

**TEESSIDE PENSION FUND**  
Administered by Middlesbrough Council

**AGENDA ITEM 4**

**TEESSIDE PENSION FUND COMMITTEE REPORT**

**21 DECEMBER 2017**

**STRATEGIC DIRECTOR FINANCE, GOVERNANCE AND SUPPORT – JAMES BROMILEY**

**FUND MANAGER'S REPORT**

**1. PURPOSE OF THE REPORT**

- 1.1 To inform Members how the Investment Advisors' recommendations are being implemented.
- 1.2 To provide information with regard to stock selection strategies, including a detailed report on transactions undertaken.

**2. RECOMMENDATION**

- 2.1 That Members note the report.

**3. FINANCIAL IMPLICATIONS**

- 3.1 Decisions taken by Members, in light of information contained within this report, will have an impact on the performance of the Fund.

**4. IMPLEMENTATION OF INVESTMENT ADVICE FOR THE PERIOD JULY - SEPTEMBER 2017.**

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

It was felt that at the current level of 13% we should 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% end of September.

Investment in direct property to 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 – £17m purchase.

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

illiquid, traditionally they have costly management fees and investment in the type of investment can be a slow process. However, the Fund is considerably underweight its customised benchmark and, providing suitable investment opportunities are 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 are similar to previous advice provided at meetings and do not suggest any need to make any major strategy changes.

#### 4.2 Summary of Equity Returns in this Period

Asset Class	Percentage Return
UK Equity (FTSE All Share)	2.14%
US Equity (S&P 500)	1.46%
Japanese Equity (Topix 500)	1.05%
Pacific Equity (MSCI Asia X Japan)	3.66%
European Equity (Stoxx 600)	3.84%

Source Bloomberg TRA Analysis Sterling Return

### 5. TRANSACTION REPORT

- 5.1 It is a requirement that all transactions undertaken are reported to the Investment Panel. Appendix A details transactions from the period 1 July 2017 to 30 September 2017.
- 5.2 There were net purchases of approximately £43m in the period, this compares to net sales of £17m in the previous reporting period. Cash balances decreased from £484m to £448m.

Our observations by performance driver are as follows:

(i) Bonds

UK inflation has stayed above target. The short-end rose due to the anticipated base rate movement in November, minutes of the September MPC who voted 7-2 to hold rates at 0.25% reflected that “a majority judge that.....some withdrawal of monetary stimulus is likely to be appropriate over the coming months.”

US rates are more bullish in the short to medium term, as they can see the Federal Reserve moving rates again soon. Bonds continue to offer very low yields, the US offers 2.8% for a 30 year bond. At the September FOMC meeting it was confirmed that the “balance sheet normalization program” would commence next month beginning at \$10bn, increasing quarterly in \$10bn increments till it hits \$50bn in October 2018.

The UK and Eurozone offer rates well below current inflation, for all areas of the curve.

The portfolio continues to be wound down, with only nominal exposure to bonds remaining.

(ii) Equity Markets

Equity markets continued to reach new highs in the period regardless of economic, political & environmental shocks.

Moody's downgraded the UK credit rating from Aa1 to Aa2 due to economic uncertainty surrounding Brexit. They are no longer confident that the UK Government will be able to secure a free-trade agreement with the EU that will substantially mitigate the negative impact of Brexit.

Angela Merkel's Christian Democratic Union Party won re-election as the largest party in September, however it was their worst result in almost 70 years with their coalition partners the Social Democrats going into opposition and not renewing the coalition. The right wing nationalist AfD Party won their first parliamentary seats with a vow to fight an "invasion of foreigners".

"Dialogue" continued between the US, its allies & North Korea, however the North Korean regime continued to test their bombing capabilities with a launch over Japan in September, this resulted in further UN restrictions placed upon North Korea.

The Republicans failed to achieve President Trump's campaign promise of repealing/replacing the Obama Healthcare Legislation – "The Affordable Health Care Act".

Going forward Republicans are now focusing their attention on a tax reform bill, this is their last hope of a signature legislative achievement this year.

Both Texas & Florida were hit hard by hurricanes in the period though most damage was seen in Puerto Rico & the Caribbean Islands.

The Fund continued to gradually take profits on a stock specific basis, given our extreme exposures to equity risk assets.

(iii) Currency effects

The pound continued its gradual recovery against the dollar, hitting a high for the year at 1.355 after the September MPC minutes, though this strength could not be maintained into early October.

## 6. FUND VALUATION

- 6.1 The Fund Valuation details all the investments of the Fund as at 30<sup>th</sup> September 2017, and is prepared by the Fund's custodian, BNP. The total value of all investments, including cash, is **£3,923 million**. The detailed valuation is available on the Fund's website [Teespen.org.uk](http://Teespen.org.uk) This compares with the last reported valuation, as at 30th June 2017 of **£3,889 million**.

6.2 An analysis of the summary valuation shows 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.

## Asset Allocation Summary

ASSET CLASS	FUND	INVESTMENT ADVISORS' SHORT TERM ASSET ALLOCATION RANGE	CUSTOMISED BENCHMARK	AVERAGE*
<b>PROTECTION ASSETS</b>				
<b>BONDS (residual)</b>	<b>0</b>	<b>0 – 2</b>	<b>12</b>	<b>16</b>
<b>CASH</b>	<b>12</b>	<b>5 – 15</b>	<b>3</b>	<b>3</b>
<b>GROWTH ASSETS</b>				
<b>UK EQUITY</b>	<b>32</b>	<b>29 – 35</b>	<b>30</b>	<b>20</b>
<b>OVERSEAS EQUITY</b>	<b>47</b>	<b>45 – 51</b>	<b>40</b>	<b>43</b>
<b>PROPERTY</b>	<b>7</b>	<b>7 – 9</b>	<b>10</b>	<b>9</b>
<b>ALTERNATIVES</b>	<b>2</b>	<b>1.5 – 5</b>	<b>5</b>	<b>9</b>
<b>TOTAL</b>	<b>100</b>		<b>100</b>	<b>100</b>

*\*Average Local Authority Fund as at the last available date data is available (31 March 2016)*

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