TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on 17 June 2020.

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

P Fleck, Employer Representative
B Foulger, GMB Representative
A Watson, Unison Representative

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

ALSO IN ATTENDANCE: W Bourne, P Moon, Investment Advisors
S Featherstone, Consultant
G Hall, XPS Administration
A Owen, A Peacock, CBRE
M Rutter, EY
A Stone, BCPP

OFFICERS: W Brown, S Lightwing, N Orton, I Wright

APOLOGIES FOR ABSENCE No apologies for absence were submitted..

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

20/1 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 11 MARCH 2020**

The minutes of the meeting of the Teesside Pension Fund Committee held on 11 March 2020 were taken as read and approved as a correct record.

External Audit of Teesside Pension Fund Accounts

The External Auditor provided with Committee with a verbal update in relation to the timetable for the audit of the Teesside Pension Fund Accounts. Due to the coronavirus pandemic, and in line with amended legislation, this year's Fund accounts would be slightly delayed. It was anticipated that the draft accounts would be ready to start auditing within the next few weeks. Audit work would be completed around middle of August and would include additional work around valuations as these were more uncertain as a result of Covid-19. The Auditors would report formally to the July meeting of the Committee on their risk assessment in response to Covid-19, with the audit results presented to the September meeting, and final accounts signed off by the end of September.

NOTED

20/2 **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 Advisors' 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 currently had no investments in Bonds.
The cash levels at the end of March 2020 were 13.4%. Cash levels as a percentage of the Fund had increased since the last report due to the reduction in the value of equities, however, the value of cash held had stayed level at about £500m. The Fund would look to use this cash to move away from its overweight position in equities and invest further in Alternatives.

In relation to a query about the current cash level, the Head of Pensions Governance and Investment commented that since the value of equities had risen again since March, although the amount of cash held was the same, as a percentage of the Fund it would have reduced. It was also confirmed that the value of the cash held had not reduced as a result of the pandemic.

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

During the quarter, £20.7m was invested in Alternatives. The Fund was considerably underweight its customised benchmark and, providing suitable investment opportunities were available, would look to increase its allocation to this asset class up to the customised benchmark level.

Appendix A to the submitted report detailed transactions for the period 1 January 2020 to 31 March 2020. There were net sales of £5.06 million in the period, this compared to net sales of £25.9 million in the previous reporting period.

As at 31 March 2020, the Fund had £501.3 million invested with approved counterparties. This was a decrease of over £1.7 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 as at 31 March 2020, including cash, was £3,733 million, compared with the last reported valuation as at 31 December 2019, of £4,288 million.

A summary analysis valuation showed the Fund's percentage weightings in the various asset classes as at 31 December 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.

In response to a query as to action taken by the Fund in response to the coronavirus pandemic, the Head of Pensions Governance and Investment explained that the Fund had a long term asset allocation strategy which had not changed radically. Investments were made by Border to Coast's Fund Managers.

ORDERED that the report was received and noted.

20/3 **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 (Border to Coast) and with State Street Global Advisers (State Street).

As at 31 March 2020 the Fund had investments the Border to Coast UK Listed Equity Fund and the Border to Coast Overseas Developed Markets Equity Fund.

In terms of evaluating performance, the period was a bit too short to evaluate Border to Coast as the Fund had asked for performance from them over a three-year rolling period but had not been investing with them for that long to date. However, it was pleasing to note that over the period invested both the UK and the Overseas Funds had met their targets and exceeded their existing benchmarks by at least 1% per year. This was an early indication of a reasonable response to the pandemic.

The Fund also had investments in the Border to Coast Private Equity sub-fund and the Border to Coast Infrastructure sub-fund. Total commitments of £100 million were made to each of these sub-funds for 2019/20, although up to 31 March 2020 only around 12.5% of this total had been invested. These investments were 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 31 March 2020 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.

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 31 March 2020. State Street had added additional information to their report this quarter, giving details of how the portfolio compared to the benchmark in terms of environmental, social and governance factors including separate sections on climate and stewardship issues.

ORDERED that the report was received and noted.

20/4 **PRESENTATION FROM BORDER TO COAST HEAD OF CLIENT RELATIONS**

The Head of Client Relations provided a presentation which covered the following items:

- Alternatives - including current market conditions and impact on Border to Coast.
- Equity Funds - Update on UK and Overseas Funds and performance.
- Property Pooling Project - Update.

