

**TEESSIDE PENSION FUND COMMITTEE**

A meeting of the Teesside Pension Fund Committee was held on 22 January 2020.

**PRESENT:** Councillors Coupe, (Chair), Bell, Cooper, Dean, Furness, Polano and Rostron

B Foulger, GMB Representative  
A Watson, Unison Representative

Other Local Authority Members:  
Councillor Beall, Stockton on Tees Council  
Councillor Nightingale, Redcar and Cleveland Council

**PRESENT BY INVITATION:** Councillor C Hobson, Executive Member, Finance and Governance

**ALSO IN ATTENDANCE:** W Bourne, P Moon, Investment Advisors  
B Durran, AON  
G Hall, XPS Administration  
A Owen, A Peacock, CBRE  
A Stone, BCPP

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

**APOLOGIES FOR ABSENCE** were submitted on behalf of Councillors Sands, S Walker.

**DECLARATIONS OF INTERESTS**

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Beall	Non pecuniary	Teesside Pension Fund Member
Councillor Cooper	Non pecuniary	Teesside Pension Fund Member
Councillor Rostron	Non pecuniary	Teesside Pension Fund Member
B Foulger	Non pecuniary	Teesside Pension Fund Member
Councillor Nightingale	Non pecuniary	Agenda Item 6 - in receipt of Pension from Company referenced in presentation
P Moon	Pecuniary	Agenda Item 17 -professional connection to Company referenced in report

**1 MINUTES - TEESSIDE PENSION FUND COMMITTEE - 18 SEPTEMBER 2019**

The minutes of the meeting of the Teesside Pension Fund Committee held on 18 September 2019 were taken as read and approved as a correct record.

**2 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 and 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 September were 11.4%. The Fund would look to use this cash to move away from its overweight position in equities and invest further in Alternatives.

Investment in direct property should continue on an opportunistic basis where the property had good covenant, yield and lease terms.

No property transactions were undertaken during this quarter. Drawdowns of £48.7 million on committed investments were called. The Fund was currently above its target asset allocation of 50% equities, as at the end of September, the weight of the Fund's equity investments was 77.4%, this overweight would be reduced over time when alternative investments were sourced.

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

Appendix A to the submitted report detailed transactions for the period 1 July 2019 to 30 September 2019. There were net purchases of £38.7 million in the period, this compared to net purchases of £4.5 million in the previous reporting period.

As at 30 September 2019, the Fund had £468 million invested with approved counterparties at an average rate of 0.66%. This was a decrease of over £56 million over the last quarter. Appendix B to the submitted report showed the maturity profile of cash invested as well as the average rate of interest obtained on the investments for each time period.

The total value of all investments, including cash, was £4,265 million, compared with the last reported valuation as at 30 June 2019, of £4,168 million. It was highlighted that since there was a delay in the Fund's Custodian, Northern Trust, receiving valuation statements and transaction information directly from the Investment Funds, there was an amount of approximately £50 million invested not accounted for in the above valuation. This timing issue occurred each quarter and Members would be informed of the over/under stated amount at the end of each valuation period. The detailed valuation was attached at Appendix C to the submitted report and was also available on the Fund's website.

A summary analysis valuation showed the Fund's percentage weightings in the various asset classes as at 30 September 2019 compared with the Fund's customised benchmark.

The Forward Investment Programme provided commentary on activity in the current quarter as well as looking ahead to the next three to five years. Details of the current commitments in equities, bonds and cash, property and alternatives were included in paragraph 8 of the submitted report.

**ORDERED** that the report was received and noted.

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#### **EXTERNAL MANAGERS' REPORTS**

A report of the Strategic Director 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 September 2019 the Fund had investments in the following two Border to Coast listed equity sub-funds:

- The Border to Coast UK Listed Equity Fund, which had an active UK equity portfolio aiming to produce long term returns of at least 1% above the FTSE All Share index.
- The Border to Coast Overseas Developed Markets Equity Fund, which had an active overseas equity portfolio aiming to produce total returns of at least 1% above the total

return of the benchmark (40% S&P 500, 30% FTSE Developed Europe ex UK, 20% FTSE Developed Asia Pacific ex Japan, 10% FTSE Japan).

