

## TEESSIDE PENSION FUND COMMITTEE

**Date:** Wednesday 10th March, 2021  
**Time:** 11.00 am  
**Venue:** Virtual Meeting

### AGENDA

Please note: this is a virtual meeting.

The meeting will be live-streamed via the Council's [Youtube channel](#) at 11.00 am on Wednesday 10th March, 2021

1. Apologies for Absence
2. Declarations of Interest  
To receive any declarations of interest.
3. Minutes - Teesside Pension Fund Committee - 9 December 2020 3 - 10
4. Audit Completion Report 11 - 50
5. Investment Activity Report 51 - 76
6. External Managers' Reports 77 - 138
7. Presentation from Border to Coast Client Relationship Manager 139 - 180
8. Strategic Asset Allocation Update 181 - 190
9. National Knowledge Assessment Outcome 191 - 204

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| 10. | Pension Fund Business Plan 2021-2024  | 205 - 256 |
| 11. | Current Issues  | 257 - 294 |
| 12. | Investment Advisors' Reports  | 295 - 302 |
| 13. | CBRE Property Report  | 303 - 324 |
| 14. | XPS Pensions Administration Report  | 325 - 350 |
| 15. | Any other urgent items which in the opinion of the Chair, can be considered |           |

Charlotte Benjamin  
Director of Legal and Governance Services

Town Hall  
Middlesbrough  
Tuesday 2 March 2021

#### MEMBERSHIP

Councillors D Coupe (Chair), E Polano (Vice-Chair), J Beall, A Bell, B Cooper, S Dean, P Fleck, B Foulger, T Furness, J Hobson, J Rostron, Z Uddin, T Watson, G Nightingale and Vacancy

#### **Assistance in accessing information**

**Should you have any queries on accessing the Agenda and associated information please contact Susan Lightwing, 01642 729712, [susan\\_lightwing@middlesbrough.gov.uk](mailto:susan_lightwing@middlesbrough.gov.uk)**



**TEESSIDE PENSION FUND COMMITTEE**

A meeting of the Teesside Pension Fund Committee was held on Wednesday 9 December 2020.

**PRESENT:** Councillors D Coupe (Chair), E Polano (Vice-Chair), J Beall, A Bell, B Cooper, S Dean, T Furness, J Hobson, G Nightingale, J Rostron, Z Uddin and T Watson

**ALSO IN ATTENDANCE:** W Bourne (Independent Adviser), P Moon (Independent Adviser), A Owen (CBRE), M Rutter (External Auditor) (Ernst Young) and A Stone (Border to Coast Pension Partnership)

**OFFICERS:** S Lightwing, W Brown, D Johnson, J McNally, N Orton and I Wright

**APOLOGIES FOR ABSENCE:** were submitted on behalf of P Fleck

20/26 **DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Beall	Non pecuniary	Member of Teesside Pension Fund
Councillor Cooper	Non pecuniary	Member of Teesside Pension Fund
Councillor Rostron	Non pecuniary	Member of Teesside Pension Fund
Councillor Uddin	Non pecuniary	Member of Teesside Pension Fund

20/27 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 16 SEPTEMBER 2020**

The minutes of the meeting of the Teesside Pension Fund Committee held on 16 September 2020 were taken as read and approved as a correct record.

20/28 **INVESTMENT ACTIVITY REPORT**

A report of the Director of Finance 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 September 2020 were 10.9%, which was approximately £430 million, a reduction of £43 million. The Fund had made significant commitments to private markets investments and as money was drawn down, the cash balance would reduce further. The Fund would continue to use cash to move away from its overweight position in equities and invest further in Alternatives. The Fund had sold £50 million in US equities during the quarter. Following recent discussions with Advisors, proposals for reducing the Fund's overweight position in equities would be presented to the next Committee meeting.

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, £83.5 million 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 July 2020 to 30

September 2020. There were net purchases of £33.2 million in the period, this compared to net purchases of £22.8 million in the previous reporting period.

As at 30 September 2020, the Fund had £429.8 million invested with approved counterparties. This was a decrease of £43.1 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 30 September 2020, including cash, was £4,084 million, compared with the last reported valuation as at 30 June 2020, of £4,150 million.

A summary analysis of the valuation showed the Fund's percentage weightings in the various asset classes as at 30 September 2020 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.

It was reported that work was continuing with Custodian to improve the accuracy of the Custodian report as there was still a variance.

**ORDERED** that the report was received and noted.

20/29

## **AUDIT RESULTS REPORT**

The Auditor presented the provisional Audit Results Report for the Teesside Pension Fund for 2019/2020. EY had substantially completed the audit of Teesside Pension Fund for the year ended 31 March 2020. Subject to concluding the outstanding matters listed in Appendix D of the submitted report, the auditor confirmed that EY expected to issue an unqualified audit opinion on the financial statements. Any further amendments would be notified to the Committee.

The auditor highlighted the following items in the report:

- Materiality Thresholds.

The Auditor had previously reported that the materiality threshold used in the audit was £37.4 million, with a performance materiality of £28 million and an error-reporting threshold of £1.9 million. The thresholds had not been revised.

- Audit Opinion.

The audit opinion would 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'. These matters did not constitute a qualification of the audit opinion.

- Misstatements due to fraud or error.

There were no significant findings to report.

- Valuation of Investments.

The Covid-19 pandemic had had a significant impact on markets and investments in the Pension Fund and resulted in a reduction in the value of the Fund relative to the prior year. Following discussions with Officers and Investment Managers, the Auditor was confident that the impact of Covid-19 on valuations had been accurately reflected.

- Audit Differences.

A number of misstatements within the information used to prepare the accounts had been identified and these were listed at page 15 of the submitted report. The auditor highlighted that information received from the Custodian was not up to date and in one case there was

duplication of an investment that had been split during the year and both the original and split investments were recognised. The cumulative effect was a material overstatement in the draft accounts which was slightly above materiality. The majority of this had now been adjusted for in the final statements and the valuation of the Fund's assets decreased as a result. With these adjustments that Auditor confirmed that the valuation of assets in the accounts was materially correct.

- Directly Held Property.

EY's property experts reassessed the valuations of eight of the Fund's assets and was comfortable that these were appropriate. The Auditor noted however that valuations were at the upper end of the range.

- Audit Differences.

The total value was adjusted for was £33.1 million and £6.9 million that was not adjusted for. This was a combination of a £13.9 million that was a cumulative balance built up over a number of years. This would remain unadjusted as it was immaterial this year and would be looked at during 2020/2021 with the expectation that it would be cleared from the accounts for next year's audit. The 6.9 million was a cumulative impact of smaller differences between the Fund's records and investment managers. The Auditor confirmed that the opinion would be signed off with these amounts unadjusted.

- Recommendation.

The auditor had provided a recommendation in relation to a review of the information provided by the Custodian.

In conclusion, the Auditor confirmed EY's independence and highlighted the outstanding matters for completion of the audit. The auditor acknowledged the support and assistance of Council Officers during a difficult year.

**ORDERED** that the Audit Results Report 2019/2020 for the Teesside Pension Fund was received and noted.

20/30

## **EXTERNAL MANAGERS' REPORTS**

A report of the Director of Finance 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 30 September 2020 the Fund had investments in:

- the Border to Coast UK Listed Equity Fund, which had an active UK equity portfolio aiming to produce long term returns of at least 1% above the FTSE All Share index; and
- the Border to Coast Overseas Developed Markets Equity Fund, which had an active overseas equity portfolio aiming to produce total returns of at least 1% above the total return of the benchmark (40% S&P 500, 30% FTSE Developed Europe ex UK, 20% FTSE Developed Asia Pacific ex Japan, 10% FTSE Japan).

For both sub-funds the return target was an annual amount, expected to be delivered over rolling 3 year periods, before calculation of the management fee. The Head of Pensions Governance and Investments reported that Border to Coast was performing well and meeting its target. Similarly State Street, which had a passive global equity portfolio invested across four different region tracking indices appropriate to each region, was also meeting its target.

The report highlighted that State Street had recently made changes to their passive benchmarks. State Street had advised investors in a number of its passively-invested funds, including the four State Street equity funds the Fund invested in, that it had decided to exclude UN Global Compact violators and controversial weapons companies from those funds and the indices they tracked. As this decision was taken by State Street in November, the performance information presented in the submitted report had not yet been impacted by this

change.

State Street had produced a Q&A document (included at Appendix C to the submitted report), setting out more detail of the potential investment impact of the change to benchmarks. Overall approximately 37 out of 2000 companies in the Overseas State Street passive fund were excluded and they represented about 3.6% of the index by value. It was highlighted that the anticipated impact on the performance of these funds and the Fund's investments was not huge.

The approach State Street was taking to companies that they did not wish to invest in was to exclude these companies from the underlying benchmarks. As a passive investor, this was one of the few approaches available as passive investment typically requires holdings in all the main components of a particular stock market index.

Active equity investors, such as Border to Coast, were able to make decisions on which companies to hold or the weighting to apply to each company based on a wide range of factors, including responsible investment: Environmental, Social and Governance issues (ESG) and the likely impact of those issues on the financial performance of that company. The Senior Portfolio Manager from Border to Coast provided a summary of Border to Coast's approach, the essence of which was to take a forward-looking view and anticipate changes to corporate behaviour, policies and approach. Border to Coast was reliant on a number of different data inputs and tried to get a broad source of inputs, as well as taking account of more qualitative and wide ranging ESG inputs. Border to Coast also tried to influence corporate behaviour through engagement.

In response to a Members' question, the Head of Pensions Governance and Investment commented that discussion had recently taken place with Border to Coast in relation to whether tobacco exclusion was something that should be reconsidered collectively. Although at the current time the majority of the Funds in Border to Coast would probably not agree to a tobacco exclusion, there was nothing to prevent this proposal being given further consideration and it remained on the agenda.

In relation to feedback from companies that had been excluded, the Head of Pensions Governance and Investment explained that it would take some time for this to happen but the ultimate aim was for companies to change their behaviour. It was suggested by the Investment Advisor that engagement was a better route than exclusion as it delivered better outcomes.

The Head of Pensions Governance and Investment highlighted that the Fund did not normally invest in passive funds and the aim, as previously discussed by the Committee, was ultimately to move funds from State Street into Border to Coast.

**ORDERED** that the report was received and noted.

20/31

## **LGPS - NATIONAL KNOWLEDGE ASSESSMENT**

A report of the Director of Finance was presented to provide Members with information relating to the Local Government Pension Scheme (LGPS) National Knowledge Assessment, which was facilitated by Hymans Robertson.

In January 2019 the LGPS Scheme Advisory Board (SAB) commissioned Hymans Robertson to assist in delivering a review of governance across the LGPS. This review was termed the Good Governance Project. The review recognised the Pension Regulator's push to increase governance and administration standards in pension schemes, including public service pension schemes, for which it had oversight responsibility.

The Good Governance review set out proposals in six main areas and made recommendations, details of which were contained in the submitted report and appendices.

The Head of Pensions Governance and Investment highlighted that whilst there was a statutory duty on Members of Local Pension Boards to maintain an appropriate level of knowledge and understanding to carry out their role effectively, this did not currently apply to Members of the Committee. However it was suggested that this statutory duty would be amended to include Members of the Committee in future.

At meeting of the Teesside Pension Board held on 2 November 2020, Board Members had agreed to take part in the assessment process.

It was proposed that Members of the Teesside Pension Fund Committee should also participate in the Local Government Pension Scheme (LGPS) National Knowledge Assessment, to help assess the Committee's collective relevant LGPS knowledge with a view to facilitating targeted training to meet any training needs identified.

The cost of participating in the National Knowledge Assessment was £5,000 plus VAT and assuming full participation by the Committee and Board this equated to around £240 per person. The training would be arranged as quickly as possible.

**ORDERED** that Members of the Teesside Pension Fund Committee and the Teesside Pension Board would participate in the Local Government Pension Scheme (LGPS) National Knowledge Assessment facilitated by consultants Hymans Robertson.

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### **BORDER TO COAST RESPONSIBLE INVESTMENT POLICY AND CORPORATE GOVERNANCE AND VOTING GUIDELINES**

A report of the Director of Finance was provided to advise the Committee of recent changes made by Border to Coast Pensions Partnership Limited (Border to Coast) to its Responsible Investment Policy and Corporate Governance and Voting Guidelines.

Copies of both policies, with the changes highlighted, were attached as appendices to the submitted report, which also provided a summary of the main changes.

The following pre-work would be undertaken ahead of the 2021 Policy Review process:

- The development of a standalone climate change policy.
- The measurement of transition risk and the implications of setting targets, including the potential to set a net zero carbon target.
- The role of private markets in managing transition risk.
- Implications of an exclusion policy if engagement was ineffective.

Border to Coast would also continue to develop their communication approach to enable Partner Funds and other important stakeholders to understand and oversee Border to Coast in carrying out their responsible investment remit.

**ORDERED** as follows that:

1. the revised Border to Coast Responsible Investment Policy and Corporate Governance and Voting Guidelines included as tracked changes versions in Appendices A and B to the submitted report, were noted and approved.
2. the proposed areas for future development detailed in section 7 of the submitted report were noted.

20/33

### **PRESENTATION FROM BORDER TO COAST HEAD OF CLIENT RELATIONS**

The Head of Client Relations, Border to Coast, gave a presentation which covered the following issues:

- Border to Coast Update
- Market Background
- Equity Investments Update
  - UK Listed Equity Fund
  - Overseas Developed Markets Equity Fund
- Alternatives Investments Update
  - Private Equity
  - Infrastructure

A timetable of the funds launched to date and those scheduled for 2021, 2022, and beyond were included in the presentation. Ten funds were now up and running and the Emerging

Market Hybrid would be launched early in 2021.

As at 8 October 2020, 91 people were now employed by Border to Coast, including a 12 investment team hires.

The Head of Client Relations highlighted Border to Coast's approach to equity management and responsible investment.

Details of the Fund's current investments with Border to Coast were also included in the presentation and information in relation to performance of the funds was also provided.

In response to a query raised by the Chair with regard to the Fund's investment in Apple, it was clarified that the portfolio weighting and dividends were in line with the benchmarks.

**ORDERED** that the presentation was received and noted.

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## **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 Advisors provided further commentary at the meeting.

The major issue for the Fund's Portfolio was the overweight position in the strategic allocation and discussions were ongoing as to how this could be addressed. The Fund needed to continue reducing its equity holdings and investing in alternatives.

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

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## **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.

Transactions remained much lower than last year at around 20-30% less. In terms of supply and demand there was not much change from the last update. Popular sectors included industrial, distribution and supermarkets. Retail, offices, and regions generally outside the south east were not popular. Retail was approaching the bottom of its market in terms of yields and there was beginning to be some interest in certain better quality assets in that sector. The alternative sector was relatively neutral, with care homes and the health side, as well as automotives, continuing to attract interest. Less popular sectors were pubs, leisure, and hotels. In line with previous years, people tended not to offer new properties to the market in December, as it was unlikely to transact and complete before the year end. It was expected that the market would return in the second half of January 2021.

In relation to the submitted report, the following issues were highlighted:

The acquisition of a highly regarded long-let supermarket detailed at page 6 of the report was no longer going ahead as the vendor had withdrawn from the sale.

As at 4 December 2020 the total Collectable Arrears on the portfolio had reduced to £935,000 as follows:

- River Island - arrears had increased to £233,000 and lease re-gear had been negotiated which would deal with the arrears.
- P and O Ferrymasters - the arrears had been cleared and a lease re-gear was being negotiated.
- Nuffield Health - negotiations were ongoing with regard to arrears and some rent had been paid.
- Peacocks Stores had entered into a CVA and the arrears had risen from £90,000 to £100,000, which would continue to rise. Until the Government's current protection scheme had ended it would not be possible to take possession of the property.

- Rugby were paying monthly and were on track with the payment plan.
- Boots were in negotiations to clear the current arrears.
- Sports Direct - arrears had risen to £94,000.
- Pizza Hut - a lease re-gear had been negotiated which would deal with the arrears.
- Marks and Spencer - the rent was being paid monthly but not the service charge and this issue was being resolved.
- Aurum Group Limited - rent was being paid monthly.

CBRE had collected 85% of the collectable rent to 10 November 2020, which was good in comparison to other Funds.

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

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#### **XPS PENSIONS ADMINISTRATION REPORT**

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

Updates were provided on the following items:

- Headlines - McCloud judgement.
- Regulations and guidance - the LGPS (Amendment) (No2) Regulations 2020- exit credits.
- Covid-19 - XPS update.
- Membership Movement.
- Member Self Service - new website.
- Additional Work - Guaranteed Minimum Pension reconciliation exercise.
- Complaints.
- Internal Dispute Resolution Process.
- Pensions Ombudsman.
- High Court Ruling.
- Annual Benefit Statements.
- Common Data.
- Conditional Data.
- Customer Service.
- Recruitment.
- Employer Liaison.
- Performance Charts.

**ORDERED** 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**

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# Teesside Pension Fund Audit Results Report

Year ended 31 March 2020

February 2021



Private and Confidential

February 2020

Dear Corporate Affairs and Audit Committee Members

We are pleased to attach our final audit results report in respect of our audit of the Teesside Pension Fund (the 'Fund') for the year ended 31 March 2020. We have now completed our audit and this report provides an update on the matters noted as outstanding when we presented our provisional audit results report to the November 2020 meeting of the Corporate Affairs and Audit Committee.

We set out in section 1 of our report the updates to our report since we presented our provisional audit results report.

We can confirm that, as indicated in our provisional audit results report, we will be issuing an unqualified audit opinion on the financial statements. Our final opinion does not include additional narrative to highlight financial statement disclosures that the valuations of directly held property have been prepared on the basis of a 'material valuation uncertainty', as was indicated in our provisional audit results report, as we have subsequently concluded this narrative is not required.

This report is intended solely for the use of the Corporate Affairs and Audit Committee, the Pensions Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the forthcoming meetings of the Corporate Affairs and Audit Committee and the Pensions Committee.

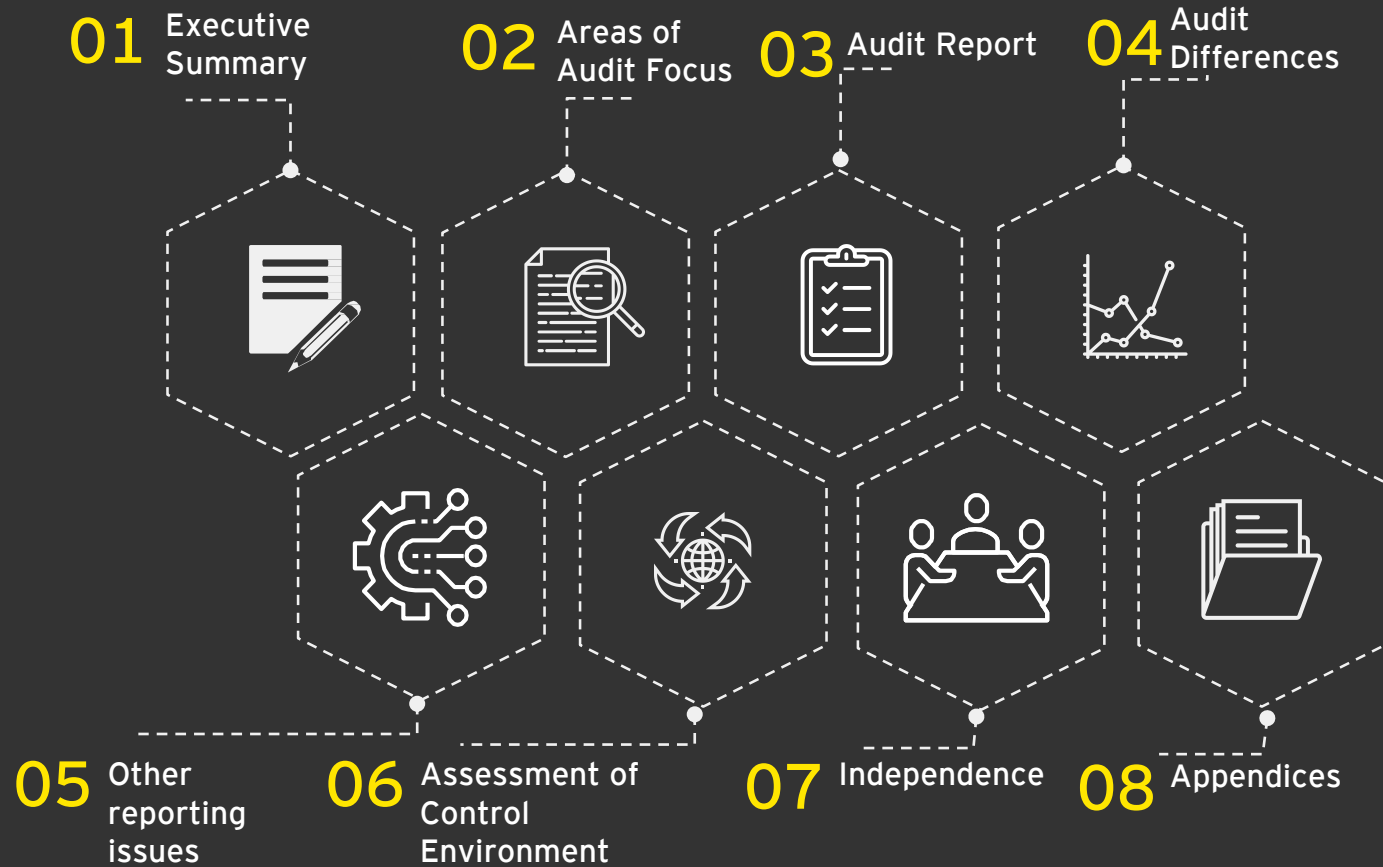
Yours faithfully

**Hassan Rohimun**

Associate Partner

For and on behalf of Ernst & Young LLP

# Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk)). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.





**01**

# Executive Summary

# Executive Summary

## Changes to our report

We presented our provisional audit results report to the meeting of the Corporate Affairs and Audit Committee on 26 November 2020. This report contains the following updates now that our audit is complete:

- ▶ **Page 6** - we have updated the status of our audit to reflect it is now complete;
- ▶ **Page 7** - we have now completed our review of the Pension Fund Annual Report and provide an update on this work;
- ▶ **Pages 14 and 15** - we now include a copy of our proposed auditor's report - which does not include additional narrative to highlight financial statement disclosures that the valuations of directly held property have been prepared on the basis of a 'material valuation uncertainty', as was indicated in our provisional audit results report, as we have subsequently concluded this narrative is not required; and
- ▶ **Appendices** - we have removed what was Appendix D (Outstanding Matters) as all such matters have now been resolved.

Other than these amendments we have no updates to provide to what we reported in our provisional audit results report.

## Scope update

In our Audit Planning Report tabled at the 5 March 2020 Corporate Affairs and Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. In our Audit Planning Report Addendum tabled at the 30 July 2020 Corporate Affairs and Audit Committee, we provided you with an update on the impact of Covid-19 on our audit scope and approach. We have carried out our audit in accordance with this plan, as updated to respond to the risks of Covid-19.

## Materiality

In our Audit Planning Report Addendum, we communicated that our audit procedures would be performed using a materiality of £37.4m, with performance materiality, at 75% of overall materiality, of £28.0m, and a threshold for reporting misstatements of £1.9m. We have considered whether any change to our materiality is required in light of observations during the course of our audit. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report Addendum remain appropriate.

## Information Produced by the Entity (IPE)

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Fund's systems. We addressed this risk by agreeing IPE to scanned documentation or other system screenshots.

## Additional EY consultation requirements concerning the impact on auditor reports of Covid-19

The changes to audit risks, audit approach and auditor reporting requirements as a result of Covid-19 changed the level of work we needed to perform. We discuss the impact on our audit fee in Section 7.

# Executive Summary

## Status of the audit

We have now completed our audit procedures and can confirm we will be issuing an unqualified opinion on the Fund's financial statements.

## Audit differences

We identified £6.9m of unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Corporate Affairs and Audit Committee and included in the Letter of Representation. We have also identified audit differences with an aggregated impact of £33.1m which have been adjusted by management. Details can be found in Section 4 Audit Differences.

## Areas of audit focus

Our Audit Planning Report and Audit Planning Report Addendum identified key areas of focus for our audit of Teesside Pension Fund's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report. We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues;
- You agree with the resolution of the issue;
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Corporate Affairs and Audit Committee.



