

# **Teesside Pension Fund**

## **Investment Strategy Statement March 2017**



## 1. Introduction

The Teesside Pension Fund (the Fund), which is administered by Middlesbrough Borough Council (the Administering Authority), is required to maintain an Investment Strategy Statement (ISS) in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.

The Administering Authority has delegated all its functions as administering authority to the Teesside Pensions Fund and Investment Panel (the Investment Panel). The ISS has been prepared by the Committee having taken advice from the Strategic Director Finance Governance & Support.

The ISS, which was approved by the Committee on 8 March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Fund is also required to maintain a Funding Strategy Statements (FSS) in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended). The FSS for the Fund has been revised to take into account the results of the actuarial valuation, effective 1 April 2017. The FSS, which was approved by the Pensions Committee on 8 March 2017, complies with these Regulations.

## 2. Investment Responsibilities

The **Teesside Pension Fund and Investment Panel** (The Investment Panel) has responsibility for:

- Preparing the Investment Strategy Statement,
- Monitoring compliance with the Statement and reviewing its contents periodically (at least every three years),
- Appointing investment managers and Advisors,
- Appointing the Fund Custodian,
- Reviewing on a regular basis the investment manager's performance against agreed benchmarks and satisfying themselves as to the manager's expertise,
- Ensuring that the terms of the Management Agreement (see Appendix 1) have been complied with, and
- Reviewing on an annual basis the internal systems and controls in place to monitor compliance with the Management Agreement.

The **Strategic Director Finance Governance and Support** is responsible for:

- Ensuring effective internal controls are in place,
- Overseeing the activity of the Head of Investments & Treasury Management and the loans & Investment Section,
- Assisting the Investment Panel in the preparation and review of the ISS and ensuring compliance with its terms, and
- Providing advice, after consultation with the Fund's Actuary, as to the maturity of the Scheme and its funding level in order to assist the Investment Panel in balancing the short term and long term objectives of the Fund.

The **Head of Investments & Treasury Management** is responsible for:

- The investment of Fund assets in compliance with prevailing legislation and the requirements of the Management Agreement,

- Implementing the Investment Advisor's recommendations on asset allocation within the parameters laid down,
- Security selection within asset classes,
- Preparation of quarterly reports to the Investment Panel and an annual report on investment performance,
- Reviewing investment management, custodial and other external relationships and advising the Investment Panel as to future policy with a view to delivering continuing improvements,
- Implementing the Investment Panel's policies on Corporate Governance and Ethical, Social and Environmental Investment, and
- Assisting the Strategic Director Finance Governance and Support and the Investment Panel in the preparation of the ISS, its regular review and compliance.

The **Fund's Custodian** is responsible for:

- Ensuring that the Fund's assets are secure and that the Fund is able in a timely fashion to meet its contractual obligations,
- Its own compliance with prevailing legislation,
- Providing the Investment Panel with quarterly valuations of the Fund's assets,
- Collection of investment income due to the Fund, and
- Carrying out the instructions received from the Head of Investments & Treasury Management in respect of voting actions.

The **Investment Advisors** are responsible for:

- Advising the Panel on the most appropriate short term asset allocation for the Fund, given the up-to-date economic and financial market conditions at each meeting,
- Assisting the Strategic Director Finance, Governance and Support and the Investment Panel the appropriate investment management structure for the Fund,
- Advising the Panel on the most appropriate long term asset allocation for the Fund as part of the Asset/Liability Study,
- Advising the Panel in the preparation and review of the Funding Strategy Statement and Investment Strategy Statement,
- Advising the Panel in their regular monitoring of the performance of the Investment Managers, and
- Advising the Strategic Director Finance Governance and Support on matters relating to the strategic direction of the Fund.

