

TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on 13 March 2019.

PRESENT: Councillors Bloundele, (Chair), Brady, Coupe, McGloin, Rostron, Walters and Hubbard (as substitute for Mohan)

ALSO IN ATTENDANCE: G Hall, XPS
S Kenny, EY
P Moon and W Bourne, Investment Advisors
A Owen, CBRE
A Stone, BCPP

OFFICERS: W Brown, S Lightwing, N Orton

APOLOGIES FOR ABSENCE were submitted on behalf of Lewis, Mohan, D Rooney, Beall (Stockton Borough Council), Massey (Redcar and Cleveland Borough Council).

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Brady	Non Pecuniary	Member of Teesside Pension Fund
Councillor Hubbard	Non Pecuniary	Member of Teesside Pension Fund
Councillor Rostron	Non Pecuniary	Member of Teesside Pension Fund
Councillor Bloundele	Non Pecuniary	Agenda Item 13 - Daughter works for EY

1 MINUTES - TEESSIDE PENSION FUND COMMITTEE - 12 DECEMBER 2019

The minutes of the meeting of the Teesside Pension Fund Committee held on 12 December 2018 were taken as read and approved as a correct record.

2 MESSAGE FROM HEAD OF PENSIONS GOVERNANCE AND INVESTMENTS

The Head of Pensions Governance and Investment, on behalf of the Committee, thanked Councillor Bloundele for his valued input during his term of office as Chair of the Teesside Pension Fund Committee.

3 WELCOME

Peter Moon and William Bourne, Investment Advisors, Andrew Stone, Border to Coast Pensions Partnership Ltd, and Andrew Owen, CBRE, were welcomed to the meeting.

SUSPENSION OF COUNCIL PROCEDURE RULE NO 5 - ORDER OF BUSINESS

ORDERED that, in accordance with Council Procedure Rule No 5, the Committee agreed to vary the order of business to deal with agenda items in the following revised order: Agenda Item 13, Agenda Items 6-12, and Agenda Items 14-17.

4 ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED

Draft Teesside Pension Fund Audit Planning Report - Year Ended 31 March 2019

Under the provisions of the Local Government Act 1972, S100B(4)(b), the Chair agreed that the above item could be considered due to there being no further meetings of the Committee until the new Municipal Year.

The Draft Teesside Pension Fund Audit Planning Report had been circulated prior to the meeting and copies were also made available at the meeting.

The External Auditor, EY, presented the Draft Teesside Pension Fund Audit Planning Report for the year ended 31 March 2019. The purpose of the report was to provide the Teesside Pension Fund Committee with the basis to review the Auditor's proposed audit approach and scope for the 2018/2019 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointment Ltd (PSAA), auditing standards and other professional requirements.

The Auditor highlighted the main audit risks and areas of focus as:

- Misstatements due to fraud or error.
- Valuation of unquoted investments.
- Valuation of directly held properties.
- Implementation of new accounting standards.

The overview of the audit plan was similar to the previous year and was still in draft as the Auditor was currently carrying out interim procedures and planning work. It was highlighted that a further risk around the Business World system, (previously Agresso) might be added once the Auditor had decided the testing approach. There had been discussion as to whether the move had been an upgrade or a full migration to the new system.

The first risk was mandatory and testing was carried out each year. The Valuation of Unquoted Investments was an area selected for focus due to the number of complex pooled investment vehicles and the move to BCPP. The Evaluation of directly held properties related to retail assets that the Fund held and due to the recent downturn in the high streets the Auditor wanted to focus on the valuation of those assets at the year end. Finally, the Implementation of new accounting standards was included due to this being the first year of the implementation of those standards. The Auditor confirmed that the final Plan would be presented to the Committee at the next meeting.

The Auditor also drew the Committee's attention to the planning materiality for the audit which had been set at £38.9m, representing 1% of the net year's assets and reduced from 2% the previous year. All uncorrected misstatements greater than £1.9m would be reported to Committee and any other items the Auditor considered should be notified.

Finally, the planned Audit Fee for 2018/2019 was £21,972, reduced from £28,535 the previous year due to re-tendering of the contract. Fees for any additional work carried out by the Auditor would be discussed with the Section 151 Officer and brought to the Committee for approval.

ORDERED that the report was noted.

5 **INVESTMENT ACTIVITY REPORT**

A report of the Strategic Director Finance, Governance and Support was presented to inform Members of the Teesside Pension Fund Committee how the investment advice recommendations were being implemented.