# Executive Summary

## Control observations

During the audit we identified one control observation, relating to management's review and challenge of information provided by the Fund's custodian, and made an improvement recommendation in relation to management's financial processes and controls. Further details are set out in Section 6. We also considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment or effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

## Other reporting issues

We are required to review the Pension Fund Annual Report and issue an opinion on the consistency of the report with the audited Pension Fund financial statements included within the Middlesbrough Council Statement of Accounts. We have completed our review of the Pension Fund Annual Report and will be issuing an unqualified consistency opinion. We have no matters to report from our review of the Pension Fund Annual Report.

## Independence

Please refer to Section 7 for our update on Independence.



## 02 Areas of Audit Focus





## Areas of Audit Focus

### Significant risk

#### Misstatements due to fraud or error

##### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We respond to this fraud risk on every audit engagement. We did not identify any specific fraud risks in our planning.

##### What judgements are we focused on?

Our work in this area focussed on reviewing manual journal entries, through the use of our data analytics tools, as this is the way in management would most easily be able to manipulate accounting records.

##### What did we do?

- ▶ We identified fraud risks during the planning stages of our audit;
- ▶ We inquired of management about risks of fraud and the controls put in place to address those risks;
- ▶ We developed our understanding of the oversight given by those charged with governance over management's processes over fraud;
- ▶ We considered the effectiveness of management's controls designed to address the risk of fraud;
- ▶ We determined an appropriate strategy to address those identified risks of fraud; and
- ▶ We performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

##### What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside Teesside Pension Fund's normal course of business.

We are therefore content that the financial statements are not materially misstated as a result of fraud or error.



## Areas of Audit Focus

### Significant risk

#### Valuation of unquoted pooled investment vehicles

##### What is the risk?

The Fund's investments include unquoted pooled investment vehicles. Judgement is required from Investment Managers to value these investments as prices are not publicly available. The material nature of these investments means that any error in these judgements could result in a material valuation error.

We identified the valuation of the Fund's investments in unquoted pooled investment vehicles as a significant risk, as even a small movement in the assumptions underpinning investment manager valuations could have a material impact upon the financial statements.

##### Additional considerations for Covid-19

Unquoted assets are either level 2 or level 3 on the fair value hierarchy, which means quoted market prices are not available and valuation is reliant on the use of inputs derived from observable market data (level 2) or are not based on observable market data (level 3). The approach usually taken to value these assets, which sometimes relies on adjusting valuations or other observable information as at 31 December, has had to change because of the market volatility brought about by Covid-19 in the final quarter of 2019/20. We will need to consider the revised valuation approach taken by the Fund and relevant fund managers to gain assurance that the impact of Covid-19 on investment values has been properly accounted for in the financial statements.

##### What judgements are we focused on?

Our work in this area focussed on ensuring that the assumptions used by investment managers in relation to the valuation of complex pooled investment vehicles were free from material misstatement, including due to the impacts on investment values of Covid-19.

##### What did we do?

- ▶ We documented and walked through the design and implementation of the controls over the valuation process;
- ▶ We obtained third party confirmations of the valuation of unquoted pooled investments at the reporting date from the investment managers. We also cross-checked the investment manager confirmations to the confirmation of assets held obtained from the Fund's custodian;
- ▶ We reviewed the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk;
- ▶ We compared the movement in valuation of investments in unquoted investment vehicles with the returns recognised as investment income per the investment manager confirmations, and investigated any unusual variances;
- ▶ We agreed a sample of purchases and sales of unquoted pooled investments during the period to supporting evidence;
- ▶ We reviewed the basis of valuation for unquoted investments and ensure it is in line with the accounting policy.



## Areas of Audit Focus

### Significant risk

#### Valuation of unquoted pooled investment vehicles (continued)

##### What did we do (continued)?

- ▶ We enquired of management as to what steps they have taken to ensure the accuracy of valuations provided by investment managers accurately reflect the impact of Covid-19 on investments; and
- ▶ We have considered whether the planned audit procedures, detailed above, provided sufficient audit assurance over the impact of Covid-19 on investments. We opted to perform the following further procedures, in addition to those set out in our plan:
- ▶ We requested management obtain updated valuations as at 31 March 2020 from investment managers, to capture any subsequent revisions to valuations made as more information about market conditions at the reporting date emerged, and compared these valuations to those used in the financial statements.

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##### What are our conclusions?

We identified a number of differences between the amounts included within the financial statements and the confirmations provided by investment managers and the Fund's custodian, including:

- ▶ An overstatement of £22.5m in the valuation of one investment, where the unit price provided by the investment manager was lower than that provided by the custodian and used within the financial statements;
- ▶ Double-counting of an investment of £19.6m which was split into two separate sub-funds during the year, as the financial statements included both the newly created funds existing at year-end and the previous single fund which no longer existed;
- ▶ Understatements of £10.6m and £7.0m in two investments due to the omission from year-end valuations of purchases which took place close to the year-end;
- ▶ An overstatement of £8.6m in one investment due to the inclusion within the year-end valuation of an amount disposed of close to the year-end;
- ▶ A balance of £13.9m for which management have been unable to provide supporting evidence to justify its recognition as an asset of the Fund; and
- ▶ A number of smaller variances which have a net impact of understating assets by £7.0m.

We have considered the impact of the errors identified in our assessment of the control environment, further details of our observations and recommendations are provided in section 6.

Our procedures covered 100% of the population.

Review of the updated valuations obtained from investment managers did not identify any significant changes in valuations which required reflecting in the financial statements.

Management have agreed to adjust for some of the identified misstatements detailed above which amounts to a net £24.4m. The net impact of identified misstatements which management have not agreed to adjust amounts to £7m. Further details of which are provided in section 4.



# Areas of Audit Focus

## Significant risk

### Valuation of directly held property

#### What is the risk?

The Fund has a significant portfolio of directly held property investments. The valuation of these properties is subject to a number of assumptions and judgements, small changes in which could have a significant impact upon the financial statements.

#### Additional considerations for Covid-19

In-line with guidance issued by the Royal Institution of Chartered Surveyors (RICS), the Fund's property valuer provided their valuation of the Fund's directly held property at 31 March 2020 on the assumption that there is a 'material valuation uncertainty' due to the impact of Covid-19 on the real estate market.

#### What judgements are we focused on?

Our work in this area focussed on ensuring that the assumptions used by the property valuers in relation to the valuation of directly held property, including assumptions about the impact of Covid-19 on the property market, were free from material misstatement.

#### What did we do?

- ▶ We documented and walked through the design and implementation of the controls over the valuation process;
- ▶ We obtained the valuation report from the external valuer (Cushman and Wakefield) and reconciled the valuations provided to those utilised within the financial statements;
- ▶ We assessed the qualifications and experience of the external valuer to ensure that they can be relied upon as management's experts;
- ▶ We engage EY Real Estate experts to review and challenge the assumptions used by the external valuer to ensure that they are in line with our expectations; and
- ▶ We reviewed the financial statement disclosures to ensure that appropriate disclosure has been made in the accounts concerning the material valuation uncertainty.

#### What are our conclusions?

Our review of the valuations of the Fund's directly held property has not identified any misstatements.

We do however note that of the sample of 10 properties we requested our EY Real Estate experts to review, 5 were valued towards the upper end of the expected range of valuations and 5 were in the middle of the expected range. We would therefore consider the Fund's valuations, whilst reasonable, to be towards the higher end of expectations.

Properties valued towards the upper end of the expected range were predominantly retail properties, where the impact of Covid-19 on valuations has been greatest.

The valuations of property assets at 31 March 2020 were provided to management by their valuer on the basis of a 'material valuation uncertainty' due to the impact of Covid-19 on the real estate market. The draft financial statements presented for audit did not include disclosure of this fact, however following audit challenge this has been disclosed as a critical judgement, sensitivity and accounting estimate in the final statements.



# 03 Audit Report



# Audit report

## Audit report

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL

#### Opinion

We have audited the pension fund financial statements for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the pension fund financial statements:

- ▶ give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020; and
- ▶ have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- ▶ the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- ▶ the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The other information comprises the information included in the Statement of Accounts on pages 98 to 101 and pages 127 to 135, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.



# Audit report

## Audit report

### Matters on which we report by exception

We report to you if:

- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

### Responsibility of the Chief Finance Officer

As explained more fully in the Statement of Responsibilities - Teesside Pension Fund set out on page 22, the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Use of our report

This report is made solely to the members of Middlesbrough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Middlesbrough Council and the Middlesbrough Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Hassan Rohimun (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Manchester  
February 2021





# 04 Audit Differences







# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of adjusted differences

We highlight the following misstatements, having a net impact of reducing net assets by £33.1m, which have been corrected by management that were identified during the course of our audit:

- ▶ An overstatement of £22.5m in the valuation of one investment, where the unit price provided by the investment manager was lower than that provided by the custodian and used within the financial statements;
- ▶ Double-counting of an investment of £19.6m which was split into two separate sub-funds during the year, as the financial statements included both the newly created funds existing at year-end and the previous single fund which no longer existed;

An overstatement of £8.6m in one investment due to the inclusion within the year-end valuation of an amount disposed of close to the year-end;

Understatements of £10.6m and £7.0m in two investments due to the omission from year-end valuations of purchases which took place close to the year-end.

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## Summary of unadjusted differences

We highlight the following misstatements, having a net impact of reducing net assets by £6.9m, which have been identified during the course of our audit but not corrected for within the financial statements:

- ▶ A balance of £13.9m for which management have been unable to provide supporting evidence to justify its recognition as an asset of the Fund; and
- ▶ An understatement of £7.0m as the aggregated net impact of a number of smaller differences identified between the financial statements and investment manager confirmations, excluding those differences separately detailed above. The majority of these differences are timing differences whereby the financial statements do not reflect purchases or sales occurring prior to the year end.

We ask that these differences be corrected or a rationale as to why they are not corrected be approved by the Corporate Affairs and Audit Committee and included in the Letter of Representation.

## Source of differences

We have raised a recommendation to address the common source of some of these misstatements within Section 6 of our report.



# Audit Differences

## Comments on disclosure notes

The following matters relating to the disclosures within the financial statements have been identified during the course of our audit and corrected by management:

- ▶ **Material valuation uncertainty** - the draft financial statement did not include reference to the fact directly held property valuations have been prepared on the basis of a material valuation uncertainty;
- ▶ **Going concern** - the draft financial statements did not specifically state that the financial statements had been prepared on a going concern basis, nor did they include management's assessment as to why the adoption of the going concern basis is appropriate;
- ▶ **Outstanding commitments** - the draft financial statements did not include disclosure of the Fund's outstanding commitments to investment managers (note this was inserted prior to inclusion in the draft Middlesbrough Council Statement of Accounts);
- ▶ **Geographical Analysis** - we identified misclassifications within the disclosure of the geographical analysis of the Fund's assets totalling £33.8m;
- ▶ **Financial instruments** - the draft financial statements incorrectly identified directly-held property assets as financial instruments; and
- ▶ **Miscellaneous** - we made a number of recommendations to improve the disclosures within the financial statements, including several instances of internal inconsistency.



## 05 Other reporting issues

## Other reporting issues

# Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements.

Financial information in the Statement of Accounts 2019/20 and published with the financial statements is consistent with the audited financial statements.

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Fund to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Fund, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund's financial reporting process. We have nothing to report in relation to this.





06

# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have identified one significant deficiency in the design or operation of an internal control which led to a material misstatement of the financial statements, as reported in sections 2 and 4. We have made a recommendation to address this deficiency on the next page.

We have not identified any other significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment or effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

The matters reported here are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.



# Assessment of Control Environment

Area	Management review of information provided by the Fund's custodian	Rating
Page 33 Observation and recommendation	<p>Management rely on information provided by the Fund's custodian when preparing the financial statements. Our audit procedures identified a number of issues with this information, including:</p> <ul style="list-style-type: none"><li>▶ Differences between the asset valuations recorded by the custodian and the asset valuations provided by investment managers, most notably a £22.5m difference on one large investment;</li><li>▶ The double-counting of a £19.6m investment by the custodian, whereby both a disposed of investment and its replacements were included in the year-end valuation report. The splitting of the investment occurred in September 2019; and</li><li>▶ Timing differences, such that asset valuations provided by the custodian as at 31 March 2020 did not reflect purchases and sales which took place prior to 31 March 2020, with a net impact of understating assets by £16.0m.</li></ul> <p>Whilst the net impact of the above was not material, the absolute value of identified misstatements was material. The aggregate impact of all misstatements identified during the audit, including the above, was also material. We therefore consider there to be a risk of material misstatement arising from errors in the information provided by the Fund's custodian remaining uncorrected and being utilised in the production of the financial statements.</p> <p>We recommend that management review the processes in place for assuring the information provided by the Fund's custodian is accurate and complete. Where timing differences are known to exist, management should ensure that they have processes in place to determine the impact on the financial statements and, where appropriate, the information provided by the custodian should be adjusted prior to inclusion within the financial statements.</p>	
Management comment	<p>We have been working with the Fund's custodian to ensure the processes for updating manager valuation information (including the on-boarding of new managers or investments) are robust. We are also closely monitoring the figures provided by the custodian to ensure we keep track of any payments to or from managers that may not be reflected in the custodian's figures (typically, because of timing issues), and will ensure appropriate adjustments are made to quarterly and year-end valuations.</p>	





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07

Independence



## Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Planning Report presented on 5 March 2020.

We complied with the Auditing Practices Board (APB) Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that management and the Corporate Affairs and Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 26 November 2020.

We confirm we have undertaken non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd. We have adopted the necessary safeguards in our completion of this work.

### Note 1 - Scale Fee Variation

We wrote to management and the Corporate Affairs and Audit Committee Chair on 10 February 2020 setting out our considerations on the sustainability of UK local public audit. Our Audit Planning Report highlighted that we would be having further discussions with management to agree a scale fee variation for 2019/20 and set out some of the factors informing this discussion. We outlined to management that we believe the fee for the Pension Fund should be set at £55,574. Management have not agreed to the proposed increase and we have therefore asked the PSAA to make a determination as to the scale fee variation to be applied. PSAA have not yet made this determination, therefore we will report our final audit fee to a subsequent meeting of the Corporate Affairs and Audit Committee. The base fee set by PSAA for our 2019/20 audit is £21,972.

### Note 2 - Impact of Covid-19

We have had to perform additional procedures, over what we planned at the start of our audit, to respond to the impacts on Covid-19 on the financial statements. This has included additional consultations on the form of our audit opinion and additional procedures to review and challenge management's assessment of the impact of Covid-19 on asset valuations. The additional fee we have requested, based on the cost to us of the additional work performed, and are discussing with management is £12,455.

### Note 3 - IAS 19 Procedures

For 2019/20 a fee will be charged for the provision of IAS 19 assurances to the auditors of scheduled bodies that are subject to the NAO Code of Audit Practice. Such additional fees are permissible under the PSAA contract and will represent a scale fee variation requiring PSAA approval. The fee for the provision of IAS 19 assurances to the auditor of the Care Quality Commission (CQC), which is not subject to the NAO Code of Audit Practice, is covered by a separate engagement agreement between ourselves and the Fund and does not require approval by PSAA. Management may opt to recharge such fees to the relevant member bodies.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2020.

We confirm that we have undertaken audit work, in the form of IAS 19 procedures on behalf of the auditors of some participating employers of the Fund.

We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

Description	Final Fee 2019/20 £	Final Fee 2018/19 £
Audit Fee (note 1, 2)	TBC	21,972
IAS 19 Procedures - Code (note 3)	6,000	-
<b>Total Audit Fees</b>	<b>TBC</b>	<b>21,972</b>
IAS 19 Procedures - CQC (note 3)	2,000	2,000
<b>Total Fees for Non-Audit Services</b>	<b>2,000</b>	<b>2,000</b>
<b>Total Fees</b>	<b>TBC</b>	<b>23,972</b>

## New UK independence standard

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

### Summary of key changes

- ▶ Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates;
  - ▶ A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries;
  - ▶ A narrow list of permitted services where closely related to the audit and/or required by law or regulation;
  - ▶ Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - ▶ Tax advocacy services
    - ▶ Remuneration advisory services
    - ▶ Internal audit services
    - ▶ Secondment/loan staff arrangements
- Page 36
- ▶ An absolute prohibition on contingent fees;
  - ▶ Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential;
  - ▶ Permitted services required by law or regulation will not be subject to the 70% fee cap;
  - ▶ Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms;
  - ▶ A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards; and
  - ▶ A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

### Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2019, which came into effect from 1 April 2020.

We do not currently provide any non-audit services which would be prohibited under the new standard.

## Other communications

### EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 3 July 2020 (published November 2020):

[https://www.ey.com/en\\_uk/who-we-are/transparency-report-2020](https://www.ey.com/en_uk/who-we-are/transparency-report-2020)



# 08 Appendices

## Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:




- ▶ Existence: An asset, liability and equity interest exists at a given date;
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date;
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items;
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded; and
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework.

We have tested each of these assertions substantively for all material balances included in the Net Asset Statement. This is the same as our approach in prior years.



## Appendix B

# Summary of communications




Date 	Nature 	Summary 
22 January 2020	Meeting	The audit team met with Veritau, recently appointed as the internal auditors of Middlesbrough Council (as the administering authority), to understand the scope of their planned work in respect of the Pension Fund.
4 February 2020	Meeting	The audit team met with management to discuss developments during 2019/20, key audit issues and audit arrangements for our 2019/20 audit.
5 March 2020	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Corporate Affairs and Audit Committee.
17 March 2020	Report	The audit team presented our Audit Planning Report, including confirmation of our independence, to the Pensions Committee.
17 June 2020	Meeting	The audit team attended the meeting of the Pensions Committee, where amongst other agenda items management presented a paper on the impacts of Covid-19 on the Fund's investments.
22 July 2020	Report	The audit team presented our Audit Planning Report Addendum, setting out our audit response to Covid-19, to the Pensions Committee.
30 July 2020	Report	The audit team presented our Audit Planning Report Addendum, setting out our audit response to Covid-19, to the Corporate Affairs and Audit Committee.
14 August 2020	Meeting	The audit team met with management to discuss the status of our audit, significant audit findings to date and arrangements for completion of our audit.
26 November 2020	Report	The audit team will present our Audit Results Report (this report), including confirmation of our independence, to the Corporate Affairs and Audit Committee.
9 December 2020	Report	The audit team will present our Audit Results Report (this report), including confirmation of our independence, to the Pensions Committee.

In addition to the above specific meetings and reports, the audit team met with the management team multiple times throughout the audit to discuss the progress of the audit and audit findings. In line with government guidance and EY policy, meetings since the start of the Covid-19 pandemic have been held remotely.

## Appendix C




# Required communications with the Corporate Affairs and Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Corporate Affairs and Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</li> <li>▶ Significant difficulties, if any, encountered during the audit;</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management;</li> <li>▶ Written representations that we are seeking;</li> <li>▶ Expected modifications to the audit report; and</li> <li>▶ Other matters, if any, significant to the oversight of the financial reporting process.</li> </ul>	Audit Results Report (this report)

## Appendix C

# Required communications with the Corporate Affairs and Audit Committee (continued)




			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Page 42 Financial Statements	<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty;</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit Results Report (this report)	
	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation;</li> <li>▶ The effect of uncorrected misstatements related to prior periods;</li> <li>▶ A request that any uncorrected misstatement be corrected;</li> <li>▶ Corrected misstatements that are significant; and</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit Results Report (this report)	
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Corporate Affairs and Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity;</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; and</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Audit Results Report (this report)	
Related parties	<ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>▶ Non-disclosure by management;</li> <li>▶ Inappropriate authorisation and approval of transactions;</li> <li>▶ Disagreement over disclosures;</li> <li>▶ Non-compliance with laws and regulations; and</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit Results Report (this report)	



## Appendix C

# Required communications with the Corporate Affairs and Audit Committee (continued)



### Our Reporting to you

Required communications	 What is reported?	  When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats;</li> <li>▶ Safeguards adopted and their effectiveness;</li> <li>▶ An overall assessment of threats and safeguards; and</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Planning Report; and Audit Results Report (this report)
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations; and</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit Results Report (this report)
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off; and</li> <li>▶ Enquiry of the Corporate Affairs and Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Corporate Affairs and Audit Committee may be aware of.</li> </ul>	Audit Results Report (this report)
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit Results Report (this report)

## Appendix C

# Required communications with the Corporate Affairs and Audit Committee (continued)

### Our Reporting to you

Required communications	 What is reported?	 When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report (this report)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit Results Report (this report)
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	Audit Results Report (this report)
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed;</li> <li>▶ Breakdown of fee information at the completion of the audit; and</li> <li>▶ Any non-audit work</li> </ul>	Audit Planning Report; and Audit Results Report (this report)

# Management representation letter

We include below a copy the management representation letter which we request is printed on the Authority's letterheaded paper, signed and provided to us prior to us signing our audit report. This letter should be dated with same date as the date of approval of the financial statements.

## Management Representation Letter

[Date]

Ernst & Young LLP  
Citygate  
St James' Boulevard  
Newcastle-upon-Tyne  
NE1 4JD

Dear Sirs,

This letter of representations is provided in connection with your audit of the financial statements of Teesside Pension Fund ("the Fund") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2019 to 31 March 2020 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2020, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the Covid-19 pandemic on our system of internal controls.
6. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in aggregate, to the financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [management to insert rationale].

## Management representation letter (continued)

### Management Representation Letter (continued)

#### B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of non-compliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - ▶ Involving financial improprieties;
  - ▶ Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements;
  - ▶ Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties;
  - ▶ Involving management, or employees who have significant roles in internal control, or others; or
  - ▶ In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

#### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - ▶ Additional information that you have requested from us for the purpose of the audit; and
  - ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the Covid-19 pandemic.
4. We have made available to you all minutes of the Committee meetings of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the 2019/20 to the most recent meeting on 9 December 2020.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

## Management representation letter (continued)

### Management Representation Letter (continued)

8. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

9. From 1 April 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

#### Page 47 D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

#### E. Subsequent Events

1. There have been no events, including events related to the Covid-19 pandemic, subsequent to year end which require adjustment of or disclosure in the financial statements or notes thereto.

#### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information disclosed on pages 98 to 101 and pages 127 to 135 of the Middlesbrough Council Statement of Accounts 2019/20.

2. We confirm that the content contained within the other information is consistent with the financial statements.

#### G. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

#### H. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

#### I. Pooling investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

# Management representation letter (continued)

## Management Representation Letter (continued)

### J. Actuarial valuation

1. The latest report of the actuary Aon Hewitt as at 31 March 2019 and dated 31 March 2020 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

### K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value the Fund's directly-held property assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### L. Estimates - Property valuation

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020.

2. We confirm that the significant assumptions used in making the valuation of directly held property estimates appropriately reflect our intent and ability to carry out the investment strategy to which they relate and reflect the expectations of the Fund.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the Covid-19 pandemic on valuations, and made in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the Covid-19 pandemic.

Yours faithfully,

\_\_\_\_\_  
Tony Parkinson, Chief Executive

\_\_\_\_\_  
Ian Wright, Director of Finance

\_\_\_\_\_  
Charlotte Benjamin, Director of Legal and Governance Services

### Schedule of unadjusted audit differences

The following relates to the overstatement of investment assets in the financial statements:



	Dr (£'000)	Cr (£'000)
Change in market value	6,957	
Investment assets		6,957



## Appendix E

# Regulatory update

Since the date of our last report to the Corporate Affairs and Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Teesside Pension Fund 
Going Concern - ISA (UK) 570 (Revised September 2019)	<ul style="list-style-type: none"> <li>▶ The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019.</li> <li>▶ This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage.</li> <li>▶ Further updates will be provided when possible.</li> </ul>
Independence	<ul style="list-style-type: none"> <li>▶ The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.</li> </ul>	<ul style="list-style-type: none"> <li>▶ We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.</li> <li>▶ We do not currently provide any non-audit services to you.</li> </ul>

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## TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 5

### PENSION FUND COMMITTEE REPORT

10 MARCH 2021

DIRECTOR OF FINANCE – IAN WRIGHT

#### INVESTMENT ACTIVITY REPORT

#### 1. PURPOSE OF THE REPORT

- 1.1 To inform Members how the Investment Advisors recommendations are being implemented.
- 1.2 To provide a detailed report on transactions undertaken to demonstrate the implementation of the Investment Advice recommendations and the Fund's Valuation.
- 1.3 To report on the treasury management of the Fund's cash balances.
- 1.4 To present to Members the latest Forward Investment Programme.

#### 2. RECOMMENDATION

- 2.1 That Members note the report and pass any comments.

