

TEESSIDE PENSION FUND & INVESTMENT PANEL

A meeting of the Teesside Pension Fund & Investment Panel was held on 28 September 2016.

PRESENT: Councillors Bloundele, (Chair), Rostron, (Vice Chair), Brady, Cole and Coupe

Other Local Authority Members:

J Beall, Stockton Borough Council
C Massey, Redcar and Cleveland Borough Council

ALSO IN ATTENDANCE: Councillor N J Walker
Investment Advisors: F Green and P Moon
Property Advisors: A Owen and A Peacock
Unison Representative: A Watson
EY, External Auditor Representatives: N Wright and S Kenny

OFFICERS: J Bromiley, P Campbell, A Hill, S Lightwing and M Taylor

APOLOGIES FOR ABSENCE were submitted on behalf of Councillor Young, P Fleck and A Martin.

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Brady	Non Pecuniary	Member of Teesside Pension Fund
Councillor Beall	Non Pecuniary	Member of Teesside Pension Fund
Councillor Massey	Non Pecuniary	Member of Teesside Pension Fund
Councillor Rostron	Non Pecuniary	Member of Teesside Pension Fund
F Green	Pecuniary	Advisor to Teesside Pension Fund
P Moon	Pecuniary	Advisor to Teesside Pension fund
Councillor Bloundele	Non Pecuniary	Agenda Item 5 - related to employee of EY (External Auditor)

16/14 **MINUTES - TEESSIDE PENSION FUND AND INVESTMENT PANEL - 29 JUNE 2016**

The minutes of the meeting of the Teesside Pension Fund and Investment Panel held on 29 June 2016 were taken as read and approved as a correct record.

16/15 **SUSPENSION OF COUNCIL PROCEDURE RULES**

ORDERED that, in accordance with Council Procedure Rule No 5, the Committee agreed to vary the order of business. The Panel agreed to deal with Agenda Items in the following order: Agenda Item 10, Agenda Items 4, 5, 6, 7, 8 and 9, Agenda Items 11, 12, 13, 14, 15 and 16.

16/16 **TEESSIDE PENSION FUND AND INVESTMENT PANEL - MEMBER TRAINING REQUIREMENTS**

A report of the Teesside Pension Board was presented in relation to Member Training requirements.

The report recommended that the Introductory Training, which was currently mandatory for Middlesbrough Council Members of the Teesside Pension Fund and Investment Panel (TPFIP), was made mandatory for all Members of the TPFIP and any substitutes.

Reference was made in the report to The Myners Principle which required that Trustees ensured that decisions were taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively, and monitor their implementation. Whilst it was acknowledged that Trustees generally had the necessary expertise, there was no documented evidence to demonstrate compliance with this principle.

It was also recommended that Introductory Training should be offered to the Trade Union representatives sitting on the TPFIP, on a voluntary basis. Members of the TPFIP would also be required to complete a basic self-assessment form, following completion of the Introductory Training, to check the required level of knowledge and competence had been achieved.

The Chair recommended Fundamentals, a bespoke Local Government Pension Scheme training course for Elected Members. Any Member wishing to attend could contact the Head of Investments and Treasury Management for further details.

ORDERED as follows that:

1. Introductory training for all Members of the Teesside Pension Fund and Investment Panel was mandatory.
2. All Union Representatives should be offered the Introductory Training.
3. A self-assessment form should be completed by participants following the Introductory Training.

16/17

DRAFT ANNUAL REPORT AND ACCOUNTS 2015/2016

The 2015/2016 Draft Annual Report and Accounts for the Teesside Pension Fund were presented for Members' approval. The terms of reference for the Teesside Pension Fund and Investment Panel required the Annual Report and Accounts to be received by Members and a copy of the Draft Report and Accounts were attached to the submitted report.

The Financial Statements of the Teesside Pension Fund formed part of the overall Council's Financial Statements which would be presented to the Corporate Affairs and Audit Committee on 29 September 2016 for adoption.

It was highlighted that the Independent Auditor's Statement contained in the report was an incorrect version and would be replaced. The Auditor's ISA 260 report would be presented following this agenda item.

