavers.

MAIN REPORT

Background

9. The 2017/18 Treasury Management Strategy approved by Council on the 28th February 2017 included the provision to invest in units in property funds up to £20m per fund with a total maximum of £40m.
10. Over the previous ten years the Council had maintained an under borrowed position i.e. the amount of the gross external borrowing was less than the balance sheet Capital Financing Requirement (CFR). This strategy had served the Council well in a period where returns on investment had been low and borrowing costs had been relatively high. This has also meant that there was less in the form of investments which reduced counterparty risk.
11. At the time interest rates (The Bank of England base rate was 0.25%) and borrowing costs (5 year borrowing rate was 1.6%) were low and expected to remain low over the medium term, so the possibility of investing in longer term investments that would give a greater return to the MTFP than the usual investment types was explored, with property funds identified as the most appropriate.

12. In addition to greater revenue returns there would also be potential for capital gains (increases in the fund price), but because capital prices fluctuate investments of this nature would need to be a long term commitment usually 10-25 years.
13. Due to the longer term nature of property funds this type of investment cannot be liquidated quickly. Each fund will have a redemption process (i.e. how and when you can take your money out of the investment) which will be over a period of time, typically of 6 months or more.
14. Capital Asset Services were commissioned to provide advice and support with regard to which property funds to invest in. Following a review of appropriate fund managers, they provided a fund selection analysis (qualitative), a statistical analysis (quantitative) and a review note on four property funds being.
 - (a) Lothbury Investment Management Limited (Lothbury)
 - (b) CCLA Investments Management Limited (CCLA)
 - (c) Hermes Real Estate, (later Federated Hermes) (Hermes)
 - (d) Rockspring Property Investment
15. After due diligence and review Lothbury, CCLA and Hermes were selected and investments of £10m were made in each fund.
16. The investments were classed as Treasury Management investments and as such were given Council approval for the overall sum to be delegated to the Director of Neighbourhood Services and Resources, the council's section 151 officer at the time.
17. It was anticipated returns would be in the region of 2.5% – 3.5% and after fees returning between £0.479m – £0.761m per annum.
18. Property fund prices are impacted by the wider economy and can increase or decrease dependent on economic factors at that time. Following the major economic impacts in late 2022 all property funds which the Council had invested in, lost significant value.
19. Following the termination of the Lothbury Property Fund the Council has reinvested the proceeds to date into another property fund, UBS Triton Property Fund.

Returns to Date

20. Each property fund provides an income (dividend) to the unit holders from the rents they receive from the properties in the portfolio. The table below shows the dividend return received to date on each fund and therefore the income that has assisted in the MTFP. As can be seen overall the returns to date have outperformed original expectations providing over £8m of income to the MTFP, to be used against service provision.

Period	CCLA	Lothbury	Hermes	UBS Triton	Total
2017/18*	290,842	233,212	85,654	n/a	609,708
2018/19	420,699	310,791	322,827	n/a	1,054,317
2019/20	420,034	310,355	311,082	n/a	1,041,471
2020/21	406,080	263,984	375,192	n/a	1,045,256
2021/22	360,952	268,385	355,069	n/a	984,406
2022/23	395,239	286,780	334,104	n/a	1,016,123
2023/24	460,157	290,088	335,679	n/a	1,085,924
2024/25	447,197	104,481**	365,260	72,723***	989,661
2025/26 to end 1st Qtr	101,419	9,062	56,539	40,702	207,722
Total to Date	3,302,619	2,077,138	2,541,406	113,425	8,034,588

*CCLA & Lothbury from Q2. Hermes from Q4

** Lothbury dividends reduced from Q1 24/25 as properties were sold from the fund (Fund terminated May 24).

***Triton dividends received from Q2 24/25 (joined the fund June 24).

Current Property Funds

21. The Council has two live property Funds CCLA and UBS Triton, background information is provided in the following paragraphs,

CCLA

22. CCLA is short for Churches, Charities and Local Authorities and provides investment opportunities for those three client groups. The fund is “designed to achieve long term capital growth and raise income from investments in the UK commercial property sector”.
23. The fund is “actively managed with a focus on asset selection. The intention is to boost returns by lease and tenant management and property improvement. The fund has a broad sector spread, with prudent diversification to keep risks under control”.
24. The Local Authority Property Fund has assets in the following, all in the UK.
- (a) Industrial, 43.91% of the fund value
 - (b) Office, 18.26 %
 - (c) Retail warehouse, 16.68%
 - (d) Shops/shopping centre 2.01%
 - (e) Other including cash balances 19.14%
25. At the end of the first quarter 2025 the fund provided a gross dividend yield of 3.59% (based upon the net asset value and historic gross annual dividend).
26. Information concerning CCLA’s Environmental, Social and Governance (ESG) values can be accessed on the following link [download](#)

27. Comparator data is provided by CCLA against the MSCI/AREF (Association of Real Estate Funds) UK Other Balanced Open – Ended Quarterly Property Fund Index, which shows the fund above the comparator benchmark this year at +7.59% against +6.77%.