The Fund continued to favour growth assets over protection assets and Bonds should continue to be avoided unless held as a short term alternative to cash. The Fund had no investments in Bonds at this time.

The cash levels at the end of December 2018 were 17.0% and the Committee had previously agreed that the maximum level of 20% of the Fund would be held in cash.

Investment in direct property should continue on an opportunistic basis where the property had a good covenant, yield and lease terms. A property costing approximately £24.7m was purchased in the quarter. The lowest valued property in the portfolio, valued at £2.4m and

deemed and unsuitable asset to hold, was sold.

There were no new investments in Alternatives during the quarter. A summary of equity returns was provided at paragraph 4.5 of the submitted report.

Appendix A to the submitted report detailed all the transactions for the period 1 October 2018-31 December 2018. There were net purchases of approximately £77m in the period, compared to net sales of £9m in the previous reporting period.

As at 31 December 2018, the Fund had £637.35m invested with approved counterparties at an average rate of 0.74%. This was a decrease of £82.7m over the last quarter.

The total value of all investments, including cash, was £3,839m, compared with the last reported valuation, as at 30 September 2018 of £4,160m. An analysis of the summary valuation showed 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 at paragraph 7.2 of the submitted report.

The Forward Investment Programme provided commentary on activity in the current quarter and looked ahead for the next three to five years.

A copy of the Monthly Account Report for the Teesside Pension Fund to 31 December 2018 was attached at Appendix C to the report and would be added to the website following the meeting.

ORDERED that the report was noted.

6 **EXTERNAL MANAGERS' REPORTS**

The Head of Pensions and Governance presented a report to provide Members with quarterly investment reports in respect of funds invested externally with Border to Coast Pensions Partnership Limited (BCPP) and with State Street Global Advisers (State Street).

As at 31 December 2018 the Fund had investments in the Border to Coast UK Listed Equity Fund and the Border to Coast Overseas Development Markets Equity Fund. For both sub-funds the return target was an annual amount, expected to be delivered over rolling 3 year periods, before calculation of the management fee.

The BCPP report, attached at Appendix A to the submitted report, showed the market value of the portfolio as at 31 December 2018 and the investment performance over the preceding quarter and since the Fund's investments began. BCPP had also provided additional information, attached at Appendix B to the submitted report, in relation to the Overseas Developed Markets Equity Fund, providing a breakdown of key drivers of, and detractors from performance, in relation to each of its four regional elements.

State Street had a passive global equity portfolio invested across four different region tracking indices appropriate to each region. The State Street report, attached at Appendix C to the submitted report, showed the market value of the State Street passive equity portfolio and the proportions invested in each region as at 30 December 2018.

The Head of Pensions Governance and Investments commented that it was not realistic to measure performance over such a short time period, however, monitoring would take place over the longer term.

ORDERED that the report was noted.

7 **INVESTMENT ADVISORS' REPORTS**

The Independent Investment Advisors had provided written summaries of current market conditions and verbal updates were given at the meeting.

ORDERED that the information provided was received and noted.

8 **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. Currently there was very little investment activity in the UK Property market.

At 31 December 2018 the portfolio comprised 28 mixed-use properties located throughout the UK, with a combined value of £303.95m. This reflected an overall Net Initial Yield of 5.24%, and an Equivalent Yield of 5.48%. The portfolio comprised principally prime and good secondary assets. High Street retail, retail warehouse and industrial comprise 85.4% of the portfolio by capital value. There were 75 demises and a total net lettable area of 1,949,442 square feet.

The Fund successfully disposed of the industrial asset at Pintail Close in Nottingham, occupied by Go Karting For Fun Ltd, to the St John's High Income Property Fund for £2,450,000. The sale price was £165,000 ahead of the asking price and £150,000 (+12.6%) ahead of the Capital Value as at the September 2018 valuation. The sale completed in December 2018.

The total Collectable Arrears on the entire portfolio was £111,215.89 at 17 January 2019. Of the Collectable Arrears, 94.6% (£105,243.04) related to three tenants. The remaining 5.40% of the Collectable Arrears (£5,972.85) related to 17 different tenant accounts; all of which were being chased.

ORDERED that the report was noted.

9 **CONSULTATION ON POOLING**

A report of the Strategic Director Finance, Governance and Support was presented to advise Members of an informal consultation on new statutory guidance on asset pooling within the Local Government Pension Scheme (LGPS), and to ask Members to comment on, and approve a response.