The overall financial performance of the Fund for the year to 31 March 2016 was slightly negative. The Fund's value fell to £3.1 billion, a decrease over the year of approximately £100 million. The membership of the Fund continued to increase, with total membership at the year-end now standing at 69,775, an increase of 1,721 over last year.

It was also noted that the Terms of Reference for the Pension Fund needed amending to reflect the fact that all Trustees had voting rights and not solely Members of Middlesbrough Council.

ORDERED that the Teesside Pension Fund Annual Report and Accounts for the year ended 31 March 2016 were adopted.

16/18

EXTERNAL AUDIT UPDATE

The External Auditor from EY presented a report that summarised the findings from the audit of the Teesside Pension Fund for the year ended 2015/2016.

The Auditor confirmed that an unqualified opinion would be issued. The information given in the Statement of Accounts for 2015/2016 for which the financial statements were prepared was consistent with the financial statements. In terms of the audit no issues had been identified with numbers, however there were some areas where the disclosures were not in line with CIPFA guidance. These areas had now been amended and the document now fully reflected CIPFA requirements. The scope and materiality of the Audit was the same as in the

original Planning Report.

In addition to the significant audit risks identified during the planning phase of the audit and reported in the audit plan, the implementation of the new accounting system Agresso, had been identified as an additional risk. Some standard procedures had been performed in respect of the Agresso system and the Auditor was satisfied that everything in a material respect was being brought forward to the ledger for the Pension Fund. It had been noted that there was limited involvement from officers of the Administering Authority around the implementation of Agresso although this did not impact on the audit opinion.

Last year, the then External Auditor, Deloitte, had issued a modified opinion due to some elements of the Annual Report being unconfirmed. The Auditor confirmed that the Annual Report now contained sufficient detail for EY to issue an unmodified opinion.

During the course of the audit, EY were asked to comment on how the governance of the Fund compared to other large pension schemes. The Auditor's observations and recommendations had been shared with the Chairs of the Board and the Panel and were detailed in the submitted report. The comments mainly focused around the role of the Teesside Pension Board having a clear understanding of its role, and perhaps bringing in an element of overview and scrutiny in terms of the Board having an oversight of the Panel. The Assistant Director Interim suggested the formation of a working group to explore and clarify the issues raised in the Auditor's review.

ORDERED as follows that:

1. The ISA260 Report from EY was received and noted.
2. A working group would be established to explore the Auditor's observations on the Governance of the Fund in more detail.

16/19

FUND MANAGER'S REPORT

The Assistant Director Interim, submitted a report to inform Members how the Investment Advisor's recommendations were being implemented.

The report provided a summary of advice received from the two Investment Advisors together with information in relation to stock selection strategies, including a detailed report on transactions undertaken. An independently produced valuation of the Fund's assets was also included.

The total investments, including cash, was £3,307 million, which compared positively with the last reported valuation as at 31 March 2016 of £3,130 million. It was highlighted that the equity market continued to perform well. The resources led portfolio strategy produced positive reports on stock selection level and it was anticipated that this would continue.

It was also noted that previously the Advisors had set recommended short term asset allocation ranges for the Investment Managers, however due to the volatility in all capital markets this short term range was suspended at the last meeting. Future strategy would be discussed later in the meeting.

ORDERED that the report be noted.

16/20

INVESTMENT ADVISORS' REPORT

A report was presented to update Members with the current capital market conditions, and request approval to set an appropriate short term asset allocation to best take advantage of these conditions.

The Panel's Independent Investment Advisors provided an update to Members on current global economic, political and market conditions. Their reports were attached at Appendices A and B to the submitted report and represented the Advisors' recommendations as at the dates of the reports.

Both Advisors continued to favour growth assets over protection assets. Bonds did not meet actuarial requirements for the Fund at the current yield levels. Cash should continue to be built up as divestments from other markets occurred, and invested when opportunities allowed. It was noted that since the report was written the FTSE 100 had risen to around 6,900.

