

# TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 6

## PENSION FUND COMMITTEE REPORT

13 MARCH 2019

STRATEGIC DIRECTOR: FINANCE, GOVERNANCE AND SUPPORT, JAMES BROMILEY

### INVESTMENT ACTIVITY REPORT

#### 1. PURPOSE OF THE REPORT

- 1.1 To inform Members how the Investment Advice recommendations are being implemented.
- 1.2 To provide a detailed report on transactions undertaken to demonstrate the implementation of the Investment Advice recommendations and the Fund's Valuation.
- 1.3 To report on the treasury management of the Fund's cash balances.
- 1.4 To present to Members the latest Forward Investment Programme.

#### 2. RECOMMENDATION

- 2.1 That Members note the report and pass any comments.

#### 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 OCT – DEC 2018

- 4.1 The Fund continues to favour growth assets over protection assets. It is considered that in the long run, Bond yields will rise, but at present and while central banks intervene in the Bond markets, through quantitative easing, yields do not meet the actuarial requirements for the Fund and should continue to be avoided at these levels unless they are held as a short term alternative to cash. The Fund has no investments in Bonds at this time.
- 4.2 At the June 2018 Committee it was agreed that, a maximum level of 20% of the Fund would be held in cash – cash levels at the end of December 2018 are 17.0%. The Fund will look to use this cash to move away from its overweight position in equities and invest further in Alternatives. It is accepted that if the value of other asset classes fall, particularly Equities, there is a possibility that the short-term cash level can rise over the maximum set below.

- 4.3 Investment in direct property to continue on an opportunistic basis where the property has a good covenant, yield and lease terms. A property costing approx. £24.7m was purchased in the quarter. There was also a property sale of £2.4m, this property was the lowest valued within the portfolio and was deemed an unsuitable asset to hold.
- 4.4 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. No new commitments were entered into this quarter.
- 4.5 Summary of equity returns in this period:

Asset Class	Percentage Return Oct 18 – Dec 18	Percentage Return Jan 18 – Dec 18
UK Equity (FTSE All Share)	-10.2%	-9.5%
US Equity (S&P 500)	-11.5%	1.4%
Japanese Equity (Topix 500)	-12.7%	-8.1%
Pacific Equity (MSCI Asia X Japan)	-6.5%	-9.0%
European Equity (Stoxx 600)	-11.1%	-9.3%

Source: Bloomberg Total Return Analysis

## 5. TRANSACTION REPORT

- 5.1 It is a requirement that all transactions undertaken are reported to the Investment Panel. Appendix A details transactions for the period 1 October 2018 – 31 December 2018.
- 5.2 There were net purchases of approximately £77m in the period, this compares to net sales of £9m in the previous reporting period.

## 6. TREASURY MANAGEMENT

- 6.1 The Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice (the Code) sets out how cash balances should be managed. The Code states that the objective of treasury management is the management of the Authority's cash flow, its borrowings and investments, in such a way as to control the associated risks and achieve a level of performance or return consistent with those risks. The security of cash balances invested is more important than the interest rate received.
- 6.2 Middlesbrough Council adopted the Code on its inception and further determined that the cash balances held by the Fund should be managed using the same criteria. The policy establishes a list of counterparties (banks, building societies and others to whom the Council will lend) and sets limits as to how much it will lend to each counterparty. The counterparty list and associated limits are kept under constant review by the Strategic Director Finance, Governance and Support.

- 6.3 Although it is accepted that there is no such thing as a risk-free counterparty, the policy has been successful in avoiding any capital loss through default.
- 6.4 As at 31 December 2018, the Fund had £637.35 million invested with approved counterparties at an average rate of 0.74%. This is a decrease of £82.7 million over the last quarter.
- 6.5 The attached graph (Appendix B) shows the maturity profile of cash invested. It also shows the average rate of interest obtained on the investments for each time period.
- 6.6 Delegated authority was given to the Strategic Director Finance, Governance and Support by the Teesside Pension Fund Committee to authorise/approve any changes made to the Treasury Management Principles (TMPs), with subsequent reporting to this committee.

