

# TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 8

## TEESSIDE PENSION BOARD REPORT

4 NOVEMBER 2019

STRATEGIC DIRECTOR FINANCE, GOVERNANCE & SUPPORT – JAMES BROMILEY

### Investment Pooling Update

#### 1. PURPOSE OF THE REPORT

- 1.1 To provide Members of the Teesside Pension Board (the Board) with an update on the continuing pooling of assets through Border to Coast Pensions Partnership (Border to Coast).

#### 2. RECOMMENDATIONS

- 2.1 That Members note this report.

#### 3. FINANCIAL IMPLICATIONS

- 3.1 There are no specific financial implications in respect of the information contained in this report beyond those previously discussed relating to investment pooling.

#### 4. BACKGROUND

- 4.1 Members will be aware that the Pension Fund's equity assets mainly transferred to either Border to Coast (UK equities) or State Street Global Advisers (overseas equities). Since then the Pension Fund has invested into Border to Coast's overseas equity sub-fund as well.
- 4.2 The Pension Fund has also committed to invest in two 'alternative' asset classes Border to Coast has made available: private equity and infrastructure.
- 4.3 The twelve Partner Funds that wholly own Border to Coast are at different stages in terms of investing within Border to Coast's sub-funds. It was always acknowledged that this would be the case, with the three internally-managed Funds (our Pension Fund, East Riding Pension Fund and South Yorkshire Pension Fund) initially moving significant assets to be invested by Border to Coast. With the launch of two externally-managed equity funds (UK Listed Equity Alpha last year and Global Equity Alpha this year) a significant proportion of the assets of most of the nine mainly externally-managed Funds is also now invested through Border to Coast.

## 5. FUTURE FUND LAUNCHES

- 5.1 Border to Coast continues to work with the Partner Funds to develop, refine and agree the indicative launch timetable for future funds. This is the current position (taken from the presentation given to the 18 September 2019 Pension Fund Committee):

### Capability Launch - Timetable

	Launched in 2018	Scheduled for 2019	2020 onwards
Equities	UK Listed Equity Overseas Developed Emerging Markets	Global Equity Alpha	Factor Equities Emerging Markets Other Equities (tbc)
	UK Listed Equity Alpha		
Alternatives		PE, Infra, Private Credit	Diversified Alts
Bonds			IG Credit MAC, Index Linked Bonds
Property			TBC (UK, Global)



- 5.2 The Pension Fund has committed to investing £200 million (around 5% of its assets) into Border to Coast's Alternatives Fund during the current financial year (the first year it has been available), with half being allocated to private equity and half to infrastructure. The intention is that a further £100 million a year (again split 50:50 between private equity and infrastructure) will be invested over the subsequent 4 years. No commitment was made to private credit initially, but this will be reviewed before the next window of opportunity to invest in this asset class through Border to Coast (expected to be March 2021).
- 5.3 The Pension Fund will review its asset allocation strategy in the context of results of the current triennial valuation, and this review will help determine whether any investments are made to the Border to Coast sub-funds being launched next year. Discussions are underway with Border to Coast over the cost / benefits of property investment through the pool company, in particular whether it makes sense to transfer the Pension Fund's direct property portfolio to Border to Coast.

## **6. SHAREHOLDER RESOLUTIONS**

- 6.1 As well as being an investor in Border to Coast, the Pension Fund together with the other eleven Partner Funds jointly owns the company and exercises rights as a shareholder. The Pension Fund's shareholding is exercised by the Chair of the Pension Fund under power delegated from the Mayor.
- 6.2 The following shareholder resolution has recently been agreed to by the Chair on behalf of the Pension Fund:
- Property lease - a resolution allowing Border to Coast to lease additional office space in Leeds. This requires agreement from at least 75% of the shareholders.

## **7. JOINT COMMITTEE MEETING**

- 7.1 The Joint Committee that oversees Border to Coast, whose voting members comprise the twelve chairs of the Pension Committees of each Partner Fund, met on 11 September 2019. Notable agenda items were as follows:
- Annual Election of Committee Chair and Vice-Chair, Annual Nomination to the Border to Coast Board
  - Joint Committee Budget
  - Annual Performance Overview: UK Equity Fund and Overseas Developed Fund
  - CEO Report August 2019
  - Alternative Asset Update
- 7.2 Points of note from the meeting include:
- The Joint Committee agreed to hold a selection process immediately after the meeting to choose its Chair and Vice-Chair for the coming year, from applications submitted prior to the meeting: Councillor Doug McMurdo (Bedfordshire Pension Fund) was elected as Joint Committee Chair and Councillor Tim Evans (Surrey Pension Fund) was elected as Joint Committee Vice-Chair.
  - Councillor Sue Ellis announced before the meeting that she would no longer be able to continue as a Shareholder Non-Executive Director (NED) on Border to Coast's company board. It was agreed that this vacancy would be dealt with separately to the Shareholder NED vacancy being considered at this meeting. Councillor John Holtby (East Riding Pension Fund) was chosen to be nominated to join the Border to Coast company board as a Shareholder NED (for a two year term). In a postal vote following the meeting Councillor Jeff Watson (Northumberland Pension Fund) was chosen to be nominated to join the Border to Coast company board as a Shareholder NED (for a one year term). Shareholder NED appointments are subject to confirmation from the Financial Conduct Authority that each individual is an 'approved person'.
  - The Joint Committee budget for the year is £40,000. Current expenditure is significantly below this level but a requirement for external legal advice in

relation to Border to Coast's compensation policy in relation to potential errors means further costs are expected to be incurred during the year. However, overall expenditure is currently expected to remain within budget.

- The Border to Coast UK Listed Equity Fund and Overseas Developed Equity Fund were both launched on 26 July 2018. Note, the Pension Fund joined the UK Listed Equity Fund from the outset but only bought units in the Overseas Developed Equity Fund from mid-October 2018 – this means the performance outcome for the Pension Fund in respect of the Overseas Fund will not exactly mirror the performance of the Overseas Fund from inception. The report looked at the performance of each Fund from inception to 31 July 2019. Since launch the UK Equity fund delivered a total return of 4.3% and a relative return of 2.0% which is above annual target return of benchmark +1%. Since launch, the Overseas Developed Equity fund delivered a total return of 3.6% and a relative return of 0.93% benchmark (net withholding tax) broadly in-line with target return of benchmark +1%.
- The CEO report included a progress update on sub-fund launch, a tracker showing Partner Funds current and future expected allocation of assets via Border to Coast and a strategic risk matrix.
- The alternative asset update included details of the pipeline of investment opportunities identified in respect of investments in private equity and infrastructure, as well as confirmation that Border to Coast would launch its private credit investment sleeve in October 2019.

## **7. NEXT STEPS**

7.1 Further updates on developments in Border to Coast will be provided periodically.

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