

TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on 21 December 2017.

PRESENT: Councillors Bloundele, (Chair), Brady, Coupe, Lewis, McGloin, G Purvis, Rostron and Walters

Other Local Authority Members:
Beall, Stockton Borough Council

ALSO IN ATTENDANCE: Property Advisors: A Owen
Unison Representative: A Watson

OFFICERS: P Campbell, M Hopwood, S Lightwing, S Smithyman

APOLOGIES FOR ABSENCE were submitted on behalf of Councillors Dean and Massey.

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Beall	Non Pecuniary	Member of Teesside Pension Fund Agenda Item 13 - named substitute on the Tees Valley Combined Authority (TVCA)
Councillor Brady	Non Pecuniary	Member of Teesside Pension Fund
Councillor Rostron	Non Pecuniary	Member of Teesside Pension Fund

17/31 **MINUTES - TEESSIDE PENSION FUND AND INVESTMENT PANEL - 27 SEPTEMBER 2017**

The minutes of the meeting of the Teesside Pension Fund and Investment Panel held on 27 September 2017 were taken as read and approved as a correct record, subject to a minor amendment.

17/32 **FUND MANAGER'S REPORT**

A report of the Strategic Director Finance, Governance and Support was presented to inform Members how the Investment Advisors' recommendations were being implemented and to provide information with regard to stock selection strategies, including a detailed report on transactions undertaken.

Advice was to continue to favour growth assets over protection assets, bonds did not currently meet the Fund's actuarial requirements and therefore should be avoided at those levels; the bond portfolio continued to be wound down, with only nominal exposure to bonds remaining.

At the current level of 13% the Panel needed to be mindful of allowing cash to build up any further, cash should not rise too much further in the short term to above the maximum short term level set at the customised benchmark for protection assets (15%). Cash was at 12% at end of September.

Investment in direct property should continue on the same basis as previously presented to the Panel: on an opportunistic basis where the property has a good covenant, yield and lease terms. A further investment in direct property was made in the quarter: a £17m purchase.

Investment in Alternatives, such as general and local infrastructure and private equity, offered the Fund diversification from equities and bonds. They came with additional risks of being

illiquid, traditionally they had costly management fees and investment could be a slow process. However, the Fund was considerably underweight its customised benchmark and, providing suitable investment opportunities were available, the Fund should look to increase its allocation to this asset class up to the customised benchmark level.

There was comfort with the short term allocation strategy set for equity markets. The current political, economic and market conditions were similar to previous advice provided at meetings and did not suggest any need to make any major strategy changes.

There were net purchases of approximately £43m in the period, this compared to net sales of £17m in the previous reporting period. Cash balances decreased from £484m to £448m.

The Fund Valuation detailed all the investments of the Fund as at 30 September 2017 and was prepared by the Fund's custodian BNP. The total of all investments, including cash, was £3,923m. The detailed valuation was available on the Fund's website. This compared with the last reported valuation, as at 30 June 2017 of £3,889m. At the last valuation in October, the Fund had reached £4b.

An analysis of the summary valuation showed the Fund's percentage weightings in the various asset classes, compared with the Fund's customised benchmark and the advisors short term asset allocation range.

ORDERED that the report was noted.

17/33 **INVESTMENT ADVISORS REPORT**

A report was presented to update Members with the current capital market conditions, and set an appropriate short term asset allocation to best take advantage of the conditions.

There were currently no Independent Advisors in place to provide advice, however some progress had been made in making new appointments. A report from the Head of Investments and Treasury Management setting out the political, economic and market background since the previous meeting was attached to Appendix A to the submitted report.

The current political, economic and market conditions were similar to previous advice provided at meetings and did not suggest any need to make any major strategy changes. It was proposed that the Fund continued to favour growth assets over protection assets. Investment in direct property should continue on the same basis as previously presented to the Panel: make purchases on an opportunistic basis where property had good covenant, yield and lease terms.

The Fund was considerably underweight its customised benchmark and, providing suitable investment opportunities were available, the Fund should look to increase its allocation in this asset class up to the customised benchmark level.

It was considered appropriate to continue with the previous short term asset allocation. It was proposed that at the next Committee meeting the results of an Asset/Liability Study, carried out by the Fund's Actuary, AON Hewitt, was presented with a recommendation for a new customised benchmark.

ORDERED as follows that:

1. The report was noted.
2. The short term asset allocation detailed at paragraph 5.8 of the submitted report was approved.
3. The Asset/Liability Study by AON Hewitt would be presented to the next Committee meeting.

17/34 **CBRE PROPERTY REPORT**

The Fund's Property Advisors submitted a report that provided an overview of the current property market and informed Members of the individual property transactions relating to the

Fund.

As at 30 September 2017, the portfolio comprised 25 mixed-use properties located throughout the UK with a value of £225.02m. This reflected an overall Net Initial Yield of 5.31%, and an Equivalent Yield of 5.58%. The portfolio was principally in primary and good secondary assets.

The total Collectable Arrears on the entire portfolio was £61,842.78 as at 17 October 2017. The Collectable Arrears excluded tenants that paid their quarterly rent in monthly instalments and were up to date with payments, tenants that had overall credit balances on their accounts and tenants that were insolvent. Of the Collectable Arrears, 84.4% (£52,207.32) related to four accounts. The remaining 15.6% of the Collectable Arrears (£9,635.46) related to 12 different tenant accounts, all of which were being pursued.

