



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Richard McIndoe, Director of Strathclyde Pension Fund

**Item 4(b)**

10th September 2025

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**Direct Impact Portfolio (DIP)**  
**Investment Proposal – Man Responsible Investment Community Housing Fund 3**

**Purpose of Report:**

To set out a proposal for an investment of £50m within DIP.

**Recommendations:**

The Committee is asked to **APPROVE** an investment of £50m in Man Responsible Investment Community Housing Fund 3 by DIP.

Ward No(s):

Citywide: ✓

Local member(s) advised: Yes ☐ No ☐ consulted: Yes ☐ No ☐

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# 1 Background

## 1.1 Portfolio Establishment

In December 2009, the Strathclyde Pension Fund Committee agreed to establish a New Opportunities Portfolio (NOP) with a broad remit to invest in assets for which there was an attractive investment case but to which the then current structure did not provide access.

## 1.2 Reviews

The NOP strategy has been subject to 3-yearly reviews with the name changing to the Direct Investment Portfolio in 2015 and again in 2021 to the Direct Impact Portfolio. The most recent review was concluded in November 2024. This made no change to the objectives, structure, risk parameters or governance structure, but did result in increases to the DIP's overall allocation and minimum required investment return and a minor amendment to the definition of the maximum investment size. The Co-Investment Programme was also extended, in conjunction with an increase in the maximum co-investment size.

## 1.3 Implementation Framework

DIP investment proposals are assessed on their own merits within an agreed implementation framework based on SPF's overall risk-return objectives and specific DIP parameters.

The framework agreed at the 2024 review is summarised below.

Direct Impact Portfolio	
<b>Objectives</b>	Primary objective identical to overall SPF investment objective. Secondary objective of adding value through investments with a positive local, economic or ESG (environmental, social, governance) impact.
<b>Strategy &amp; Structure</b>	In line with SPF risk-return framework but focused on the UK and the Equity, Long Term Enhanced Yield and Short-Term Enhanced Yield asset categories.
<b>Risk and Return</b>	Portfolio benchmark return of <b>CPI +3% p.a.</b> Individual risk and return objectives for each investment. Minimum Investment Return (Net IRR) of <b>6.5%</b> .
<b>Capacity</b>	Target allocation of <b>7.5%</b> of total Fund (based on Net Asset Values). Range of <b>5%</b> to <b>10%</b> of total Fund.
<b>Investment Size</b>	Target: <b>£30m to £100m</b> Minimum: <b>£20m</b> Maximum: <b>£250m</b>
<b>Decision Making</b>	3 stage process with review and satisfactory due diligence by officers, followed by a presentation to the Sounding Board before a proposal is taken to Committee for approval subject to completion of legal documentation.
<b>Monitoring</b>	Includes individual investment reports, participation in advisory boards and a quarterly DIP monitoring report which is reviewed by the Fund's Investment Advisory Panel.
<b>Co-Investment Programme</b>	Co-Investment Programme (CIP) of £300m with maximum investment per asset of £25m, subject to the agreed CIP investment parameters.

The following proposal has been assessed using this framework and has been reviewed by the SPF Committee Sounding Board.

## **2 New Investment Proposal**

### **2.1 Key Terms**

<b>Name</b>	<b>Man RI Community Housing Fund 3</b>
<b>Investment vehicle</b>	English Limited Partnership
<b>Manager</b>	Man GPM (UK) Limited
<b>Sector</b>	Affordable Housing
<b>Investment objective</b>	To build or acquire a portfolio of mixed tenure affordable homes in the UK, predominantly leased to councils and housing associations
<b>Term</b>	Open-ended (fund units may be redeemed after year 3)
<b>Target size</b>	Initially £300m
<b>Proposed DIP investment</b>	£50m
<b>Target return</b>	Internal Rate of Return (IRR) of 7-8% (Net)

### **2.2 Investment Summary**

The Man RI (Responsible Investment) Community Housing Fund 3 (CoHo 3 or the fund) seeks to generate attractive long-term, risk-adjusted investment returns, by developing a portfolio of mixed tenure, low energy, predominantly Affordable Homes in the UK housing sector and leasing them to UK Housing Partners such as housing associations (HAs).

