

**TEESSIDE PENSION BOARD**

A meeting of the Teesside Pension Board was held on Monday 19 April 2021.

**PRESENT:** Councillors C Monson (Chair), W Ayre and C Hobson

**OFFICERS:** S Lightwing, N Orton, W Brown, I Wright, G Hall, S Bonner and J McNally

**APOLOGIES FOR ABSENCE:** G Whitehouse and J Cook

20/43 **DECLARATIONS OF INTEREST**

<b>Name of Member</b>	<b>Type of Interest</b>	<b>Item/Nature of Interest</b>
Councillor C Hobson	Non pecuniary	Member of Teesside Pension Fund
C Monson	Non pecuniary	Member of Teesside Pension Fund

20/44 **MINUTES - TEESSIDE PENSION BOARD - 8 FEBRUARY 2021**

The minutes of the meeting of the Teesside Pension Board held on 8 February 2021 were taken as read and approved as a correct record.

20/45 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 9 DECEMBER 2020**

A copy of the minutes of the Teesside Pension Fund Committee meeting held on 9 December 2021 was submitted for information.

**NOTED**

20/46 **TEESSIDE PENSION FUND COMMITTEE - 10 MARCH 2021**

The Head of Pensions Governance and Investments provided a verbal update on agenda items considered at a meeting of the Teesside Pension Fund Committee held on 10 March 2021.

The main points highlighted were:

- Audit Results Report for Teesside Pension Fund 2019/2020. EY had issued an unqualified audit opinion on the financial statements. The final opinion did not include additional narrative to highlight financial statement disclosures that the valuations of directly held property had been prepared on the basis of a 'material valuation uncertainty', as EY had subsequently concluded this narrative was not required.
- Investment Activity Report. The total value of all investments as at 31 December 2020, including cash, was £4,385 million, compared with the last reported valuation as at 30 June 2020, of £4,084 million. During the quarter, £45.3 million was invested in Alternatives.
- Presentation from Border to Coast Client Relationship Manager.
- Property report from CBRE. Property rent arrears were currently £1.69 million, however it was anticipated that the majority would be repaid. Under Government legislation passed due to the covid-19 pandemic,

no enforcement action could be taken against tenants who were in arrears. CBRE were working with tenants to recover arrears and agree payment plans.

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

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#### **STRATEGIC ASSET ALLOCATION UPDATE**

A report of the Director of Finance was presented to inform Members of the Teesside Pension Board of the revision to the Pension Fund's strategic asset allocation, as agreed at the Pension Fund Committee meeting held on 10 March 2021.

The Pension Fund's target strategic asset allocation was set out in its Investment Strategy Statement which was last updated in February 2019.

The Pension Fund had made slow progress towards its strategic asset allocation, for several reasons: the unattractiveness of bonds, the necessarily slow increase in investments in private equity, infrastructure and other alternatives, and the difficulty in significantly increasing the direct property portfolio. No progress had been made to date in reducing the Pension Fund's equity exposure. This was despite a phased sell-off of £125 million of US equities over the 15 months to 31 December 2020.

While the Pension Fund remained heavily invested in equities its assets were subject to significant volatility. While this could be tolerated to a certain extent given the Pension Fund's long investment time horizon, this volatility could cause issues for the Pension Fund's employers if the triennial valuation coincided with a low point in valuations.

Officers had worked with the Pension Fund's investment advisors to review the strategic asset allocation, with a view to setting a long-term and a short/medium term target for asset allocation. The latter target would allow the Committee and Board to judge more quickly whether appropriate progress was being made in reallocating the Pension Fund's assets.

The revised strategic asset allocation, approved by the Pension Fund Committee at its 10 March 2021 meeting, included the following features:

- A significantly lower allocation to UK equities – this partly reflected the fact the UK market was increasingly concentrated on a number of sectors such as consumer staples, financials and commodities, meaning the market's performance was to some extent linked to the performance of those sectors. It also reflects a recognition that future growth may be limited in the UK compared to other global regions.
- A recognition that infrastructure investments could be classed as 'protection' rather than 'growth' assets – this acknowledged the long-term secure nature of the types of infrastructure the Pension Fund invested in.
- Property debt was also reclassified as part of 'other debt' as a 'protection' asset, and so separated from property which remained classified as a 'growth' asset.

- A short/medium term target of 65% equities by 31 March 2022. This might be challenging and would require careful implementation. The longer term equity target increased slightly from 50% to 55%.

Following the Committee's agreement to the revised strategic asset allocation, the following steps were underway:

- An updated Investment Strategy Statement (ISS) would be circulated to Pension Fund employers for comment. Any substantive changes agreed to the revised ISS following the consultation would be presented to the next Committee meeting. If there were no changes the ISS would be published in due course.
- Officers would work to implement the revised strategic asset allocation and report back to future Committee meetings on progress.

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

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#### **PENSION FUND BUSINESS PLAN**

A report of the Director of Finance was presented to Board Members to inform them of the annual Business Plan including the 2021/22 Pension Fund budget.