The Fund also had investments in the Border to Coast Private Equity sub-fund and the Border to Coast Infrastructure sub-fund. By 30 September 2019 £2.1 million was invested in the Private Equity sub-fund and £1.8 million was invested in the Infrastructure sub-fund out of total commitments for 2019/2020 to these sub-funds of £100 million each. However, this investment was not reflected within the Border to Coast report attached at Appendix A to the submitted report. Appendix A detailed the market value of the portfolio as at 30 September 2019 and the investment performance over the preceding quarter, year, and since the Fund's investments began. Border to Coast had also provided information in relation to the Overseas Developed Markets Equity Fund, giving 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 some news items.

A query was raised in relation to the 12% allocation of the Overseas Developed Markets Equity Fund to Health Care. It was clarified that "Health Care" included providers of medical equipment, supplies and pharmaceuticals and not the provision of private health care services.

A Member commented that it was pleasing to note the comment in the report in relation to Utilities that "pressure from increased capital investment, changes in government policy, increased regulatory risk and technological advances in renewable power generation was having an adverse impact on traditional power generation companies."

The State Street report, attached to the submitted report at Appendix B, showed the market value of the State Street passive equity portfolio and the proportions invested in each region as at 30 September 2019. Performance figures were also shown in the report: for Japan and Asia Pacific ex Japan these figures dated over 10 years, as the Fund had been investing a small proportion of its assets in these regions passively since 2001; for North America and Europe ex UK the figures only covered just over one year as this represented a comparatively new investment for the Fund.

**ORDERED** that the report was received and noted.

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#### **TEESSIDE PENSION FUND VALUATION TRAINING**

The Committee received training by way of a presentation from the Fund Actuary, AON Hewitt Limited.

The presentation covered the following areas:

What is an actuarial valuation.  
Setting the assumptions.  
Funding strategy and uncertainties.  
Timescales.

Panel Members raised queries throughout the presentation and the Actuary responded accordingly.

***Councillor Nightingale made a Declaration of Interest at this point in the meeting.***

**ORDERED** that the presentation was received and noted.

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#### **DRAFT ACTUARIAL VALUATION OUTCOME**

A report of the Strategic Director Finance, Governance and Support was presented to provide Members with details of the draft outcome of the actuarial valuation as at 31 March 2019. The final valuation report would be published at the end of March 2020 and would set the employer contribution rates for scheme employers for the three-year period starting 1 April 2020.

A draft summary report was attached to the submitted report at Appendix A setting out the whole of Fund results. Many of the scheme employers had already been provided details of how the valuation outcome would affect them, including details of their expected future employer contribution rate for the three year period from 1 April 2020.

The valuation outcome at a whole Fund level had been very positive, with the funding level improving from around 100% to around 116%, largely because of the investment returns significantly above the level forecast at the last valuation. This had resulted in many employers being in surplus and, in some cases (depending on the type of employer) being able to use some of that surplus to maintain or reduce their employer contribution rate.

At the same time as an improved funding level, the cost of providing Fund benefits had increased significantly. This was primarily as a result of changes to the financial assumptions: reducing the discount rate and increasing the probability of funding success. Another factor in the increased costs of the scheme was the allowance made to cover the expected cost of both the payments to settle the McCloud case and to cover the cost sharing adjustment.

As part of the valuation a distinction was being made between how contribution rates were set for different employers. A different funding target, with associated different financial assumptions, would normally apply to admission body employers closed to new entrants and other bodies, whose participation in the Fund was believed to be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit. These employers were likely to see increases in contributions as part of this valuation. This allowed employers to pay contributions which better targeted the funding required on exit from the Fund and would help mitigate the risk this type of employer posed to the other employers in the Fund, should they exit without paying their Fund liabilities in full. Where possible, employers with a significant increase in contribution rate would be given the opportunity to spread the implementation of the increase across a number of years.