In 2021 DIP committed £30m to Man Group's co-mingled (i.e. multi-investor) predecessor fund (CoHo 1) which has performed well to date.

A commitment by DIP of £50m to CoHo 3 is now proposed.

More information on the investment manager is included in **Schedule 1**.

### **2.3 Investment Rationale**

The UK has experienced a significant, long-term structural undersupply of housing across all tenures. Research by the National Housing Federation concluded that there is a need for 300,000 new homes to be constructed each year, of which 150,000 should be designated for Affordable Housing.

With the average supply of Affordable Houses over the past 15 years being 53,000 p.a. this has resulted in an annual shortfall of almost 100,000 units.

The persistent undersupply of new housing stock in general over this period has contributed to house price appreciation, lower relative levels of owner-occupation and a commensurate growth in rental demand. Allied to a reduction in rental supply, these factors have led to a decline in the affordability of both house purchases and rentals.

A key lever in addressing the decline in rental affordability is an increase in the supply of new, high-quality, Affordable Housing, while enhanced energy efficiency measures also contribute to the affordability of those homes.

All homes acquired or developed by the fund will have a minimum EPC rating of B, although the Manager is targeting A ratings for Single Family Homes (i.e. detached or semi-detached homes) which will form the vast majority of the fund's housing stock. Low level, flatted developments (comprising a minority of the fund's units) however are unlikely to exceed B ratings.

All private residential rental properties require to have an EPC rating of C or better by 2030, which is expected to lead to a further reduction in the size of the rental housing market. The manager anticipates comfortably exceeding this target rating.

## **2.4 Investment Management**

CoHo 3's strategy seeks to contribute towards addressing the supply shortfall by developing (or acquiring) and then leasing Affordable Housing units to high quality Housing Partners under long-term, full-repairing and insurance (FRI) index-linked leases. The Housing Partners will, in turn, sub-let the properties to qualifying tenants.

The Manager's investment team will use their experience and networks, in conjunction with a data-driven origination and selection approach to assess the economic and social viability of housing development opportunities in towns/regions where housing affordability is most acute. They will also take into account the specific housing requirements of local HAs in those areas.

CoHo 3 will own the Affordable Homes through its subsidiary, Habitare Homes 2 Ltd, a Registered Provider (RP) of social housing, which is regulated by the Regulator of Social Housing (RSH).

This has several benefits, including ensuring that the fund's housing activities are subject to full, independent regulatory oversight, while also enabling the fund to acquire newly constructed housing under Section 106 provisions (S106). This is the obligation on housebuilders to construct a specified number of Affordable Homes as part of the relevant planning consent for a given site, which they are then required to sell to an RP. It also allows the fund to obtain housing grants from housing bodies such as Homes England, with the day-to-day management of the properties being undertaken by approved HA partners under long-term management agreements or leases.

## **2.5 Investments**

The fund will predominantly invest in new-build Single Family Homes in a multi-tenure approach, in order to create a balanced portfolio of more robust and integrated communities and thereby reducing the impact of any single housing tenure.

Housing stock will be acquired either through direct development, or alternatively via the bulk purchase of homes from housing developers at appropriate discounts, as follows:-

**Direct Development** – the fund will acquire land from either the public or private sector, either with planning permission or on a subject to planning basis. Construction contracts will be on a fixed price, design and build basis which substantially passes much of the construction risk to the contractor. The Manager may directly manage the construction process, or it may finance the construction by the developer via a forward funding process.

**Bulk Purchase** – the fund will enter into forward purchase contracts with private developers of larger housing projects, to acquire sections of newly built housing units on a turnkey/fully completed basis, where material discounts make this option attractive.

The fund's current pipeline is mainly comprised of bulk purchase housing stock opportunities, which are attractive to housebuilders due to the liquidity it provides them. Such purchases may also include a limited element of S106 acquisitions, although this isn't expected to be a main element of the strategy.

Under any of these scenarios, however, the fund will not assume planning risk.

CoHo 3's multi-tenure investment strategy is designed to create robust communities with the tenure mix of individual sites being tailored in consultation with its Housing Partners. The latter will sublease the individual units to qualifying tenants on a mixed blend of tenures to ensure the most appropriate solution for their local housing needs.