#### 3. FINANCIAL IMPLICATIONS

- 3.1 Decisions taken by Members, in light of information contained within this report, will have an impact on the performance of the Fund.

#### 4. IMPLEMENTATION OF INVESTMENT ADVICE FOR THE PERIOD October - December 2020

- 4.1 The Fund continues to favour growth assets over protection assets. It is considered that in the long run, Bond yields will rise, but at present and while central banks intervene in the Bond markets, through quantitative easing, yields do not meet the actuarial requirements for the Fund and should continue to be avoided at these levels unless they are held as a short term alternative to cash.

The Fund has no investments in Bonds at this time.

- 4.2 At the June 2018 Committee it was agreed that, a maximum level of 20% of the Fund would be held in cash – cash levels at the end of December 2020 were 8.26% . The Fund will look to use this cash to move away from its overweight position in equities and invest further in Alternatives.

- 4.3 Investment in direct property to continue on an opportunistic basis where the property has a good covenant, yield and lease terms.

No property transactions were undertaken in this quarter.

- 4.4 Investment in Alternatives, such as infrastructure and private equity, offer the Fund diversification from equities and bonds. They come with additional risks of being illiquid, traditionally they have costly management fees and investing capital can be a slow process. However, the Fund is considerably underweight its customised benchmark and, providing suitable investment opportunities are available, the Fund will look to increase its allocation to this asset class up to the customised benchmark level.

An amount of £45.3m was invested in the quarter.

## **5. TRANSACTION REPORT**

- 5.1 It is a requirement that all transactions undertaken are reported to the Investment Panel. Appendix A details transactions for the period 1 October 2020 – 31 December 2020
- 5.2 There were net purchases of £45.4m in the period, this compares to net purchases of £33.2m in the previous reporting period.

## **6. TREASURY MANAGEMENT**

- 6.1 The Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice (the Code) sets out how cash balances should be managed. The Code states that the objective of treasury management is the management of the Authority's cash flow, its borrowings and investments, in such a way as to control the associated risks and achieve a level of performance or return consistent with those risks. The security of cash balances invested is more important than the interest rate received.
- 6.2 Middlesbrough Council adopted the Code on its inception and further determined that the cash balances held by the Fund should be managed using the same criteria. The policy establishes a list of counterparties (banks, building societies and others to whom the Council will lend) and sets limits as to how much it will lend to each counterparty. The counterparty list and associated limits are kept under constant review by the Strategic Director Finance, Governance and Support.
- 6.3 Although it is accepted that there is no such thing as a risk-free counterparty, the policy has been successful in avoiding any capital loss through default.
- 6.4 As at 31 December 2020, the Fund had £361.5 million invested with approved counterparties. This is a decrease of £68.3 million over the last quarter.
- 6.5 The attached graph (Appendix B) shows the maturity profile of cash invested. It also shows the average rate of interest obtained on the investments for each time period.

6.6 Delegated authority was given to the Strategic Director Finance, Governance and Support by the Teesside Pension Fund Committee to authorise/approve any changes made to the Treasury Management Principles (TMPs), with subsequent reporting to this committee.

## 7. FUND VALUATION

7.1 The Fund Valuation details all the investments of the Fund as at 31 December 2020, and is prepared by the Fund's custodian, Northern Trust. The total value of all investments, including cash, is **£4,385 million**. The detailed valuation attached as Appendix C is also available on the Fund's website [www.teespen.org.uk](http://www.teespen.org.uk). This compares with the last reported valuation, as at 30 September 2020 of **£4,084 million**.

7.3 A summary analysis of the valuation (attached with the above), shows the Fund's percentage weightings in the various asset classes as at 31 December 2020 compared with the Fund's customised benchmark.

## 8. FORWARD INVESTMENT PROGRAMME

8.1 The Forward Investment Programme provides commentary on activity in the current quarter and looks ahead for the next three to five years.

### 8.2 EQUITIES

The Fund is currently above its target asset allocation of 50% equities, as at the end of December 2020 the Fund's equity weighting was 77.04%.

The overweight position should be reduced over time through further investment in Alternative assets, however, as noted in 4.4 above because the investments happen over a period of years this is a slow process, as long as suitable alternative investments are available then we will look to a reduction in the overweight position of 5% per year.

Summary of equity returns for the quarter 1 October 2020 – 31 December 2020:

Asset	Fund Performance	Benchmark	Excess Return
BCPP UK	12.51%	12.62%	-0.12%
BCPP Overseas	9.56%	9.79%	-0.23%
SSGA Pacific	18.91%	18.9%	0.01%
SSGA Japan	8.65%	8.53%	0.12%
SSGA Europe	8.92%	8.99%	-0.07%
SSGA North America	6.95%	6.88%	0.07%

(BCPP – Border to Coast Pension Partnership – Active Internal Management)

(SSGA – State Street Global Advisers – Passive Management)

At the 11<sup>th</sup> March 2020 Pension Fund Committee Meeting it was ordered that:

*“The majority of the Fund's passively managed equities held with State Street Global Advisers should be transitioned to the actively managed equity sub-funds held with Border to Coast Pension Partnership.”*

The transfer from the SSGA Passively Managed Funds to the Border to Coast Actively Managed Overseas Developed Fund has commenced this month, the transactions will be reported at the next 2 Pension Fund Committee Meetings

### 8.3 **BONDS + CASH**

The Fund has a current benchmark allocation of 15%, and although it is proposed to increase the allocation to 20%, the Fund has no investments in bonds at this time, the level of cash invested is 8.26% of the Fund. Until there is clear instruction from the Committee, through its Investment Advisors, to invest in bonds this will remain the short term strategy. It is planned to reduce cash through investment into other asset classes (property, alternatives and equities) in the near term. In addition, cash is being used to supplement the gap in contribution receipts and pension payments.

### 8.4 **PROPERTY**

The current strategy for property is to increase direct property investments by £50 million on an opportunistic basis. The Fund purchases and sales are reported at the Committee by CBRE.

### 8.5 **ALTERNATIVES**

In the medium to long term, it is proposed that commitments will be made through Border to Coast. These commitments will be reviewed on an annual basis.

For both private equity and Infrastructure, it was agreed that a commitment of £100 million would be made to the Border to Coast Private Equity sub-fund in year 1 followed by £50 million commitments per year for the subsequent 4 years, subject to review.

The Fund's internal team have considered a number of investment opportunities in infrastructure and private equity funds, as at 31 December 2020 the following commitments (excluding those noted above to BCPP) have been made:

Private Equity - £305m / Infrastructure - £212m. / Other Alternatives - £93m

These committed amounts will be “called” over the investment period of the individual funds, usually 3 / 4 years.

Further investments will be considered in the near term by the internal team providing they meet the due diligence checks and investment requirements of the Fund.



CONTACT OFFICER: Nick Orton – Head of Pensions Governance and Investments

TEL NO.: 01642 729040

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## Appendix A

<u>Bargain Date</u>	<u>Buy / Sell</u>	<u>Stock Name</u>	<u>Country/Category</u>	<u>Sector/Country</u>	<u>Nominal Amount of Shares</u>	<u>Price</u>	<u>CCY</u>	<u>Purchase Cost / Sale Proceeds</u>	<u>Book Cost of Stock Sold</u>	<u>Profit/ (Loss) on Sale</u>
						(P)		£	(£)	(£)
05 October 2020	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	917.51	917.51	0.00
08 October 2020	P	Blackrock Global Energy & Power Infrastructure Fund III	Infrastructure	Infrastructure	~	~	USD	695,148.00	695,148.00	0.00
08 October 2020	P	Ancala Infrastructure Fund II LP	Infrastructure	Infrastructure	~	~	EUR	241,149.40	241,149.40	0.00
08 October 2020	S	Ancala Infrastructure Fund II LP	Infrastructure	Infrastructure	~	~	EUR	-68,585.94	-68,585.94	0.00
12 October 2020	S	ACIF Infrastructure 1 LP	Infrastructure	Infrastructure	~	~	EUR	-103,150.02	-103,150.02	0.00
09 October 2020	S	Innisfree PFI Secondary Fund 2	Infrastructure	Infrastructure	~	~	GBP	-41,600.00	-41,600.00	0.00
16 October 2020	P	Access Capital Fund Infrastructure II	Infrastructure	Infrastructure	~	~	EUR	963,198.55	963,198.55	0.00
16 October 2020	P	ACIF Infrastructure LP	Infrastructure	Infrastructure	~	~	EUR	1,023,150.25	1,023,150.25	0.00
15 October 2020	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	EUR	812,764.80	812,764.80	0.00
30 October 2020	P	Access Capital Fund Infrastructure II	Infrastructure	Infrastructure	~	~	EUR	273,025.12	273,025.12	0.00
02 November 2020	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	274,754.01	274,754.01	0.00
02 November 2020	S	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	-18,493.36	-18,493.36	0.00
12 November 2020	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	EUR	7,357.32	7,357.32	0.00
12 November 2020	S	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	EUR	-7,134.26	-7,134.26	0.00
12 November 2020	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	963,875.86	963,875.86	0.00
13 November 2020	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	55,949.41	55,949.41	0.00
13 November 2020	S	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	-769,609.73	-769,609.73	0.00
04 November 2020	S	Blackrock Global Energy & Power Infrastructure Fund III	Infrastructure	Infrastructure	~	~	USD	-83,023.91	-83,023.91	0.00
01 December 2020	S	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	-167,476.17	-167,476.17	0.00
01 December 2020	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	430,337.76	430,337.76	0.00
02 December 2020	S	ACIF Infrastructure LP	Infrastructure	Infrastructure	~	~	EUR	-32,202.43	-32,202.43	0.00
02 December 2020	P	Blackrock Global Energy and Power Infrastructure Fund III	Infrastructure	Infrastructure	~	~	USD	777,037.06	777,037.06	0.00
03 December 2020	P	Border to Coast Infrastructure Series 1B	Infrastructure	Infrastructure	~	~	USD	779,566.63	779,566.63	0.00
03 December 2020	P	Ancala Infrastructure Fund II	Infrastructure	Infrastructure	~	~	EUR	3,025,583.42	3,025,583.42	0.00
04 December 2020	P	Access Capital Fund Infrastructure II	Infrastructure	Infrastructure	~	~	EUR	617,564.25	617,564.25	0.00
04 December 2020	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	EUR	369,347.00	369,347.00	0.00
07 December 2020	P	ACIF Infrastructure LP	Infrastructure	Infrastructure	~	~	EUR	1,060,386.91	1,060,386.91	0.00
07 December 2020	P	Border to Coast Infrastructure Series 1B	Infrastructure	Infrastructure	~	~	GBP	2,651,000.00	2,651,000.00	0.00
09 December 2020	P	Clean Energy Infrastructure VIII	Infrastructure	Infrastructure	~	~	GBP	1,036,484.25	1,036,484.25	0.00
09 December 2020	P	Clean Energy Infrastructure VIII Co-Investment	Infrastructure	Infrastructure	~	~	GBP	518,242.12	518,242.12	0.00
10 December 2020	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	356,217.47	356,217.47	0.00
10 December 2020	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	1,577,616.97	1,577,616.97	0.00
14 December 2020	S	Blackrock Energy & Power Infrastructure Fund II	Infrastructure	Infrastructure	~	~	USD	-27,774.38	-27,774.38	0.00
15 December 2020	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	230,251.62	230,251.62	0.00
15 December 2020	S	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	-156,161.50	-156,161.50	0.00
16 December 2020	P	ACIF Infrastructure II LP	Infrastructure	Infrastructure	~	~	EUR	1,815,121.46	1,815,121.46	0.00
23 December 2020	S	ACIF Infrastructure Fund 1	Infrastructure	Infrastructure	~	~	EUR	-22,456.00	-22,456.00	0.00
23 December 2020	S	Foresight Energy Infrastructure Partnership	Infrastructure	Infrastructure	~	~	EUR	-964,942.48	-964,942.48	0.00
23 December 2020	P	Border to Coast Infrastructure Series 1B	Infrastructure	Infrastructure	~	~	EUR	1,462,155.87	1,462,155.87	0.00
16 December 2020	S	JP Morgan Infrastructure Investment Fund	Infrastructure	Infrastructure	~	~	USD	-208,551.35	-208,551.35	0.00
30 December 2020	P	Border to Coast Infrastructure Series 1A	Infrastructure	Infrastructure	~	~	USD	1,003,020.14	1,003,020.14	0.00

							<b><u>20,350,061.66</u></b>			
30 October 2020	P	Hearthstone Residential Fund 1 LP	Other Alternatives	Other Alternatives	~	~	GBP	274,802.92	274,802.92	0.00
01 December 2020	P	Gresham British Strategic Investment Housing Fund LP	Other Alternatives	Other Alternatives	~	~	GBP	847,457.63	847,457.63	0.00
01 December 2020	P	Blackrock Global Renewable Power Fund III	Other Alternatives	Other Alternatives	~	~	USD	1,691,390.09	1,691,390.09	0.00
01 December 2020	P	Blackrock Global Renewable Power Fund III	Other Alternatives	Other Alternatives	~	~	USD	450,864.80	450,864.80	0.00
							<b><u>3,264,515.44</u></b>			
02 October 2020	P	Crown Secondaries Special Opportunities II	Private Equity	Private Equity	~	~	USD	637,213.25	637,213.25	0.00
08 October 2020	P	Capital Dynamics Global Secondaries V	Private Equity	Private Equity	~	~	USD	337,293.98	337,293.98	0.00
09 October 2020	P	Crown Co-Investment Opportunities II (LGT Capital)	Private Equity	Private Equity	~	~	USD	918,836.14	918,836.14	0.00
21 October 2020	P	Pantheon Global Co Investment Opportunities IV	Private Equity	Private Equity	~	~	USD	1,156,693.40	1,156,693.40	0.00
29 October 2020	P	Cap Dynamics LGPS Collective Priv Equity for pools 2018/19	Private Equity	Private Equity	~	~	GBP	300,000.00	300,000.00	0.00
29 October 2020	P	Border to Coast Private Equity, Series 1A	Private Equity	Private Equity	~	~	USD	44,840.68	44,840.68	0.00
29 October 2020	S	Border to Coast Private Equity, Series 1A	Private Equity	Private Equity	~	~	USD	-2,142,709.67	-2,142,709.67	0.00
02 November 2020	P	Crown Growth Global Opportunities III	Private Equity	Private Equity	5,572.58	~	EUR	540,637.95	540,637.95	0.00
11 November 2020	S	Border to Coast Private Equity, Series 1A	Private Equity	Private Equity	~	~	USD	-136,686.09	-136,686.09	0.00
12 November 2020	P	Capital Dynamics Global Secondaries V	Private Equity	Private Equity	~	~	USD	497,775.10	497,775.10	0.00
16 November 2020	S	Border to Coast Private Equity, Series 1A	Private Equity	Private Equity	~	~	USD	-664,719.55	-664,719.55	0.00
16 November 2020	P	Border to Coast Private Equity, Series 1A	Private Equity	Private Equity	~	~	USD	226,386.78	226,386.78	0.00
16 November 2020	P	Cap Dynamics LGPS Collective Priv Equity for pools 2018/19	Private Equity	Private Equity	~	~	GBP	500,000.00	500,000.00	0.00
24 November 2020	P	Balckrock Private Opportunities Fund IV	Private Equity	Private Equity	~	~	USD	1,402,621.96	1,402,621.96	0.00
24 November 2020	P	Border to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	USD	449,081.54	449,081.54	0.00
26 November 2020	P	Crown Growth Opportunities Global III	Private Equity	Private Equity	8,042.18	~	EUR	813,743.22	813,743.22	0.00
04 December 2020	P	Unigestion Direct II - Asia	Private Equity	Private Equity	~	~	EUR	42,439.26	42,439.26	0.00
04 December 2020	P	Unigestion Direct II - Europe	Private Equity	Private Equity	~	~	EUR	1,203,295.07	1,203,295.07	0.00
04 December 2020	S	Unigestion Direct II - Europe	Private Equity	Private Equity	~	~	EUR	-23,205.84	-23,205.84	0.00
04 December 2020	P	Unigestion Direct II - North America	Private Equity	Private Equity	~	~	EUR	889,169.43	889,169.43	0.00
04 December 2020	P	Capital Dynamics Mid-Market Direct V	Private Equity	Private Equity	~	~	EUR	3,089,504.77	3,089,504.77	0.00
08 December 2020	P	Hermes Innovation Fund	Private Equity	Private Equity	~	~	GBP	680,157.22	680,157.22	0.00
10 December 2020	P	Access Capital Fund Buy-Out Europe II SCS-RAIF	Private Equity	Private Equity	~	~	EUR	2,269,632.32	2,269,632.32	0.00
16 December 2020	P	Pantheon Global Co Investment Opportunities IV	Private Equity	Private Equity	~	~	USD	1,171,171.17	1,171,171.17	0.00
17 December 2020	P	Border to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	USD	467,252.30	467,252.30	0.00
17 December 2020	S	Border to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	USD	-315,653.41	-315,653.41	0.00
17 December 2020	P	Border to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	USD	531,895.16	531,895.16	0.00
18 December 2020	P	Capital Dynamics Global Secondaries V	Private Equity	Private Equity	~	~	USD	984,560.30	984,560.30	0.00
22 December 2020	P	Capital Dynamics LGPS Collective Private Equity for pool 2018	Private Equity	Private Equity	~	~	GBP	500,000.00	500,000.00	0.00
23 December 2020	P	Border to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	USD	361,369.33	361,369.33	0.00
23 December 2020	P	Border to Coast Private Equity Series 1A	Private Equity	Private Equity	~	~	USD	2,456,801.14	2,456,801.14	0.00
07 December 2020	P	Unigestion Secondary V	Private Equity	Private Equity	~	~	EUR	2,762,176.60	2,762,176.60	0.00
							<b><u>21,951,573.51</u></b>			
11 December 2020	S	Standard Life Investment European Property Growth Fund	Property Unit Trusts/Direct Property	Property Unit Trusts	~	~	EUR	-129,990.78	-129,990.78	0.00
							<b><u>-129,990.78</u></b>			

Periods October, November and December 20 (Cumulative) Total  
Total Profit - *NB: Losses are shown with a ( )*

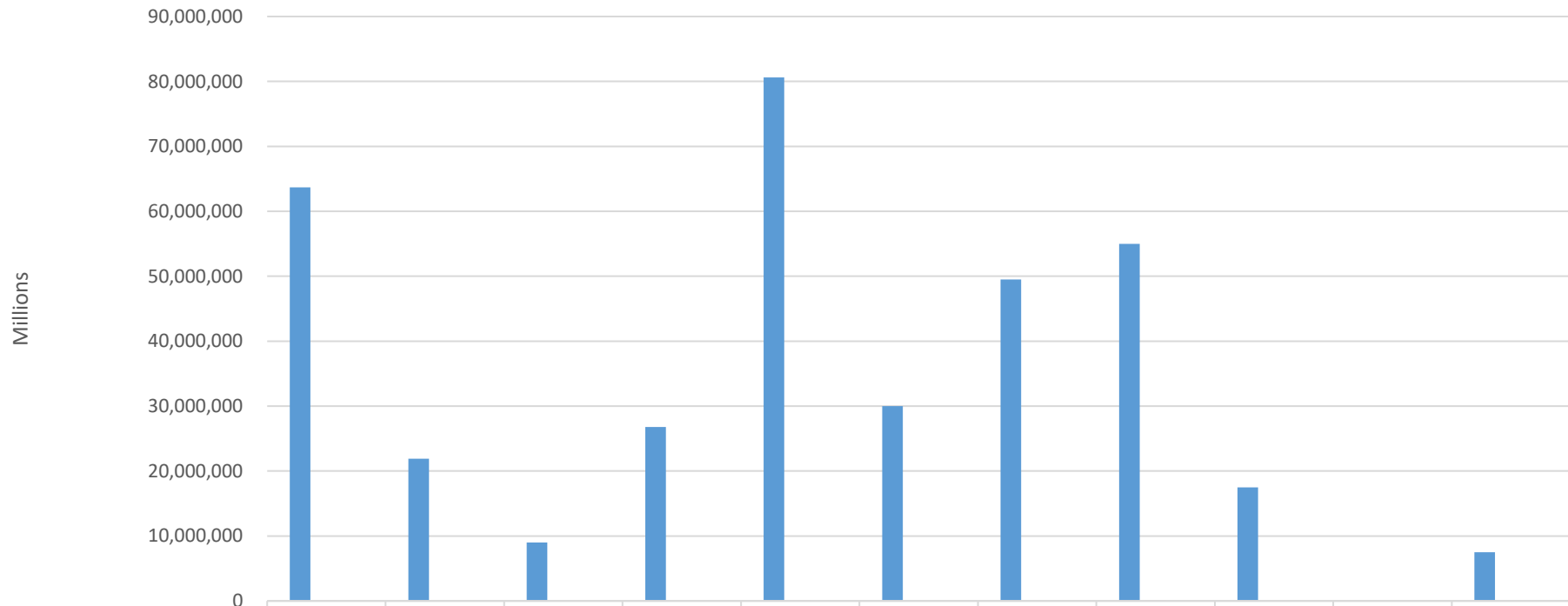
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Treasury Management Investment Profile as at 31 December 2020



	Call	Up to 1 Week	1-2 Weeks	2 Wks-1 Month	1-2 Months	2-3 Months	4-6 Months	7-9 Months	9-12 Months	1-2 Years	Over 2 Years
■ Amount Invested	63,700,000	21,900,000	9,000,000	26,800,000	80,600,000	30,000,000	49,500,000	55,000,000	17,500,000	0	7,500,000
■ Proportion of cash %	17.62	6.06	2.49	7.41	22.30	8.30	13.69	15.22	4.84	0.00	2.07
■ Average rate of interest %	0.08	0.03	0.16	0.90	0.21	0.18	0.24	0.39	0.90	0.00	2.05

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◆ Asset Detail - Customizable

Asset Subcategory	Description/Asset ID	Accrued Income/Expense Curr	Nominal	Book Cost	Market Price	Market Value
<b>Equities</b>						
<b>Common stock</b>						
<b>Australia</b>						
Common Stock	FINEXIA FINL GROUP NPV SEDOL : BMY4539	0.00 AUD	428.000	0.000	0.08700000	21.020
Common Stock	YOUNG AUSTRALIAN MINES LTD SEDOL : 6741626	0.00 AUD	225,391.000	287,505.650	0.06900000	8,779.170
<b>Total Australia</b>		<b>0.00</b>	<b>225,819.000</b>	<b>287,505.650</b>		<b>8,800.190</b>
<b>Europe Region</b>						
Common Stock	ACIF INFRASTRUCTURE FUND LP CUSIP : 9936FC996	0.00 EUR	17,222,141.000	15,356,276.360	1.08860510	16,781,337.750
<b>Total Europe Region</b>		<b>0.00</b>	<b>17,222,141.000</b>	<b>15,356,276.360</b>		<b>16,781,337.750</b>
<b>Guernsey, Channel Islands</b>						
Common Stock	AMEDEO AIR FOUR PL RED ORD NPV SEDOL : BKY41C6	0.00 GBP	6,666,666.000	6,114,034.800	0.33750000	2,249,999.780
Common Stock	NIMROD SEA ASSETS LTD ORD NPV SEDOL : BLCHC98	0.00 GBP	375,000.000	152,573.920	0.01990000	7,462.500
<b>Total Guernsey, Channel Islands</b>		<b>0.00</b>	<b>7,041,666.000</b>	<b>6,266,608.720</b>		<b>2,257,462.280</b>
<b>Malta</b>						
Common Stock	BGP HOLDINGS PLC BENEFICIAL INTEREST SHSNPV SEDOL : 3A1MX0W	0.00 EUR	200,000.000	0.000	0.00000000	0.000
<b>Total Malta</b>		<b>0.00</b>	<b>200,000.000</b>	<b>0.000</b>		<b>0.000</b>
<b>United Kingdom</b>						
Common Stock	AFREN ORD GBP0.01 SEDOL : B067275	0.00 GBP	1,000,000.000	1,089,449.060	0.01785000	17,850.000
Common Stock	CARILLION ORD GBP0.50 SEDOL : 0736554	0.00 GBP	436,400.000	0.000	0.14200000	61,968.800
Common Stock	NEW WORLD RESOURCE ORD EUR0.0004 A SEDOL : B42CTW6	0.00 GBP	250,000.000	1,294,544.760	0.00150000	375.000
<b>Total United Kingdom</b>		<b>0.00</b>	<b>1,686,400.000</b>	<b>2,383,993.820</b>		<b>80,193.800</b>
<b>Total Common stock</b>		<b>0.00</b>	<b>26,376,026.000</b>	<b>24,294,384.550</b>		<b>19,127,794.020</b>
<b>Funds - common stock</b>						
<b>United Kingdom</b>						
Funds - Common Stock	BORDER TO COAST PE UK LISTED EQUITY A GBP ACC SEDOL : BDD86K3	0.00 GBP	1,234,944,019.380	1,234,830,202.100	0.99870000	1,233,338,592.150