The draft guidance was more prescriptive about what LGPS investment pooling should look like. In general, the approach to pooling set out in the draft guidance closely matched the approach that BCPP, and the twelve Funds that owned it, had taken to pooling.

The Head of Pensions Governance and Investment outlined the main points to note in the draft guidance, which were detailed at point 5.2 of the submitted report.

Appendix B, attached to the submitted report, set out a proposed response to the consultation, based on the most significant areas set out in the main report. A further comment was proposed that there should be an open consultation, rather than an informal one, in response to statutory guidance.

The other eleven funds in BCPP were expected to submit responses, as was the BCPP Joint Committee and the pooling company itself. All responses were expected to deliver a similar message.

ORDERED as follows that:

1. An additional comment was added to the response to propose that there should be open consultation, rather than informal, in response to statutory guidance.
2. The proposed response at Appendix B, subject to the above amendment, was approved for submission to the Ministry for Housing, Communities and Local Government.

10 **COST MANAGEMENT**

A report of the Strategic Director Finance, Governance and Support was presented to advise Members of the Teesside Pension Fund Committee of changes proposed to the regulations

governing the Local Government Pension Scheme (LGPS) as a consequence of the Scheme Advisory Board's cost management process, and the reason implementation of these proposed changes had been delayed.

The Future Service Cost mechanism operated by the Scheme Advisory Board had determined the future service cost for LGPS was 19% against the target of 19.5%. In order to bring the cost back in line with the target cost, the Scheme Advisory Board recommended the following changes to contributions and benefits:

- Removal of the third tier of ill-health (assume it will be replaced by second tier ill-health).
- A minimum death in service benefit of £75,000.
- Enhanced early retirement reduction factors.
- Employee contributions: A new 2.75% band at pay from £0 to £12,850, reduced rate of 4.4% (from 5.8%) for pay from £12,501 to £22,500, and an expansion of the top of the current 6.8% band from £45,200 to £53,500.

The Scheme Advisory Board produced a draft consultation document, a copy of which was attached at Appendix A to the submitted report, which set out the expected content of a more formal consultation.

The impact on employers would vary, depending on the profile of their scheme members. AON, the Pension Fund actuary, estimated the cost to employers as being 0.9% of pensionable pay on average but ranging up to 3.0% of pensionable pay. The additional cost of these potential future scheme changes would need to be considered as part of the 31 March 2019 valuation.

However, on 30 January 2019, the Scheme Advisory Board advised that the Government had announced a pause in the cost management process for public service pension schemes due to an ongoing appeal in relation to the McCloud court case. As a result, there are currently no changes to benefits planned in respect of the cost cap and this would be reviewed once the McCloud case was resolved, which was not expected to be until the end of 2019.

Further guidance was awaited on how the Fund actuaries should take into account the expected increase in liabilities, caused either by the implementation of the McCloud case outcome or the introduction of benefit improvements and contribution reductions if the cost management process was implemented. Information would be provided to scheme employers once the position was clearer.

ORDERED that the report was noted.

11 **XPS - ADMINISTRATION REPORT**

A report was submitted to provide an overview of administration services provided to the Teesside Pension Fund by XPS Administration. A copy of the latest Teesside Pension Fund Service Delivery Report was attached at Appendix A to the submitted report and provided information on the work undertaken since the last update by the Administration Unit.

In relation to recruitment of staff it was noted that eleven employer liaison posts had been advertised and interviews would be held at the end of March. The Communications posts had not yet been advertised.

The Chair queried whether the increased service charges previously agreed had been implemented and it was confirmed that this would not happen until the additional staff were recruited and in post.

ORDERED that the report was noted.

THANKS

The Chair thanked Members, Advisors and Officers for their input to the Teesside Pension Fund Committee during his tenure as Chair and wished everyone well for the future.

12 **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.

13 **BCPP - PRESENTATION**

A presentation was provided by Border to Coast Pensions Partnership Ltd which included overviews of the Fund and also Alternative assets, updates on the UK Listed Equity Fund and Overseas Developed Equity Fund, and information in relation to private equity and infrastructure.

14 **CUSTODIAN CONTRACT - VERBAL UPDATE**

The Committee was informed that a new Custodian had been appointed, with this appointment taking effect from 1 May 2019.

15 **HIGH COURT REFERRAL - VERBAL UPDATE**

The Head of Pensions Governance provided the Committee with a verbal update in relation to a Pensions Ombudsman Appeal and High Court Referral.