

TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on 18 September 2019.

PRESENT: Councillors D P Coupe, (Chair), Furness, Polano, Rostron, Sands and Hill (As Substitute)

A Watson, Unison Representative

Other Local Authority Member:
Nightingale, Redcar and Cleveland Council

ALSO IN ATTENDANCE: W Bourne, Investment Advisor
A Owen, A Peacock, CBRE
G Hall, XPS Administration
A Stone, BCPP

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

APOLOGIES FOR ABSENCE were submitted on behalf of Councillors Beall, Cooper, Dean, S Walker.

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Rostron	Non pecuniary	Teesside Pension Fund Member
Councillor Sands	Non pecuniary	Teesside Pension Fund Member

19/16 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 24 JULY 2019**

The minutes of the meeting of the Teesside Pension Fund Committee held on 24 July 2019 were taken as read and approved as a correct record.

19/17 **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 June 2019 were 12.9%.

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. Drawdowns of £19.8 million on committed investments were called. It was clarified that the remaining committed funds were held by Teesside Pension Fund, not Border to Coast, until they were drawn down and invested.

A summary of equity returns for the quarter 1 April 2019 to 30 June 2019 was included in the submitted report at paragraph 4.5.

Appendix A to the submitted report detailed the transactions for the period 1 April 2019 to 30 June 2019. There were net purchases of approximately £4.5 million in the period, compared to net purchases of £99 million in the previous reporting period.

As at 30 June 2019, the Fund had £524.3 million invested with approved counterparties at an average rate of 0.93%. This was a decrease of £3.3 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 £4,168 million, compared with the last reported valuation as at 31 March 2019 of £4,084 million. A summary analysis valuation showed the Fund's percentage weightings in the various asset classes as at 30 June 2019, compared with the Fund's customised benchmark.

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 30 June 2019 was attached at Appendix C to the report.

ORDERED that the report was received and noted.

19/18 **PRESENTATION FROM BORDER TO COAST HEAD OF CLIENT RELATIONS**

A copy of a presentation had been circulated which provided information on the following areas:

- Progress Update.
- Bonds.
- Investment Grade Credit.
- Multi-Asset Credit.
- Private Credit - Update.
- Private Equity.
- Infrastructure - Update.

The Head of Client Relations from Border to Coast provided further explanation at the meeting, particularly in relation to BCPP's approach to Multi-Asset Credit and the team it was currently building. Members raised concerns in relation to funds being managed by a team outside of BCPP. The Head of Client Relations reassured Members that BCPP would retain total responsibility for the portfolio and that Border to Coast's Investment Committee would oversee all decisions.

ORDERED that the information was received and noted.

19/19 **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 30 June 2019 the Fund had investments in the Border to Coast UK Listed Equity Fund and the Border to Coast Overseas Developed 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 Fund also had investments in Border to Coast Private Equity sub-fund. Towards the end of the quarter an initial \$2.1 million was invested out of a total commitment for 2019/20 to this

sub-fund of £100 million. However, this investment was not reflected within the Border to Coast report attached at Appendix A to the submitted report. Appendix A showed the market value of the portfolio as at 30 June 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 related to Border to Coast were also included in the report.

State Street had a passive global equity portfolio invested across four different regions tracking indices appropriate to each region. 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 30 June 2019. Performance figures were detailed in the report. For Japan and Asia Pacific ex Japan these figures dated back around 18 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 nine months as this represented a comparatively new investment for the Fund.

The current commitment to State Street was agreed until January 2020 at which point the Teesside Pension Fund Committee would need to take a decision as to whether to continue investing in the passive fund or to move to Border to Coast's active overseas fund.

ORDERED that the report was received and noted.

19/20 **INVESTMENT ADVISORS' REPORTS**

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

William Bourne provided further commentary on his report at the meeting, which covered the following areas:

- Market conditions.
- Economic and political outlook.
- The Fund's current position.
- Portfolio commentary and recommendations for the Committee.

It was highlighted that the Fund's current positioning remained a long way from the strategic allocation and recommended that this was addressed as a priority.

ORDERED that the information provided was received and noted.

19/21 **CBRE PROPERTY REPORT**

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.

Currently the markets were subdued and transaction volumes were decreasing. Alternatives such as student accommodation and hotels, were typically being looked on more favourably in the market than retail assets.

As at 30 June 2019 the portfolio comprised 28 mixed-use properties located throughout the UK, with a combined value of £292.4 million. This reflected an overall Net Initial Yield of 5.50%, and an Equivalent Yield of 5.65%. The portfolio comprised principally prime and good secondary assets. High Street retail, retail warehouse and industrial comprised 86.3% 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 April to 30 June 2019. However, two potential acquisitions were currently being explored.

Since the submitted report was issued to the Committee, the total collectable arrears had reduced to £31,000 and related to three tenants. The issues were being resolved and an update would be provided at the next meeting.

ORDERED that the information provided was received and noted.

19/22

UPDATE ON CURRENT ISSUES

A report of the Strategic Director of Finance, Governance and Support was presented to provide Members with an update on current issues affecting the Pension Fund locally or the Local Government Pension Scheme (LGPS) in general.

Information was provided in relation to:

- 2019 Actuarial Valuation.
- LGPS Cost Management Process and the McCloud Case.
- Scheme Advisory Board Governance Report.
- Competition and Markets Authority Order.
- Statutory Guidance on Asset Pooling.
- Probable Changes to the Valuation Cycle, exit payments to employers and access to the LGPS in the further education sector.
- Cap on exit payments over £95,000.

The Head of Pensions Governance and Investments provided additional commentary at the meeting.

In relation to the 2019 Actuarial Valuation it was noted that the Actuary would attend the next Committee meeting to talk about the results and the impacts on the different employers in the Fund. Although a good funding level was expected, it was anticipated that the future service rate for employers would increase.

ORDERED that the report was received and noted.

19/23

XPS PENSIONS ADMINISTRATION REPORT

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

Highlights included:

- Membership Movement.
- Complaints. No complaints had been received in the last quarter.
- Common Data and Conditional Data. A list showing what items were reported on was included at Appendix B to the report.
- Customer Service. The Customer Satisfaction Survey returns were currently at 20%.
- Recruitment. Additional recruitment was taking place and an additional six members of staff were now employed in the Middlesbrough office.
- Performance. Performance targets had been met.

ORDERED that the report was received and noted.