### 3. Investment Strategy

The primary objective of the Fund is to provide pension benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Investment Panel aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

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## Investment of money in a wide variety of investments

It is the Investment Panel who invests the assets of the Teesside Pension Fund to spread the risk by ensuring a reasonable balance between different categories of investments. The Investment Panel takes a long term approach to investment and invests in asset classes and individual investments that are expected to generate an attractive risk-adjusted return for the Fund.

The Fund may invest in a wide range of investments including quoted and unquoted assets in Equities, Fixed Income, Property and Alternatives either directly or through pooled investments. The Fund may also make use of derivatives, either directly or in pooled investments for the purpose of efficient portfolio management or to hedge specific risks.

The following categories of investment have been approved as suitable for investing Teesside Pension Fund monies:

- UK Equities** provide an equitable share in the assets and profits of public companies. Income is derived from dividends which, although variable in amount from year to year, have historically risen above the rise in inflation. Equities produce capital gains and losses as share prices reflect investors' expectations of the prospects of a specific company, sector or market.
- Overseas Equities** are similar to UK Equities but allow greater diversification amongst industries and companies than would be available in UK quoted companies alone. They have exposure to the relationship between Sterling and the currency of the market where the share price is listed. Investment returns will be enhanced, or reduced, by fluctuations in that Exchange Rate. However, over the very long term, currencies are likely to reflect differentials in inflation rates and should, therefore, not affect returns on equities materially on such a time scale. Because of the likely excess return from equities (the so-called "Equity Risk Premia") a major proportion of the Fund's assets will probably be held in equities other than in exceptional economic or Fund-specific circumstances.
- UK Bonds** are debt instruments issued by Governments and other borrowers. Bonds provide a fixed rate of interest and are generally redeemed at a fixed price on a known future date. The price of Bonds primarily reflect the fixed level of interest, the period to redemption and the overall return demanded by investors. They are vulnerable to rising inflation and correspondingly benefit from falls in inflation.
- Overseas Bonds** are similar to UK Bonds but have exposure to currency fluctuations. As with UK Bonds they are influenced by local inflation rates.
- UK Index Linked Bonds** are bonds issued by Government and other borrowers. They provide interest and redemption value directly linked to a measure of inflation, usually the Retail Price Index, or a measure of change in some other Index. Index Linked Bonds may prove useful in matching some of the Fund's liabilities.
- Overseas Index Linked Bonds** are similar to UK Index Linked Bonds but have exposure to currency fluctuations.
- Property** is investment in land or buildings either directly by the Fund or indirectly through a pooled vehicle. Income comes from rents collected from tenants. Investment in property produces capital gains and losses as prices fluctuate in line with rental levels and investor demand. The contractual nature of rental agreements gives property some of the characteristics of bonds, whilst growth and inflation give it some of the characteristics of equities. It is, therefore, a useful diversifying asset class.

<b>Derivative Instruments</b>	such as Traded Options and Futures are mechanisms through which the Fund can be protected from sudden changes in share prices or Exchange Rates. Although not income producing they can produce capital gains and losses. They may be used conveniently to hedge the Fund's exposure to particular markets.
<b>Exchange Traded Funds</b>	are traded funds (ETF's) usually designed to track an index or commodity price. They allow investment in specific areas, such as commodities.
<b>Pooled Investment Vehicles</b>	such as Unit Trusts, Limited Partnerships, Open-Ended Investment Companies (OEIC's) and Insurance Funds are an alternative way of investing in shares, bonds and property to provide specialist management expertise and greater diversification. They may permit participation in venture capital, real estate, private equity and infrastructure projects.
<b>Cash</b>	is invested in authorised institutions on the Money Market and will attract interest at market rates. Although it can be adversely affected by inflation, its nominal value remains constant, while that of other asset classes can be volatile.
<b>Underwriting</b>	the issue of shares by companies in which the Fund invests or wishes to invest, although not strictly an "investment" is permitted within the constraints contained within the Management Agreement.
<b>Securities Lending</b>	the use of securities lending (also known as stock lending) was approved by the Investment Panel within agreed limits. In practice the Fund has not entered into any securities lending arrangements due to concern about counterparty risk and it is not intended to do so without a further report back to the Investment Panel.