The main tax-raising employers would see material reductions in their employer contribution rate for the three years up to the next valuation because of their ability to use surplus to reduce their ongoing contribution rate.

The final valuation report would be completed by 31 March 2020 and would be published on the Fund website with a link circulated to all employers and other relevant parties including Committee and Teesside Pension Board Members.

**ORDERED** that the information provided was received and noted.

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## **REVISED FUNDING STRATEGY STATEMENT**

A report of the Strategic Director Finance, Governance and Support was presented to request Members' approval to proposed revised wording for the Funding Strategy Statement prior to its circulation to stakeholders for comments.

The Local Government Pension Scheme Regulations 2013 (as amended) required Administering Authorities to publish a Funding Strategy Statement by 31 March 2015 and to keep this statement under review, in consultation with appropriate persons.

The proposed revised wording for the Funding Strategy Statement (the Statement) was attached at Appendix A to the submitted report. The Fund Actuary had led the redrafting of the Statement. Most of the changes were required because of the ongoing actuarial valuation and were needed to ensure the Statement was consistent with the final valuation report.

The most significant differences from the previous version were set out at paragraphs 5.2 to 5.9 of the submitted report and included:

- Different Funding Targets applied to different employers.

- Different Funding Targets lead to different discount rates applying.
- Use of surplus.
- Pooling of risk benefits.
- A process for calculating any exit payment due from, or exit credit to pay to, an employer exiting the fund.
- Increase in the probability of funding success to 75%.
- The section on risk.
- The approach to setting funding levels for Academies.

The Head of Pensions Governance and Investments drew particular attention to the pooling of risk benefits and explained that this was self-insurance within the scheme. For a small employer the cost of providing a lump sum for death in-service or ill-health retirement could be significant and pooling shared the cost across all employers in the Fund.

Following approval, the Funding Strategy Statement would be circulated to relevant stakeholders for comments. If there were no significant amendments it would be published on the Fund's website. Any significant amendments requested would be brought back to the Committee for approval before publication.

**ORDERED** that the:

1. Report was received and noted.
2. Revised wording for the Funding Strategy Statement was approved.

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#### **BORDER TO COAST RESPONSIBLE INVESTMENT POLICY AND CORPORATE GOVERNANCE VOTING GUIDELINES**

A report of the Strategic Director Finance, Governance and Support was presented to advise the Committee of recent changes made by Border to Coast Pensions Partnership Limited (Border to Coast) to its Responsible Investment Policy and Corporate Governance Voting Guidelines. Copies of both documents were attached at Appendices A and B to the submitted report.

To allow a practical and consistent approach to pooled investments, Border to Coast developed a Responsible Investments Policy and a Corporate Governance and Voting Guidelines document for all twelve Partner Funds to approve that applied across all the investments it holds on their behalf. Both documents were subject to annual review.

The administering authorities of all the Partner Funds were being requested to approve the revised documents, which did not contain any changes to underlying principles. The main changes were to reflect the new Shareholder Rights Director that came into force in 2019 and to continue the clarification of Border to Coast's intentions on voting and alignment with the Principles for Responsible Investment.

Border to Coast had very recently become a signatory of the United Nations supported Principles for Responsible Investment (PRI), reflecting its commitment to long-term sustainable investment.

The proposed updates and changes to both documents and the rationale was set out at paragraph 5.1 of the submitted report.

A Member expressed disappointment that Border to Coast had not included health factors in their areas of consideration for responsible investment. Specifically, investment in tobacco companies. The Head of Pensions Governance and Investments confirmed that Border to Coast was likely to be looking at the topic of tobacco investment at a future workshop on responsible investment.

