

**TEESSIDE PENSION FUND & INVESTMENT PANEL**

A meeting of the Teesside Pension Fund & Investment Panel was held on 7 December 2016.

**PRESENT:** Councillors Bloundele, (Chair), Cole, Coupe, G Purvis and Rostron

**PRESENT AS OBSERVERS:** Councillors Sharrocks and Walters  
C Monson (Chair of Teesside Pension Board)

**ALSO IN ATTENDANCE:** Investment Advisors: F Green and P Moon  
Property Advisors: A Owen and A Peacock  
Unison Representative: A Watson  
AON: J Duckham and B Durran

**OFFICERS:** J Bromiley, P Campbell, A Hopwood, S Lightwing, K Rose

**APOLOGIES FOR ABSENCE** were submitted on behalf of Councillors Beall, Lawton and Young and P Fleck.

**DECLARATIONS OF INTERESTS**

<b>Name of Member</b>	<b>Type of Interest</b>	<b>Item/Nature of Interest</b>
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

1 **MINUTES - TEESSIDE PENSION FUND & INVESTMENT PANEL - 28 SEPTEMBER 2016**

The minutes of the meeting of the Teesside Pension Fund and Investment Panel held on 28 September 2016 were taken as read and approved as a correct record.

2 **FUND MANAGER'S REPORT**

A report was presented to inform Members how the Investment Advisors' 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. Also included was an independently produced valuation of the Fund's assets.

It was highlighted that Equity markets had seen strong rises in recent months, with overseas equities also benefiting from weakness in the GB Pound.

The Fund Valuation detailed all the investments of the Fund as at 30 September 2016, and was prepared by the Fund's custodian, BNP. A copy was attached at Appendix B to the submitted report. The total value of all investments, including cash, was £3,601 million which was an all time high. This compared with the last reported valuation, as at 30 June 2016 of £3,307 million.

**ORDERED** that the report was noted.

3 **INVESTMENT ADVISORS' REPORTS**

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. The Advisors' recommendations were set out in reports attached as Appendices A and B to the submitted report.

Both Advisors continued to favour growth assets over protection assets. Bonds did not meet the actuarial requirements for the Fund at the current yield levels and should continue to be avoided at around these levels unless they were held as a short term alternative to cash. It was advised that cash should continue to be built up as divestments from other markets occurred and invested when opportunities allowed. Both Advisors continued to favour further investment in direct property on an opportunistic basis and the property had a good covenant.

**ORDERED** as follows that:

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

#### 4 **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.

There was more stability in the property market and growth seemed to have bottomed out. Investors were looking at the retail and housing sectors and areas such as industrial had started to come back up.

The Report advised there had been no sales or acquisitions during the period 11 August to 19 October 2016. However, since the report was produced there had been two sales and one acquisition. One of the assets under offer was the smallest in the Fund's portfolio and was not suited to the aims for the portfolio and the other was an opportunistic offer that had come in ahead of the valuation. The purchase was a £15 million unit which met the Panel's aspirations for the property portfolio.

With regard to the items detailed at page 20 of the submitted report, the rent review negotiations highlighted were close to reaching agreements and the capital value on the property in Colchester had increased by 19% on the previous evaluation to £950,000. The property at Old Brompton Road in London looked unlikely to be a re-development, since the tenant was a charity and had raised the possibility of bringing forward the break clause. Potentially the property could be a sale but there were some features which might lead to it being retained.

**ORDERED** that the report was noted.

#### 5 **TREASURY MANAGEMENT REPORT**

The Head of Loans and Investments reported on the treasury management of the Fund's cash balances, including the methodology used.

As at 30 September 2016, the Fund had £353.5 million invested with approved counterparties at an average rate of 0.285%.

Ordinarily, 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. However, given the size of the cash assets held, this might be relaxed while cash levels were this high to allow cash flows to be managed at more sensible levels.

**ORDERED** that the report was noted.

**6 EXTERNAL AUDIT REPORT 2015/2016 - OBSERVATIONS AND RECOMMENDATIONS**

A report was presented to inform Members of the Investment Panel of the findings and observations of the External Auditor (EY). The Report issued an unqualified opinion on both the Annual Report and Financial Statements for 2015/2016.

A review of the Annual Report and Financial Statements 2015/2016 was undertaken by EY. During the course of the audit EY were asked to comment on how the governance of the Fund compared to other large pension schemes. EY's observations and recommendations were set out in Appendix A to the submitted report, together with the proposed actions resulting from the recommendations.