◆ **Asset Detail - Customizable**

Asset Subcategory	Accrued Income/Expense Curr	Nominal	Book Cost	Market Price	Market Value
<b>Equities</b>					
<b>Funds - common stock</b>					
<b>Total United Kingdom</b>	<b>0.00</b>	<b>1,234,944,019.380</b>	<b>1,234,830,202.100</b>		<b>1,233,338,592.150</b>
<b>Total Funds - common stock</b>	<b>0.00</b>	<b>1,234,944,019.380</b>	<b>1,234,830,202.100</b>		<b>1,233,338,592.150</b>
<b>Rights/warrants</b>					
<b>United States</b>					
Rights/Warrants AMERICAN INTL.GRP FRACTIONAL WTS/PROD 19/01/21 CUSIP : ACG874152	0.00 USD	29,522.000	0.000	0.00000000	0.000
<b>Total United States</b>	<b>0.00</b>	<b>29,522.000</b>	<b>0.000</b>		<b>0.000</b>
<b>Total Rights/warrants</b>	<b>0.00</b>	<b>29,522.000</b>	<b>0.000</b>		<b>0.000</b>
<b>Unit Trust equity</b>					
<b>Guernsey, Channel Islands</b>					
Unit Trust Equity DARWIN BEREAVEMENT SERVICES FUND CLASS B ACCUMULATION SEDOL : 4A8UCZU	0.00 GBP	14,359,563.469	15,000,000.000	1.11040000	15,944,859.280
<b>Total Guernsey, Channel Islands</b>	<b>0.00</b>	<b>14,359,563.469</b>	<b>15,000,000.000</b>		<b>15,944,859.280</b>
<b>Japan</b>					
Unit Trust Equity SSGA MPF JAPAN EQUITY INDEX SEDOL : 001533W	0.00 GBP	129,167,537.681	239,563,978.450	2.20940000	285,382,757.750
<b>Total Japan</b>	<b>0.00</b>	<b>129,167,537.681</b>	<b>239,563,978.450</b>		<b>285,382,757.750</b>
<b>Luxembourg</b>					
Unit Trust Equity STD LIFE PROPERTY GROWTH LP SEDOL : 8A8TB3U	0.00 EUR	324.970	21,282,170.990	129,445.70000000	37,653,033.590
<b>Total Luxembourg</b>	<b>0.00</b>	<b>324.970</b>	<b>21,282,170.990</b>		<b>37,653,033.590</b>
<b>Pacific Region</b>					
Unit Trust Equity SSGA MPF PAC BASIN EX-JAPAN INDEX SEDOL : 001532W	0.00 GBP	69,150,250.340	330,819,601.580	6.36130000	439,885,487.490
<b>Total Pacific Region</b>	<b>0.00</b>	<b>69,150,250.340</b>	<b>330,819,601.580</b>		<b>439,885,487.490</b>
<b>United Kingdom</b>					
Unit Trust Equity CANOVER INVSTMNTS PLC GBP0.25 SEDOL : 0171315	0.00 GBP	60,000.000	329,164.340	0.02500000	1,500.000
Unit Trust Equity DARWIN LEISURE DEVELOPMENT FUND ACCUMULATION UNITS - D CLASS SEDOL :	0.00 GBP	15,000,000.000	15,000,000.000	1.14960000	17,244,000.000

◆ **Asset Detail - Customizable**

Asset Subcategory	Accrued Income/Expense Curr	Nominal	Book Cost	Market Price	Market Value
<b>Equities</b>					
<b>Unit trust equity</b>					
<b>United Kingdom</b>					
Unit Trust Equity LOCAL AUTHORITIES LOCAL AUTHORITIES PROPERTY SEDOL : 0521664	0.00 GBP	1,368,174.000	1,282,865.490	2.94979000	4,035,825.980
Unit Trust Equity MPF EUROPE EX UK SUB-FUND SEDOL : 4A8NH9U	0.00 GBP	61,812,445.280	392,630,201.100	7.29540000	450,946,513.300
Unit Trust Equity MPF N AMER EQTY SUB-FUND SEDOL : 1A8NH9U	0.00 GBP	58,497,578.630	535,901,264.250	12.08000000	706,650,749.850
<b>Total United Kingdom</b>	<b>0.00</b>	<b>136,738,197.910</b>	<b>945,143,495.180</b>		<b>1,178,878,589.130</b>
<b>Total Unit trust equity</b>	<b>0.00</b>	<b>349,415,874.370</b>	<b>1,551,809,246.200</b>		<b>1,957,744,727.240</b>
<b>Total Equities</b>	<b>0.00</b>	<b>1,610,765,441.750</b>	<b>2,810,933,832.850</b>		<b>3,210,211,113.410</b>

◆ **Asset Detail - Customizable**

Asset Subcategory	Accrued Income/Expense Curr	Nominal	Book Cost	Market Price	Market Value
<b>Real Estate</b>					
<b>Real estate</b>					
<b>United Kingdom</b>					
Real Estate					
HEARTHSTONE RESIDENTIAL FUND 1 LIMITED PARTNERSHIP CUSIP : 9936FD994	0.00 GBP	9,196,277.260	9,196,277.260	0.92954650	8,548,367.340
Real Estate					
TEESSIDE PENSION FUND - DIRECT PROPERTY CUSIP : 9936HG995	0.00 GBP	280,289,446.350	280,289,446.350	0.95383540	267,349,996.180
<b>Total United Kingdom</b>	<b>0.00</b>	<b>289,485,723.610</b>	<b>289,485,723.610</b>		<b>275,898,363.520</b>
<b>Total Real estate</b>	<b>0.00</b>	<b>289,485,723.610</b>	<b>289,485,723.610</b>		<b>275,898,363.520</b>
<b>Funds - real estate</b>					
<b>United Kingdom</b>					
Funds - Real Estate					
DARWIN LEISURE PRO UNITS CLS 'C' SEDOL : B29MQ57	0.00 GBP	6,493,057.480	8,967,056.480	3.48170000	22,606,878.230
Funds - Real Estate					
DARWIN LEISURE PROPERTY FUND UNITS K GBP INC SEDOL : 4A9TBEU	0.00 GBP	15,000,000.000	15,000,000.000	1.01000000	15,150,000.000
Funds - Real Estate					
HERMES PROPERTY UT SEDOL : 0426219	0.00 GBP	663,638.000	720,122.990	6.43200000	4,268,519.620
Funds - Real Estate					
LEGAL AND GENERAL MANAGED PROPERTY FUND SEDOL : 004079W	0.00 GBP	108,263.760	385,000.000	53.71310000	5,815,182.170
Funds - Real Estate					
ROYAL LONDON PROPERTY INVESTMENT CO SEDOL : B65M0K2	35,659.01 GBP	3,532,903.656	8,197,204.760	2.87650000	10,162,397.370
Funds - Real Estate					
THREADNEEDLE PROP PROPERTY GBP DIS SEDOL : 0508667	0.00 GBP	12,750.000	1,527,939.200	271.83000000	3,465,832.500
<b>Total United Kingdom</b>	<b>35,659.01</b>	<b>25,810,612.896</b>	<b>34,797,323.430</b>		<b>61,468,809.890</b>
<b>Total Funds - real estate</b>	<b>35,659.01</b>	<b>25,810,612.896</b>	<b>34,797,323.430</b>		<b>61,468,809.890</b>
<b>Total Real Estate</b>	<b>35,659.01</b>	<b>315,296,336.506</b>	<b>324,283,047.040</b>		<b>337,367,173.410</b>



31 Dec 20

TEESSIDE PENSION FUND

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## ◆ Asset Detail - Customizable

Asset Subcategory	Accrued				
Description/Asset ID	Income/Expense Curr	Nominal	Book Cost	Market Price	Market Value
<b>Venture Capital and Partnerships</b>					
<b>Partnerships</b>					
<b>Europe Region</b>					
Partnerships					
ACCESS CAPITAL FUND INFRASTRUCTURE II - EUR CUSIP : 993QEX997	0.00 EUR	5,820,000.000	5,271,814.880	1.00112560	5,215,315.960
Partnerships					
ACCESS CAPITAL FUND VIII GROWTH BUY OUT EUROPE CUSIP : 993KDB999	0.00 EUR	4,614,880.640	4,066,302.780	0.48676140	2,010,692.590
<b>Total Europe Region</b>	<b>0.00</b>	<b>10,434,880.640</b>	<b>9,338,117.660</b>		<b>7,226,008.550</b>
<b>Global Region</b>					
Partnerships					
CAPITAL DYNAMICS GLOBAL SECONDARIES V - GBP CUSIP : 993LJT992	0.00 GBP	6,630,860.420	6,630,860.420	1.49707870	9,926,919.900
Partnerships					
CROWN CO INVESTMENT OPPORTUNITIES II PLCS USD CUSIP : 993BRL992	0.00 USD	20,102,130.030	15,219,226.440	1.25459510	18,449,856.980
Partnerships					
LGPS COLLECTIVE PRIVATE EQUITY FOR POOLS2018/19 - GBP CUSIP : 993LRK992	0.00 GBP	1,479,241.650	1,479,241.650	1.04095160	1,539,818.960
Partnerships					
PANTHEON GLOBAL CO-INVESTMENT OPPORTUNITIES IV CUSIP : 993FYQ994	0.00 USD	19,800,000.000	16,034,925.400	0.85540690	12,390,398.610
Partnerships					
UNIGESTION DIRECT II - EUR CUSIP : 993MTE992	0.00 EUR	200,000.000	181,437.990	0.93434000	167,264.590
<b>Total Global Region</b>	<b>0.00</b>	<b>48,212,232.100</b>	<b>39,545,691.900</b>		<b>42,474,259.040</b>
<b>Luxembourg</b>					
Partnerships					
THE MODEL T FINANCE COMPANY - GBP CUSIP : 993QJB990	0.00 GBP	19,999,950.000	19,999,950.000	1.00000000	19,999,950.000
<b>Total Luxembourg</b>	<b>0.00</b>	<b>19,999,950.000</b>	<b>19,999,950.000</b>		<b>19,999,950.000</b>
<b>United Kingdom</b>					
Partnerships					
ANCALA INFRASTRUCTURE FUND II SCSP CUSIP : 993FSE998	0.00 EUR	12,999,403.180	11,779,380.220	0.67062690	7,803,212.910
Partnerships					
BORDER TO COAST PE OVERSEAS DEV MKTS EQTY A CUSIP : 993BRK994	0.00 GBP	200,000,000.000	200,000,000.000	1.31045660	262,091,320.000
Partnerships					
CAPITAL DYNAMICS CLEAN ENERGY INFRASTRUCTURE VIII (CO INVESTMENT) LP CUSIP :	0.00 GBP	4,032,134.920	4,032,134.920	1.04658920	4,219,988.860
Partnerships					
CAPITAL DYNAMICS CLEAN ENERGY AND INFRASTRUCTURE VIII SCSP CUSIP : 993FP0991	0.00 GBP	8,064,269.830	8,064,269.830	1.03231720	8,324,884.450
Partnerships					
DARWIN LEISURE PROPERTY FUND K, INCOME UNITS - GBP CUSIP : 993QHZ999	0.00 GBP	15,000,000.000	15,000,000.000	1.00000000	15,000,000.000
Partnerships					
GRESHAM HOUSE BSI HOUSING FUND LP CUSIP : 993FP6998	0.00 GBP	5,893,234.940	5,893,234.940	1.01107370	5,958,494.860
Partnerships					
GRESHAM HOUSE BSI INFRASTRUCTURE LP CUSIP : 993FP5990	0.00 GBP	12,959,852.980	12,959,852.980	0.96644140	12,524,938.460

◆ Asset Detail - Customizable

Asset Subcategory	Accrued				
Description/Asset ID	Income/Expense Curr	Nominal	Book Cost	Market Price	Market Value
<b>Venture Capital and Partnerships</b>					
<b>Partnerships</b>					
<b>United Kingdom</b>					
Partnerships					
HERMES GPE INNOVATION FUND CUSIP : 993NEB992	0.00 GBP	3,519,213.980	3,519,213.980	0.99110860	3,487,923.240
Partnerships					
INNISFREE PFI CONTINUATION FUND CUSIP : 9936FE992	0.00 GBP	8,672,972.000	8,672,972.000	1.11493510	9,669,800.900
Partnerships					
INNISFREE PFI SECONDARY FUND 2 CUSIP : 9936FF999	0.00 GBP	7,728,331.000	7,728,331.000	1.10088700	8,508,019.130
<b>Total United Kingdom</b>	<b>0.00</b>	<b>278,869,412.830</b>	<b>277,649,389.870</b>		<b>337,588,582.810</b>
<b>United States</b>					
Partnerships					
BLACKROCK GLOBAL ENERGY AND POWER INFRASTRUCTURE FUND III CUSIP :	0.00 USD	7,318,310.000	5,692,894.500	0.71615400	3,834,109.950
Partnerships					
BLACKROCK GLOBAL RENEWABLE POWER FUND III CUSIP : 993QHY992	0.00 USD	1,481,686.000	1,123,851.560	0.92461560	1,002,223.850
Partnerships					
BLACKROCK PRIVATE OPPORTUNITIES FUND IV TOTAL CUSIP : 993FYK997	0.00 USD	2,234,270.000	1,740,627.650	1.00000000	1,634,492.730
Partnerships					
BORDER TO COAST INFRASTRUCTURE SERIES 1 CUSIP : 993FT4999	0.00 USD	26,453,538.310	20,912,457.580	0.77382630	14,975,267.690
Partnerships					
BORDER TO COAST INFRASTRUCTURE SERIES 1B CUSIP : 993KGJ999	0.00 USD	162,962.620	128,758.960	0.10055070	11,987.280
Partnerships					
BORDER TO COAST PRIVATE EQUITY SERIES 1 CUSIP : 993FYP996	0.00 USD	19,708,460.150	15,395,685.120	0.98851720	14,252,277.270
Partnerships					
CROWN GLOBAL OPPORTUNITIES VII CUSIP : 993FYN991	0.00 USD	9,480,000.000	7,354,473.320	0.10531400	730,368.080
Partnerships					
CROWN GROWTH GLOBAL OPPORTUNITIES III CUSIP : 993FYM993	0.00 USD	10,970,288.510	8,253,022.830	1.02221960	8,203,696.630
Partnerships					
FORESIGHT ENERGY INFRASTRUCTURE PARTNERS CUSIP : 993FS9999	0.00 USD	4,392,627.780	3,429,536.960	1.04613920	3,361,717.530
Partnerships					
LGT CAPITAL CROWN SECONDARIES SPECIAL OPPORTUNITIES II CUSIP : 993QEY995	0.00 USD	5,875,000.000	4,724,104.140	1.11091660	4,774,596.400
Partnerships					
UNIGESTION SA CUSIP : 993FYL995	0.00 USD	1,891,755.140	1,468,188.380	3.09580120	4,284,353.780
<b>Total United States</b>	<b>0.00</b>	<b>89,968,898.510</b>	<b>70,223,601.000</b>		<b>57,065,091.190</b>
<b>Total Partnerships</b>	<b>0.00</b>	<b>447,485,374.080</b>	<b>416,756,750.430</b>		<b>464,353,891.590</b>
<b>Total Venture Capital and Partnerships</b>	<b>0.00</b>	<b>447,485,374.080</b>	<b>416,756,750.430</b>		<b>464,353,891.590</b>

◆ **Asset Detail - Customizable**

Asset Subcategory	Accrued				
Description/Asset ID	Income/Expense Curr	Nominal	Book Cost	Market Price	Market Value
<b>Hedge Fund</b>					
<b>Hedge equity</b>					
<b>Global Region</b>					
Hedge Equity					
IIF UK I LP CUSIP : 993FP3995	0.00 USD	24,620,763.510	18,585,214.960	0.96459070	17,373,684.310
<b>Total Global Region</b>	<b>0.00</b>	<b>24,620,763.510</b>	<b>18,585,214.960</b>		<b>17,373,684.310</b>
<b>Total Hedge equity</b>	<b>0.00</b>	<b>24,620,763.510</b>	<b>18,585,214.960</b>		<b>17,373,684.310</b>
<b>Total Hedge Fund</b>	<b>0.00</b>	<b>24,620,763.510</b>	<b>18,585,214.960</b>		<b>17,373,684.310</b>

◆ **Asset Detail - Customizable**

Asset Subcategory	Accrued Income/Expense Curr	Nominal	Book Cost	Market Price	Market Value
<b>All Other</b>					
<b>Recoverable taxes</b>					
Recoverable taxes					
GBP - British pound sterling	56,889.23	0.000	0.000	0.00000000	0.000
Recoverable taxes					
DKK - Danish krone	305,210.75	0.000	0.000	0.00000000	0.000
Recoverable taxes					
EUR - Euro	1,152,580.02	0.000	0.000	0.00000000	0.000
Recoverable taxes					
CHF - Swiss franc	2,232,872.44	0.000	0.000	0.00000000	0.000
<b>Total</b>	<b>3,747,552.44</b>	<b>0.000</b>	<b>0.000</b>		<b>0.000</b>
<b>Total Recoverable taxes</b>	<b>3,747,552.44</b>	<b>0.000</b>	<b>0.000</b>		<b>0.000</b>
<b>Total All Other</b>	<b>3,747,552.44</b>	<b>0.000</b>	<b>0.000</b>		<b>0.000</b>

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◆ **Asset Detail - Customizable**

Asset Subcategory	Accrued Income/Expense Curr	Nominal	Book Cost	Market Price	Market Value
<b>Cash and Cash Equivalents</b>					
<b>Cash</b>					
Cash					
GBP - British pound sterling	0.00	752.930	752.930	1.00000000	752.930
Cash					
EUR - Euro	-0.64	0.000	0.000	1.00000000	0.000
<b>Total</b>	<b>-0.64</b>	<b>752.930</b>	<b>752.930</b>		<b>752.930</b>
<b>Total Cash</b>	<b>-0.64</b>	<b>752.930</b>	<b>752.930</b>		<b>752.930</b>
<b>Invested cash</b>					
Invested cash					
USD - United States dollar	0.00	128,970.320	128,970.320	1.00000000	128,970.320
<b>Total</b>	<b>0.00</b>	<b>128,970.320</b>	<b>128,970.320</b>		<b>128,970.320</b>
<b>Total Invested cash</b>	<b>0.00</b>	<b>128,970.320</b>	<b>128,970.320</b>		<b>128,970.320</b>
<b>Cash (externally held)</b>					
Cash (externally held)					
GBP - British pound sterling	0.00	356,817,007.620	356,817,007.620	1.00000000	356,817,007.620
<b>Total</b>	<b>0.00</b>	<b>356,817,007.620</b>	<b>356,817,007.620</b>		<b>356,817,007.620</b>
<b>Total Cash (externally held)</b>	<b>0.00</b>	<b>356,817,007.620</b>	<b>356,817,007.620</b>		<b>356,817,007.620</b>
<b>Funds - short term investment</b>					
Funds - Short Term Investment					
GBP - British pound sterling	0.00	5,044,000.000	5,044,000.000	1.00000000	5,044,000.000
<b>Total</b>	<b>0.00</b>	<b>5,044,000.000</b>	<b>5,044,000.000</b>		<b>5,044,000.000</b>
<b>Total Funds - short term investment</b>	<b>0.00</b>	<b>5,044,000.000</b>	<b>5,044,000.000</b>		<b>5,044,000.000</b>
<b>Total Cash and Cash Equivalents</b>	<b>-0.64</b>	<b>361,990,730.870</b>	<b>361,990,730.870</b>		<b>361,990,730.870</b>
<b>Report Total:</b>					
	<b>3,783,210.81</b>	<b>2,760,158,646.716</b>	<b>3,932,549,576.150</b>		<b>4,391,296,593.590</b>

◆ **Asset Detail - Customizable**

Asset Subcategory

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Description/Asset ID	Accrued Income/Expense Curr	Nominal	Book Cost	Market Price	Market Value
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Although this report has been prepared using information believed to be reliable, it may contain information provided by third parties or derived from third party information, and/or information that may have been obtained from, categorized or otherwise reported based upon client direction. The Northern Trust Company does not guarantee the accuracy, timeliness or completeness of any such information. The information included in this report is intended to assist clients with their financial reporting needs, but you must consult with your accountants, auditors and/or legal counsel to ensure your accounting and financial reporting complies with applicable laws, regulations and accounting guidance. The Northern Trust Company and its affiliates shall have no responsibility for the consequences of investment decisions made in reliance on information contained in this report.

\*\*\*If three stars are seen at the right edge of the report it signifies that the report display configuration extended beyond the viewable area. To rectify this situation please adjust the number or width of display values to align with the area available.