Border to Coast would continue to develop and update its approach to Responsible Investment and Corporate Governance. A Responsible Investment workshop would be held in March for Pension Fund Committee Chairs and Officers and the Head of Responsible Investment would attend a future Committee meeting to provide an update.

**ORDERED** that:

1. The report was received and noted.
2. Border to Coast's Responsible Investment Policy and Corporate Governance Voting Guidelines, as attached at Appendices A and B to the submitted report, were approved.

**8 PRESENTATION FROM BORDER TO COAST HEAD OF CLIENT RELATIONS**

The Head of Client Relations, Border to Coast, provided an update on progress in 2019, which included:

- Fifth equity fund (Global Equity Alpha) launched.
- Three Alternative assets funds launched.
- First bond fund designed and managers selected (launch in 2020 Quarter 1).
- Statutory Accounts approved.
- Graduate programme implemented.
- Additional 20 members of staff recruited.

On equity investments there was a long-term approach and focus on quality companies. Value was achieved through stock selection and environmental, social and governance issues were taken into account. An update was provided on the Quarter 3 2019 performance contributors to the UK Listed Equity and the Overseas Developed Equity Funds, as well as Alternatives - Product Update and Private Equity: Commitments to Date and Infrastructure.

**ORDERED** that the information provided was received and noted.

**9 INVESTMENT ADVISORS' REPORTS**

The Independent Investment Advisors had provided reports on current capital market conditions to inform decision-making on short-term and longer-term asset allocation, which were attached as Appendices A and B to the submitted report.

The Advisors also provided verbal updates at the meeting in relation to political and economic outlook, investment market conditions and current and future asset allocation.

**ORDERED** that the information provided was received and noted.

**10 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. The report was taken as read.

Since the Parliamentary Election in December 2019 there had been more activity in the market. This allowed more opportunities to find assets in the market. On the retail side however, values were going downwards and there were few transactions. There was no indication of significant change in the near future.

**ORDERED** that the report was received and noted.

**11 UPDATE ON CURRENT ISSUES**

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

The report covered three issues as follows:

- LGPS Cost Management Process and changes expected because of the McCloud Case.
- Scheme Advisory Board Governance Report.

- Competition and Markets Authority Order.

The Head of Pensions Governance and Investment highlighted some of the recommendations in the Scheme Advisory Board Governance Report which included:

- The Administering Authority must have a single named Officer who was responsible for the delivery of all LGPS related activity for the Fund. This could be the Section 151 Officer or someone else.
- The Fund should publish its own Conflict of Interests Policy and a Policy on the representation of scheme members and non-administering employers on its committees, explaining its approach to representation and voting rights for each party.
- Key individuals within the LGPS, including Officers and Committee Members, should have the appropriate level of knowledge and understanding to carry out their duties effectively.
- The administering authority must give proper consideration to the utilisation of pay and recruitment policies, relevant to the needs of their pension function. General Council staffing policies such as recruitment freezes should not be automatically applied to the pensions function.

The Scheme Advisory Board was due to meet on 3 February 2020 and it was expected that the recommendations in the Governance Report would be approved.

**ORDERED** that the information provided was received and noted.

## 12 **XPS ADMINISTRATION REPORT**

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

Updates included:

- Headlines.
- Regulations and guidance
- Membership Movement.
- Additional Work.
- Complaints.
- Internal Dispute Resolution Process
- Pensions Ombudsman.
- High Court Ruling.
- Common Data.
- Conditional Data.
- Customer Service.
- Recruitment.
- Performance.
- Employer Liaison.

The Chair was pleased to note that the number of late payments each month in relation to the

contributions received to the Teesside Pension Fund had reduced dramatically over the year.

**ORDERED** that the report was received and noted.

13      **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.

14      **LOCAL INVESTMENTS UPDATE**

The Head of Pensions Governance and Investments presented a report to advise Members of two local investment proposals.

**AGREED** that the recommendations, as set out in the report, together with a further recommendation in respect of due diligence, were approved.

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