It was proposed that a Working Party was established to carry out a review to ensure that the current governance arrangements for Teesside Pension Fund were in line with current regulations and laws, and were effective and clearly understood by all relevant parties. Proposed Terms of Reference for the Working Party were included at Appendix B to the submitted report.

The membership of the proposed Working Party included: an Independent Lead/Chair, Chair and Vice Chair of the Fund and the Board, the Strategic Director of Finance, Governance and Support, Head of Investments and Treasury Management and an officer from Legal and Democratic Services. Following discussion it was agreed that the Membership should be amended to include a representative from both the Panel and the Board from the other local authorities apart from Middlesbrough.

**ORDERED** as follows that:

1. membership of the proposed Working Party was amended to include a representative from both the Panel and the Board from the other local authorities apart from Middlesbrough.
2. the recommendations and proposed actions attached at Appendix A to the submitted report were approved.

**7 LGPS INVESTMENT REFORM (POOLING ASSETS) - UPDATE**

A report was presented, the purpose of which was to follow up the reports on Local Government Pension Scheme (LGPS) Reform presented at previous meetings of the Teesside Pension Fund and Investment Panel and updated Members on progress of the final proposal submitted to the Department for Communities and Local Government (DCLG) on 15 July 2016.

At a meeting of the Local Government Minister and a representative of Border to Coast Pension Partnership (BCPP) held on 24 November 2016, verbal agreement was given to proceed with the BCPP proposal in line with the final submission and a letter formalising this agreement was expected shortly. A Member Steering Group had been formed and a detailed project plan had been set up.

In order to proceed and meet the April 2018 deadline, each Partner Fund needed to have the authority as required by their own constitutions to create a Joint Committee to oversee the investment activities of the BCPP and commit to the acquisition of an equal shareholding in BCPP. No further expenditure had been committed until formal agreement had been received from the DCLG.

It was noted that a significant number of the BCPP Partner Funds were County Council, who would have elections in May 2017. In order to proceed without any delay caused by these elections, approvals were required before mid-March 2017. It was highlighted that the Council meeting scheduled for 15 February 2017 would be the best date for the Teesside Pension Fund and Investment Panel to obtain its approval.

Responding to a query regarding the ability to influence investment in the north east in the future, it was clarified that one of the principles of the Pool was to look at investment in infrastructure on a risk-adjusted return basis. If local investment products met the criteria and

due diligence was ranked suitable, then this would be possible.

**ORDERED** as follows:

1. the current position of the Border to Coast Pension Partnership (BCPP) and the ongoing delay to the proposed timetable was noted.
2. Authority was delegated to the Chair of the Panel and the Strategic Director of Finance, Governance and Support to proceed with the creation, through the Council of the administering Authority and in line with other partners of BCPP, of the Joint Committee and final commitment by each Partner Fund to the acquisition of an equal voting shareholding in BCPP.

## 8 **PROCUREMENT ARRANGEMENTS FOR INVESTMENT ADVISORS/CONSULTANTS**

**F Green and P Mooney left the meeting during consideration of this item.**

A report was presented the purpose of which was to review the arrangements for procuring investment advisors in order to comply with the administering authority's procurement policy and current tax legislation.

In March 2013 the Panel agreed a procedure for the recruitment of investment advisors; however this process was not in line with the administering Authority's procurement or HR policies. In order to comply with procurement policies, the positions had to be tendered for. However, Panel members discussed the need to ensure that investment advisors were appointed on their experience and not purely on a cost basis.

It was suggested that the length of a new contract would be for an initial period of four years in order to clear this and the next Actuarial Valuations, to clear the period whilst the Border to Coast Pension Partnership (BCPP) was formed, plus two further three year extensions to clear a further two valuations. The arrangements for investment advisors could then be reviewed again before years four, seven and ten of the contract.

It was also suggested that the Panel added the following criteria as part of the procurement process:

- Advisors should be (Financial Conduct Authority) FCA approved and have professional indemnity insurance for the duration of the contract.
- Advisor should demonstrate how he/she would maintain their skills and knowledge and keep up to date with latest market and Local Government Pension Scheme (LGPS).

**ORDERED** as follows that:

1. The Chair, Vice Chair and administering authority's procurement team procured two Investment Advisers.
2. Current arrangements for providing investment advice were continued, providing this was possible after investigating current tax legislation.
3. Authority was delegated to the Chair and Vice Chair to re-assess the above arrangement after receiving tax advice.
4. Further investigation was carried out to determine the tax situation regarding contracting/employing the existing Advisors.