Asset	Book Cost	Price	Value	% of Fund
<b>Equities</b>				
<b>UK Equities</b>				
BORDER TO COAST PE UK LISTED EQUITY A GBP ACC	1,234,830,202.10	1.00	1,233,338,592.15	28.13%
AFREN ORD GBPO.01	1,089,449.06	0.02	17,850.00	0.00%
CARILLION ORD GBPO.50	0.00	0.14	61,968.80	0.00%
CANDOVER INVSTMNTS PLC GBPO.25	329,164.34	0.03	1,500.00	0.00%
NEW WORLD RESOURCE ORD EURO.0004 A	1,294,544.76	0.00	375.00	0.00%
<b>Total UK Equities</b>			<b>1,233,420,285.95</b>	<b>28.13%</b>
<b>Overseas Equities</b>				
YOUNG AUSTRALIAN MINES LTD	287,505.65	0.07	8,779.17	0.00%
MEJORITY CAPITAL NPV (FINEXIA FINL GROUP)	0.00	0.09	21.02	0.00%
BGP HOLDINGS PLC BENEFICIAL INTEREST SHSNPV	0.00	0.00	0.00	0.00%
AMERICAN INTL.GRP FRACTIONAL WTS/PROD 19/01/21	0.00	0.00	0.00	0.00%
SSGA MPF PAC BASIN EX-JAPAN INDEX	330,819,601.58	6.36	439,885,487.49	10.03%
SSGA MPF JAPAN EQUITY INDEX	239,563,978.45	2.21	285,382,757.75	6.51%
MPF EUROPE EX UK SUB-FUND	392,630,201.10	7.30	450,946,513.30	10.28%
MPF N AMER EQTY SUB-FUND	535,901,264.25	12.08	706,650,749.85	16.12%
BORDER TO COAST PE OVERSEAS DEV MKTS EQTY A	200,000,000.00	1.31	262,091,320.00	5.98%
<b>Total Overseas Equities</b>			<b>2,144,965,628.58</b>	<b>48.92%</b>
<b>Total Equities</b>			<b>3,378,385,914.53</b>	<b>77.04%</b>
<b>Alternatives</b>				
<b>Private Equities</b>				
CAPITAL DYNAMICS LGPS COLLECTIVE PRIVATE EQUITY FOR POOLS 18/19	1,479,241.65	1.04	1,539,818.96	0.04%
CROWN CO INVESTMENT OPPORTUNITIES II PLCS USD	15,219,226.44	1.25	18,449,856.98	0.42%
CROWN SECONDARIES SPECIAL OPPORTUNITIES II	4,724,104.00	1.11	4,774,596.40	0.11%
UNIGESTION SA	1,468,188.38	3.10	4,284,353.78	0.10%
PANTHEON GLOBAL CO-INVESTMENT OPPORTUNITIES IV	16,034,925.40	0.86	12,390,398.61	0.28%
CROWN GLOBAL OPPORTUNITIES VII	7,354,473.32	0.11	730,368.08	0.02%
CROWN GROWTH GLOBAL OPPORTUNITIES III	8,253,022.83	1.02	8,203,696.63	0.19%

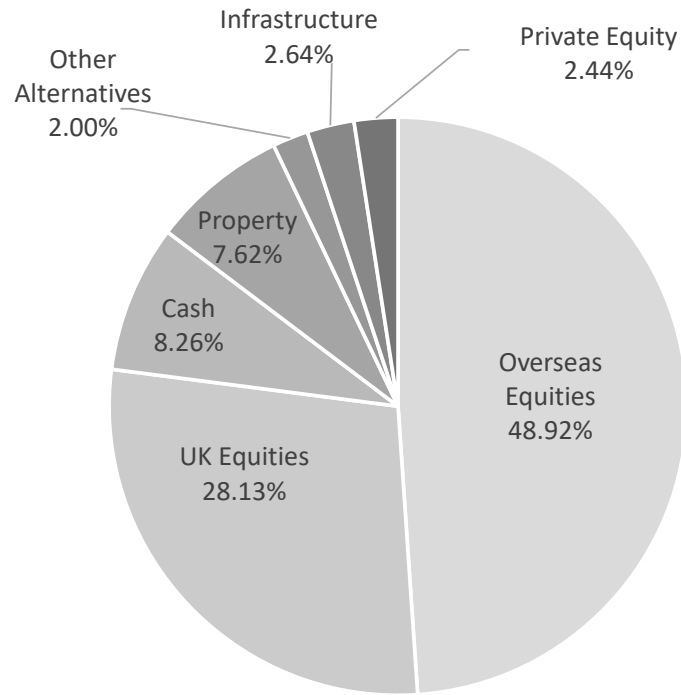


BLACKROCK PRIVATE OPPORTUNITIES FUND IV TOTAL	1,740,627.65	1.00	1,634,492.73	0.04%
BORDER TO COAST PRIVATE EQUITY SERIES 1	15,395,685.12	0.99	14,252,277.27	0.33%
UNIGESTION DIRECT II	181,437.99	0.93	167,264.59	0.00%
ACCESS CAPITAL FUND VIII GROWTH BUY OUT EUROPE	4,066,302.78	0.49	2,010,692.59	0.05%
HERMES GPE INNOVATION FUND	3,519,213.98	0.99	3,487,923.24	0.08%
CAPITAL DYNAMICS GLOBAL SECONDARIES V	6,630,860.42	1.50	9,926,919.90	0.23%
THE MODEL T FINANCE COMPANY	19,999,950.00	1.00	19,999,950.00	0.46%
ACCESS CAPITAL, CO-INVESTMENT FUND BUY-OUT EUROPE II	2,269,632.32	1.00	2,269,632.32	0.05%
CAPITAL DYNAMICS MID-MARKET DIRECT V	3,089,504.77	1.00	3,089,504.77	0.07%
<b>Total Private Equities</b>			<b>107,211,746.85</b>	<b>2.44%</b>
<b>Infrastructure</b>				
ACIF INFRASTRUCTURE FUND LP	15,356,276.36	1.09	16,781,337.75	0.38%
ACCESS CAPITAL FUND INFRASTRUCTURE II	5,271,814.88	1.00	5,215,315.96	0.12%
ACIF INFRASTRUCTURE FUND II LP	2,150,122.36	1.00	2,150,122.36	0.05%
INNISFREE PFI CONTINUATION FUND	8,672,972.00	1.11	9,669,800.90	0.22%
INNISFREE PFI SECONDARY FUND 2	7,728,331.00	1.10	8,508,019.13	0.19%
BORDER TO COAST INFRASTRUCTURE SERIES 1A	20,912,457.58	0.77	14,975,267.69	0.34%
BORDER TO COAST INFRASTRUCTURE SERIES 1B	128,758.96	0.10	11,987.28	0.00%
BLACKROCK GLOBAL ENERGY & POWER INFRASTRUCTURE FUND III	5,692,894.50	0.72	3,834,109.95	0.09%
BLACKROCK GLOBAL RENEWABLE POWER FUND III	1,123,851.56	0.92	1,002,223.85	0.02%
CAPITAL DYNAMICS CLEAN ENERGY INFRASTRUCTURE VIII (CO INVESTMENT) L	4,032,134.92	1.05	4,219,988.86	0.10%
CAPITAL DYNAMICS CLEAN ENERGY AND INFRASTRUCTURE VIII SCSp	8,064,269.83	1.03	8,324,884.45	0.19%
IIF UK I LP	18,585,214.96	0.96	17,373,684.31	0.40%
ANCALA INFRASTRUCTURE FUND II SCSP	11,779,380.22	0.67	7,803,212.91	0.18%
FORESIGHT ENERGY INFRASTRUCTURE PARTNERS	3,429,536.96	1.05	3,361,717.53	0.08%
GRESHAM HOUSE BSI INFRASTRUCTURE LP	12,959,852.98	0.97	12,524,938.46	0.29%
<b>Total Infrastructure</b>			<b>115,756,611.39</b>	<b>2.64%</b>
<b>Other Alternatives</b>				
AMEDEO AIR FOUR PLUS LTD	6,114,034.80	0.34	2,249,999.78	0.05%
DARWIN LEISURE PRO UNITS CLS 'C'	8,967,056.48	3.48	22,606,878.23	0.52%
DARWIN BEREAVEMENT SERVICES FUND CLASS B ACCUMULATION	15,000,000.00	1.11	15,944,859.28	0.36%
DARWIN LEISURE DEVELOPMENT FUND ACCUMULATION UNITS - D CLASS	15,000,000.00	1.15	17,244,000.00	0.39%
DARWIN LEISURE PROPERTY FUND, K INCOME UNITS	15,000,000.00	1.01	15,150,000.00	0.35%
HEARTHSTONE RESIDENTIAL FUND 1 LIMITED PARTNERSHIP	9,196,277.26	0.93	8,548,367.34	0.19%
NIMROD SEA ASSETS LTD ORD NPV	152,573.92	0.02	7,462.50	0.00%

GRESHAM HOUSE BSI HOUSING LP	5,893,234.94	1.01	5,958,494.86	0.14%
<b>Total Other Alternatives</b>			<b>87,710,061.99</b>	<b>2.00%</b>
<b>Total Alternatives</b>			<b>310,678,420.23</b>	<b>7.09%</b>
<b>Property</b>				
<b>Direct Property</b>				
TEESSIDE PENSION FUND - DIRECT PROPERTY	280,289,446.35	0.95	268,515,000.00	6.12%
<b>Total Direct Property</b>			<b>268,515,000.00</b>	<b>6.12%</b>
<b>Property Unit Trust</b>				
STD LIFE PROPERTY GROWTH LP	21,282,170.99	129,445.70	37,653,033.59	0.86%
ROYAL LONDON PROPERTY INVESTMENT CO	8,197,204.76	2.88	10,162,397.37	0.23%
LOCAL AUTHORITIES LOCAL AUTHORITIES PROPERTY	1,282,865.49	2.95	4,035,825.98	0.09%
HERMES PROPERTY UT	720,122.99	6.43	4,268,519.62	0.10%
THREADNEEDLE PROP PROPERTY GBP DIS	1,527,939.20	271.83	3,465,832.50	0.08%
LEGAL AND GENERAL MANAGED PROPERTY FUND	385,000.00	53.71	5,815,182.17	0.13%
<b>Total Property Unit Trust</b>			<b>65,400,791.23</b>	<b>1.49%</b>
<b>Total Property</b>			<b>333,915,791.23</b>	<b>7.62%</b>
<b>Cash</b>				
<b>Custodian Cash</b>				
	752.93	1.00	752.93	0.00%
	128,970.32	1.00	128,970.32	0.00%
	5,044,000.00	1.00	5,044,000.00	0.12%
		1.00		0.00%
			<b>5,173,723.25</b>	<b>0.12%</b>
<b>Invested Cash</b>	356,817,007.62	1.00	<b>356,817,007.62</b>	<b>8.14%</b>
<b>Total Cash</b>			<b>361,990,730.87</b>	<b>8.26%</b>
<b>Total Fund Value - 31st December 2020</b>			<b>4,384,970,856.86</b>	<b>100%</b>

Asset Allocation Summary

	Actual	Benchmark	
Overseas Equities	2,144,965,628.58	48.92%	28%
UK Equities	1,233,420,285.95	28.13%	22%
Cash	361,990,730.87	8.26%	20%
Property	333,915,791.23	7.62%	15%
Other Alternatives	87,710,061.99	2.00%	5%
Infrastructure	115,756,611.39	2.64%	5%
Private Equity	107,211,746.85	2.44%	5%
	4,384,970,856.86	100.00%	100%



## TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 6

### PENSION FUND COMMITTEE REPORT

10 MARCH 2020

DIRECTOR OF FINANCE – IAN WRIGHT

#### EXTERNAL MANAGERS' REPORTS

#### 1. PURPOSE OF THE REPORT

- 1.1 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')

#### 2. RECOMMENDATION

- 2.1 That Members note the report.

#### 3. FINANCIAL IMPLICATIONS

- 3.1 Any decisions taken by Members, in light of information contained within this report, will have an impact on the performance of the Fund.

#### 4. PERFORMANCE

- 4.1 As at 31 December 2020 the Fund had investments in the following two Border to Coast listed equity sub-funds:
  - The Border to Coast UK Listed Equity Fund, which has an active UK equity portfolio aiming to produce long term returns of at least 1% above the FTSE All Share index.
  - The Border to Coast Overseas Developed Markets Equity Fund, which has an active overseas equity portfolio aiming to produce total returns of at least 1% above the total return of the benchmark (40% S&P 500, 30% FTSE Developed Europe ex UK, 20% FTSE Developed Asia Pacific ex Japan, 10% FTSE Japan).

For both sub-funds the return target is an annual amount, expected to be delivered over rolling 3 year periods, before calculation of the management fee.

The Fund also has investments in the Border to Coast Private Equity sub-fund and the Border to Coast Infrastructure sub-fund. Total commitments of £50 million were made to each of these sub-funds for 2020/21, in addition to £100 million commitments to each sub-fund in 2019/20. Up to 31 December 2020 only around 12% of this total had been invested. These investments are not reflected within the Border to Coast report (at Appendix A).

- 4.2 The Border to Coast report shows the market value of the portfolio as at 31 December 2020 and the investment performance over the preceding quarter, year, and since the Fund's investments began. Border to Coast has also provided additional information within an appendix to that report 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 related to Border to Coast are also included. Border to Coast's performance has dipped slightly over the latest quarter but still remains above target over longer periods.
- 4.3 State Street has a passive global equity portfolio invested across four different region tracking indices appropriate to each region. The State Street report (at Appendix B) shows the market value of the State Street passive equity portfolio and the proportions invested in each region as at 31 December 2020. Performance figures are also shown in the report over a number of time periods and from inception – the date the Fund started investing passively with State Street in that region: for Japan and Asia Pacific ex Japan the inception date is 1 June 2001, as the Fund has been investing a small proportion of its assets in these regions passively for since then; for North America and Europe ex UK the inception date was in September 2018 so performance figures only cover just over two years as this represents a comparatively new investment for the Fund. The nature of passive investment – where an index is closely tracked in an automated or semi-automated way – means deviation from the index should always be low.
- 4.4 State Street continues to include additional information with their report this quarter, giving details of how the portfolio compares to the benchmark in terms of environmental, social and governance factors including separate sections on climate and stewardship issues. As the State Street investments are passive and closely track the appropriate regional equity indices, the portfolio's rating in these terms closely matches the benchmark indices ratings.
- 4.5 Members will be aware that the Fund holds equity investments over the long term, and performance can only realistic be judged over a significantly longer time-frame than a single quarter. However, it is important to monitor investment performance regularly and to understand the reasons behind any under of over performance against benchmarks and targets.

## 5. **RECENT CHANGES TO STATE STREET'S BENCHMARKS – EXCLUSION OF CERTAIN COMPANIES**

- 5.1 As reported to the 9 December 2020 Pension Fund Committee meeting, State Street advised investors in a number of its passively-invested funds, including the four State Street equity funds the Fund invests in, that is decided to exclude UN Global Compact violators and controversial weapons companies from those funds and the indices they track.
- 5.2 The Ten Principles of the United Nations Global Compact (derived from the Universal Declaration of Human Rights, the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and

Development, and the United Nations Convention Against Corruption) are as follows (shown against four sub-categories):

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

5.3 As was previously reported, for the four State Street funds the Fund is invested in the combined effect of applying this change to benchmarks excluded around 3.6% by value of the companies / securities across the regions.

5.4 The latest report shows performance of the State Street funds against the revised indices – excluding controversies (UN Global Compact violators) and excluding companies that manufacture controversial weapons. As expected for a passive fund, performance closely matches the performance of the respective indices.

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TEL NO.: 01642 729040

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# Teesside Pension Fund

## Quarterly Investment Report - Q4 2020

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## Note

1) Border to Coast

# Executive Summary

## Overall Value of Teesside Pension Fund

Value at start of the quarter	£1,335,470,781
Inflows	£0
Outflows	£0
Net Inflows / Outflows	£0
Realised / Unrealised gain or loss	£159,959,125
Value at end of the quarter	£1,495,429,905

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Over Q4 2020, Teesside's holdings performed as follows:

- The UK Listed Equity Fund underperformed its benchmark by 0.12%
- The Overseas Developed Markets Equity Fund underperformed its benchmark by 0.23%

Teesside did not make any subscriptions or redemptions during Q4 2020.

### Note

- 1) Source: Northern Trust
- 2) Performance start dates of 26/07/2018 for the UK Listed Equity Fund and 17/10/2018 for the Overseas Developed Equity Fund
- 3) Returns for periods greater than one year are annualised
- 4) Past performance is not an indication of future performance and the value of investments can fall as well as rise.
- 5) Inflows and Outflows values may include income.

# Portfolio Analysis - Teesside Pension Fund at 31 December 2020

## Funds Held

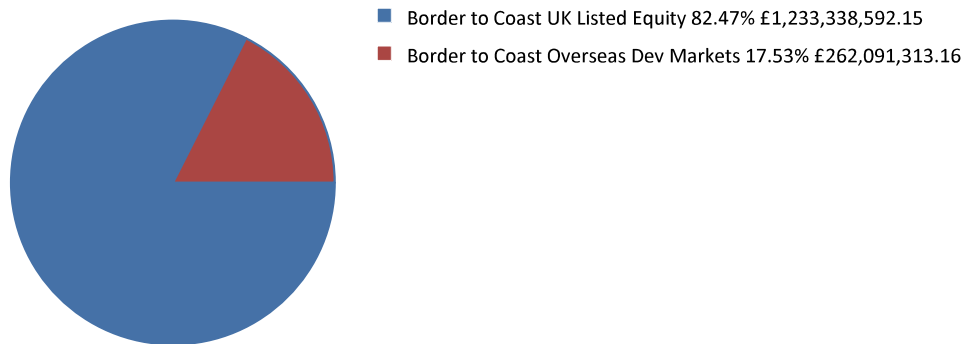
Fund	Market Index	Market Value (£)	Value (%)
Border to Coast UK Listed Equity	FTSE All Share GBP	1,233,338,592.15	82.47
Border to Coast Overseas Dev Markets	40% S&P 500, 30% FTSE Developed Europe Ex UK, 20% FTSE Developed Asia Pacific ex Japan, 10% FTSE Japan	262,091,313.16	17.53

## Available Fund Range

Fund
Border to Coast UK Listed Equity
Border to Coast Overseas Dev Markets
Border to Coast Emerging Markets Equity
Border to Coast UK Listed Equity Alpha
Border to Coast Global Equity Alpha
Border to Coast Sterling Inv Grade Credit
Border to Coast Sterling Index-Linked Bond

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## Teesside Pension Fund - Fund Breakdown



Note

1) Source: Northern Trust

## Portfolio Contribution - Teesside Pension Fund at 31 December 2020

Fund	Portfolio weight (%)	Fund return (net) over the quarter (%)	Benchmark return over the quarter (%)	Excess return (%)	Contribution to performance over the quarter (%)
Border to Coast UK Listed Equity	82.47	12.50	12.62	(0.12)	10.28
Border to Coast Overseas Dev Markets	17.53	9.56	9.79	(0.23)	1.70
<b>Total</b>	<b>100.00</b>	<b>11.98</b>			

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The UK Listed Equity Fund returned 12.50% over the quarter, which was 0.12% behind the FTSE All Share Index.  
The Overseas Developed Markets Equity Fund returned 9.56% over the quarter, which was 0.23% behind the composite benchmark.

Overall, Teesside's investments with Border to Coast returned 11.98% during Q4 2020.

### Note

1) Source: Northern Trust & Border to Coast

## Valuation Summary at 31 December 2020

Fund	Market value at start of the quarter			Inflows (GBP)	Outflows (GBP)	Realised / unrealised gain or loss	Market value at end of the quarter		
	GBP (mid)	Total weight (%)	Strategy weight (%)				GBP (mid)	Total weight (%)	Strategy weight (%)
Border to Coast UK Listed Equity	1,096,259,806.00	82.09				137,078,786.15	1,233,338,592.15	82.47	
Border to Coast Overseas Dev Markets	239,210,974.62	17.91				22,880,338.54	262,091,313.16	17.53	
<b>Total</b>	<b>1,335,470,780.62</b>	<b>100.00</b>				<b>159,959,124.69</b>	<b>1,495,429,905.31</b>	<b>100.00</b>	

### Note

- 1) Source: Northern Trust
- 2) Values do not always sum due to rounding
- 3) Inflows and Outflows values may include income.

## Summary of Performance - Funds (Net of Fees) Teesside Pension Fund at 31 December 2020

Fund	Inception to Date			Quarter to Date			1 Year			3 Years			5 Years		
	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative
Border to Coast UK Listed Equity	(0.46)	(1.88)	1.42	12.51	12.62	(0.12)	(8.43)	(9.82)	1.39	--	--	--	--	--	--
Border to Coast Overseas Dev Markets	9.78	8.68	1.11	9.56	9.79	(0.23)	13.77	12.33	1.45	--	--	--	--	--	--

### Note

- 1) Source: Northern Trust
- 2) Values do not always sum due to rounding
- 3) Performance start dates of 26/07/2018 for the UK Listed Equity Fund and 17/10/2018 for the Overseas Developed Equity Fund
- 4) Performance is net of ACS charges such as depository and audit fees. Investment management fees have not been included in the performance calculations.
- 5) Past performance is not an indication of future performance and the value of investments can fall as well as rise.



## Summary of Performance - Funds (Gross of Fees) Teesside Pension Fund at 31 December 2020

Fund	Inception to Date			Quarter to Date			1 Year			3 Years			5 Years		
	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative
Border to Coast UK Listed Equity	(0.45)	(1.88)	1.43	12.51	12.62	(0.11)	(8.42)	(9.82)	1.40	--	--	--	--	--	--
Border to Coast Overseas Dev Markets	9.80	8.68	1.12	9.57	9.79	(0.23)	13.78	12.33	1.46	--	--	--	--	--	--

### Note

- 1) Source: Northern Trust
- 2) Values do not always sum due to rounding
- 3) Performance start dates of 26/07/2018 for the UK Listed Equity Fund and 17/10/2018 for the Overseas Developed Equity Fund
- 4) The performance shown above does not include the costs of operating the ACS such as the investment management, depository and audit fees.
- 5) Past performance is not an indication of future performance and the value of investments can fall as well as rise.

# Border To Coast UK Listed Equity Fund - Overview at 31 December 2020

## UK Listed Equity Fund

The Fund generated a total return of 12.51% during the quarter compared to the benchmark return of 12.62% resulting in 0.12% of underperformance.

The UK was one of the strongest equity markets due to the delivery of a Brexit deal and positive news flow regarding vaccine development; the latter due to a combination of the recognition that the UK has been disproportionately impacted by the COVID-19 pandemic and the level of advance vaccine orders. In addition, the UK market has a relatively large exposure to Energy stocks, and other cyclically sensitive value biased sectors which rebounded during the quarter.

The Fund was largely able to match the strong performance of the benchmark during the quarter and thus maintain the outperformance achieved in the first 9 months of the year. This has been due to the following factors:

- Strong performance from specialist funds offering exposure to growth segments and smaller companies;
- Strong selection and increasing exposure in both the Energy and Financials sectors, and
- Strong stock selection in Consumer Discretionary and Communications Services.

This was partly offset by:

- Underweight position in smaller companies, which rebounded during the quarter;
- Underweight to Consumer Discretionary and Communications Services sectors which have rebounded on the prospect of economic recovery, and
- Weaker stock selection in Materials, Industrials and Healthcare.

The portfolio has maintained a relatively low risk profile given concerns around heightened geopolitical risks compounded by lingering uncertainty regarding Brexit. This low risk profile has been beneficial for most of the past year as uncertainty remained high and investors remained cautious on balance despite the strong equity market recovery. Although Brexit is now at least notionally resolved, the impact on specific sectors and companies will only become clear over time. The portfolio managers have continued to modestly increase exposure to more cyclical, value-oriented stocks to take advantage of relative performance as well as adding to favoured companies at lower valuations, and this has helped protect performance as the market has rotated towards these segments of the market in recent months. The Sub-fund will continue to focus on long term fundamentals with a bias towards quality companies with strong balance sheets and earnings and income visibility.

### Note

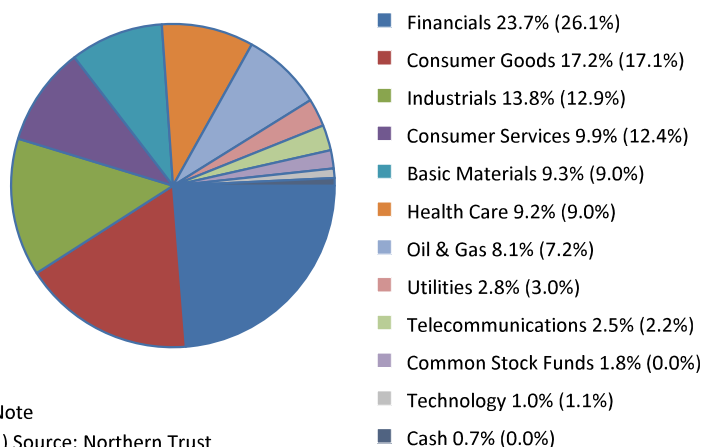
1) Source: Border to Coast

# Border To Coast UK Listed Equity Fund at 31 December 2020

## Largest Relative Over/Underweight Sector Positions (%)

Common Stock Funds	+1.81
Industrials	+0.88
Oil & Gas	+0.85
Telecommunications	+0.38
Basic Materials	+0.32
Consumer Services	-2.52
Financials	-2.34
Utilities	-0.27
Technology	-0.14

## Sector Portfolio Breakdown



Note

1) Source: Northern Trust

## UK Listed Equity Fund

The Border to Coast UK Listed Equity Fund aims to provide a total return (income and capital) which outperforms the total return of the FTSE All Share Index by at least 1% per annum over rolling 3 year periods (before calculation of the management fee).

The majority of the Fund's performance will arise from stock selection decisions.

### Sector Weights:

**Common Stock Funds (o/w)** – exposure to smaller companies and sector specialist investments via collective vehicles with long-term track records of outperformance.

**Industrials (o/w)** – diversified sector benefiting from exposure to longer term growth in global investment capital expenditure.

**Oil & Gas (o/w)** – strong cash generation enabling significant debt reduction, increased shareholder distributions and increased capital investment over the long term; beneficiary of growing Chinese infrastructure expenditure.

**Consumer Services (u/w)** – high street and leisure expected to continue to see pressure on discretionary spending from a more cautious UK consumer and rising unemployment. High street retail remains structurally challenged by an increase in on-line penetration exacerbated by extended shut down of high street stores and leisure sites in response to COVID-19.

**Financials (u/w)** – underweight in Banks due to concerns over UK consumer debt, rising unemployment, growing impairments linked to COVID-19 lockdown, and deteriorating China-US relations impacting Asian focused banks. This is partly offset by overweight positions in Insurers and Wealth Managers, as they are expected to benefit from increase in Asian and Emerging Market wealth.

**Utilities (u/w)** – UK focused utilities exposed to increased regulatory risk, in particular concerning permissible returns on investment. Fund preference for National Grid with its mix of UK and US market exposure.

## Border To Coast UK Listed Equity Fund Attribution at 31 December 2020

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Antofagasta	1.32	40.89	0.23	40.74	0.22
Ocado	0.00	0.00	0.51	(16.65)	0.18
Herald Investment Trust	0.72	37.18	0.07	37.39	0.12
BlackRock Smaller Companies Trust	0.56	44.06	0.04	43.86	0.11
JPMorgan Smaller Companies Trust	0.47	47.74	0.01	48.27	0.11

**Antofagasta (o/w)** – benefited from higher copper prices, driven by robust infrastructure demand from China and Covid-19 related supply restrictions at major producers in central and southern America.

**Ocado (u/w)** – quarterly trading statement highlighted slowing sales growth, in part due to capacity constraints; and the company received a technology patent infringement challenge.