The 2021/22 forecast income and expenditure was set out in the Business Plan, and summarised at paragraph 3.1 of the submitted report.

The Business Plan for 2021/24 was attached at Appendix 1 to the submitted report and included:

- The purpose of the Fund, including the Teesside Pension Fund Service Promise (Appendix A).
- The current governance arrangements for the Fund.
- The performance targets for the Fund for 2021/22, and a summary of the performance for 2020/21 (Appendix B).
- The arrangements in place for managing risk and the most up to date risk register for the Fund (see Appendix C).
- Membership, investment and funding details for the Fund.
- An estimated outturn for 2020/21 and an estimate for income and expenditure for 2021/22 (Appendix D and page 21 of Appendix 1).
- An annual plan for key decisions and a forward work programme for 2021/22 and an outline work plan for 2022–2024.

A Board Member raised concern in relation to the income deficit and the Head of Pensions Governance and Investment provided an explanation for the apparent deficit and strategies available for addressing it if needed.

It was suggested that the Board should review the Risk Register for the Fund at a future meeting.

In relation to administrative costs, it was stated that these were mainly attributed to the contract with XPS.

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

20/49 **TEESSIDE PENSION BOARD ANNUAL REPORT 2020/2021**

The Teesside Pension Board Annual Report 2020-2021 was presented for Board Members' information.

The report contained information in relation to the Board's activity in 2020-2021, Work Programme, Impact of the Coronavirus/Covid-19 Pandemic, Board Membership and Meeting Attendance.

**AGREED** that the Teesside Pension Board Annual Report 2020-2021 was approved.

20/50 **NATIONAL KNOWLEDGE ASSESSMENT OUTCOME UPDATE**

A report of the Director of Finance was presented to update Members of the Teesside Pension Board on the proposals by the Pension Fund Committee at a meeting held on 10 March 2021, following the outcome of the National Knowledge Assessment recently undertaken by Board and Pension Fund Committee members.

The Pension Fund Committee agreed the following:

- The training plan attached at Appendix A to the submitted report, should be delivered to Committee and Board members.
- A training budget initially set at £40,000 was set aside to allow external companies and individuals to be commissioned to assist with this training where appropriate.
- Expenditure on external training would be determined by the Head of Pensions Governance and Investments in consultation with the Chair and Vice Chair of the Teesside Pension Fund Committee.

The Head of Pensions Governance and Investments would investigate options to deliver the training plan within budget, and look to ensure maximum participation and value was delivered to Board and Pension Fund Committee members. An initial focus would be on the induction of any new Members following the Council's Annual Meeting in May 2021.

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

20/51 **UPDATE ON CURRENT ISSUES**

A report of the Director of Finance was presented to update Members on current issues affecting the Pension Fund locally or the Local Government Pension Scheme (LGPS) in general.

The following issues were highlighted:

- Regulations imposing a £95,000 Exit Cap Revoked.
- Scheme Advisory Board - Good Governance Review Final Report.
- Increasing the Normal Minimum Pension Age: Consultation on Implementation.

The Head of Pensions Governance and Investments provided further explanation of each item, the details of which were contained in the submitted report.

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

20/52 **WORK PLAN UPDATE**

The Board was reviewing record-keeping at today's meeting and included in the XPS report at Agenda Item 12 was information in relation to Common and Conditional Data.

The most significant failure on Common Data was address and postcode and

this related almost entirely to people who had left the scheme and changed address but failed to notify XPS. The Head of Pensions Governance and Investment was working with XPS to obtain quotes from companies that could assist in locating these individuals and how cost effective that would be.

The Scheme Actuary had been asked to do some analysis in relation to the data extract over the next few months in preparation for the next valuation and the extract in June 2022. In order to improve the quality of the valuation information it was important to start looking at the data now.

In relation to resolving internal disputes – these were reported to the Board every three months by XPS and there had not been any cases referred to the Pension Ombudsman during the last year.

A Board Member suggested that Electoral Services might be able to assist with address and postcode information, subject to data protection considerations.

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

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**XPS ADMINISTRATION REPORT**

A report was presented to provide an overview of administration services provided to the Teesside Pension Fund by XPS Administration.

The following items were highlighted:

- Headlines – 95K Exit Cap and McCloud judgement.
- Covid-19 update.
- Membership Movement.
- Member Self Service - new website.
- Additional Work - Guaranteed Minimum Pension reconciliation exercise.
- Common Data.
- Conditional Data.
- Customer Service.
- Employer Liaison.
- Performance Charts.

XPS was currently surveying all employees regarding returning to work at the office following the lifting of covid-19 stay at home restrictions. Employees could express their preference for working at home, working at the office or a combination of both.

Whilst there had been some late payments from Employers this was not a particular issue and XPS staff were in regular contact to respond to any difficulties experienced due to the pandemic.

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

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**ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED**

None.