**F Green and P Mooney re-joined the meeting at this point.**

## 9 **SECTION 13 DRY RUN REPORT**

A report was presented to inform Members of the Teesside Pension Fund and Investment Panel of the Government Actuary Department (GAD) LGPS Section 13 Dry Run Report.

Section 13 would apply for the first time to the 2016 round of LGPS (England and Wales) separate fund valuations. The purpose of the dry run was to allow GAD to refine their

approach and help administering authorities prepare for the first 2016 report. The 2016 report would be available by late 2018 or early 2019.

The Teesside Fund's results were shown on page 45 of the Dry Run Report which was attached at Appendix A to the submitted report. GAD scored each measure using a Red/Amber/Green (RAG) rating.

There was only one Amber result which was Asset shock. Asset shock measured the change in average employer contribution rates as a percentage of payroll after a 15% fall in the value of return-seeking assets (equities, property and alternative investments). This was not a surprise to the Fund managers as the asset allocation had been the same for quite some time.

**ORDERED** that the report was noted.

10 **DRAFT FUNDING STRATEGY STATEMENT**

A report was presented, the purpose of which was to present a draft Funding Strategy Statement (FSS) to Members.

The Local Government Pension Scheme (England and Wales) Regulations 2013 required all Local Government Pension Scheme (LGPS) funds to prepare and publish a FSS. The purpose of the FSS was to set out how Fund liabilities were set and dealt with. The Regulations required that the FSS must be revised and published whenever there was a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles/Investment Strategy Statement. In practice, subsequent to 2004, the Fund's FSS had been revised for each triennial evaluation.

A copy of the draft FSS was attached at Appendix A to the submitted report and was currently a work in progress and in the process of being finalised. Once finalised, a comprehensive consultation would be carried out.

Since the previous valuation there were changes to the assumptions used in the Actuarial calculation of the funding targets and a change in the treatment of different employers in the Fund. Details of the key changes were contained in the submitted report.

**ORDERED** as follows that:

1. The report was noted.
2. The draft Funding Strategy Statement, once completed, would be distributed for consultation.

11 **TEESSIDE PENSION FUND - ACTUARIAL VALUATION AS AT 31 MARCH 2016 - PRESENTATION**

Representatives from Aon Hewitt provided a powerpoint presentation of the Actuarial valuation of the Teesside Pension Fund as at 31 March 2016.

The presentation included a detailed explanation of the following areas:

- An overview of the actuarial valuation.
- A summary of key financial assumptions.
- Whole fund past service position.
- Change in funding position.
- Whole fund future service rate.
- Employer contributions.
- Next steps.
- Post-valuation experience.
- External influences/oversight.

**ORDERED** that the presentation was noted.

**12 LGPS (MANAGEMENT AND INVESTMENT OF FUNDS) REGULATIONS 2016**

A report was presented to inform Members of the Teesside Pension Fund and Investment Panel of the new Local Government (Management and Investment of Funds) Regulations 2016 which came into force from 1 November 2016.

The new regulations made four key changes to the previous 2009 Regulations as follows:

- The introduction of an Investment Strategy Statement, replacing the Statement of Investment Principles.
- The removal of Table of Limits on Investments (Schedule 1), placing the responsibility of setting appropriate limits on each fund.
- The introduction of allowing funds to investment without restriction as to quantity in Treasury approved collective investment schemes (pooling).
- The introduction of the power for the Secretary of State for DCLG to intervene where an Investment Strategy is deemed not acceptable or a fund does not make suitable arrangements to make investments determined by the Secretary of State.

The Head of Loans and Investments highlighted some contradictions in the new regulations in relation to the Fund's Investment Strategy and the Secretary of State's powers to intervene. As previously highlighted, whilst the Fund currently had a Statement of Investment Principles, this would be reviewed and following consultation would be published as the Fund's Investment Strategy Statement (ISS) by 1 April 2017.

**ORDERED** that the report and new regulations were noted.

**13 SHAREHOLDER GOVERNANCE REPORT**

A report was presented the purpose of which was to report on action taken in implementing the Fund's policy on Corporate Governance.

The Fund's 2016/2017 Business Plan required that an annual report on voting activity was presented to the Panel.

**ORDERED** that Members noted the action taken in respect of the policy.

**14 ADMINISTERING AUTHORITY DELEGATION OF DISCRETIONARY POWERS**

A report was presented to inform Members of a revised statement regarding the delegation of certain decision making functions within the Local Government Pension Scheme Regulations redrafted to provide clarity as to the position holder responsible for those decisions.

Revised references in the table of delegation of discretionary powers were attached at Appendix 1 to the submitted report.

**ORDERED** that the amended schedule of delegation at Appendix 1 was approved.