

TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on 27 June 2018.

PRESENT: Councillors Bloundele, (Chair), Rostron, (Vice Chair), Brady, Lewis, McGloin, Mohan, D Rooney and Walters

Other Local Authority Member:
J Black, Hartlepool Borough Council

Other Employers' Representative:
Mr P Fleck

ALSO IN ATTENDANCE: Property Advisors: A Owen and A Peacock
Unigestion: A Blackman and E Marchand
BCPP: R Elwell

OFFICERS: C Allison, J Bromiley, W Brown, P Campbell, S Lightwing, J Shiel

APOLOGIES FOR ABSENCE were submitted on behalf of Councillors Beall and Coupe.

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Black	Non Pecuniary	Member of Teesside Pension Fund
Councillor Brady	Non Pecuniary	Member of Teesside Pension Fund
Councillor D Rooney	Non Pecuniary	Member of Teesside Pension Fund
Councillor J Rostron	Non Pecuniary	Member of Teesside Pension Fund
Mr P Fleck	Non Pecuniary	Member of Teesside Pension Fund

1 MINUTES - TEESSIDE PENSION FUND COMMITTEE - 7 MARCH 2018

The minutes of the meeting of the Teesside Pension Fund Committee held on 7 March 2018 were taken as read and approved as a correct record.

2 FUND MANAGER'S REPORT

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

The Fund continued to favour growth over protection assets. It was considered that in the long run, Bond yields would rise, but at present yields did not meet the actuarial requirements for the Fund and should continue to be avoided at around these levels unless they were held as a short term alternative to cash.

Cash had built up as divestments from other asset classes had occurred, and was primed to be invested when opportunities allowed. Equity markets had been volatile, with additional volatility in currency markets, which had recently been beneficial to the Fund with its high weighting in this asset class. The short term allocation strategy and range provided flexibility to continue and either increase or decrease investments when market opportunities arose.

Investment in direct property should continue on the same basis as previously presented to the Panel: on an opportunistic basis where the property had a good covenant, yield and lease terms. Investment in Alternatives, such as general and local infrastructure and private equity,

offer the Fund diversification from equities and bonds. 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. Appendix A to the submitted report detailed all transactions from the period 1 January 2018 to 31 March 2018. The report was larger than usual as the Fund had been transitioning into index tracker funds for Japan and the Far East and these transactions had been put through as sales.

There were net sales of approximately £46m in the period, this compared to net purchases of £26m in the previous reporting period. Cash balances increased to £503m from £462m, representing 13% of the Fund's investments.

The Fund Valuation detailed all the investments of the Fund as at 31 March 2018, and was prepared by the Fund's custodian, BNP. The total value of all investments, including cash, is £3,900 million. The detailed valuation was available on the Fund's website. This compared with the last reported valuation as at 31 December 2017 of £4,074 million.

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.

3 **INVESTMENT ADVISORS' REPORTS**

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 these conditions.

Attached at Appendix A was a report from the Head of Investments and Treasury Management. The report set out the political, economic and market background since the previous meeting.

The Fund's long and short term asset allocation strategies (based on the existing customised benchmark before implementation of the proposed benchmark following the Asset Liability Study) were summarised at paragraph 5.13 of the submitted report, together with the short term asset allocation range for each asset class.

ORDERED as follows that:

1. The report was received and noted.
2. The short term asset allocation set out in the table at paragraph 5.13 of the submitted report was approved.

4 **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. Market conditions remained difficult and would do so for the foreseeable future. There was a continued shortage of prime stock, particularly in the industrial sector, as well as competition from other investors.

At 31 March 2018 the portfolio comprised 27 mixed-use properties located throughout the UK with a value of £262.69m. This reflected an overall Net Initial Yield of 5.37% and an Equivalent Yield of 5.61%.

There had been no sales during Q1 2018. The Fund completed the purchases of Omega Plc in Doncaster in December 2017 and B&Q in Hull in January 2018. The purchase of a Retail Park was currently nearing completion.

The total Collectable Arrears on the entire portfolio was £36,627.13 at 8 May 2018.

ORDERED that the report was noted.

5 INVESTMENT PERFORMANCE REPORT - 2017

A report on the performance of the Fund was presented. The Fund's investment performance was measured by Portfolio Evaluation Limited (PEL).

2017 was a very positive year for the Fund and most investors in general. Growth asset classes (Equities, Property and Alternatives) produced positive returns, particularly Equities. In addition, Bond performance was weaker than other asset classes, assisting the return for the Fund from the asset allocation decision to be underweight in Bonds. Strong gains were also seen in Property and Alternative asset classes and the Fund continued to invest in these asset classes as opportunities arose.

Overall purchases and sales were almost level for 2017. The Fund's Bond portfolio was sold out and sales from here and Overseas Equities were invested in Property, UK Equities and Alternative Investments. Cash increased by approximately £60 million to £460 million.

Over the past few years, the policy of being overweight in Equities had negatively affected the Fund. However, Members were aware that such a mix carried the risk of greater volatility and that the Fund's performance could differ vastly from other funds.

The total Fund return for the calendar year 2017 was 11.8%, against a benchmark return of 12.1%. The financial year's performance result were published in the Annual Report and Accounts.

