

TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on 19 June 2019.

PRESENT: Councillors Coupe, (Chair), Polano, (Vice Chair), Dean, Rathmell, Rostron, Sands, S Walker and A Bell (As Substitute for Cooper).
P Fleck and T Watson

ALSO IN ATTENDANCE: P Moon and W Bourne, Investment Advisors
A Owen, CBRE
A Stone, BCPP

OFFICERS: W Brown, S Lightwing, N Orton, J Robinson, J Shiel

APOLOGIES FOR ABSENCE were submitted on behalf of Councillors Cooper and Beall (Stockton Borough Council).

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Rostron	Non Pecuniary	Member of Teesside Pension Fund
Councillor Sands	Non Pecuniary	Member of Teesside Pension Fund
Mr P Fleck	Non Pecuniary	Member of Teesside Pension Fund

1 APPOINTMENT OF CHAIR PRO TEM

As the previous Vice Chair of the Teesside Pension Fund Committee, Councillor Rostron took the Chair *Pro Tem* of the Teesside Pension Fund Committee.

Councillor Rostron advised all present that, as per the Terms of Reference of the Teesside Pension Fund Committee, only Middlesbrough Elected Members were entitled to nominate and vote for the positions of Chair and Vice Chair of the Committee.

NOTED

2 APPOINTMENT OF CHAIR OF THE TEESSIDE PENSION FUND COMMITTEE

Nominations were sought for the appointment of Chair of the Teesside Pension Fund Committee. Councillor Coupe was nominated, seconded and appointed as Chair of the Teesside Pension Fund Committee.

ORDERED that Councillor Coupe was appointed as Chair of the Teesside Pension Fund Committee.

3 APPOINTMENT OF VICE CHAIR OF THE TEESSIDE PENSION FUND COMMITTEE

Nominations were sought for the appointment of Vice Chair of the Teesside Pension Fund Committee. Councillor Polano was nominated, seconded, and appointed as Vice Chair of the Teesside Pension Fund Committee.

ORDERED that Councillor Polano was appointed as Vice Chair of the Teesside Pension Fund Committee.

4 MINUTES - TEESSIDE PENSION FUND COMMITTEE - 13 MARCH 2019

The minutes of the meeting of the Teesside Pension Fund Committee held on 13 March 2019, were taken as read and approved as a correct record, subject to a minor amendment.

5

INVESTMENT ACTIVITY REPORT

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

A detailed report on the transactions undertaken to demonstrate the implementation of the Investment Advice recommendations and the Fund's valuation was included, as well as a report on the treasury management of the Fund's cash balances and the latest Forward Investment Programme.

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 currently had no investments in Bonds.

The cash levels at the end of March 2019 were 13.3%, with a maximum level of 20% of the Fund held in cash previously agreed by the Committee.

Investment in direct property should continue on an opportunistic basis where the property had a good covenant, yield and lease terms. No property transactions were undertaken in this quarter.

There were no new investments in Alternatives during the quarter; however, drawdowns of £22.3 million on committed investments were called. A summary of equity returns was included in the submitted report at paragraph 4.5.

Appendix A to the submitted report detailed the transactions for the period 1 January 2019-31 March 2019. There were net purchases of approximately £99 million in the period, compared to net purchases of £77 million in the previous reporting period.

As at 31 March 2019, the Fund had £547.45 million invested with approved counterparties at an average rate of 0.89%. This was a decrease in the cash level of £110 million over the last quarter. Appendix B to the submitted report showed the maturity profile of cash invested and the average rate of interest obtained on the investments for each time period.

The total value of all investments, including cash, was £4,084 million, compared with the last reported valuation as at 31 December 2018 of £3,839 million. An analysis of the summary valuation showed 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.

The Forward Investment Programme provided commentary on activity in the current quarter and looked ahead for the next three to five years and a summary was included at paragraph 8 of the submitted report.

A copy of the Monthly Accounting Report for the Teesside Pension Fund to 31 March 2019 was attached at Appendix C to the report.

ORDERED that the report was noted.

6

EXTERNAL MANAGERS' REPORTS

A report of the Strategic Director of Finance, Governance and Support was presented 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 March 2019 the Fund had investments in the Border to Coast UK Listed Equity Fund and the Border to Coast Overseas Developed Markets Equity Fund. Appendix A to the submitted report showed the market value of the portfolio as at 31 March 2019 and the

investment performance over the preceding quarter and since the Fund's investments began. A breakdown of key drivers of, and detractors from performance, in relation to each of its four regional elements, market background information and an update of news items were also included in the report.

The State Street report, attached at Appendix B to the submitted report, showed the market value of the State Street passive equity portfolio and the proportions invested in each region as at 31 March 2019. Performance figures were also detailed in the report. For Japan and Asia Pacific ex Japan these figures dated back 10 years, as the Fund had been investing a small proportion of its assets in these regions passively for some time; for North America and Europe ex UK the figures covered just over six months as this represented a comparatively new investment for the Fund.

ORDERED that the report was noted.