In relation to the future of the Deutsche Bank, both Advisors expressed the opinion that it would survive its current difficulties. It was confirmed the Pension Fund had investments of approximately £5.5 million in Deutsche Bank.

ORDERED as follows that:

1. The report was noted.
2. The proposed short term asset allocation was approved.

16/21 **CURRENT ASSET ALLOCATION REPORT**

A report of the Independent Investment Advisors was presented which set out the current asset allocation compared to the customised benchmark and average LGPS Fund's allocation. The Advisors' report was attached at Appendix A to the submitted report.

For a number of years the Advisors had continued to promote and favour growth assets over protection assets. The report provided a history of how the Fund had reached its current asset allocation position and concluded that the Advisors were satisfied that the position was correct at the current time.

The Chair had requested a proposed action plan which set out a strategy for the Fund to re-balance towards the customised benchmark and provide Panel Members with the opportunity to challenge the current asset allocation ahead of a final action plan.

The report contained details of the asset allocation at 31 March 2016, performance data and the impact on the whole Fund's relative performance from each asset class. It was highlighted that the overweight position in growth assets was made up of a large overweight position in equities and underweight positions in property and alternative assets.

Members discussed the challenge points set out in the submitted report and the Head of Investments and Treasury Management and the Assistant Director Interim, provided further information as appropriate.

A proposed Action Plan setting out a strategy for re-balancing the portfolio back towards the customised benchmark was set out in the submitted report.

ORDERED as follows that:

1. Members note the Independent Advisors' report and conclusion.
2. Agreed the action plan which set out a strategy for rebalancing the portfolio back towards the customised benchmark.

16/22 **CBRE PROPERTY REPORT**

The Fund's Property Advisors submitted a report that provided an overview of the current property market and informed Members of the individual property transactions relating to the Fund.

The Panel was advised that during the summer there had been a hiatus in the property market following the EU Referendum. In the September valuations there was a write-down on certain assets but it was anticipated that this would change. There was still a lot of attention from investors who were looking for the right quality of property and some re-balancing in pricing was anticipated.

There had been no acquisitions during the quarter and one sale completed on 8 July 2016 for

£3.68m. A number of properties were currently being tracked.

There was a very low level of debt comparative to other portfolios and this was generally collected during the quarter. Since the report was issued, three of the outstanding accounts had been cleared. Negotiations were ongoing with the fourth debtor and the Advisor was confident the issue would be resolved satisfactorily.

The Advisor highlighted the portfolio activity and in particular a lease re-gear which had extended the unexpired term from 5.1 years to 15.1 years and increased the rent. An uplift on the capital value of the asset later this year was also expected and a review would take place in five years' time.

In response to a query as to whether the portfolio could be increased by up to £380 million in a risk controlled manner, the Advisor stated that a key consideration was lot size. At the present time the objective was to increase the property portfolio towards £250m over a 2 to 3 year period. The Fund currently owned 26 assets and the intention was to increase this to hold between 30 and 50 properties. Increasing the portfolio was relatively straightforward but was dependent on stock availability.

ORDERED that the report be noted.

16/23 **TENDER FOR SHAREHOLDER GOVERNANCE SERVICE**

A report was presented to provide Members with the outcome of the competitive tender process for the provision of proxy voting services. The contract with the current service provider, PIRC, was for a fixed term and expired on 30 September 2016.

A public tender notice had been published inviting tender from suitable providers that met the required supplier assessment standard. The contract was intended to be a fixed price contract and was scored on a mix of private and quality factors.

The successful tender, received following the public call for competition and considered value for money when compared to the existing tender, was submitted by PIRC.

ORDERED as follows that:

1. The submitted tender, was awarded to PIRC for the initial contract period of two years, with a one year extension option.

16/24 **TREASURY MANAGEMENT REPORT**

The Assistant Director Interim reported on the treasury management of the Fund's cash balances, including the methodology used.

As at 30 June 2016, the Fund had £104.9 million invested with approved counterparties at an average rate of 0.428%. Appendix A, which was attached the submitted report, showed the maturity profile of cash invested. It also showed the average rate of interest obtained on the investments for each time period. The Treasury Manager was under instruction to keep at least 50% of cash investments relatively liquid (one month or less), in order to fund pension payments and investments.