UBS Triton

28. Following the notification of the winding up on the Lothbury Fund the Council made the decision to invest in the UBS Triton Fund, with effect from June 2024.
29. To date the Council has transferred £6.781m of funds received from the sale of Lothbury assets into this fund.
30. UBS is a multinational investment bank and financial services company with a major presence in the UK. The Triton Property Fund is a “actively managed balanced UK fund focusing on strategic assets in growth locations and sustainable income streams”.
31. The Property Fund has property assets in the following, all in the UK.
- (a) Industrial/logistics 33.3% of the fund value
 - (b) Retail warehouse 20.0%
 - (c) Student Accommodation 22.1%
 - (d) Distribution Warehouse 10.8%
 - (e) Office 6.9%
 - (f) Retail 2.1%
 - (g) Other including cash 4.8%
32. In terms of sustainability Triton was ranked 2nd of 99 in its peer group UK non listed diversified core peer group for the 2024 GRESB (an industry led organisation that empowers the financial industry to advance environmental operational and financial sustainability across real assets in climate critical industries) Real Estate Assessment, achieving a four star rating. The fund provides sustainability reports to unit holders providing insight into its activities, including alignment with SDFR Article 8 and promotion of two environmental characteristic, carbon footprint and emissions data sets, net zero energy audit assessments and EPC rating in the portfolio.
33. Comparator data is provided by Triton against the MSCI/AREF (Association of Real Estate Funds) UK Other Balanced Open – Ended Quarterly Property Fund Index, which shows the fund below the comparator benchmark this year at +5.7% against +6.77%. Addressing portfolio voids will support income growth as capital projects (refurbishments etc.) reach conclusion, improving the benchmark, however over the longer term (over 5 years) Triton has outperformed the industry benchmark.

Previous Property Fund Investments

Lothbury

34. In June 2023 we were contacted by our Treasury Management advisors to inform that Lothbury had received a large number of redemption requests from investors in the fund, approximately three quarters of the fund valuation. At that stage the Council also put in a redemption request to secure our position in the return of funds.
35. Following consideration of a number of options, all of which did not progress and a number of Extraordinary General Meetings (EGM) investors agreed to terminate the Lothbury fund, which was confirmed as terminating on the 30th May 2024. This meant that all the assets would be sold with the sale proceeds returned to the investors as sales were made.
36. Since the fund was terminated the fund managers have actively been marketing and disposing of the assets of the fund, to date Darlington has received seven distributions of funds totaling £6.781m, which represents 92.2% of the original fund value.
37. The remains of the fund are in the process of being disposed, with offers received on the remaining properties. We expect to receive a further payment in September/October and then the fund will be finally wound up with any residual funds distributed amongst the investors.

Federated Hermes

38. In summer of 2024, we received notification from Hermes that a large number of redemption requests (22% of the fund value) had been received by the end of the second quarter of 2024. As a result the management of the trust had notified that the trust was no longer viable in a reduced form and therefore would look into options for the future, including a merger or wind up of the trust. The redemptions received was mainly from one investor and was not expected, the fund had been operating successfully to that point.
39. All investors were kept updated with progress and a number of investor meetings and EGM's were held for members to vote on options put forward.
40. Following reviewing options, a favoured merger partner was selected, however this merged fund was only open to pension funds and hence Darlington Council would not be able to take part in the merged fund. It was proposed that if the merged fund was agreed and met investor thresholds that any non qualifying current members would be paid their share of the fund (at the value on the merger date) on the merger date and any investor that did not want to join the merged fund would also receive a payment.
41. A final resolution was put forward for the merger to proceed or the fund would be wound up with assets sold on the market. This second option would mean all investors would receive back their share of the fund over a period up to three years.

42. Following an EGM investors agreed to merge subject to certain conditions been met, these conditions were met and the merger completed on the 15th August. As Darlington were not able to qualify for the merged fund, we received payment of £8.896m on 20th August.
43. In the short term the funding received has been used to repay loans that were maturing, whilst options are considered for future longer term investments. It is intended that these loans will be refinanced in the future at lower interest rates than currently available and hence save on interest charges to the general fund.

Conclusion

44. The property funds have provided returns from dividends over the level originally estimated, which have been used to support services through the MTFP.
45. Although two of the property funds have terminated with a capital value below the original investment the total dividends received has offset those decreases in value and still provided income to the MTFP.
46. The nature of the property funds is that they are a long term investment for capital growth, and they continue to provide much needed income into the MTFP.