The fund will comprise a blend of the following housing tenures:-

- **Social Rent** – rents typically at <60% of the local market rates;
- **Affordable Rent** - rents at 70-80% of the local market rates;
- **Intermediate/Key Worker Rent** - rents at c.85-90% of local market rates (for public sector employees providing vital frontline services);
- **Shared Ownership** - occupants buy a share of a house, pay rent on the rest with the option of increasing their stake over time (staircasing);
- **Private Sales/Rent** – the fund may also allocate a limited number of units (maximum 10% of the fund) for market rent and/or sales, as part of the balanced communities strategy.

## 2.6 Other Investors

CoHo 3 has secured commitments of £107m to date, mainly from a large (£100m) commitment by the London CIV LGPS Pool. A number of other UK LGPS funds are in advanced due diligence in respect of an additional £165m (excluding SPF's proposed commitment).

## 2.7 Risks

The main risks of the proposed investment in CoHo 3 are considered to be:

- Development / Construction Risk
- Site Origination Risk

- Tenant / Management Risk

A summary of risks and key mitigants is included in **Schedule 2**.

## 2.8 Projected Return

CoHo 3 is targeting a net unlevered IRR of 7-8% resulting from both rental income and the capital gain from the development of the properties, in addition to an Income Yield of 4%+ commencing when the property portfolio becomes stabilised (i.e. completed and fully let).

The target net return for CoHo 3 is lower than that of CoHo 1 (Target Net IRR 8%-9%). Unlike the current fund however, CoHo 1 is a levered fund which was deployed during a period of historically low interest rates which assisted returns.

CoHo 1 is currently reporting a forecast Net IRR for the full term of the fund (to April 2031) within its target range, which is considered satisfactory given the pandemic, the period of severe building cost inflation and labour shortages, and interest rate increases during the fund's deployment period.

The targeted net return and income yield are considered satisfactory given the perceived risk of CoHo 3's Affordable Housing strategy.

## 2.9 Exit

The fund is structured as an open-ended investment vehicle which means that it has no fixed maturity date. The intention is that additional commitments will be raised and deployed on an ongoing basis as existing capital is deployed and new opportunities arise. A limited partner's investment may, however, be redeemed following the third anniversary of the investor's commitment, subject to market conditions at the time.

Hymans Robertson (HR) were requested to consider the suitability of open-ended (against close-ended) investment vehicles, as DIP is becoming aware of a general trend in the market towards the former.

On balance, HR were generally supportive of open-ended structures providing the options for liquidity for a given fund were considered satisfactory. It was also considered that the impact of investing in the development of new housing stock was greater than simply being long term owners, and indeed additionality is an important consideration for DIP when appraising opportunities.

It is therefore the intention for DIP to consider the redemption options of open-ended funds (such as CoHo 3) a suitable period of time after the fund's housing portfolio has been fully developed and occupied, with a view to DIP seeking other opportunities with attractive additionality.

## 2.10 Fees

The **Management Fee** for CoHo 3 will be calculated on a different structure to that of CoHo 1, primarily because of the former's open-ended structure. It will be calculated based on the fund's Net Asset Value and is in addition to a one-off Origination Fee based on the cost of each project (when the fund's own

costs are greatest) and this allows for a lower ongoing fee to apply. The fee incorporates a negotiated discount based on the quantum of DIP's proposed commitment and for investing at 2<sup>nd</sup> close. This fee structure is relatively typical for the Affordable Housing sector in DIP's experience.

A **Carried Interest** (or performance related) fee *will not* apply to the fund. This is increasingly common for open-ended funds and also for funds in the Affordable Housing sector.

CoHo 3's fee structure is quite different from that of the predecessor fund, therefore making a direct comparison challenging. The overall effect of the fee structure however, is lower than is typical for the Affordable Housing sector in DIP's experience. The fee structure is therefore considered satisfactory.

## 2.11 ESG and Impact

Given the significant and chronic undersupply of UK housing, the fund is addressing an established societal need.

Prior to making an investment, a project will be assessed against a set of environmental and social criteria and the fund's Impact Framework, which includes a set of ESG and impact targets. A summary of this assessment will be shared with limited partners. Additionally, an annual impact audit of the fund's performance will be undertaken by an independent third party.