The Fund's strategic asset allocation is set out below. The table also includes the ranges within which the asset allocation may vary without reference to the Investment Panel, and the maximum percentage of total Fund value that can be invested in these asset classes. The asset allocation is consistent with the Investment Panel's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market risk and the nature of the Fund's liabilities.

Asset Class	Strategic Allocation	Maximum	Minimum
GROWTH ASSETS		<b>98%</b>	<b>60%</b>
UK Equities	<b>30%</b>	90%	55%
Global Equities	<b>40%</b>		
North America	12%		
Europe ex UK	11%		
Japan	5%		
Pacific ex-Japan	12%		
Emerging Markets	0%		
Property	<b>10%</b>	15%	5%
Alternatives	5%	10%	0%
PROTECTION ASSETS		<b>40%</b>	<b>2%</b>
Bonds	<b>13%</b>	40%	2%
UK Fixed	7%		
UK Index Linked	4%		
Overseas Bonds	2%		
Cash	<b>2%</b>		

(N.B. Property includes direct properties and pooled vehicles whose underlying assets are properties. Alternatives are ETFs and pooled vehicles in commodities, private equity, venture capital, infrastructure and absolute return funds.)

The Regulations do not permit more than 5% of the Fund's value to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e).

The Investment Panel believes that the Fund's portfolio is adequately diversified, and has taken professional advice to this effect from their Actuary, Investment Managers and Independent Advisors.

The strategic asset allocation includes ranges for each asset class within which the asset allocation can vary. In the event that any asset class range is breached, the Investment Panel will be informed and the Fund's investment managers will endeavour to bring the asset allocation back within the range within an appropriate period of time. The asset allocation will not be permitted to exceed the stated maximum for each asset class.

The customised benchmark is reviewed at least every three years, usually after the outcome of the Actuarial Valuation. An Asset/Liability Study is undertaken and produces the Fund's new customised benchmark. The Independent Advisors and Investment Managers keep the ranges under review to ensure they are appropriate for economic and market conditions.

The Investment Panel reviews the suitability of the asset allocation of the Fund on a quarterly basis, following advice from the Independent Investment Advisors.

It is intended that the Fund's investment strategy will be reviewed at least every three years following the latest actuarial valuation of the Fund. The investment strategy takes due account of the maturity profile of the Fund and the current funding position. The Investment Panel has set the following benchmark against which performance of the Fund will be measured:

Asset class	Benchmark
<b>GROWTH ASSETS</b>	
UK equities	FTSE All Share
Overseas equities	
North America	S&P 500
Europe ex-UK	EuroStoxx 600 Ex UK
Japan	TOPIX 500
Pacific ex-Japan	Bloomberg Pacific ex-Japan
Emerging Markets	MSCI AC World Index
Property	IPD Annual
Alternatives	Actuary's Required Rate of Return
<b>PROTECTION ASSETS</b>	
UK Fixed	FTSE All Gilts
UK Index Linked	FT Index Linked > 5 Years
Overseas bonds	RPI (as at December – year on year)
Cash	LIBID 7 Day Rate +0.075%

The actuarial valuation, at 31 March 2016, was prepared on the basis of an expected return on assets of 4.7% over the long term. In order to monitor the investment objective, the Investment Panel requires the provision of detailed performance measurements of the Fund's investments. This is provided by a specialised performance measurement provider, Portfolio Evaluation, which is reported on annually.

## 4. Risk

The Fund's primary long term risk is that the Fund's assets do not meet its liabilities, i.e. the benefits payable to its members. Therefore, the aim of the Fund's investment management is to achieve the long term target rate of return with an acceptable level of risk. The Fund achieves this through setting the strategic asset allocation on a triennial basis, following the latest actuarial valuation, which is expected to achieve the target rate of return over the long term. The full and considered approach to risk is provided in Section 6 of the Funding Strategy Statement.

