

Best UK fund – BT pension scheme

BT Pension Scheme (BTPS) has won the Best UK Fund award, sponsored by Curzon Global Partners, for its innovation in running an extremely complex property portfolio. Furthermore, the pension fund is actively developing the management of this portfolio into growing businesses in their own right, rather than merely trading water.

BTPS is one of the UK's biggest pension funds, providing retirement benefits for telecommunications workers employed by BT.

Many large pension funds in the UK own bricks and mortar as a solid long-term asset and a diversifier away from the stock market. However, BTPS has shown outstanding expertise not only in running the physical side of its real estate investments, but also in the way it sets up or acquires corporate entities as a way of maximising operational returns.

The pension fund has for a long time had an unusually high allocation – currently 12% – to property. This was symbolised a few years ago when the fund, together with GE Capital, acquired property company MEPC in the biggest ever transaction to take a UK company off the stock market and into private hands.

The deal was further cemented in early 2003, when BTPS took over full control of MEPC. MEPC's core activity will be the ownership and management of six business park assets for BTPS.

However, the ownership of these assets is at present being restructured into a tax-transparent Jersey unit trust/limited partnership vehicle, which is the most tax-efficient vehicle for a long-term hold. BTPS says that setting up this vehicle will also maximise flexibility in terms of the future of MEPC.

The BTPS trustees intend to develop the business as a top-performing specialist business park manager.

BTPS also funds significant large scale, urban renewal development projects in key UK city centres. These have been carried out in partnership with development firms which in some cases are owned to varying degrees by BTPS or Hermes, a group of companies which itself is wholly owned by BTPS.

Hermes Property Asset Management (HPAM) is the dedicated property subsidiary of Hermes Pensions Management. It is one of the largest property managers in the UK, with net assets of over €9bn (€12bn including debt).

In January 2001, Hermes became the property and trust manager for the Hill Samuel Property Unit Trust, as appointed by its independent committee of management. The unit trust was subsequently renamed the Hermes Property Unit Trust (HPUT) and its performance has been transformed under Hermes' management. The total unitholder returns for 2004 were 19.7%, outperforming the weighted average return of 18.2% for its benchmark by 1.5%.

In 2004, Hermes was appointed fund manager to the €1bn X-Leisure Unit Trust. The fund invests in leisure parks throughout the UK, encompassing attractions such as the largest real snow slope in the country, as well as the largest multiplex.

BTPS is a major investor in this fund, alongside a group of large pension schemes and UK life assurance companies.



Monica O'Neill, executive director of Curzon Global Partners, presents Alisdair Evans, director corporate real estate finance at BT pensions Scheme, with the award

In 1997, BTPS bought the property development company Argent Group. Argent was later selected as the developer for the King's Cross Central regeneration project, a multi-billion euro mixed-use property development adjoining the new high-speed Channel Tunnel Rail Link which will terminate at St Pancras Station.

Two years ago, Argent submitted a total of 11 planning applications for up to 8 million sq ft of mixed use development at King's Cross Central, including affordable housing and other community benefits. In due course, BTPS will invest around €600m in the King's Cross project.

As well as the King's Cross planning application, in 2004 Argent also completed three buildings with a total floorspace of 277,000 sq ft, let out 116,000 sq ft of office and retail space, and purchased three more properties totalling 56,650 sq ft of space.

BTPS says that buying Argent has proved extremely beneficial. Over the eight years that Argent has been wholly owned by the scheme, it has achieved an average rate of return on capital employed in the region of 40% p.a.

In 2004, the BTPS property portfolio made a return of 18.7%, just over the 18% returned by the IPD Annual Universe benchmark. Over the past ten years, the property portfolio's three-year rolling performance record has also consistently outperformed or matched the benchmark. In total, the BTPS property portfolio rose in value from €4.7bn to €5.8bn during 2004. The increase includes new allocations of €176m.

But the desire to grow never stops. The fund says that identifying development opportunities within its existing portfolio is still an important means of improving return and adding value. At present the fund is pursuing over €270m-worth of development, excluding the activities of Argent.