A summary of the fund's ESG and Impact factors is contained in **Schedule 3**.

## 2.12 Investment Size and Cash Requirements

SPF Fund value at 30 <sup>th</sup> June 2025	£32,050m
DIP allocation (target 7.5% of main fund) NAV	£ 2,404m
Current DIP NAV	£ 1,598m
<b>NAV Range (Lower) 5%</b>	£ 1,603m
<b>NAV Range (Upper) 10%</b>	£ 3,205m
<b>Headroom v NAV</b>	£ 806m

## 2.13 Investment Strategy

The proposed investment falls within the Real Estate (RE) sector and therefore the Fund's Long Term Enhanced Yield allocation. Affordable Housing is a key area of investment focus for DIP.

Allocations following this investment based on SPF values at 30<sup>th</sup> June 2025 and total DIP commitments to RE would be as follows: -

LTEY, £ in DIP	£1,764m
LTEY, % in DIP	75%
LTEY (DIP), % of Total Fund	5.5%
LTEY, % Total Fund (target 21.0%)	29.4%

### 3 Policy and Resource Implications

#### Resource Implications:

*Financial:* Investment of £50m to be drawn as required. Fee structure is considered to be in line with the market.

*Legal:* The investment will be subject to satisfactory completion of due diligence, including review and execution of appropriate legal documentation.

*Personnel:* None

*Procurement:* None

**Council Strategic Plan:** SPF supports the mission: ***to enable staff to deliver essential services in a sustainable, innovative and efficient way for our communities***. The LGPS is one of the key benefits which enables the Council to recruit and retain staff.

#### Equality and Socio-Economic Impacts:

*Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.* Equalities issues are addressed in the fund's responsible investment policy.

*What are the potential equality impacts as a result of this report?* None

*Please highlight if the policy/proposal will help address socio-economic disadvantage.* The fund will assist in addressing the UK's ongoing shortfall of lower cost, more energy efficient, Affordable Housing.

#### Climate Impacts:

*Does the proposal support any Climate Plan actions? Please specify:* The Man Group have been a signatory to the PRI (UN-supported Principles for Responsible Investment) since 2017. This is consistent with Strathclyde Pension Fund's Climate Change



strategy, which is being developed in line with Item 34 of the Council's Climate Action Plan.

*What are the potential climate impacts as a result of this proposal?* The creation of more energy efficient Affordable Housing is a positive impact of the proposal.

*Will the proposal contribute to Glasgow's net zero carbon target?* As above.

**Privacy and Data Protection Impacts:** To be fully provided for in the legal documentation for the proposed investment.

Are there any potential data protection impacts as a result of this report  
Y/N

If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out

n/a

#### **4 Recommendations**

The Committee is asked to **APPROVE** an investment of £50m in Man RI Community Housing Fund 3 by DIP.

<b>Schedule 1</b>	<b>Investment Manager: Man GPM (UK) Limited</b>
<b>Schedule 2</b>	<b>Investment Specific Risks</b>
<b>Schedule 3</b>	<b>Impact and ESG</b>

### **Investment Manager: Man GPM (UK) Limited**

Man Group is a global investment management firm headquartered in London with 16 offices internationally and \$175bn of funds under management for a global client base. Man GPM is Man Group's global private markets investment manager, which focuses on real and corporate assets across the capital structure and a range of differentiated strategies including residential property, equity and debt, commercial property and corporate debt in the UK, Europe and US.

Man GPM's UK Affordable Housing platform is led by Shamez Alibhai, who is supported by a dedicated team of 9 investment and asset management professionals. The senior members have 70+ years' combined experience in the provision of quality social and affordable housing in the UK. The wider team combines multiple specialisms and complementary backgrounds, encompassing senior roles in institutional real estate investment, housing development and asset management at HAs as well as having debt structuring, technical investment and financial modelling expertise.

**Shamez Alibhai** (Managing Director and Head of Community Housing) leads the team and managed CoHo Fund 1 (as well as CoHo 2, a modest sized joint venture with a single investor). Prior to this he managed the UK's first institutional affordable housing fund (the £240m Social Property Impact Fund) at his previous firm (Cheyne). He has 18 years' experience in the UK Affordable Housing sector.

