STATES OF JERSEY

HOUSING DEVELOPMENT FUND: INVESTMENT STRATEGIES

Presented to the States on 30th June 2014
by the Minister for Treasury and Resources

STATES GREFFE

REPORT

Purpose of the Fund

On 22nd June 1999, the States approved P.79/1999 and created the Housing Development Fund, in order to –

> "*help meet the requirements for the development of social rented and first-time buyer homes as identified in the Planning for Homes Report.*"

On 16th May 2013, the approval of P.33/2013 enabled the Housing Department to become incorporated into a wholly States-owned Housing Company. The key objective of the Housing Company is the construction of new housing and completion of improvement works to ensure that the housing stock meets the requirements of the Decent Homes Standard within 10 years.

In June 2014, the States of Jersey leveraged its strong balance sheet to issue a £250 million Bond with a 40 year maturity, at superior low rates of interest relative to borrowing which could be achieved by the Housing Company.

The proceeds of the Bond issuance are to be placed in the Housing Development Fund and £207 million will be loaned to the Housing Company to fund construction and improvement works, in line with the defined purpose of the Fund. The remaining value of the Bond is to be used for the provision of affordable housing.

The drawdowns and repayments shall be made in accordance with underlying loan agreements in accordance with the construction/renovation timetable of the Housing Company. The Housing Company will also pay interest on the loans into the Fund in accordance with the loan agreements. The Housing Company will fund required capital repayments and interest from income generated by the new and refurbished properties that the loan will fund.

Strategy

The strategy of the Fund seeks to protect the capital value of the Fund which will be required to repay the issued Bond on maturity. The Fund will also seek to generate sufficient returns, taking into account receipt of interest from the loans to the Housing Company, to meet Bond Coupon payments.

In order to meet the purpose of this Fund, the Minister has set a strategic aim of investing 25% in growth assets and 75% non-growth assets as detailed below –

	Strategic Aim %	**Range %**
Growth assets		
Equities	12.5	7.5 – 17.5
Absolute return*	10	5 – 15
Property	2.5	N/A
	25%	
Non-growth assets		
Gilts	45	40 – 50
Cash	7.5	2.5 – 12.5
Corporate Bonds	22.5	17.5 – 27.5
	75%	

*Absolute return includes allocations to the Absolute Return Bond Pool, considered a fixed income class pool.

Property and Absolute Return are considered part of the alternative asset class. The Property asset class may suffer from liquidity constraints which prevent immediate rebalancing and movement to the strategic range. Consequently, short-term allocations to this class may fall outside the prescribed range as positions are built or sold down. In cases where positions are being built, allocations to this class will be held in existing asset classes until they can be fully allocated.

Transitional arrangements

The Housing Development Fund expects an imminent drawdown by the Housing Department, which will be used in part to repay monies owing to the States of Jersey. On receipt, these funds will be invested in line with the Investment Strategy of the Consolidated Fund. To avoid unnecessary transaction cost, which would otherwise be incurred in transitioning between the 2 strategies, the proportion of the Housing Development Fund portfolio expected to be drawn and immediately repaid to the States is to be invested in line with the Consolidated Fund Strategy, the ultimate destination, pending completion of the transfer.

Investment Structure

The Fund can carry out its investments through the Common Investment Fund.

Investment in Jersey

Investment is not generally made in Jersey, or in Jersey quoted companies. This is to ensure that, as far as possible, the assets are diversified away from the effects of the Jersey economy.

Controlling Interest

The States of Jersey will not acquire shareholdings greater than 3% of the issued share capital in UK companies.