There are three key forms of risk specific to the investment of assets:

- a) that associated with security of the Fund's assets,
- b) that associated with loss of value relating to those assets
- c) that associated with the ability of those assets to provide required rates of return

### **a) Security of the Fund's Assets**

The Fund's Custodian, BNP Paribas, holds the majority of the Fund's Assets. An Agreement is in place protecting the Fund against fraudulent loss and regular checks are made by independent Auditors regarding the integrity of the Custodian's systems. In addition, the Fund's Direct Property assets are registered in the name of Middlesbrough Council and the Title Deeds and documents held by the Fund's solicitors, Freeths LLP. Cash balances belonging to the Fund are invested in accordance with agreed criteria, which take into account an appreciation of risk.

### **b) Asset Risk**

The value of all investments can go down as well as up. Even investments in Gilts, securities issued by HM Government, are not without risk. Individual companies can cease to trade, with shareholders well down the risk of creditors.

The only way to protect the Fund against asset risk is by diversifying into a number of asset classes, a range of countries and a range of companies. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 do not impose limits on the proportion of the value of the Fund which could be invested in different types of investment, but require the Fund to approach its investment on a prudential basis.

### c) Investment Risk

One of the Investment Panel's most important duties is to make sure that the Fund has enough Assets to pay the benefits already earned by scheme members. On top of that they are looking to achieve sufficient return on those Assets to keep down the cost of building up future benefits.

In order to meet these responsibilities the Trustees set a performance benchmark against which they can measure the progress of the Fund's investments. Funds, which outperform their benchmark, can reduce costs compared with those Funds which under-perform.

For the Fund to significantly out-perform its benchmark it needs to have an Asset Mix which is different from that of its benchmark. The more out-performance is required the greater the differences will need to be. In other words out-performance cannot be achieved without taking risks.

Measurement of risk can identify whether the risk profile is, on one hand, large enough to deliver the required relative returns or alternatively so great as to lead to the possibility of serious underperformance.

The Teesside Pension Fund has an asset mix, which varies significantly from that of the Average Fund (as at 31 March 2016):

	Fund %	Average %
UK Equities	36	20
Overseas Equities	48	43
Property	7	9
Alternatives	2	9
Bonds	3	16
Cash	4	3
<b>Total</b>	<b>100</b>	<b>100</b>

The result of holding an asset mix, which differs significantly from that of the average is that investment performance returns can be volatile compared with those achieved by the Average Fund.

## 5. Investment Management Arrangements

The Fund considers its investment strategy and investment management arrangements every five years; the last review was undertaken in March 2015. The (summarised) outcome of the review was:

- To continue with the current balanced style of investment management, based on an active management style with selective use of passive management at the discretion of the Head of Investments and Treasury Management; and
- For the Fund to remain committed to internal management, with use of managed funds at the discretion of the Head of Investments where required.

Day to day investment decisions are delegated to the Strategic Director Finance, Governance and Support, and through him to the Head of Investments and Treasury Management and Loans and Investments team.



The Management Agreement sets out the investment responsibilities delegated to the Fund's investment officers. The updated Management Agreement is attached in Appendix 1 to this Investment Strategy Statement.