7 PRESENTATION FROM BORDER TO COAST CLIENT RELATIONSHIP MANAGER

The Client Relationship Manager from Border to Coast Pension Partnership (BCPP) gave a detailed presentation in relation to BCPP, which covered the following points:

- Introduction to BCPP- organisation, aims and progress to date.
- Equity Investments.
- Alternative Assets.
- Responsible Investments.

ORDERED that the information provided was received and noted.

8 INVESTMENT ADVISORS' REPORTS

The Independent Investment Advisors had provided written reports which had been circulated to all Committee Members prior to the meeting.

Both Advisors provided a commentary on their reports at the meeting, which covered the following areas:

- The Fund's position today.
- Current market conditions.
- Economic and political outlook.
- Portfolio commentary and recommendations for the Committee.

ORDERED that the information provided was received and noted.

9 CBRE PROPERTY REPORT

By way of introduction, the Fund's Property Advisor gave a brief history of the role of CBRE in managing the Fund's direct property portfolio since 2011.

A report was submitted that provided an overview of the current property market and informed Members of the individual property transactions relating to the Fund. The last quarter had seen a continuance of a very quiet property investment market and continued newspaper headlines about retailers on a regular basis.

As at 31 March 2019 the portfolio comprised 28 mixed-use properties located throughout the UK, with a combined value of £300.70 million. This reflected an overall Net Initial Yield of 5.36%, and an Equivalent Yield of 5.55%. The portfolio comprised principally prime and good secondary assets. High Street retail, retail warehouse and industrial comprised 85.5% of the portfolio by capital value. There were 75 demises and a total net lettable area of 1,949,442 square feet.

There were no sales or acquisitions during the period 1 January to 31 March 2019.

The total collectable arrears on the entire portfolio was £12,690.02 at 7 May 2019. Of the collectable arrears, 64.8% (£8,228.81) related to four tenants. The remaining 35.2% of collectable arrears (£4,461.11) related to 18 different tenant accounts; all of which were being chased.

With regard to the asset management information in the submitted report, the Committee was informed that offers had been received on the empty unit at Cirencester Retail Park, reparation works had commenced at Bromfield Central and a new lease had been agreed at Gloucester Road

ORDERED that the report was noted.

10 **PENSION FUND BUSINESS PLAN 2019-2022**

A report of the Strategic Director of Finance, Governance and Support was presented to request the Committee's approval of the annual Business Plan 2019-2022 for the Fund.

The Plan was designed to set out how the Pension Fund Committee operated, what powers were delegated and to provide information on key issues. The Plan also contained financial estimates for the Fund, including budgeted costs for investment and management expenses. A copy of the Business Plan was attached at Appendix 1 to the submitted report and included:

- The purpose of the Fund, including the Teesside Pension Fund Service Promise (Appendix A).
- The current governance arrangements for the Fund.
- The performance targets for the Fund for 2019/20, and a summary of the performance for 2018/19 (Appendix B).
- The arrangements in place for managing risk and the most up to date risk register for the Fund (Appendix C).
- Membership, investment and funding details for the Fund.
- An outturn for 2018/19 and an estimate for income and expenditure for 2019/20 (Appendix D and page 21 of Appendix 1).
- An annual plan for key decisions and a forward work programme for 2019/20 and an outline work plan for 2020-2022.

In relation to the Forward Plan for Key Decisions, under the Pension Investments heading, it was suggested that a review of the protection growth should be added so that a framework was in place.

ORDERED as follows:

1. an additional heading was added to the Forward Plan for Key Decisions in relation to reviewing protection growth.
2. the annual Business Plan 2019-2022, subject to the amendment at 1. above, was approved.

11 **CONSULTATION ON CHANGES TO VALUATION CYCLE, EXIT PAYMENTS AND ACCESS TO LGPS FOR SOME EMPLOYERS**

A report of the Strategic Director of Finance, Governance and Support was presented to advise Members of a consultation on changes to the regulations governing the Local Government Pension Scheme (LGPS) and to ask Members to delegate the Head of Pensions Governance and Investments, in consultation with the Chair and Vice Chair, to provide a response on behalf of the Council as Administering Authority of the Fund.

The Ministry for Housing, Communities and Local Government (MHCLG) issued a consultation document on 8 May 2019 entitled "LGPS: Changes to the local valuation cycle and the management of employer risk policy" opening a 12 week consultation ending 31 July

2019.

The consultation covered the following areas:

- Changes to the local fund valuations from the current 3 year (triennial) to a 4-year (quadrennial) cycle.
- A number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle.
- Proposals for flexibility on exit payments.
- Proposals for further policy changes to exit credits.
- Proposals for changes to the employers required to offer local government pension scheme membership. More specifically the proposal was "to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS."

The Head of Pensions Governance and Investment provided a brief explanation on each issue.

ORDERED that authority was delegated to the Head of Pensions Governance and Investment, in consultation with the Chair and Vice Chair of Teesside Pension Fund Committee, to provide a response to the Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk policy consultation.

12

XPS PENSIONS ADMINISTRATION REPORT

A report of the Strategic Director of Finance, Governance and Support was submitted to provide an overview of administration services provided to the Teesside Pension Fund by XPS Administration.

ORDERED that the report was noted.