**Herald Investment Trust (o/w)** – benefitted from its focus on small-cap technology and media stocks, with a bias to the UK, driving a narrowing of the net asset value discount - the shares ending the quarter at close to par.

**BlackRock Smaller Companies Trust (o/w)** – UK domestically focussed small-caps have performed strongly, driven by the prospect of a vaccine-related reopening of the economy and a UK trade deal with the EU.

**JP Morgan Smaller Companies Trust (o/w)** – UK small cap-stocks have outperformed and the fund has benefited from a narrowing of the net asset value discount during the quarter, due to positive COVID-19 vaccine announcements and the prospect of a Brexit trade deal.

Note

1) Source: Northern Trust & Border to Coast

## Border To Coast UK Listed Equity Fund Attribution Continued at 31 December 2020

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Glencore	0.00	0.00	1.16	44.76	(0.26)
AstraZeneca	4.95	(13.37)	4.42	(13.40)	(0.13)
Reckitt Benckiser	2.33	(13.40)	1.90	(13.47)	(0.11)
NatWest	0.00	0.00	0.35	58.09	(0.10)
IAG	0.00	0.00	0.27	68.18	(0.09)

**Glencore (u/w)** – robust commodity prices driven by Chinese demand has supported a recovery in the share price, although key bribery investigations (including US Department of Justice) remain unresolved.

**AstraZeneca (o/w)** – pharma sector weakness around the US election outcome (potential drug pricing reform) together with announcement of its intention to acquire US biotech company Alexion for \$39bn.

**Reckitt Benckiser (o/w)** – hygiene products (Dettol and Lysol disinfectant brands) have seen strong sales growth during COVID-19 pandemic but creates tough comparatives as vaccines emerge; infant nutrition in China remains challenging.

**NatWest (u/w)** – loan impairments continue below expectations given various government COVID-19 support schemes; strong capital position and mortgage volumes/pricing improving. Fund preference for Lloyds Bank which is seeing similar tailwinds.

**IAG (u/w)** – beneficiary of the COVID-19 vaccine announcements which open up the possibility of a return to air travel. Fund preference for short haul/leisure exposure through easyJet PLC.

#### Note

1) Source: Northern Trust & Border to Coast

# Border To Coast UK Listed Equity Fund at 31 December 2020

## Largest Relative Over/Underweight Stock Positions (%)

Antofagasta	+1.09
Impax Environmental Markets	+0.98
Schroder UK Smaller Companies Fund	+0.96
BHP Billiton	+0.92
Liontrust UK Smaller Companies	+0.85
Glencore	-1.16
Flutter Entertainment	-0.89
Scottish Mortgage Investment Trust	-0.81
SEGRO	-0.52
Ocado	-0.51

### Note

1) Source: Northern Trust

### Top 5 Holdings Relative to Benchmark:

**Antofagasta** – operates at the lower end of the cost curve and benefits from attractive long term demand for copper, driven by electric vehicles, transition to renewable energy and Chinese infrastructure investment.

**Impax Environmental Markets** – leading ESG focused fund delivering strong long term outperformance, specialising in alternative energy, energy efficiency, water treatment, pollution control and waste technology.

**Schroder UK Smaller Companies Fund** – providing UK small-cap exposure, with a long term track record of outperformance.

**BHP Billiton** – diversified commodity exposure and strong cash generator benefitting from operating at the lower end of the cost curve, proximity to end markets and continued robust commodity demand from China.

**Liontrust UK Smaller Companies** – specialist UK small-cap fund manager with long term track record of outperformance; investment style focussed on intellectual property, strong distribution channels and durable competitive advantage.

### Bottom 5 Holdings Relative to Benchmark:

**Glencore** – ongoing corruption investigations including US Department of Justice and UK Serious Fraud Office into allegations of bribery; coal exposure higher than peers; poor ESG score relative to peer group.

**Flutter Entertainment** – beneficiary of the ongoing deregulation taking place in the US on-line and sports betting market, the fund has similar exposure via William Hill.

**Scottish Mortgage Investment Trust** – investment trust with a focus on global large-cap technology, fund has preference for Allianz Technology Trust with a similar investment focus.

**SEGRO** – real estate holding company focused upon logistics/industrial units across Europe; fund has similar UK exposure through St Modwen.

**Ocado** – beneficiary of UK on-line grocery market growth and offers a technology solution to food retailers globally. However, the valuation is stretched, investment returns from constructing overseas fulfilment centres not yet clear and the company has recently received patent infringement challenge in US and UK.

### Major transactions during the Quarter

#### Purchases:

**Unilever PLC (£105.6m)** – share unification of the UK and Dutch lines led to a 120% increase in benchmark weight.

#### Sales:

**William Hill PLC (£24.1m)** – sold holding after the Board recommended acceptance of an all-cash bid from its US joint venture partner, Caesars Entertainment Inc.

# Border To Coast Overseas Developed Markets Equity Fund - Overview at 31 December 2020

## Overseas Developed Markets Fund

The Fund generated a total return of 9.56% during the quarter compared to the composite benchmark return of 9.79% resulting in underperformance of 0.23%. Asia Pacific (+19.3%) was the strongest region and the US (+6.0%) was the weakest. The Asia Pacific and Japanese portfolios of the Fund outperformed their respective benchmarks, while the US and Europe ex-UK portfolios lagged theirs.

The Fund has continued to benefit from the recovery in equity markets, supported by extensive monetary and fiscal stimulus. Markets were buoyed by the prospect of vaccines bringing an end to the COVID-19 pandemic and carrying the prospect of an economic recovery. Markets remained firm through the quarter, despite the strength of the second wave of the pandemic impacting Europe and the US towards the end of the quarter.

The Fund has underperformed due to the following:

- Bias towards large-cap stocks, particularly in the US and Europe, and an underweight to smaller companies which have led the market during the quarter;
- Weaker stock selection in Healthcare and Consumer Services, and
- Underweight position in Financials which outperformed the broader market.

This has been partly offset by:

- Strong stock selection in Resources and Industrials;
- Underweight position in Utilities which underperformed the broader market, and
- Strong performance from Common Funds with investments in specialist growth segments and smaller companies.

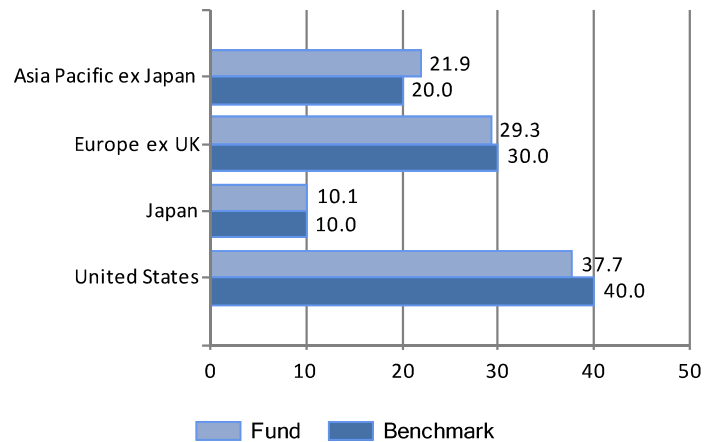
The Fund has a relatively low risk profile, which is driven by low correlations between the four constituent portfolios, whose individual risk profiles are generally in the middle of the targeted range for tracking error of 1-3%. It is unlikely that there will be material changes to portfolio positioning in the short term and the Fund will continue to focus on long term fundamentals with a bias towards quality companies with strong balance sheets and earnings and income visibility.

### Note

1) Source: Border to Coast

# Border To Coast Overseas Developed Markets Equity Fund at 31 December 2020

## Regional Breakdown



## Overseas Developed Markets Fund

The Border to Coast Overseas Developed Equity Fund aims to provide a total return (income and capital) which outperforms the total return of the Benchmark (\*) by at least 1% per annum over rolling 3 years period (before calculation of the management fee).

The Fund will not generally make active regional allocation decisions and the majority of its performance will arise from stock selection.

(\*) The Benchmark is a composite of the following indices:

- 40% S&P 500
- 30% FTSE Developed Europe ex UK
- 20% FTSE Developed Asia Pacific ex Japan
- 10% FTSE Japan

Fund	Inception to Date			Quarter			1 Year			3 Years		
	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative	Fund	Index	Relative
<b>Overseas Developed Equity Fund</b>	<b>9.78</b>	<b>8.68</b>	<b>1.11</b>	<b>9.56</b>	<b>9.79</b>	<b>(0.23)</b>	<b>13.77</b>	<b>12.33</b>	<b>1.45</b>	--	--	--
United States	12.67	11.80	0.87	4.62	5.95	(1.33)	15.49	14.16	1.33	--	--	--
Japan	8.01	5.57	2.44	10.82	8.50	2.32	13.78	10.67	3.11	--	--	--
Europe ex UK	5.75	5.82	(0.07)	8.75	9.02	(0.26)	6.78	8.12	(1.35)	--	--	--
Asia Pacific ex Japan	10.83	7.72	3.11	20.40	19.32	1.09	20.34	14.92	5.42	--	--	--

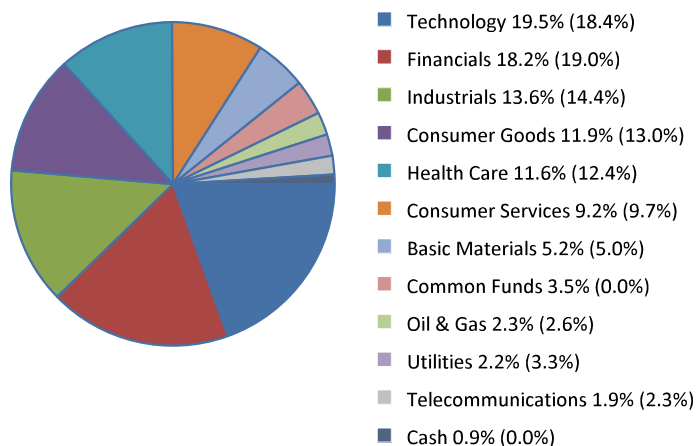
### Note

- 1) Please note that only the total Overseas Developed Equity Fund performance line is net of ACS charges such as depository and audit fees. Investment management fees have not been included in the performance.



# Border To Coast Overseas Developed Markets Equity Fund at 31 December 2020

## Sector Portfolio Breakdown



## Overseas Developed Markets Fund

### Sector Weights:

**Common Stock Funds (o/w)** – exposure to smaller companies via collective vehicles, specifically in US, Europe and Japan.

**Technology (o/w)** – high relative exposure in Europe and Pacific ex-Japan, along with full allocations in the US and Japan based on long term structural growth drivers including Internet of Things, Artificial Intelligence, Electric/Autonomous vehicles, new generation memory chips, the continued transition towards cloud-based services and change in software business models to long term subscription revenues.

**Basic Materials (o/w)** – valuations below long term averages and strong free cash flow generation enabling increased shareholder distribution.

**Financials (u/w)** – underweight in Banks due to concerns over profitability in a persistent low interest rate environment, non-performing loans, legacy litigation issues and the risk of increased regulation. This is partly offset by overweight positions in Insurers and Wealth Managers as they are expected to benefit from long term increase in investment wealth, although shorter term pressures from the sharp fall in financial markets.

**Consumer Goods (u/w)** – short term disruption from current macroeconomic uncertainty and longer term uncertainty over whether consumer spending patterns revert to historic norms are not reflected in valuations.

**Utilities (u/w)** – considered to be a relatively defensive sector in current market conditions; however, pressure from increased capital investment, changes in government policy, increased regulatory risk and technological advances in renewable power generation are having an adverse impact on “traditional” power generation companies. In addition, there is long standing government influence, particularly in Europe, where the sector is considered to be of strategic importance and where interests are not always aligned with shareholders.

### Note

- 1) Source: Northern Trust
- 2) The pie-chart shows the sector allocation of the fund . The benchmark sector allocation is shown in brackets.

## Border To Coast Overseas Developed Markets Equity Fund Attribution at 31 December 2020

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Samsung Electronics	3.10	42.03	2.22	42.21	0.15
Samsung SDI	0.54	47.55	0.19	47.71	0.09
Airbus	0.57	42.78	0.23	42.73	0.08
Xinyi Solar	0.17	53.86	0.00	0.00	0.06
Fortescue Metals	0.39	46.71	0.18	46.36	0.06

**Samsung Electronics (o/w)** – prospects for recovery in all business segments, led by DRAM (dynamic random access memory) semiconductor chips, and potential for improved shareholder returns.

**Samsung SDI (o/w)** – continued positive news flow regarding electric vehicle (EV) growth forecasts led to outperformance in the EV Battery names.

**Airbus (o/w)** – news of the COVID-19 vaccine breakthrough, and the potential for recovery in air travel has been the main driver for the company. Deliveries of aircrafts were also slightly higher than expected.

**Xinyi Solar (o/w)** – positive trading update and Chinese government policy supportive of industry growth prospects, leading to increased demand for solar products.

**Fortescue Metals (o/w)** – strong rise in iron ore prices due to increased Chinese demand and continued supply disruptions.

#### Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund Attribution Continued at 31 December 2020

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Fund return (%)	Benchmark weight (%)	Benchmark return (%)	Contribution to performance (%)
Samsung Electronics Prefs	0.00	0.00	0.35	48.96	(0.10)
NVIDIA Corporation	0.78	(8.69)	0.41	(8.73)	(0.08)
SAP	0.72	(20.43)	0.57	(20.30)	(0.06)
Home Depot	0.62	(9.08)	0.36	(9.19)	(0.06)
Dollar General	0.41	(4.91)	0.07	(5.01)	(0.05)

**Samsung Electronics Prefs (u/w)** – benefited from the same drivers as Samsung Electronics Ords. The Fund is overweight Samsung Electronics overall but has no exposure to the preference shares.

**NVIDIA Corporation (o/w)** – shares stalled following strong gains, strategically advantageous acquisition of Arm facing an anti-trust challenge.

**SAP (o/w)** – significant profit warning and reduced earnings guidance with expectations of higher capital expenditure as integration of recent acquisitions has not been successful.

**Home Depot (o/w)** – identified as a pandemic beneficiary whilst the market has been starting to reward names that will provide greater leverage to a recovery.

**Dollar General (o/w)** – concern that record same store sales numbers will not be maintained at the current pace once the US recovers from the pandemic.

#### Note

1) Source: Northern Trust & Border to Coast

# Border To Coast Overseas Developed Markets Equity Fund at 31 December 2020

## Largest Relative Over/Underweight Stock Positions (%)

Vanguard US Mid Cap ETF	+2.86
Samsung Electronics	+0.87
Alphabet A	+0.70
Visa Inc	+0.43
JP Morgan European Smaller Companies Trust	+0.43
Tesla	-0.68
Alphabet C	-0.64
Mastercard	-0.40
Samsung Electronics Prefs	-0.35
PayPal	-0.35

### Top 5 Holdings Relative to Benchmark:

**Vanguard US Mid Cap ETF** – provides exposure to the smaller companies in the US index, although the portfolio retains an underweight exposure to smaller companies in aggregate.

**Samsung Electronics** – exposed to structural growth in the memory chip market; the group also has a diversified earnings stream and large shareholder return potential; the overweight in the ordinary shares is partly offset by not owning the preference shares.

**Alphabet A** – parent company of Google; offset by not holding the C shares which results in a modest overweight exposure to Alphabet overall.

**Visa Inc** – exposed to strong drivers of the move to cashless payments and growth in cross border transactions.

**JP Morgan European Smaller Companies Trust** – provides relatively defensive exposure to smaller companies in Europe with weighting likely to be reduced over time.

### Bottom 5 Holdings Relative to Benchmark:

**Tesla** – high valuation requires support from as yet unproven revenue streams from autonomous driving and/or shared mobility.

**Alphabet C** – exposure in A shares aggregate to a modest overweight exposure to Alphabet overall.

**Mastercard** – preference for Visa, the other global payment network company with similar exposure to growth trends in the payments space, on valuation grounds.

**Samsung Electronics Prefs** – the portfolio is overweight Samsung Electronics overall via the more liquid Ordinary shares.

**PayPal** – growth in payments platform and processing but exposure accessed through other portfolio holdings including Visa and FIS.

Note

1) Source: Northern Trust

**APPENDICES**

## Border To Coast Overseas Developed Markets Equity Fund - United States at 31 December 2020

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Walt Disney	0.65	0.41	0.05
Vanguard US Mid Cap ETF	2.86	0.00	0.05
Citigroup	0.40	0.16	0.05
Mastercard	0.00	0.40	0.04
AT&T	0.00	0.26	0.03

**Walt Disney (o/w)** –subscription data and management guidance suggest strong momentum behind the company’s direct to consumer media business.

**Vanguard US Mid Cap ETF (o/w)** – strong rally in smaller companies after a challenging first half of the year.

**Citigroup (o/w)** – boosted by a steepening yield curve, nascent recovery optimism and a surprise Fed decision allowing recommencement of bank’s capital returns to shareholders.

**Mastercard (u/w)** – market rotation away from high valuation "winners", concern that higher margin travel and entertainment revenues will be slow to recover.

**AT&T (u/w)** – doubts surfacing around a proposed business divestment that would help reduce debt on the balance sheet.

#### Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - United States at 31 December 2020

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
NVIDIA Corporation	0.78	0.41	(0.08)
Home Depot	0.62	0.36	(0.06)
Dollar General	0.41	0.07	(0.05)
S&P Global	0.28	0.10	(0.05)
Procter & Gamble	0.72	0.44	(0.05)

**NVIDIA Corporation (o/w)** – shares stalled following strong gains, strategically advantageous acquisition of Arm facing an anti-trust challenge.

**Home Depot (o/w)** – identified as a pandemic beneficiary whilst the market has been starting to reward names that will provide greater leverage to a recovery.

**Dollar General (o/w)** – concern that record same store sales numbers will not be maintained at the current pace once the US recovers from the pandemic.

**S&P Global (o/w)** – market digesting news of a large acquisition in the quarter and concerns around a possible deceleration in new debt issuance.

**Procter & Gamble (o/w)** – strong results in the quarter but, in keeping with others in the consumer staples sector, viewed as a fading shelter at home beneficiary.

#### Note

1) Source: Northern Trust & Border to Coast

# Border To Coast Overseas Developed Markets Equity Fund - United States at 31 December 2020

## Largest Relative Over/Underweight Stock Positions (%)

Vanguard US Mid Cap ETF	+2.86
Alphabet A	+0.70
Visa Inc	+0.43
NVIDIA Corporation	+0.37
Microsoft	+0.34
Tesla	-0.68
Alphabet C	-0.64
Mastercard	-0.40
PayPal	-0.35
Comcast	-0.30

### Top 5 Holdings Relative to Benchmark:

**Vanguard US Mid Cap ETF** – provides exposure to the smaller companies in the US index, although the portfolio retains an underweight exposure to smaller companies in aggregate.

**Alphabet A** – parent company of Google; offset by not holding the C shares which results in a modest overweight exposure to Alphabet overall.

**Visa Inc** – exposed to strong drivers of the move to cashless payments and growth in cross border transactions.

**NVIDIA Corporation** – technology company that sells into strong end markets for cloud servers, machine learning and cutting-edge gaming graphics.

**Microsoft** – structural growth from Azure cloud hosting business and migration of Business Office to MS 365 on-line, with associated opportunity for value added sales and increased customer stickiness.

### Bottom 5 Holdings Relative to Benchmark:

**Tesla** – high valuation requires support from as yet unproven revenue streams from autonomous driving and/or shared mobility.

**Alphabet C** – exposure in A shares aggregate to a modest overweight exposure to Alphabet overall.

**Mastercard** – preference for Visa, the other global payment network company with similar exposure to growth trends in the payments space, on valuation grounds.

**PayPal** – growth in payments platform and processing but exposure accessed through other portfolio holdings including Visa and FIS.

**Comcast** – faces challenges in broadcast media and theme park businesses. Preference for Charter, a pure play broadband provider.

### Major transactions during the Quarter

#### **Purchases:**

**Union Pacific (£2.4m)** – management focus on operational efficiency should provide leverage to a cyclical recovery.

#### **Sales:**

**Exxon Mobil Corp (£5.2m)** – oil price weakness and pressure within the refining division, making it harder to sustain the current level of dividends. In addition, the company is yet to develop a credible strategy for a low carbon future.

Note

1) Source: Northern Trust



## Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 31 December 2020

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Airbus	0.57	0.23	0.08
JP Morgan European Smaller Companies	0.43	0.00	0.04
BNP Paribas	0.39	0.22	0.03
Logitech International	0.38	0.06	0.03
Banco Santander	0.29	0.21	0.03

**Airbus (o/w)** – news of the COVID-19 vaccine breakthrough, and the potential for recovery in air travel has been the main driver for the company. Deliveries of aircrafts were also slightly higher than expected.

**JP Morgan European Smaller Companies (o/w)** – rebound in smaller companies following significant underperformance in previous quarter and the Fund also benefited from rotation from Quality into Value stocks.

**BNP Paribas (o/w)** – rotation into Value following the positive vaccine announcements has benefited Banks and news regarding dividend pay-out was also positive for the sector.

**Logitech International (o/w)** – the company has experienced an increase in demand due to COVID-19 induced lockdowns and increased working from home.

**Banco Santander (o/w)** – rotation into Value following the positive vaccine announcements has benefited Banks, and news regarding dividend pay-out was also positive for the sector.

#### Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 31 December 2020

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
SAP	0.72	0.57	(0.06)
Novo Nordisk	0.79	0.44	(0.05)
Symrise	0.30	0.06	(0.05)
BBVA	0.00	0.13	(0.04)
Nestle	1.56	1.27	(0.04)

**SAP (o/w)** – significant profit warning and reduced earnings guidance with expectations of higher capital expenditure, as integration of recent acquisitions has not been successful.

**Novo Nordisk (o/w)** – rotation into Value stocks has resulted in underperformance of pharmaceutical stocks, and concerns that the company has overpaid for the recent acquisition of drug delivery technology company, Emisphere.

**Symrise (o/w)** – poor quarterly results and reduced earnings guidance, although organic growth remains robust.

**BBVA (u/w)** – sale of US business and positive developments regarding ability to recommence shareholder distributions, as well as being at the centre of consolidation within the Spanish banking sector, although the proposed merger with Banco de Sabadell has not progressed.

**Nestle (o/w)** – underperformed on the back of rotation from defensives to cyclical on positive vaccine announcements.

#### Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Europe (ex UK) at 31 December 2020

### Largest Relative Over/Underweight Stock Positions (%)

JP Morgan European Smaller Companies Trust	+0.43
HBM Healthcare	+0.37
Novo Nordisk	+0.35
Koninklijke Philips	+0.34
Airbus	+0.33
Enel SPA	-0.30
Zurich Insurance Group	-0.24
Adyen	-0.24
Daimler	-0.22
Kering	-0.21

#### Top 5 Holdings Relative to Benchmark:

**JP Morgan European Smaller Companies Trust** – provides relatively defensive exposure to smaller companies in Europe with weighting likely to be reduced over time.

**HBM Healthcare** – specialist healthcare investment trust with an excellent long term track record particularly generating value from the listing of private companies.

**Novo Nordisk** – market leading position in diabetes treatment, with the potential to adapt an existing drug to be effective against Alzheimer's, and a developing programme in obesity treatments.

**Koninklijke Philips** – increased demand for healthcare equipment driven by Emerging Markets and the increased adoption of image guided radiation therapy equipment.

**Airbus** – operates in a duopoly market that still has a strong order book and a weakened competitor. Shorter term concerns on the impact of COVID-19 are considered to be reflected in the current price.

#### Bottom 5 Holdings Relative to Benchmark:

**Enel SPA** – higher risk profile due to large exposure to Italy (political uncertainty) as well as exposure to Latin America, particularly Brazil.

**Zurich Insurance Group** – high valuation relative to peers and over ambitious profitability targets.

**Adyen** – very high valuation but the company has been the main benefactor from the demise of competitor, Wirecard.

**Daimler** – structural concerns regarding the sector as a whole and particular concerns regarding the strength of the balance sheet.

**Kering** – over reliance on Gucci brand.

#### Major transactions during the Quarter

##### **Purchases:**

**Siemens (£3.6m)** – increasing overweight position as the company remains on a valuation discount relative to the sector; discount should narrow following the successful disposal of the energy division.