Shamez is supported by 3 Investment Directors, namely Tom Shaw, Seb Sims and Michael Shepherd, all of whom have extensive experience in residential property development and the Social / Affordable Housing sector in particular.

Man GPM will benefit further from the guidance of an independent strategy advisory committee which will comprise five senior executives with expertise across the UK residential and/or community housing markets or the social investment sector. The Independent Strategy Advisory Committee acts as an independent strategy advisor, providing strategic guidance that promises to be an invaluable resource in executing the business plan of the Fund.

### Investment Specific Risks

#### Development / Construction Risk

Planning consent will be in place prior to acquisition, so no planning risk will be assumed.

Experienced contractors will be engaged by the fund on fixed price building contracts, with the risk of cost-overruns borne by the contractor and penalties payable by the contractor to the fund for any delays in delivery. The contracts will incorporate performance bonds, parent co guarantees, retentions and staged payments as applicable, to ensure an appropriate level of financial surety is available in the event of contractor failure.

The fund's investment team has extensive experience in the property development process from site identification, planning, acquisition, through to the managing and monitoring of the construction process.

For projects acquired by way of direct developments, the risk of contractors failing during the contract period is a key risk and while much of the risk can be passed on to contractors, it can never be completely eliminated and indeed this occurred during the deployment phase of CoHo 1.

The Manager, however demonstrated that they had the experience and capabilities to satisfactorily manage the challenges posed by this risk. The financial protections incorporated within the construction contracts materially offset the cost of appointing replacement contractors and maintaining the fund's return on track.

#### Site Origination Risk

The fund's investment team have been active in the market for a considerable number of years and have developed a successful profile and strong credibility in the market by virtue of the prior fund and have access to a material number of development opportunities for CoHo 3.

The risk of failing to identify sufficient development sites to deploy the fund is therefore considered low.

#### Tenant / Management Risk

The tenant occupancy/credit risk, as well as the repairs and maintenance obligation relating to the units leased to HAs will remain with the latter as head tenants.

HAs are generally considered to be relatively strong credit quality counterparties, although formal assessment on an individual case by case basis will be undertaken by the Manager in respect of each development/proposed lease.

### Impact and ESG

Man Group strongly believe the financial and social return of investments in the UK community housing sector are closely-linked, therefore the fund will have explicit environmental, social and sustainability objectives and outcomes will be mapped to the Fund's Impact Framework which will be monitored on a quarterly basis.

In order to attain the fund's impact objectives, the Manager will assess each prospective investment based on social, environmental and sustainability risks prior to investment.

All potential fund investments qualifying as sustainable will be considered against key indicators relevant to investing in Affordable Housing and environmentally sustainable housing (as defined in the Impact Framework). These indicators will include assessments of the following key principles:-

- Additionality – the number of Affordable Homes (and the expected number of people housed) provided by each investment;
- Affordability – ensuring that the rent levels targeted for each demographic are affordable, as measured against tenants' incomes on a localised basis;
- Social Sustainability – the ability for tenants to continue to live in the properties as a result of managed rental growth and constructive lease terms;
- Environmental Sustainability - the positive environmental outputs and outcomes from the investment that are in excess of the minimum applicable building regulations and planning requirements; also the amount of energy from renewable sources provided at each site; the number of EV charging points; and the aggregate reduction in the target emissions ratio of the homes);
- Governance – the ability within the investment to protect the stated social objectives, which will include the representation of tenants, reporting of adverse outcomes and how the fund manager can influence social outcomes;
- Financial Sustainability (including the number of homes in areas of constrained affordability and the rentals of each tenure as a ratio of local median incomes);
- Housing Quality (against nationally accepted building standards).

Upon investment and over the life of the fund, the Manager will assess and monitor these environmental and social indicators related to fund investments.

As with CoHo 1, an independent third party (Sheffield Hallam University's Centre for Regional Economic and Social Research) will undertake an annual impact audit report on the fund's ESG and Impact performance which will be reported to Investors.

Man Group are signatories to a number of ESG initiatives, of which the main ones are:-

- UK Stewardship Code;
- Net Zero Asset Managers Initiative (NZAMI);
- Climate Action 100+;
- Institutional Investors Group on Climate Change (IIGCC);
- UN supported Principles for Responsible Investment (UNPRI).