The Fund had recently completed the purchase of the Royal Mail Distribution Warehouse in Team Valley, Gateshead for £16m. The Fund had also just completed the purchase of its largest asset to date, a manufacturing unit in Doncaster for £22.8m and was due to complete tomorrow on a B and Q warehouse in West Yorkshire for £11.6 m.

The direct property portfolio held by the Fund was valued at £225.02m in September 2017. The indirect property portfolio was valued at £43.48m in June 2017. The Fund's real estate exposure (6.9% of assets) was significantly underweight, compared with similar pension funds. Measures were in place to address this issue.

ORDERED that the report was noted.

17/35

INVESTMENT STRATEGY STATEMENT AND OFFICER SCHEME OF DELEGATION UPDATE

A report of the Strategic Director Finance, Governance and Strategy was presented to request a change to the Investment Strategy and Officer Scheme of Delegation to accommodate a change resulting from a recent staff review.

During the year, the Teesside Pension Fund Committee agreed the Fund's Investment Strategy Statement (March 2017) and Officer Scheme of Delegation (September 2017). The documents showed the dealing authority and limits for Officers of the Fund and these were outlined in the submitted report.

The Interim Chief Finance Officer included the Loans and Investments Section in a wider staffing review with Middlesbrough Council's Finance Section. The review gave staff the opportunity to apply for other jobs in these Sections and concluded in October 2017.

The Fund's Bond portfolio was managed by the Treasury Manager. During the review, the Treasury Manager applied for a vacant position of Investment Manager. This precluded that officer from continuing to manage the Bond portfolio under the terms of the Investment Management Strategy and Officer Scheme of Delegation.

It was proposed to allow this officer, now as an Investment Manager, to continue to manage the Bond portfolio and provide the permission to carry out dealing transactions. In order to allow this, it was proposed that the above dealing authority and limits were amended as detailed in the submitted report.

ORDERED as follows that:

1. The report was received and noted.
2. The dealing authority and limits were amended as detailed in the submitted report.

17/36

SHAREHOLDER GOVERNANCE REPORT

A report of the Strategic Director Finance, Governance and Support was presented on action taken in implementing the Fund's policy on Corporate Governance.

The Fund's 2017/2018 Business Plan required that an annual report on voting activity was presented to the Investment Panel.

Votes cast for the period 1 October 2016 to 30 September 2017 were summarised in Appendix A to the submitted report. The report was produced by the proxy voting advisory service advisor, PIRC. The report provided a summary of voting activity by issue. In addition, PIRC reported on voting outcomes where there was notable dissent (greater 10% of votes cast as oppose).

The Fund's detailed voting activity was available on the website.

ORDERED that the report was received and noted.

17/37 **TREASURY MANAGEMENT REPORT**

A report on the treasury management of the Fund's cash balances, including the methodology used, was presented.

Middlesbrough Council had reviewed its arrangements for treasury management, including appointing an independent treasury advisory company and a staff review moving the Council's treasury management responsibility from the Loans and Investments Section. As part of this review, the treasury management policies for the Council and the Fund now differed and a policy appropriate to the Fund (TPF Treasury Management Practices) had been developed and was attached to the report as Appendix B.

The counterparty list and associated limits, as at 30 September 2017 were detailed in the report. As at 30 September 2017, the Fund had £441.6 million invested with approved counterparties at an average rate of 0.262%.

Attached at Appendix A to the submitted report was a graph showing the maturity profile of cash invested. It also showed the average rate of interest obtained on the investments for each time period.

Ordinarily the Treasury Manager was under instruction to keep at least 50% of cash investments relatively liquid (one month or less), in order to fund pension payments and investments. However, given the size of the cash assets held, this strict level was relaxed while cash levels were this high to allow cash flows to be managed at more sensible levels. At 30 September 2017, 46.3% (£215.6m) of the investments matured within one month.

ORDERED that:

1. The report was received and noted.
2. The Teesside Pension Fund Treasury Management Practices (TMPs) Policy was approved and adopted.

17/38 **EXCLUSION OF PRESS AND PUBLIC**

ORDERED that the press and public be excluded from the meeting for the following items on the grounds that, if present, there would be disclosure to them of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 and that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

17/39 **POOLING UPDATE**

A report was presented to update Members of the latest developments in setting up the new Pool: Border to Coast Pension Partnership (BCPP).

ORDERED as follows:

1. the report was received and noted.
2. the proposed staffing structure for the Fund, the process and timetable for recruitment

were noted.

3. the Chair was authorised to approve the collective agreement of changes to BCPP's set up costs, the BCPP Business Plan and Budget at the next BCPP Joint Committee meeting.

4. the proposed move to passive unit trusts for overseas markets in advance of the BCPP go-live date was approved.

17/40 **LOCAL INVESTMENT OPPORTUNITY - DISTRICT HEATING**

A report was presented regarding a proposal for a District Heating System.

ORDERED as follows that:

1. the report was received and noted.
2. the next phase of due diligence by CBRE was approved.
3. authority was granted to the Chair of the Teesside Pension Fund Committee and the Strategic Director Finance, Governance and Support to agree the contribution from the Fund to the development budget.

17/41 **KIER SERVICES - PENSION ADMINISTRATION RESOURCES**

A report was presented to inform the Committee of proposals to enhance the customer services provided to both members and employers of the Teesside Pension Fund.

ORDERED as follows that:

1. the report was received and noted
2. the proposals in the report were taken forward in principle through the Kier Partnership Group and the outcome of negotiations reported back to the Teesside Pension Fund Committee for further consideration.