##### **Sales:**

**Unilever (£17.0m)** – full disposal as company is no longer in the index following full relocation to the UK.

Note

1) Source: Northern Trust

## Border To Coast Overseas Developed Markets Equity Fund - Japan at 31 December 2020

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Tokyo Electron	0.32	0.13	0.04
Renesas Electronics	0.19	0.02	0.03
Shin-Etsu Chemical	0.40	0.16	0.03
Sony Corp	0.46	0.28	0.02
Softbank Group Corp	0.49	0.26	0.02

**Tokyo Electron (o/w)** – excellent results and outlook, followed by upgrades leading to an all-time share price high.

**Renesas Electronics (o/w)** – semiconductor and integrated device designer/manufacturer continues strong performance following evidence of flexible cost control and appreciation of benefits of debt-enabled acquisition of IDT (Integrated Device Technology).

**Shin-Etsu Chemical (o/w)** – solid results with PVC supply/demand providing a positive boost to the outlook; multiple analyst upgrades leading to an all-time share price high.

**Sony Corp (o/w)** – good results with the launch of PlayStation 5 seen as positive, as demand outstrips supply. The company is also expected to continue to benefit from the impact of continuing COVID-19 restrictions on gaming demand.

**Softbank Group Corp (o/w)** – positive response to technology investor’s continued disposals and share buybacks. The possibility of a management buyout also acts as an underpin to the share price.

#### Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Japan at 31 December 2020

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Nippon Shinyaku	0.12	0.01	(0.05)
ZOZO	0.10	0.01	(0.03)
Takeda Pharmaceutical	0.29	0.13	(0.02)
M3	0.00	0.09	(0.02)
Fast Retailing	0.00	0.10	(0.02)

**Nippon Shinyaku (o/w)** – disappointing quarterly results and guidance, combined with a weak pharmaceuticals sector.

**ZOZO (o/w)** – failed to be included in the main Japanese index (Nikkei 225) and has not benefitted as much as expected from the increase in on-line clothes shopping.

**Takeda Pharmaceutical (o/w)** – even though continued asset sales are delivering the planned debt reduction; Takeda appears to be lacking a catalyst to rerate.

**M3 (u/w)** – medical information services company that has benefitted from COVID-19 and the increasing move away from face-to-face medical consultations.

**Fast Retailing (u/w)** – results in line with expectations, but positive outlook has supported the share price as main markets in Asia (Japan and China) are considered to be less impacted by COVID-19, and the key basic clothes lines are in demand as a result of increased working from home.

#### Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Japan at 31 December 2020

### Largest Relative Over/Underweight Stock Positions (%)

Ballie Gifford Shin Nippon	+0.38
Shin-Etsu Chemical	+0.24
Softbank Group Corp	+0.23
Nintendo	+0.21
Tokyo Electron	+0.20
Daiichi Sankyo	-0.15
Daikin Industries	-0.13
Nidec	-0.13
Recruit Holdings	-0.13
Honda Motor	-0.11

#### Top 5 Holdings Relative to Benchmark:

**Ballie Gifford Shin Nippon** – smaller companies-focused with strong long term relative performance.

**Shin-Etsu Chemical** – best in sector with strong cash generation, good growth prospects, margin sustainability and increasing shareholder returns.

**Softbank Group Corp** – trading at a significant discount to the sum of the parts; tends to be volatile partly due to unorthodox style of the Founder and Chairman, Masayoshi Son.

**Nintendo** – Switch selling very well, games trending to higher margin digital sales and huge potential from underutilised Intellectual Property rights.

**Tokyo Electron** – good growth prospects, strong balance sheet and potential for increased shareholder returns.

#### Bottom 5 Holdings Relative to Benchmark:

**Daiichi Sankyo** – preference for other names in the healthcare sector.

**Daikin Industries** – concerns due to exposure to declining air-conditioning demand in China and exposure of chemicals business to the auto and technology sectors.

**Nidec** – concern that future strategy is unclear and company forecasts are too optimistic; move away from declining HDD (hard disk drive) motors will continue to squeeze margins.

**Recruit Holdings** – trades on a premium valuation relative to peers in a difficult environment for recruitment.

**Honda Motor** – marginal preference for Toyota (on EV strategy and growth prospects) and Subaru (on prospects from collaboration with Toyota, US sales resilience and possibility of Toyota increasing stake).

#### Major transactions during the Quarter

##### **Purchases:**

**Shionogi & Co Ltd (£1.5m) and Nippon Shinyaku (£1.5m)** – fund rebalancing used to move healthcare/pharmaceutical sector towards neutral by increasing preferred holdings.

**KDDI (£1.5m)** – fund rebalancing used to top-up this mobile telecom and internet provider which had underperformed following a desire from the new Prime Minister to see lower phone and data charges.

Note

1) Source: Northern Trust

## Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 31 December 2020

### Positive Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Samsung Electronics	3.10	2.22	0.15
Samsung SDI	0.54	0.19	0.09
Xinyi Solar	0.17	0.00	0.06
Fortescue Metals	0.39	0.18	0.06
SK Hynix	0.63	0.36	0.06

**Samsung Electronics (o/w)** – prospects for recovery in all business segments, led by DRAM (dynamic random access memory) semiconductor chips, and potential for improved shareholder returns.

**Samsung SDI (o/w)** – continued positive news flow regarding electric vehicle (EV) growth forecasts led to outperformance in the EV Battery names.

**Xinyi Solar (o/w)** – positive trading update and Chinese government policy supportive of industry growth prospects, leading to increased demand for solar products.

**Fortescue Metals (o/w)** – strong rise in iron ore prices due to increased Chinese demand and continued supply disruptions.

**SK Hynix (o/w)** – expectations of recovery in the DRAM market.

#### Note

1) Source: Northern Trust & Border to Coast

## Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 31 December 2020

### Negative Stock Level Impacts

Fund	Portfolio weight (%)	Benchmark weight (%)	Contribution to performance (%)
Samsung Electronics Prefs	0.00	0.35	(0.10)
Afterpay	0.00	0.13	(0.04)
Celltrion Healthcare	0.00	0.07	(0.03)
Kia Motors	0.00	0.09	(0.02)
CSL	0.87	0.63	(0.02)

**Samsung Electronics Prefs (u/w)** – benefited from the same drivers as Samsung Electronics Ordsooutlined above; the Fund is overweight Samsung Electronics overall but has no exposure to the preference shares.

**Afterpay (u/w)** – Australian fintech company continuing to benefit from gaining market share in the global payments processing market, as well as entry into the main Australian index.

**Celltrion Healthcare (u/w)** – development of COVID-19 treatment with the company seeking emergency approval in South Korea and US.

**Kia Motors (u/w)** – shares in Korean Autos outperformed on the back of successful launches in the US and hopes for electric vehicles; the Fund has exposure via Hyundai Motor.

**CSL (o/w)** – increasing concerns that plasma collection is restricted by COVID-19 and abandonment of COVID-19 vaccine trial.

#### Note

1) Source: Northern Trust & Border to Coast



# Border To Coast Overseas Developed Markets Equity Fund - Asia Pacific (ex Japan) at 31 December 2020

## Largest Relative Over/Underweight Stock Positions (%)

Samsung Electronics	+0.87
AIA Group	+0.38
Samsung SDI	+0.35
BHP Group	+0.29
SK Hynix	+0.27
Samsung Electronics Prefs	-0.35
UOB	-0.14
Afterpay	-0.13
KaKao	-0.12
Hong Kong & China Gas	-0.10

### Top 5 Holdings Relative to Benchmark:

**Samsung Electronics** – exposed to structural growth in the memory chip market; the group also has a diversified earnings stream and large shareholder return potential; the overweight in the ordinary shares is partly offset by not owning the preference shares.

**AIA Group** – despite recent weakness in the Hong Kong market, growth is expected to be driven by increased penetration into underserved provinces in China; this is leading to clear earnings visibility.

**Samsung SDI** – the company is a market leader in the supply of batteries to the growing electronic vehicle (EV) market; the longer term trend to transition to EVs is a structural growth story and SDI is well positioned to serve this market.

**BHP Group** – diversified commodity exposure and strong cash generator benefitting from operating at the lower end of the cost curve and proximity to end markets.

**SK Hynix** – expected to benefit from a more disciplined, but recovering, DRAM market; the company should also benefit from its recent acquisition of Intel’s flash memory business.

### Bottom 5 Holdings Relative to Benchmark:

**Samsung Electronics Prefs** – the portfolio is overweight Samsung Electronics overall via the more liquid Ordinary shares.

**UOB** – preference for other Singaporean banks with stronger capital positions.

**Afterpay** – this “buy now pay later” platform has grown rapidly in recent years and the lack of a holding represents a significant underweight; further research is being conducted as to whether this would be a suitable holding for the Fund.

**KaKao** – Korean internet company has benefited from COVID-19 via its fintech, e-commerce and entertainment businesses; the Fund has a preference for Naver.

**Hong Kong & China Gas** – although the company has a monopoly on gas supply in Hong Kong, it has a very high valuation with potentially slowing earnings growth and increased regulatory risk in China.

### Major transactions during the Quarter

#### **Purchases:**

**Banks – Westpac Bank (£2.9m); BOC HK (£2.5m); KB Financial (£2.5m); and DBS (£2.0m)** – reduced underweight in Banks as market started to focus on the potential recovery in the sector.

#### **Sales:**

**Xinyi Solar (£4.5m)** – strong performance enabled the Fund to continually take profits in this non-benchmark holding.

**Fortescue Metal (£2.9m)** – strong rise in iron ore price benefited Fortescue, enabling the Fund to take profits.

Note

1) Source: Northern Trust

# Market Background

## at 31 December 2020

After a tumultuous year for capital markets in general and equities, in particular, there was a significant rebound in the fourth quarter driven by a relaxation of lockdown restrictions, positive vaccine developments, the eventual resolution of the US Presidential Election and a form of Brexit agreement. This was tempered at the end of the quarter with an escalation of lockdown restrictions, particularly in Europe but also in the US and parts of Asia, as a result of a more virulent strain of the COVID-19 virus.

Extensive fiscal and monetary support is helping economies to weather the worst of the disruption, and these measures have been extended following the latest lockdown restrictions. However, this will result in higher debt levels which may constrain economic growth in the medium term. Although this may be partly offset by pent-up consumer demand once restrictions are removed.

Although there has been a recovery in global economic activity it remains a long way short of pre-pandemic levels. Positive vaccine developments and continued fiscal and monetary support should enable economic growth to accelerate in 2021. However, existing restrictions and the pace of the rollout of vaccinations, particularly in Europe and Emerging Markets, will temper this growth in the short term.

The transition to the Biden administration in the US, and the securing of the Senate, is likely to result in continued fiscal support and an attempt to repair global relations, particularly with regards to the trade disputes with China. Although Biden is unlikely to reverse Trump's less egregious policy making, he is likely to strike a more conciliatory tone, which would be beneficial for financial markets.

Inflationary pressures have been contained as the increased fiscal and monetary measures have been broadly offset by the reduction in economic activity. However, there remains a risk that inflationary pressures build and there appears to be an increased tolerance for higher inflation, particularly as it would help to reduce debt levels. The US Federal Reserve

and other major central banks have indicated that monetary policy is likely to remain loose for the foreseeable future.

Labour markets will remain under pressure particularly when support schemes are reduced or withdrawn. There is also a risk of a two-tier market where employment in occupations that can be performed remotely remains stable, or even grows, and occupations requiring a physical presence, particularly linked to discretionary activities, will face significant pressures.

The fourth quarter was marked by two notable features in equity markets:

- The first was a strong recovery in segments of the market left behind in recent quarters, perhaps as a result of the prospect of a genuine and lasting economic recovery once the pandemic has passed. Smaller stocks performed very strongly making up all the ground they had lost earlier in the year. Value stocks also started to outperform growth stocks and, after many years of underperformance during which relative valuation multiples had fallen to historic extremes, many market observers suggested that this marked the beginning of a sustained move.
- Despite this move in Value, the second feature during the quarter was certain pockets of the Growth segment continuing to perform exceptionally strongly, prompting many to comment they were exhibiting bubble-like characteristics. Consumer and Technology stocks that have benefited, and are expected to continue to benefit, from both the COVID-19 disruption as well as increasing awareness of environmental issues have risen almost exponentially since the March lows and have been unscathed by the broader Value rotation in the last quarter. Valuations amongst this cohort of stocks are now extremely high by any measure, with the value accorded to them also now becoming increasingly material.

Note

1) Source: Border to Coast

## Market Background at 31 December 2020

Tesla is probably the poster child of this phenomenon and was, by early January 2021, the fifth largest stock in the S&P500 with a market capitalisation of \$800bn. It may be the largest, but it is by no means the only example of stocks being driven by bubble-like behaviours.

Valuations of equity markets are above their long-term average and investor sentiment remains positive – perhaps excessively so given the behaviour evident in certain pockets of the market, as alluded to previously. Returns available in other asset classes remain relatively unattractive though. Government bond yields have risen but remain low by historic standards and are still negative in many areas. Investment grade and high yield credit spreads have also narrowed considerably. The outlook for commercial real estate is unclear, both in the near term due to payment defaults but also longer term due to changes in demand. Investor allocations to Alternatives continue to increase but it will need time for this capital to be deployed.

Global equity markets enjoyed a strong final quarter in 2020, rising 8.5% in sterling terms, with only strength in sterling preventing that rise being greater for UK investors. After some initial weakness in October, markets recovered after the US election passed and vaccine trial results were announced, and advanced steadily through the remainder of the year. In contrast to recent periods, the US market lagged global markets in part due to the large weighting in growth-oriented Technology and Consumer stocks, while the UK outperformed other major markets, rising 12.6%, benefiting from a higher weighting to Resource stocks as well as positive Brexit developments. Emerging Markets also performed very well (+11.4%), outperforming Developed Markets (+7.8%) and continuing to unwind the underperformance of the first half of the year. Within Emerging Markets, Brazil (+29.1%) and India (+16.9%) were the strongest performing major markets and China (+5.6%) was the weakest.

In terms of sector performance, Technology (long term growth trends, short term beneficiary of disruption) continues to deliver solid performance but, understandably given the resurgence of Value, could not match the performance of Energy and Financials while other

cyclically sensitive sectors such as Consumer Discretionary, Materials and Industrials also performed well. Defensive sectors such as Healthcare, Utilities and Consumer Staples lagged.

In terms of factor performance, Value outperformed Growth for the first time in a considerable while. Quality lagged, as did Size, reflecting the fact smaller companies performed strongly during the quarter. More volatile stocks also performed well.

Amidst high valuations and potential delays to economic recovery equity markets are unlikely to be supported by positive earnings revisions until later in the year. Economic activity is likely to remain uneven with the hoped-for V-shaped recovery distorted and delayed. Although the uncertainty surrounding the US Presidential Election has passed there is some uncertainty over the priorities of the Biden administration and their ability to implement their agenda. Geopolitical risks remain elevated across the globe as US/China relations have deteriorated. As such, sentiment looks vulnerable to events with valuations offering little near-term support.

Note

1) Source: Border to Coast

## Border to Coast News

### People:

- Tim Sankey has joined us as our first Head of Real Estate, leading on the development of our property funds. Tim brings a wealth of investing experience together with hands-on experience of building and running property funds, most recently at Aberdeen Standard Investments.
- We are also joined by Steve Walton, our new interim Chief Risk Officer. Steve brings significant experience including Global Head of Investment Oversight and Responsible Investing at the Prudential and, most recently, Interim Chief Risk Officer at Intermediate Capital Group.
- We also welcomed two new Board Directors, Cllr Anne Walsh (Tyne & Wear) who replaces Cllr Jeff Watson of Northumberland as a Partner Fund nominee; and Kate Guthrie, who replaces Enid Rowland as Remuneration and Nominations Committee Chair. Kate is a highly experienced HR Director with strong financial services experience.

### Investment Funds:

- During the quarter we launched our latest fixed income product, the £1.5bn Sterling Index Linked Fund. This is an internally managed Fund, helping to generate aggregate cost savings across the pool. The Partner Funds involved as initial investors are Durham, North Yorkshire and South Yorkshire. The launch of the fund demonstrates the skills and capabilities within Border to Coast to deliver effective investment solutions to our Partner Funds.
- Our first co-investment within the Infrastructure Fund took place – a £40m investment in Sleaford Renewable Energy Plant. A straw-fired biomass plant located in Lincolnshire, this will have a real impact in tackling climate change. Our co-investment marks a significant step forward for Border to Coast as an active alternative investor. The plant benefits from predictable, contracted revenue streams in the form of the Renewable Obligation Certificate support and the sale of the clean electricity that it generates under a long-term Power Purchase Agreement.

### Responsible Investment:

- Climate Action 100+ published its second progress update in December which summarised overall progress. The initiative now has 545 investor signatories with assets under management totalling \$52 trillion. In 2020 it developed the Net Zero Company Benchmark, which will be used to publicly benchmark focus companies, with the first set of scorecards being released in early 2021.
- The Asset Management Taskforce set up Stewardship and Stakeholder working groups last year to help strengthen stewardship and responsible investment in the UK. November saw the publication of the recommendations in the report: [Investing with Purpose: placing stewardship at the heart of sustainable growth](#). Their 19 recommendations cover three areas: stewardship behaviours, stewardship for clients and savers, and the economy wide approach to stewardship.

### Other news:

- At the 2020 LAPF Investment Awards, Border to Coast won in two categories. For the second year running Border to Coast were named 'Pool of the Year'. The second award we picked up was the 'Collaboration' award - another great achievement, the award highlights the culture of partnership we have been building together with our Partner Funds, our external managers, and other key strategic partners.
- Following the success in the LAPF Investment Awards, Border to Coast was recognised in the Women in Investment Awards, organised by Investment Week, for our outstanding work on diversity in the workplace and the progress we have made as an organisation since our launch.
- In October, we hosted our first virtual annual conference welcoming over 130 delegates. During the event we gave an update on progress over 2020, discussed key issues facing Partner Funds and how we can work collaboratively on these, and explored our collective future priorities. Many thanks to all that were able to attend and contributed to the day.

## Disclosures

Border to Coast Pensions Partnership Ltd is authorised and regulated by the Financial Conduct Authority (FRN 800511).  
Registered in England (Registration number 10795539) at the office 5th Floor, Toronto Square, Leeds, LS1 2HJ

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STATE STREET  
GLOBAL ADVISORS

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# Quarterly Investment Report - 80237

For the Period 01 Oct 2020 to 31 Dec 2020

## Middlesbrough Borough Council

Middlesbrough Borough Council

Report ID: 2840920.1 Published: 21 Jan 2021

# Quarterly Investment Report - 80237

As of 31 Dec 2020

Middlesbrough Borough Council

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## Quarterly Investment Report - 80237

As of 31 Dec 2020

Middlesbrough Borough Council

# Accounting Summary (expressed in GBP)

As of 31 Dec 2020

## Middlesbrough Borough Council

	Market Value 01 Oct 2020		Contributions	Withdrawals	Change in Market Value	Market Value 31 Dec 2020	
<b>Passive Equity Portfolio</b>							
North America ESG Screened Index Equity Sub-Fund	660,730,151	38.70%	0	0	45,920,599	706,650,750	37.53%
Europe ex UK ESG Screened Index Equity Sub-Fund	413,967,876	24.25%	22,778	0	36,955,860	450,946,513	23.95%
Japan ESG Screened Index Equity Sub-Fund	262,662,188	15.38%	0	0	22,720,570	285,382,758	15.16%
Asia Pacific ex Japan ESG Screened Index Equity Sub-Fund	369,905,434	21.67%	0	0	69,980,053	439,885,487	23.36%
<b>Total</b>	<b>1,707,265,648</b>	<b>100.00%</b>	<b>22,778</b>	<b>0</b>	<b>175,577,083</b>	<b>1,882,865,508</b>	<b>100.00%</b>

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## Quarterly Investment Report - 80237

As of 31 Dec 2020

Middlesbrough Borough Council

# Performance Summary (expressed in GBP)

As of 31 Dec 2020

## Middlesbrough Borough Council

	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Inception
<b>Passive Equity Portfolio</b>								
<b>North America ESG Screened Index Equity Sub-Fund</b>								21 Sep 2018
Total Returns	1.65%	6.95%	16.59%	16.59%	N/A	N/A	N/A	12.89%
FTSE NORTH AMERICA EX CONTROVERSIES EX CW INDEX	1.60%	6.88%	16.50%	16.50%	N/A	N/A	N/A	12.83%
<b>Difference</b>	<b>0.05%</b>	<b>0.07%</b>	<b>0.09%</b>	<b>0.09%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>0.06%</b>
Total Returns (Net)	1.65%	6.95%	16.57%	16.57%	N/A	N/A	N/A	N/A
FTSE NORTH AMERICA EX CONTROVERSIES EX CW INDEX	1.60%	6.88%	16.50%	16.50%	N/A	N/A	N/A	N/A
<b>Difference</b>	<b>0.05%</b>	<b>0.07%</b>	<b>0.07%</b>	<b>0.07%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>Europe ex UK ESG Screened Index Equity Sub-Fund</b>								26 Sep 2018
Total Returns	2.18%	8.93%	8.37%	8.37%	N/A	N/A	N/A	6.27%
FTSE DEVELOPED EUROPE EX UK EX CONTROVERSIES EX CW INDEX	2.20%	8.99%	8.61%	8.61%	N/A	N/A	N/A	6.38%
<b>Difference</b>	<b>-0.02%</b>	<b>-0.06%</b>	<b>-0.24%</b>	<b>-0.24%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>-0.11%</b>
Total Returns (Net)	2.18%	8.92%	8.35%	8.35%	N/A	N/A	N/A	N/A
FTSE DEVELOPED EUROPE EX UK EX CONTROVERSIES EX CW INDEX	2.20%	8.99%	8.61%	8.61%	N/A	N/A	N/A	N/A
<b>Difference</b>	<b>-0.02%</b>	<b>-0.07%</b>	<b>-0.26%</b>	<b>-0.26%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>Japan ESG Screened Index Equity Sub-Fund</b>								01 Jun 2001
Total Returns	1.74%	8.65%	11.07%	11.07%	5.65%	10.60%	8.45%	4.50%
FTSE JAPAN EX CONTROVERSIES EX CW INDEX	1.73%	8.53%	11.07%	11.07%	5.64%	10.60%	8.44%	4.36%
<b>Difference</b>	<b>0.01%</b>	<b>0.12%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.01%</b>	<b>0.00%</b>	<b>0.01%</b>	<b>0.14%</b>

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## Quarterly Investment Report - 80237

As of 31 Dec 2020

Middlesbrough Borough Council

### Middlesbrough Borough Council

	1 Month	3 Months	YTD	1 Year	3 Years	5 Years	10 Years	Inception
Total Returns (Net)	1.74%	8.65%	11.05%	11.05%	N/A	N/A	N/A	N/A
FTSE JAPAN EX CONTROVERSIES EX CW INDEX	1.73%	8.53%	11.07%	11.07%	N/A	N/A	N/A	N/A
<b>Difference</b>	<b>0.01%</b>	<b>0.12%</b>	<b>-0.02%</b>	<b>-0.02%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>Asia Pacific ex Japan ESG Screened Index Equity Sub-Fund</b>								01 Jun 2001
Total Returns	6.07%	18.92%	14.59%	14.59%	5.65%	13.14%	7.07%	10.20%
FTSE DEVELOPED ASIA PACIFIC EX JAPAN EX CONTROVERSIES EX CW INDEX	6.10%	18.90%	14.59%	14.59%	5.62%	13.10%	7.03%	10.15%
<b>Difference</b>	<b>-0.03%</b>	<b>0.02%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.03%</b>	<b>0.04%</b>	<b>0.04%</b>	<b>0.05%</b>
Total Returns (Net)	6.07%	18.91%	14.57%	14.57%	N/A	N/A	N/A	N/A
FTSE DEVELOPED ASIA PACIFIC EX JAPAN EX CONTROVERSIES EX CW INDEX	6.10%	18.90%	14.59%	14.59%	N/A	N/A	N/A	N/A
<b>Difference</b>	<b>-0.03%</b>	<b>0.01%</b>	<b>-0.02%</b>	<b>-0.02%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>

For information regarding performance data, including net performance data, please refer to the section entitled "Important Information" at the end of the report.