In response to a query regarding investments in tobacco, the Head of Client Relations stated that this issue had been discussed in Responsible Investment workshops but at the present time from the Fund Managers' perspective, these investments provided good value and good dividends. In relation to a question regarding investments in BP and Shell, it was indicated Border to Coast were developing their carbon reporting and would share this information with the Committee in the next quarter or so.

Responding to a question on the downturn in the high street economy, (which had been hastened by Covid-19), and also Brexit, the Head of Client Relations highlighted that the portfolio was positioned with both in mind.

ORDERED that the report was received and noted.

20/5 **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.

Both Advisers gave verbal updates at the meeting. It was not possible to predict how quickly the economy would recover from the effects of Covid-19 and what the long-term consequences could be. The Advisers' recommendations for the portfolio and investment strategy were discussed at the meeting.

ORDERED that the information provided was received and noted.

20/6 **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 property investment market had stalled, there had been a record low number of transaction and there was little confidence in valuations. The only real movement was in the longer let, very secure markets where there were 25-year leases such as supermarkets. Retail continued to decline on the high streets and covid-19 had accelerated this position. In terms of the rent owed, the June quarter would be worse than March 2020 as cash had drained out of businesses. Once businesses started to re-open it was anticipated that more stock would come onto the market, however all transactions would be approached with caution.

Since the report was issued three weeks ago, the arrears situation had reduced to £663,000 outstanding and the rent collection team had been working hard to collect sums due. The two largest sums owed were £82,000 each, some of which was insurance and CBRE were working closely with all companies to secure rent payments. Details of all the companies in arrears were provided in the submitted report. The overall collection rate was just over 95%. In response to a question in respect of insurance payment arrears, the Adviser agreed to provide a breakdown of sums owed.

In terms of asset management, CBRE continue to work on lease renewals, re-gears and securing new tenants. It was confirmed that the Teesside Pension Fund owned all the properties in the portfolio outright.

ORDERED that the report was received and noted.

20/7 **IMPACT OF THE CORONAVIRUS PANDEMIC ON THE PENSION FUND**

A report of the Strategic Director, Finance Governance and Support was presented to provide an initial assessment of the impact of the coronavirus pandemic on the Pension Fund.

The Pension Fund was primarily invested in equities and the coronavirus pandemic led to a quick and dramatic fall in global stock markets and this was reflected in the Fund valuation as at 31 March 2020. The Fund's equity holding reduced in value by around £600 million in the three months to 31 March 2020.

Stock markets had to some extent recovered in the current quarter, at the time of writing, US markets in particular had improved to only 2% down compared to the end of December 2019. The FTSE All Share index was around 15% down compared to the end of December 2019. Other assets held by the Fund had been affected to a lesser degree. The value of the Fund's direct UK property portfolio was likely to be affected by the lockdown, in particular retail assets.

Officers had been in contact with most of the Fund's investment managers to understand the potential impact of the pandemic on the value of the Fund's current investments and the timing of future planned investments. Investment managers were looking closely at the underlying investments and companies within their portfolios to ensure value was retained during this turbulent time.

The Fund was a long-term investor and, provided over time asset values recovered, the drop in value would not be detrimental to long-term funding. However there was no guarantee over how long it would take for asset values to recover and there was a real possibility that global economic growth would be flat, low or even negative for a considerable period.

The Fund had been particularly affected by the reduction in stock market values as a consequence of its current asset mix, with around two thirds of the Fund's assets invested in UK or global equities.

The pandemic had the potential to adversely affect the Fund's cash position in two ways:

- The Fund obtains rental income from its properties – some tenants had asked to defer making rental payments, usually because they were temporarily unable to trade.
- Pension Fund employers might have difficulty making their required employer pension contributions if they had been forced to cease or reduce trading.

The property income position was being monitored and managed by CBRE and currently it did not look likely to result in a significant permanent reduction in income. Almost all employers in the Pension Fund were not expecting have difficulties in paying their employer contributions.

It was confirmed that the Pension Fund had sufficient cash to ensure all pension payments could be made over at least the next couple of years without having to sell any assets.

During the lockdown, XPS had been able to continue carrying out all of its administration functions including processing new entrants, leavers and retirements, as well as ensuring pensions continued to be paid. XPS was encouraging scheme members to exchange information electronically due to delays in the Royal Mail service currently.