## 6. Pooling

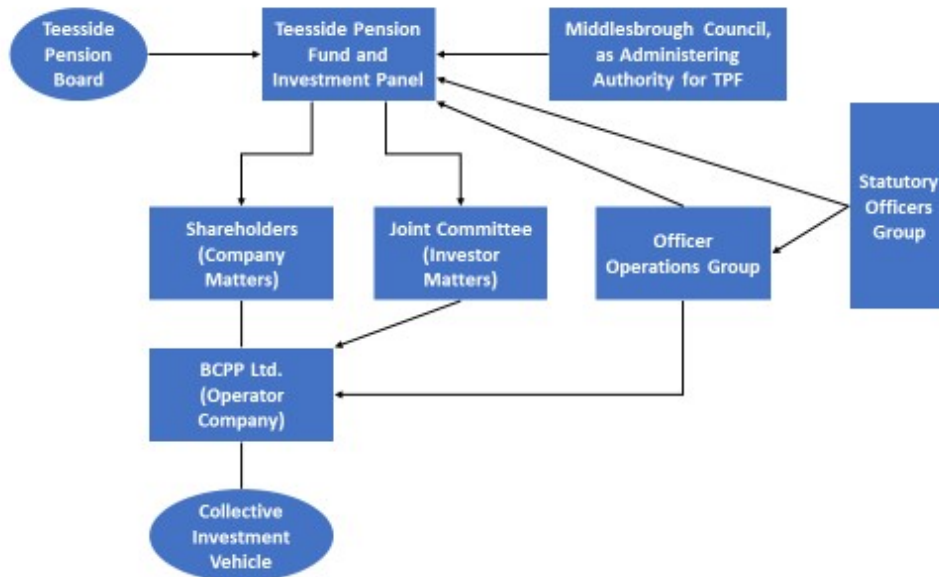
In order to satisfy the requirements of the "Local Government Pension Scheme: Investment Reform and Guidance" issued by the Department for Communities and Local Government (DCLG) in November 2015 the Pension Fund has elected to become a shareholder in Border to Coast Pensions Partnership (BCPP) Limited. BCPP Limited will be an FCA-regulated Operator and Alternative Investment Fund Manager (AIFM).

BCPP is a partnership of the following administering authorities:

- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- Northumberland Pension Fund
- South Yorkshire Pension Fund
- South Yorkshire Passenger Transport Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

The partner Funds submitted their proposal to Government on 15 July 2016 and have received written confirmation from the Minister to confirm that the proposal meets the criteria laid down in the guidance issued in November 2015.

The proposed governance structure of BCPP is as follows:



The Fund will hold BCPP to account through the following mechanisms:

- A representative on the Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of BCPP Limited.
- A representative on the Joint Committee who will monitor and oversee the investment operations of BCPP Limited.
- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group.

The Fund will retain the decision making powers regarding asset allocation and will delegate the investment management function to BCPP Limited for those assets transferred. In the future, it is anticipated that a significant proportion of the Fund’s investments will be made through BCPP Limited.

Where it is not practical for assets to be transferred into the pool they will continue to be managed at the Fund level. This is expected to predominantly include unquoted investments such as limited partnerships. Whilst these assets are unlikely to be transferred it is expected that once these investments mature the proceeds will be reinvested using BCPP investment management solutions.

For some assets, BCPP Limited will not be able to provide an investment management solution in the near term, e.g. direct property investment assets. The Fund will continue to provide its own investment management solution until such time as transfer of these assets is practical and cost effective whereupon BCPP Limited will take over their management. In addition, the Fund will continue to manage cash and “local investments” over the long term.

The Fund will undertake a review of investment management arrangements and investment strategy ahead of transferring management to BCPP Limited of its quoted investment assets (equities and bonds) with a view to ensuring that BCPP Limited can demonstrate it can provide a value for money investment management solution for the Fund. The Fund will decide after this review whether or not to either transfer all investment assets, change investment strategy or delay the transfer until the Fund is satisfied that BCPP Limited can demonstrate it can provide a value for money investment management solution.

The Fund will perform an annual review of assets that are determined to be held outside to ensure that it continues to demonstrate value for money. Following this review it will submit a report on the progress of asset transfers to the Scheme Advisory Board, in line with the guidance.

As a responsible investor, the Teesside Pension Fund wishes to promote corporate social responsibility, good practice and improved company performance amongst all companies in which it invests. The Fund monitors investee companies to ensure they meet standards of best practice in relation to their key stakeholders. The Fund considers that the pursuit of such standards aligns the interests of Fund members and beneficiaries with those of society as a whole. In furtherance of this policy, the Fund will support standards of best practice on disclosure and management of corporate social responsibility issues by companies and will pursue constructive shareholder engagement with companies on these issues, consistent with the Fund's fiduciary responsibilities.