The most important measure of Pension Fund performance was over the long term. The way the Fund was managed looked to take the long-term view whilst being open for opportunities to exploit short-term market opportunities,

The Fund's performance over 3, 5 and 10 years was positive, 11.3% pa, 10.0% pa and 7% pa respectively. Over 3 years the Fund underperformed its benchmark by 0.1% pa, over 5 years it underperformed by 1.5% and over the longer period of 10 years the Fund had also underperformed its benchmark by 0.6%.

With so much of the Fund invested in Equities (approximately 80%), it was always this asset class that determined how well the whole Fund performed. There was strong performance across all regions during 2017, however negative performance at stock selection caused a drag on overall performance.

Bonds underperformed their underlying benchmark indices, however given the amount now invested in this asset class the impact was minimal. Alternatives outperformed its benchmark index, whereas Property underperformed.

It was highlighted that although the Fund had underperformed according to the benchmarks, it was still 100% funded.

ORDERED that the report was noted.

6 PRACTICAL IMPLICATIONS OF THE NEW STAFFING STRUCTURE POST POOLING

A report of the Strategic Director Finance, Governance and Support was presented to request a change to the Investment Strategy Statement, Officer Scheme of Delegation, and Treasury Management Principles, following implementation of the new staffing structure.

At the December 2017 meeting, the Committee agreed a new staffing structure and delegated authority to the Strategic Director Finance, Governance and Support to finalise the new structure. Details of the new staffing structure and the proposed new daily dealing authority and limits for Officers of the Fund were contained in the submitted report at paragraphs 4.2 and 5.2 respectively.

It was envisaged that there would be a settling in period with the new limits and further

changes would be required to accommodate changes at the Fund.

In addition, there was a proposal to introduce a change to reporting lines with the Head of Pensions Governance and Investments retaining the position as Head of Service, but reporting directly to the Head of Financial Governance and Revenues (and Deputy Section 151 Officer for Middlesbrough Council). This Officer would also have Level 1 delegated limits and these would be equal to the Head of Pensions Governance and Investments initially. This change would be implemented following the conclusion of an ongoing consultation.

Not all current posts were transferring under TUPE to Border to Coast Pension Partnership (BCPP) and it was therefore proposed as a short term measure that existing delegated authority and limits remained in place for existing posts until the personnel in these posts exited the Fund, at which time these limits would cease.

The Fund's Treasury Management Principles (TMPs) were also updated at the December 2017 meeting. An updated version of the Fund's TMPs was attached at Appendix A to the submitted report.

ORDERED that:

1. The proposed changes to the Investment Strategy Statement, Officer Scheme of Delegation and Treasury Management, as detailed in the submitted report, were approved.
2. The Authority to make changes to the Investment Strategy Statement and Officer Scheme of Delegation and report any such changes to the Teesside Pension Fund Committee, was delegated to the Strategic Director Finance, Governance and Support.

7 **TREASURY MANAGEMENT REPORT**

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

As at 31 March 2018, the Fund had £485.9 million invested with approved counterparties at an average rate of 0.56%. This was an increase of £37.4 million over the last quarter. Rates had also risen as demand for cash had outstripped supply.

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

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. At 31 March 2018, 51.64% (£250.9m) of the investments would mature within one month.

ORDERED that the report was noted.

8 **PERSONAL SHARE DEALING**

A report of the Strategic Director Finance, Governance and Support was presented to comply with the requirements of the Management Agreement to report on personal share dealing activity.

The following share transactions were undertaken and reported to the Head of Investments:

- On 22 January 2018, 142 Vodafone Group shares were purchased.
- On 31 May 2018, 100 Vodafone Group shares were purchased.

ORDERED that the report was noted.

9 **INTRODUCTION TO PRIVATE EQUITY (UNIGESTION)**

Representatives from Unigestion provided a detailed presentation on private equity. The

presentation gave a high level overview of Private Equity and the industry which included information in relation to:

- Different types of investment (primary, secondary, direct).
- Cash flow profiles.
- Examples of private equity portfolios including investments and potential returns.
- Unigestion's experience with Local Government Pension Funds.

ORDERED that the information presented was received and noted.

10 **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.

11 **BCPP PRESENTATION - RACHEL ELWELL**

Rachael Elwell, Chief Executive of Border to Coast Pension Partnership (BCPP), gave a progress update in relation to BCPP.

ORDERED that the presentation was noted.

12 **POOLING UPDATE**

An update on the latest developments with pooling and the Border to Coast Pension Partnership (BCPP) was provided by the Head of Investments and Treasury Management.

ORDERED as follows that:

1. The report was noted.
2. The proposal at 5.6 of the submitted report with regard to membership of the BCPP was approved.
3. Authority to decide on the size of investment with BCPP was delegated to the Chair and Vice Chair of Teesside Pension Fund Committee, with assistance from the Strategic Director Finance, Governance and Support and the Head of Investments and Treasury Management.

13 **EMPLOYER COVENANT REVIEW**

A report on the Employer Covenant Review was presented.

ORDERED that the report was noted.

14 **LOCAL INVESTMENTS - UPDATE REPORT**

The Head of Investments and Treasury Management gave an update on Local Investments.

ORDERED as follows:

1. That the report was noted.
2. The practical changes detailed at paragraph 9 of the submitted report were approved.

15 **KIER WORKFORCE SERVICES CONTRACT**

A report was tabled to advise Members of negotiations between Middlesbrough Council and Kier Group regarding the whole partnership contract and the implications to the Pension Fund.

ORDERED as follows that:

1. The report was received and noted.

2. Authority to proceed with negotiations was delegated to the Chair and Vice Chair of the Teesside Pension Fund Committee.