

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 7

PENSION FUND COMMITTEE REPORT

19 JUNE 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 JAN – MAR 2019

- 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 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 March 2019 are 13.3%. 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 above.
- 4.3 Investment in direct property to continue on an opportunistic basis where the property has a good covenant, yield and lease terms. No property transactions were undertaken in this quarter.

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 investing capital 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 investments were entered into this quarter though drawdowns of £22.3m on committed investments were called.

4.5 Summary of equity returns in this period:

Asset Class	Percentage Return Jan 18 – Mar 18	Percentage Return Apr 18 – Mar 19
UK Equity (FTSE All Share)	10.0%	0.1%
US Equity (S&P 500)	11.3%	19.3%
Japanese Equity (Topix 500)	4.4%	-0.8%
Pacific Equity (MSCI Asia X Japan)	7.1%	2.4%
European Equity (Stoxx 600)	7.9%	4.4%

Source: Portfolio EvaluationLtd (PEL)

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 January 2019 – 31 March 2019

5.2 There were net purchases of approximately £99m in the period, this compares to net purchases of £77m 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 March 2019, the Fund had £527.45 million invested with approved counterparties at an average rate of 0.89%. This is a decrease of £110 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.
- 6.7 The Strategic Director Finance, Governance and Support has authorised the following change in the TMPs effective from June 2019: Addition of Imperial Treasury Services to the list of approved brokers.

7. FUND VALUATION

- 7.1 The Fund Valuation details all the investments of the Fund as at 31st March 2019, and is prepared by the Fund's then custodian, BNP. The total value of all investments, including cash, is **£4,084 million**. The detailed valuation attached as Appendix C is also available on the Fund's website www.teespen.org.uk. This compares with the last reported valuation, as at 31 December 2018 of **£3,839 million**.
- 7.2 An analysis of the summary valuation shows the Fund's percentage weightings in the various asset classes as at 31 March 2019, 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*
PROTECTION ASSETS				
BONDS	0	0 – 7½	18	15
CASH	13.3	5 – 20	2	2
GROWTH ASSETS				
UK EQUITY	30.2	25 – 32	21.4	62
OVERSEAS EQUITY	45.3	42 – 50	28.6	
ILLIQUID ASSETS				
PROPERTY	8.6	7 – 10	10	8
ALTERNATIVES	2.6	1½ – 5	20	10
DIVERSIFIED GROWTH	0	0	0	3
TOTAL	100		100	100

**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.

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 March 2019 was 48:52 active to passive.

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 13.3% 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. The Border to Coast Private Equity Fund went active on the 22 May 2019, we are anticipating that an initial drawdown will be made this quarter and reported to the next Committee meeting.

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