Responsible investment aims to incorporate ESG factors into investment decisions to better manage risks and generate long term returns, as part of the Fund's fiduciary duty. As a result, ESG factors are incorporated into the investment process and the Fund takes non-financial considerations, including climate change risks and opportunities, into account when making investments, and engages with companies in which we invest to ensure that they are minimising the risks and maximising the opportunities presented by non-financial considerations, including climate change and climate policy. The Fund has not excluded any investments on purely non-financial considerations and will continue to invest in accordance with the Regulations in this regard. However, the overriding consideration for any investment is whether it generates an acceptable risk-adjusted return for the Fund, meeting the Fund's fiduciary duty.

It is considered that the Pensions Committee represents the views of the Fund membership and that the views of the Local Pension Board will be taken into account as part of their review of this document.

The Fund has adopted the Institutional Shareholders' Committee Statement of Principles and members will agree and periodically review its implementation.

In accordance with this policy, the Fund will seek where necessary through its own efforts and in alliances with other investors to pursue these goals. To this end the Fund is an active member of the Local Authority Pension Fund Forum.

## 8. Shareholder Governance

As a responsible investor, the Teesside Pension Fund wishes to promote corporate social responsibility, high standards of corporate governance, good practice and improved corporate performance amongst all companies in which it invests. As a result the Fund adopted the Principles of the Financial Reporting Council's UK Stewardship Code. Details of how the Fund complies with each principle are published on the Fund's web-site, and attached as Appendix 2.

The Fund believes that its role as shareholder requires it to exercise its voting rights in companies in which it invests. In furtherance of the above on Environmental, Social and Corporate Governance factors the Fund exercises its voting rights on all UK companies in which it invests. The Fund's up to date Corporate Governance Voting Guidelines are available on the Fund's website [http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE\\_2](http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE_2).

## 9. Performance Measurement

Fund performance is measured by the independent performance measurers, Portfolio Evaluation and reported to the Investment Panel annually. This compares the performance of the Fund against the Fund's Customised Benchmark.

However the key measure of performance is against the Fund's liabilities, and this is addressed as part of the Asset/Liability Study which is undertaken every three years.

## 10. Compliance & Monitoring

The Head of Investments & Treasury Management will submit a revised ISS to the Investment Panel when there has been a material change of policy or where circumstances require. Any interim changes necessary must be approved by the Investment Panel or, when circumstances dictate, by the Chair. The Statement will be published on the Pension Fund website and copies available on request to Scheme Members.

## 11. The Myners Investment Principles

The Myners Investment Principles have been promoted by the Government as representing best practice for institutional investors. These Principles are supported by statutory guidance, which contains examples of good practice. It is not expected that all elements of the guidance will be implemented, depending on the circumstances of a particular fund.

### Principle 1: Effective Decision-Making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

#### **Full Compliance:**

Training is organised for all Investment Panel Members ahead of them attending their first meeting, with additional training either provided or offered.

The Investment Panel also has its own independent Investment Advisors, and uses the Actuary and other expert consultants where required.

### Principle 2: Clear Objectives

Trustees should set out an overall investment objective for the Fund that takes account of the scheme's liabilities, the strength of the sponsor covenant, as well as the attitude to risk of both the trustees and the scheme sponsor, and clearly communicate these to advisors and investment managers.

#### **Full Compliance:**

The funding objectives are set out in the Funding Strategy Statement and the investment objectives, including the Fund's own Customised Asset Allocation Benchmark, in the Investment Strategy Statement. Both are updated when required.

### Principle 3: Risks and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of the Fund's liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

#### **Full Compliance:**

A full strategic review is carried out every three years following the Actuarial Valuation. The Actuarial Valuation considers longevity risk and the affordability of contribution rates for the Fund's employers, taking a prudent longer term view of funding the liabilities.