It was impossible to know the long term impact of the pandemic and subsequent economic effects. Possible impacts on the Fund were as follows:

- The outcome of the next triennial actuarial valuation (as at 31 March 2022) was now much more likely to be less favourable than the latest valuation. The Fund actuary may also be less optimistic about future long term investment returns. This made it more likely that employer contribution rates would need to increase following the next valuation. While this was not a particular problem for the Fund, it would potentially put a financial strain on the Fund's employers. All Fund employers were contacted toward the end of March and told about the potential impact of market falls. Admission body employers were advised that if market falls were sustained it was possible that their employer contribution rates could be recalculated and revised rated applied from April 2021. All other employers were advised it was now looking likely that contribution rate increases would be required from 1 April 2023 following the 2022 valuation, and should budget accordingly.

- UK unemployment had increased very significantly over the last few months, as had Government debt. Ultimately this could mean reduced funding for local government and fewer active members contributing to the Fund. This could further accelerate the rate at which the Fund matured, and increase the shortfall between benefits and contributions. This underlined the importance of planning for cash flow provisions within the Fund going forwards.

- Moving Committee meetings online (at least temporarily) would increase visibility of the meetings and meeting agendas. This in turn could lead to greater public interest in the Fund's investments and governance.

It was explained that the Regulations provided for Fund employers and Admission body employers to be treated differently in relation to contribution rates, in that Fund employers rates could only been increased every three years following the actuarial valuation.

Officers would continue to monitor and review the impact of the pandemic on the Fund and report to the Committee with updates.

ORDERED that the information provided was received and noted.

20/8 **RESPONSIBLE INVESTMENT POLICY**

A report of the Strategic Director Finance, Governance and Support was presented to ask Members to agree the Fund's Responsible Investment Policy set out at Appendix A.

At a meeting held on 20 January 2020 the Pension Fund Committee noted and acknowledged Border to Coast's recently updated responsible investment policy. The overall Responsible Investment Policy for the Fund had been updated to take into account both Border to Coast and State Street Global Advisors' (SSGA) approaches to responsible investment.

The key points to note were as follows:

- The policy emphasised that the key objective of the Fund was to ensure the assets were able to meet the liabilities when they fell due, and that the Fund has a long-term time horizon.
- Environmental, social and governance factors could have an impact on the financial value of investments, and as such these factors should be considered as part of the investment decision-making process.
- Similarly, investors should make use of the voting rights they get through being asset owners to attempt to positively influence the companies they invest in.
- Consequently the Fund would take an engagement (rather than divestment) approach to its investments.
- The Fund's listed equities were invested by Border to Coast and SSGA and consequently the voting and engagement policies of Border to Coast and SSGA would be followed in respect of those investments.
- Where the Fund considers all the other assets classes it can invest in, such as private market investments or local investments, ESG factors were an important consideration as part of the investment decision-making process and the ongoing monitoring of any investment.
- Climate change risk was listed separately within the policy, acknowledging the significance of this risk and the importance of evaluating investments in the context of the short, medium and longer term risks and opportunities it may create.

Several Members of the Committee expressed disappointment that tobacco products were not included in the Policy as an example of ESG.

ORDERED that the Fund's Responsible Investment Policy set out at Appendix A to the submitted report was approved and adopted.

20/9 **XPS PENSIONS 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.

Currently, XPS staff were mostly working from home, and some were working in the office two days per week for printing and posting. XPS were looking at using a third party for printing in the future. There was no delay of notifications to Members and the Business Continuity Plan had worked well with all Service Level Agreements being maintained.

Video conferencing facilities were being developed with a view to staff training, face-to-face meetings with members, clients and employers, as well as the possibility of delivering pre-retirement courses. There would be no pressure on staff to return to work in the office and every effort was being taken to ensure that staff were kept safe in line with Government guidelines for Covid-19.

ORDERED that the report was received and noted.

20/10 **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.

20/11 **POTENTIAL LOCAL INVESTMENT**

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

It was proposed that Recommendation 2.1(b) was amended to read:

Negotiation of more advantageous terms was delegated to the Head of Pensions Governance and Investment, the Section 151 Officer, and the Chair and the Vice Chair of the Teesside Pension Fund Committee, in consultation with the Pension Fund's Advisors.

ORDERED that the recommendations, as set out in the report and amended as minuted above, were approved.