## **7. FUND VALUATION**

- 7.1 The Fund Valuation details all the investments of the Fund as at 31<sup>st</sup> December 2018, and is prepared by the Fund's custodian, BNP. The total value of all investments, including cash, is **£3,839 million**. The detailed valuation attached as Appendix C will also be made available on the Fund's website [www.teespen.org.uk](http://www.teespen.org.uk). This compares with the last reported valuation, as at 30 September 2018 of **£4,160 million**.
- 7.2 An analysis of the summary valuation shows the Fund's percentage weightings in the various asset classes as at 31 December 2018, compared with the Fund's customised benchmark and the advisors short-term asset allocation range.

ASSET CLASS	FUND	INVESTMENT ADVISORS' SHORT TERM ASSET ALLOCATION RANGE	CUSTOMISED BENCHMARK	AVERAGE*
<b>PROTECTION ASSETS</b>				
<b>BONDS</b>	<b>0</b>	<b>0 – 7½</b>	<b>12</b>	<b>15</b>
<b>CASH</b>	<b>17.0</b>	<b>5 – 20</b>	<b>3</b>	<b>2</b>
<b>GROWTH ASSETS</b>				
<b>UK EQUITY</b>	<b>29.2</b>	<b>25 – 32</b>	<b>30</b>	<b>62</b>
<b>OVERSEAS EQUITY</b>	<b>42.5</b>	<b>42 – 50</b>	<b>40</b>	
<b>ILLIQUID ASSETS</b>				
<b>PROPERTY</b>	<b>9.2</b>	<b>7 – 10</b>	<b>10</b>	<b>8</b>
<b>ALTERNATIVES</b>	<b>2.1</b>	<b>1½ – 5</b>	<b>5</b>	<b>10</b>
<b>DIVERSIFIED GROWTH</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>
<b>TOTAL</b>	<b>100</b>		<b>100</b>	<b>100</b>

*\*Average Local Authority Fund as at the latest date data is available (31 March 2017)*

## 8. FORWARD INVESTMENT PROGRAMME

- 8.1 The Forward Investment Programme provides commentary on activity in the current quarter and looks ahead for the next three to five years. It is updated after every Committee meeting to reflect the strategies put forward by the Investment Advisors and agreed by the Committee.

### EQUITIES

At the September 2018 Committee meeting, it was agreed to aim for a ratio of 50:50 active to passive equity investments. The ratio at the end of December 2018 was 46:54 active to passive.

In this quarter we invested £100m into the Border to Coast Overseas Developed Markets Equity Fund. Further investments into this Fund will be made in the coming quarter.

### BONDS + CASH

The Fund has a current benchmark allocation of 15%, and although it is proposed to increase the allocation to 20%, the Fund has no investments in bonds at this time, the level of cash invested is 17% of the Fund. Until there is clear instruction from the Committee, through its Investment Advisors, to invest in bonds this will remain the short term strategy. It is planned to reduce cash through investment into other asset classes (property, alternatives and

equities) in the near term. In addition, cash is being used to supplement the gap in contribution receipts and pension payments.

## **PROPERTY**

The current strategy for property is to increase direct property investments by £50 million on an opportunistic basis. The Fund purchases and sales are reported at the Committee by CBRE.

## **ALTERNATIVES**

The Fund's internal team are considering a number of investment opportunities in infrastructure and private equity funds, they will be looking to make commitments in the near term providing the investments meet the due diligence checks and investment requirements of the Fund.

In the medium to long term, it is proposed that commitments will be made through Border to Coast when their sub-Funds are available. These commitments will be sizable as BCPP will be assessing and making investments into numerous private equity and infrastructure funds.

At the September 2018 committee, it was agreed that with regard to Infrastructure the Fund would commit £100 million to BCPP in year 1 and £50 million per year for the subsequent 4 years.

For private equity, it is proposed that an initial commitment of £100 million is made through BCPP, with investments of £50 million made over the subsequent 4 years. To supplement this, and increase the pace of deployment of investments, the Fund is also looking at options for investing in "Secondary Market" funds in private equity at an amount of between £100 - £200 million.

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