### Principle 4: Performance Assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisors.

Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

#### **Full Compliance:**

Performance of the investment managers is undertaken annually. In addition a five-yearly review of investment management arrangements is carried out. The position of the advisors, including an assessment of performance, is undertaken periodically.

The effectiveness and efficiency of the Fund, including the Investment Panel's set up, terms of reference and membership, are reviewed by the Teesside Pension Board.

#### Principle 5: Responsible Ownership

Trustees should adopt, or ensure that their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. A statement of the scheme's policy on responsible ownership should be included in the SIP. Trustees should report periodically on the discharge of such responsibilities.

##### **Partial Compliance:**

Voting at UK Company meetings is in accordance with the Fund's Corporate Governance Voting Guidelines, and voting is carried out by a voting proxy agent (PIRC). The Fund does not vote at non-UK Company meetings.

#### Principle 6: Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives. Trustees should provide regular communication to scheme members in the form they consider most appropriate.

##### **Full Compliance:**

All reports and minutes to all Investment Panel meetings are publically available on the administering authority's website, with the ISS, FSS, Annual Report & Accounts and other key Fund documents all published on the Fund's website.

## Teesside Pension Fund – Management Agreement

### 1. Overall Responsibility

Management of the fund is the responsibility of the Investment Panel. Authority is delegated for day-to-day management to the Section 151 Officer and through him to the Head of Investments. The role of the Panel is to oversee the governance of the Fund and to determine asset allocation and the weighting of the Fund in the major asset classes in accordance with appropriate advice.

The Section 151 Officer and the Head of Investments have the authority to vary asset allocation decisions between meetings of the Investment Panel after consultation with Investment Advisors. These responsibilities are more fully set out in the Fund's Investment Strategy Statement.

Only those officers authorised in writing by the Section 151 Officer can conduct business. The Head of Investments will ensure that brokers are informed of the names of the officers so authorised.

### 2. Limitations on Discretion

- i) Investment managers typically have responsibility for individual sectors (Banks, Food Retailers etc.) and/or responsibility for Regions or Countries (Europe, Japan etc.). These are determined, from time to time, by the Fund Manager.
- ii) Dealing limits take two forms. A stock limit is the total value of purchases or sales (or commitments) in a stock on any one day. A floor limit is the total value of all transactions (or commitments) in any one day. These limits are (£ millions):

	Stock Limit				Floor Limit
	Equities	Bonds	Property	Pooled Funds	Total
<b>Level 1</b>					
Head of Investments	10	10	25	25	50
Fund Manager	7	10	25	25	40
<b>Level 2</b>					
Investment Managers	5	N/A	N/A	10	20
Treasury Manager	5	10	N/A	10	30
Trainee Investment Manager	2	N/A	N/A	5	10

Individual managers cannot exceed their limits with the prior approval of the Head of Investments or the Fund Manager, who can approve transactions up to their own limits. Any transactions above those limits can only be approved by the Section 151 Officer.

All limits both stock limits and floor limits, can only be varied, in writing, by The Section 151 Officer with any such variation reported to the Investment Panel.

### **3. Broker Relationships**

All broker relationships shall be at the discretion of the Head of Investments. A list of accepted brokers will be maintained. Admission to the list is subject to recommendation to the Head of Investments by the Fund Manager. All relationships with brokers are on the basis of no agreement to future business, consequently the procurement value of a transaction is based on the individual trade. Regulated brokers wishing to be considered for inclusion may apply at any time. Brokers may then be subject to trial period if capacity exists to accommodate.

Rates of commission payable to brokers shall be agreed by the Head of Investments. Generally rates are subject to competition and they are regulated by volumes and service level provided. Lower rates are always attainable but threaten the Funds model of open competition between brokers often bundling analytical services which would cost much more separately provided

### **4. Personal Share Dealing**

Any officer with dealing responsibilities is free to manage their own affairs efficiently and is not expected to refrain from personal dealings in Securities. However, they should avoid action which involves, or might appear to involve, a conflict of interest between himself and the Fund.