ORDERED that the report was noted.

16/25 **LGPS INVESTMENT REFORM (POOLING ASSETS) - UPDATE**

A report was presented to follow up the reports on Local Government Pension Scheme (LGPS) Investment Reform presented at previous meetings of the Teesside Pension Fund and Investment Panel (TPFIP) and update Members with the final proposal submitted by Borders to Coast Pension Partnership (BCPP) to the Department for Communities and Local Government (DCLG) on 15 July 2016.

The report also sought Members' approval to a revised budget of £350,000 as Teesside's share of the costs to set up BCPP. Apart from costs incurred to date in creating the BCPP submission, the budget would not be spent until DCLG confirmed final approval of the BCPP proposal.

Representatives of the DCLG, HM Treasury and independent advisors met on 8 September 2016 to consider BCPP's submission, however, the outcome of the meeting was not yet known.

According to the current timetable, the Pool had to be in existence for 1 April 2018 and needed to be a regulated entity by that date. Government approval was required to proceed with expenditure and this had been timetabled for September 2016. It therefore looked likely that there would be a delay in the April 2018 date and the Fund's assets would therefore need to be managed until 2018 or longer. The potential difficulties of recruiting and retaining staff due to this uncertainty was also highlighted.

ORDERED that:

1. Members noted the final proposal from Borders to Coast Pension Partnership (BCPP) to DCLG.
2. Members approved a revised budget of £350,000 as Teesside Pension Fund and Investment Panel's share of the costs to set up BCPP.
3. Apart from the costs incurred so far, this budget would not be spent until the DCLG confirmed final approval of the BCPP submission.

16/26

INVESTMENT STRATEGY STATEMENT - GUIDANCE

A report was presented to inform Panel Members of the new guidance on preparing and maintaining an Investment Strategy Statement (ISS).

The guidance on preparing and maintaining an ISS was published by the Department for Communities and Local Government (DCLG) on 15 September 2016 and a copy was attached to the submitted report. The guidance was published in advance of new investment regulations which were expected to be introduced later this year. These regulations would replace the LGPS (Management and Investment) Regulations 2009.

The ISS would replace the Fund's Statement of Investment Principles (SIP) and would include: a requirement to invest money in a wide variety of investments, details of the suitability and types of investments, the Fund's approach to risk and pooling investments, and how social, environmental and corporate governance considerations were taken into account within the investment portfolio.

The Guidance also stated that the new investment regulations would enable the Secretary of State to issue a Direction if satisfied that an administering authority was failing to act in accordance with the Guidance.

ORDERED as follows that:

1. Panel Members note the report and guidance.
2. Authority to approve expenditure required in the production of the new Investment Strategy Statement (ISS) was delegated to the Chair.
3. A draft of the proposed ISS would be presented to the Panel for consideration.

16/27

PROPERTY MANAGEMENT SERVICES - OPTION TO EXTEND CONTRACT

The Property Advisers left the meeting at this point.

A report of the Assistant Director Interim was presented which sought the Panel's approval to extend the current Property Management Services contract for another year.

The Fund's property management services contract was awarded to CBRE in January 2012

following a tender process. The contract awarded was for a five year period with an option to extend, at the Fund's discretion, for a further period of one year.

The Fund had been very active in this asset class during the period since CBRE were appointed and it was anticipated that this would continue. The Fund was actively looking to increase the portfolio with acquisitions up to a target valuation of £250 million, whilst continuing to take sales opportunities.

It was highlighted that extending the contract for a further year would allow the Fund more time and provide greater visibility in order to set an appropriate length for the next contract, as this could be the last property management services contract before investment management responsibility transferred to the Border to Coast Pension Partnership.

Following discussion, it was suggested that, if possible, the contract should be extended to eighteen months rather than one year in view of forthcoming pooling proposals.

AGREED as follows that:

1. Approval was given to exercise the option to extend by a further year in accordance with the terms of the last tender and current contract.
2. Approval was also given to extend the current contract by eighteen months, if this option was legally permissible.