Such an officer should not normally deal in the Securities of a company when he is aware that that the Fund is currently buying and selling such Securities or that consideration is being given whether to do so.

All personal dealings should be reported to the Head of Investments who is responsible for maintaining a Register of such deals.

Details of all personal dealings must be reported to the next convenient Investment Panel, although the officer concerned will not be named on that report.

Administration staffs are not bound by the rules on Personal Share Dealing.

## UK STEWARDSHIP CODE PRINCIPLES

Statement of Compliance for the Teesside Pension Fund:

### PRINCIPLE 1

**The Fund should publicly disclose policy on how it will discharge stewardship responsibilities.**

Implementation of policy has to be framed within available resources. The fund does not resource a dedicated shareholder governance facility, policy implementation is an 'added value' element of the Fund Management operation.

Trustees have previously agreed that other than on an exceptional basis, resources on matters of governance are focussed on UK Equity (FTSE All Share). In terms of materiality the UK portfolio represents a significant proportion of the equity portfolio and where we hold the best opportunity to influence outcomes.

The Fund has a published Shareholder Governance Policy. The approach to Governance is also stated in the published Investment Strategy Statement.

Investee companies will be monitored primarily by the appointment of a shareholder governance advisory service (currently PIRC). The service will ensure that the activities of a company board and senior management are measured relative to the Fund's existing policy on shareholder governance. Active engagement by voting continues to be the primary action source. Where board dialogue is desirable on an 'issues' basis the Fund will (within our own policy constraints) support the actions of the Local Authority Pension Fund Forum (LAPFF).

The implementation of Governance Policy is subject to day to day oversight of the Investment Officers. Consequently governance matters form part of the overall stock selection process.

### PRINCIPLE 2

**The Fund should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.**

The stewardship code assumes that conflicts of interest will arise from time to time, by dint of parent company ownership. Being internally managed such risks are not expected. Having a single client relationship also ensures no conflict between customers.

Any conflicts of interest that do arise will be dealt with in accordance with the policies and rules of Middlesbrough Council.

### PRINCIPLE 3

**The Fund should monitor its investee companies.**

As stated in Principle 1, the monitoring of investee companies is largely undertaken by the Fund's shareholder governance advisory service.

### PRINCIPLE 4

**The Fund should establish clear guidelines on when and how it will escalate activities as a method of protecting and enhancing shareholder value.**

The Fund's policy on shareholder governance does not work on a warning basis. Where a governance matter dictates that a resolution merits a dissent vote this is done. Accordingly there is no further greater sanction. If a matter is considered to affect shareholder value options include disinvestment or referral to LAPFF.

### PRINCIPLE 5

**The Fund should be willing to act collectively with other investors where appropriate.**



A balance needs to be struck between the benefits of collective action and the need to implement our own policy. The primary source of collective engagement would be via LAPFF. LAPFF periodically issue voting alerts, which are analysed with regard to the Fund's own engagement policy. The decision to participate in such collective decisions is made on a case by case basis. It is not uncommon for lobby groups and single issue activists to acquire securities as a means of influencing voting outcomes. The Fund would not normally engage in such collective actions if contrary to our governance policy.

**PRINCIPLE 6**

**The Fund should have a clear policy on voting and disclosure of voting activity.**

The fund has a published policy on shareholder governance. Trustees are updated annually with a summary of the Fund's voting activity and votes at actual investee Company meetings are published in real-time on the Fund's website.

**PRINCIPLE 7**

**The Fund should report periodically on their stewardship and voting activities.**

In addition to semi-annual voting activity reports an annual governance report is produced to trustees. This provides an opportunity to review policy. The reports provided include both qualitative and quantitative information.