# R-Factor™ Summary

As of 31 Dec 2020

Europe ex UK ESG Screened Index Equity Sub-Fund

Benchmark: FTSE DEVELOPED EUROPE EX UK EX CONTROVERSIES EX CW INDEX

R-Factor Summary	Fund	Benchmark	Difference
R-Factor	72.06	72.06	0.00
ESG	72.68	72.69	-0.01
Corporate Governance	46.55	46.56	-0.01

Source: SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

## What is R-Factor?

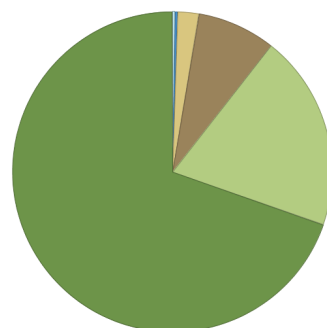
R-Factor™ is built off a transparent scoring methodology that leverages the Sustainability Accounting Standards Board (SASB) Materiality Map, corporate governance codes, and inputs from four best-in-class ESG data providers. R-Factor supports the development of sustainable capital markets by giving investors the ability to invest in solutions that integrate financially material ESG data while incentivizing companies to improve their ESG practices and disclosure in areas that matter.

Fund Coverage	Count	Percent of Total Securities	Percent of Total Market Value
R-Factor Securities Coverage	439	99.55%	99.76%
Total Number of Securities in Portfolio	441		

Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

## Fund R-Factor Profile

Not Available	0.24%
Laggard	0.31%
Underperformer	2.12%
Average Performer	7.94%
Outperformer	19.74%
Leader	69.66%



Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

The R-Factor summary reflects certain ESG characteristics only, and does not reflect the portfolio's performance. Certain instruments such as cash & derivatives are excluded. ESG analytics data reported on a one month lag relative to monthly performance reporting period. Please see Important Information section for more information and definitions of the ESG Metrics presented.

Top 10 Positions	Fund Weight	Benchmark Weight	Difference	R-Factor Rating
Nestle S.A.	4.40%	4.38%	0.02%	89.05
Roche Holding Ltd	3.27%	3.24%	0.02%	70.99
ASML Holding NV	2.60%	2.60%	0.00%	74.60
LVHM Moet Hennessy Louis...	2.09%	2.08%	0.00%	75.46
SAP SE	1.96%	1.97%	-0.01%	76.07
Novo Nordisk A/S Class B	1.51%	1.52%	0.00%	75.42
Siemens AG	1.46%	1.47%	-0.01%	76.86
Total SE	1.41%	1.40%	0.01%	78.03
Sanofi	1.40%	1.40%	0.00%	80.22
Allianz SE	1.36%	1.37%	-0.01%	79.71

Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

## Top 5 R-Factor Ratings

Covivio SA	0.06%	0.06%	0.00%	94.69
Henkel AG & Co. KGaA	0.13%	0.13%	0.00%	94.10
Henkel AG & Co. KGaA Pref	0.26%	0.26%	0.00%	94.10
Schneider Electric SE	1.01%	1.02%	-0.01%	92.28
adidas AG	0.94%	0.94%	0.01%	91.57

Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

## Bottom 5 R-Factor Ratings

EXOR N.V.	0.11%	0.11%	0.00%	26.60
PSP Swiss Property AG	0.08%	0.08%	0.00%	29.08
Sofina SA	0.07%	0.07%	0.00%	29.88
Dino Polska S.A.	0.05%	0.05%	0.00%	30.08
BANK POLSKA KASA OPIE...	0.03%	0.03%	0.00%	31.47

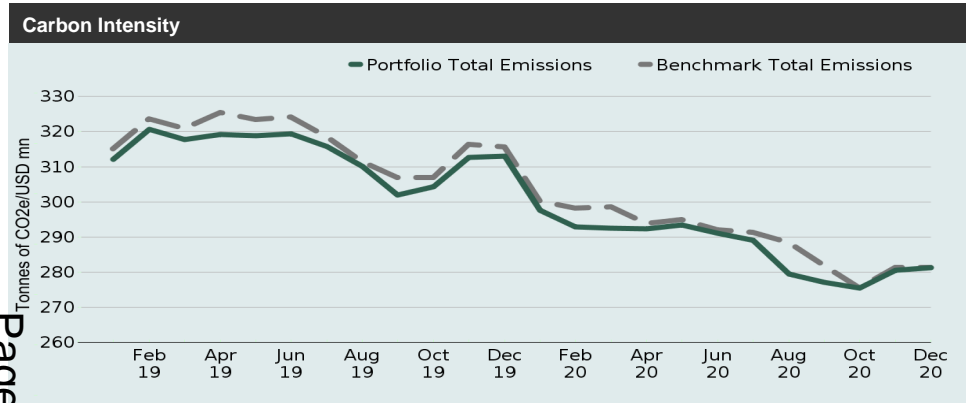
Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

# Climate Profile

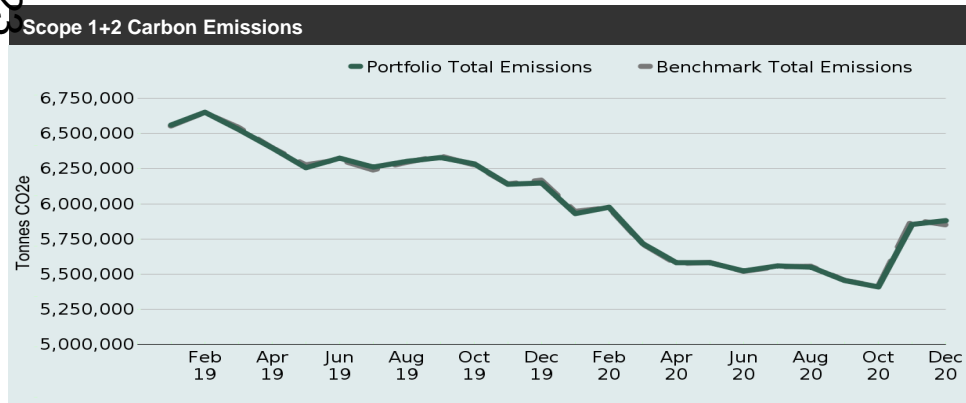
As of 31 Dec 2020

Europe ex UK ESG Screened Index Equity Sub-Fund

Benchmark: FTSE DEVELOPED EUROPE EX UK EX CONTROVERSIES EX CW INDEX

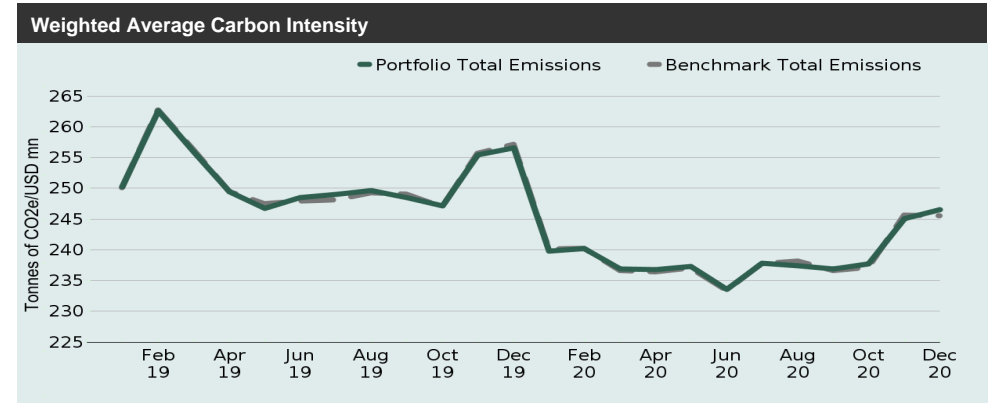


Source: SSGA Holdings as of 31 Dec 2020. Trucost data as of 30 Nov 2020.

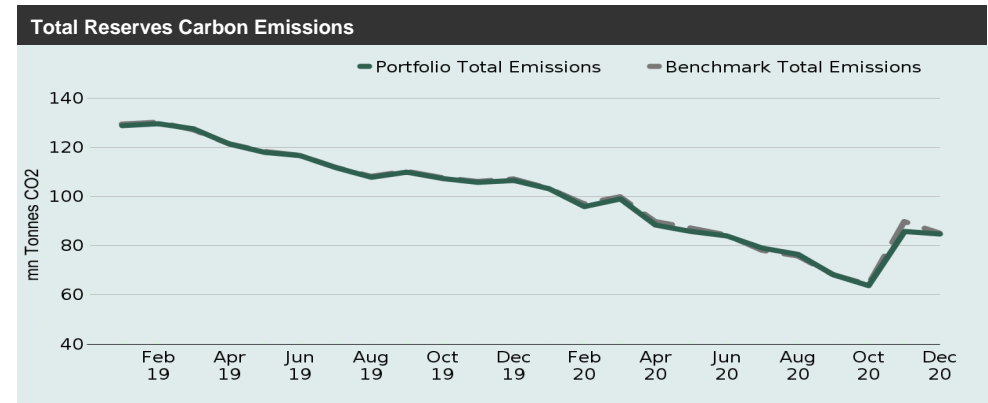


Source: SSGA Holdings as of 31 Dec 2020. Trucost data as of 30 Nov 2020.

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Source: SSGA Holdings as of 31 Dec 2020. Trucost data as of 30 Nov 2020.



Source: SSGA Holdings as of 31 Dec 2020. Trucost data as of 30 Nov 2020.

## Quarterly Investment Report - 80237

As of 31 Dec 2020

Middlesbrough Borough Council

# Stewardship Profile

As of 31 Dec 2020

Europe ex UK ESG Screened Index Equity Sub-Fund

Benchmark: FTSE DEVELOPED EUROPE EX UK EX CONTROVERSIES EX CW INDEX

Stewardship Profile	Q3 2020
Number of Meetings Voted	419
Number of Countries	16
Management Proposals	7,415
Votes for	88.81%
Votes Against	11.19%
Shareholder Proposals	173
With Management	95.38%
Against Management	4.62%

Source: SSGA as of 30 Sep 2020

Figures are based on State Street Global Advisors' general approach to voting at the companies held by the Fund at quarter end. This information is not a substitute for a proxy voting report, which can be requested through your relationship manager.

State Street Global Advisors' (SSGA) asset stewardship program is aimed at engaging with our portfolio companies on issues that impact long-term value creation across environmental, social and governance (ESG) considerations. In the recent past, SSGA has issued extensive guidance on key governance matters such as effective, independent board leadership. SSGA's current focus is on helping boards think about the possible impacts of environmental and social issues and incorporating a sustainability lens into boards' oversight of long-term strategy as a sound business practice.

Gender Diversity	
Women on Board	Number of Securities
0	11
1	32
2	62
3	76
4	95
5	71
6	49
7	28
8	7
9	7
10	1
10+	2
Not Available	0
<b>Total</b>	<b>441</b>

Source: Factset/SSGA. Holdings as of 31 Dec 2020, Factset data as of 30 Nov 2020.

# R-Factor™ Summary

As of 31 Dec 2020

## North America ESG Screened Index Equity Sub-Fund

Benchmark: FTSE NORTH AMERICA EX CONTROVERSIES EX CW INDEX

R-Factor Summary	Fund	Benchmark	Difference
R-Factor	64.14	64.14	0.00
ESG	62.64	62.65	-0.01
Corporate Governance	65.41	65.40	0.01

Source: SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

### What is R-Factor?

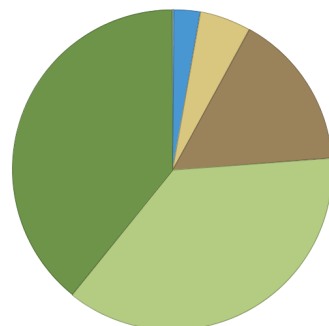
R-Factor™ is built off a transparent scoring methodology that leverages the Sustainability Accounting Standards Board (SASB) Materiality Map, corporate governance codes, and inputs from four best-in-class ESG data providers. R-Factor supports the development of sustainable capital markets by giving investors the ability to invest in solutions that integrate financially material ESG data while incentivizing companies to improve their ESG practices and disclosure in areas that matter.

Fund Coverage	Count	Percent of Total Securities	Percent of Total Market Value
R-Factor Securities Coverage	617	99.04%	99.86%
Total Number of Securities in Portfolio	623		

Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

### Fund R-Factor Profile

Not Available	0.14%
Laggard	2.66%
Underperformer	5.20%
Average Performer	15.85%
Outperformer	36.92%
Leader	39.23%



Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

The R-Factor summary reflects certain ESG characteristics only, and does not reflect the portfolio's performance. Certain instruments such as cash & derivatives are excluded. ESG analytics data reported on a one month lag relative to monthly performance reporting period. Please see Important Information section for more information and definitions of the ESG Metrics presented.

Top 10 Positions	Fund Weight	Benchmark Weight	Difference	R-Factor Rating
Apple Inc.	6.45%	6.45%	0.00%	85.74
Microsoft Corporation	5.01%	5.02%	0.00%	74.29
Amazon.com Inc.	4.16%	4.16%	0.00%	64.25
Facebook Inc. Class A	1.98%	1.98%	0.00%	59.36
Tesla Inc	1.61%	1.61%	0.00%	63.32
Alphabet Inc. Class A	1.57%	1.59%	-0.01%	59.12
Alphabet Inc. Class C	1.55%	1.53%	0.02%	59.12
JPMorgan Chase & Co.	1.16%	1.16%	0.00%	74.79
Visa Inc. Class A	1.11%	1.11%	0.00%	70.96
Procter & Gamble Company	1.02%	1.02%	0.00%	71.21

Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

### Top 5 R-Factor Ratings

HP Inc.	0.11%	0.10%	0.00%	100.00
Cisco Systems Inc.	0.57%	0.57%	0.00%	97.17
Host Hotels & Resorts Inc.	0.03%	0.03%	0.00%	90.68
Apple Inc.	6.45%	6.45%	0.00%	85.74
Accenture Plc Class A	0.50%	0.50%	0.00%	85.12

Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

### Bottom 5 R-Factor Ratings

Lennar Corporation Class A	0.06%	0.06%	0.00%	4.62
Lennar Corporation Class B	0.00%	0.00%	0.00%	4.62
Live Nation Entertainment In...	0.03%	0.03%	0.00%	8.09
D.R. Horton Inc.	0.07%	0.07%	0.00%	11.33
Constellation Software Inc.	0.07%	0.07%	0.00%	14.04

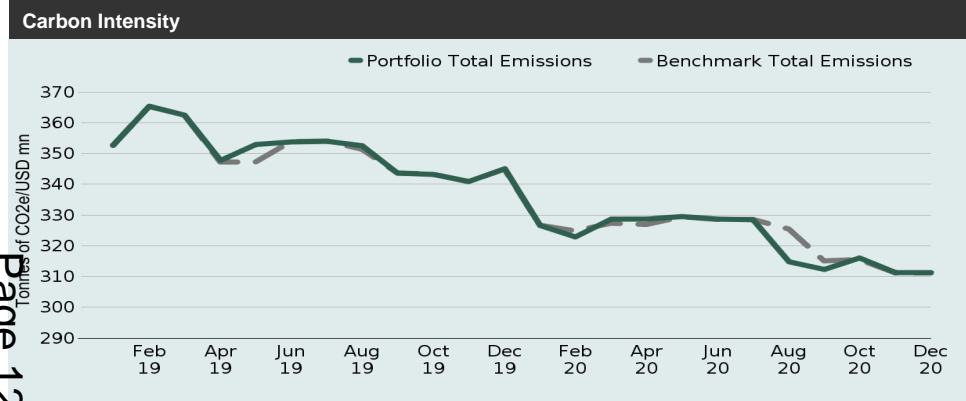
Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

# Climate Profile

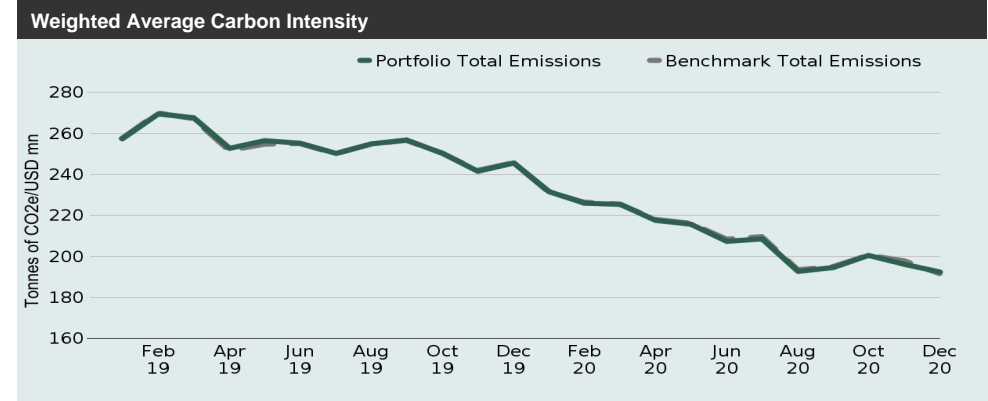
As of 31 Dec 2020

North America ESG Screened Index Equity Sub-Fund

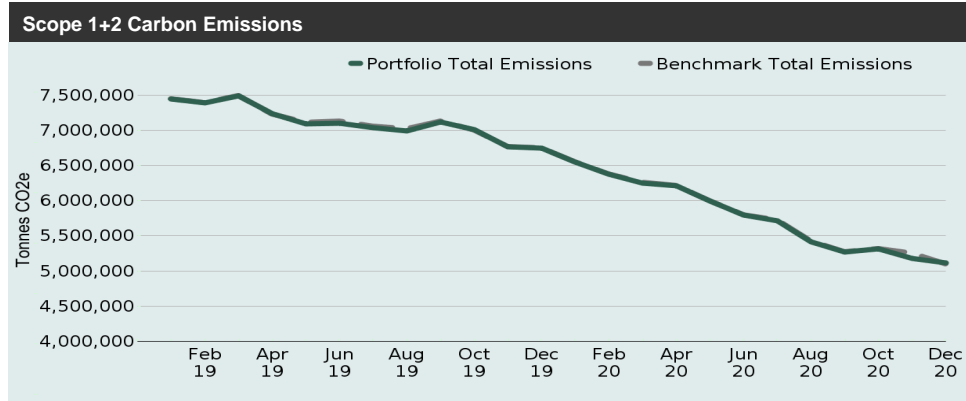
Benchmark: FTSE NORTH AMERICA EX CONTROVERSIES EX CW INDEX



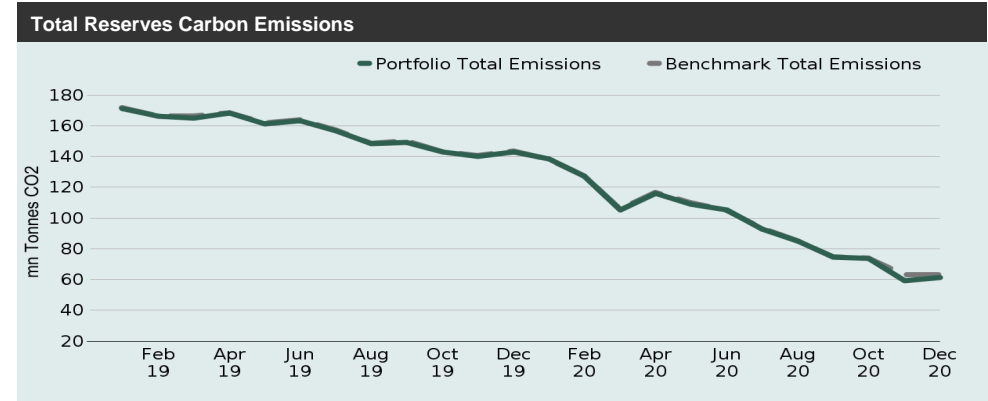
Source: SSGA Holdings as of 31 Dec 2020. Trucost data as of 30 Nov 2020.



Source: SSGA Holdings as of 31 Dec 2020. Trucost data as of 30 Nov 2020.



Source: SSGA Holdings as of 31 Dec 2020. Trucost data as of 30 Nov 2020.



Source: SSGA Holdings as of 31 Dec 2020. Trucost data as of 30 Nov 2020.

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# Stewardship Profile

As of 31 Dec 2020

North America ESG Screened Index Equity Sub-Fund

Benchmark: FTSE NORTH AMERICA EX CONTROVERSIES EX CW INDEX

Stewardship Profile	Q3 2020
Number of Meetings Voted	558
Number of Countries	15
Management Proposals	6,627
Votes for	91.16%
Votes Against	8.84%
Shareholder Proposals	349
With Management	72.78%
Against Management	27.22%

Source: SSGA as of 30 Sep 2020

Figures are based on State Street Global Advisors' general approach to voting at the companies held by the Fund at quarter end. This information is not a substitute for a proxy voting report, which can be requested through your relationship manager.

State Street Global Advisors' (SSGA) asset stewardship program is aimed at engaging with our portfolio companies on issues that impact long-term value creation across environmental, social and governance (ESG) considerations. In the recent past, SSGA has issued extensive guidance on key governance matters such as effective, independent board leadership. SSGA's current focus is on helping boards think about the possible impacts of environmental and social issues and incorporating a sustainability lens into boards' oversight of long-term strategy as a sound business practice.

Gender Diversity	
Women on Board	Number of Securities
0	1
1	42
2	152
3	214
4	134
5	53
6	18
7	3
8	2
9	0
10	0
10+	0
Not Available	4
<b>Total</b>	<b>623</b>

Source: Factset/SSGA. Holdings as of 31 Dec 2020, Factset data as of 30 Nov 2020.

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# R-Factor™ Summary

As of 31 Dec 2020

## Japan ESG Screened Index Equity Sub-Fund

Benchmark: FTSE JAPAN EX CONTROVERSIES EX CW INDEX

R-Factor Summary	Fund	Benchmark	Difference
R-Factor	60.18	60.18	0.00
ESG	58.63	58.63	0.00
Corporate Governance	65.55	65.56	-0.01

Source: SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

### What is R-Factor?

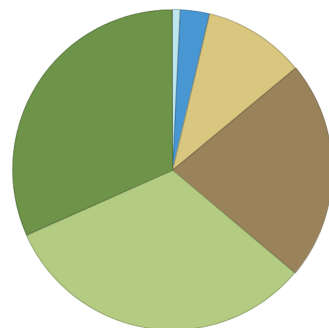
R-Factor™ is built off a transparent scoring methodology that leverages the Sustainability Accounting Standards Board (SASB) Materiality Map, corporate governance codes, and inputs from four best-in-class ESG data providers. R-Factor supports the development of sustainable capital markets by giving investors the ability to invest in solutions that integrate financially material ESG data while incentivizing companies to improve their ESG practices and disclosure in areas that matter.

Fund Coverage	Count	Percent of Total Securities	Percent of Total Market Value
R-Factor Securities Coverage	487	95.30%	99.21%
Total Number of Securities in Portfolio	511		

Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

### Fund R-Factor Profile

Not Available	0.79%
Laggard	2.94%
Underperformer	10.32%
Average Performer	22.06%
Outperformer	32.17%
Leader	31.72%



Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

The R-Factor summary reflects certain ESG characteristics only, and does not reflect the portfolio's performance. Certain instruments such as cash & derivatives are excluded. ESG analytics data reported on a one month lag relative to monthly performance reporting period. Please see Important Information section for more information and definitions of the ESG Metrics presented.

Top 10 Positions	Fund Weight	Benchmark Weight	Difference	R-Factor Rating
Toyota Motor Corp.	4.33%	4.34%	-0.01%	69.08
Sony Corporation	2.82%	2.81%	0.01%	82.36
SoftBank Group Corp.	2.60%	2.60%	0.01%	55.71
Keyence Corporation	2.32%	2.31%	0.00%	41.01
Shin-Etsu Chemical Co Ltd	1.60%	1.59%	0.02%	58.36
Nintendo Co. Ltd.	1.55%	1.55%	0.00%	59.99
Daiichi Sankyo Company Li...	1.49%	1.49%	0.00%	70.04
DAIKIN INDUSTRIES LTD.	1.35%	1.35%	0.00%	70.69
Nidec Corporation	1.32%	1.33%	-0.01%	65.44
Recruit Holdings Co. Ltd.	1.29%	1.29%	0.00%	68.90

Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

### Top 5 R-Factor Ratings

Konica Minolta Inc.	0.04%	0.04%	0.00%	88.67
Kao Corp.	0.82%	0.83%	-0.01%	84.47
Sony Corporation	2.82%	2.81%	0.01%	82.36
TOTO Ltd	0.21%	0.20%	0.01%	79.96
Daido Steel Co. Ltd.	0.04%	0.03%	0.01%	79.43

Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

### Bottom 5 R-Factor Ratings

Relo Group Inc.	0.06%	0.06%	0.00%	0.00
SHO BOND Holdings Co. Lt...	0.05%	0.05%	0.00%	6.90
Sanrio Company Ltd.	0.02%	0.02%	0.00%	10.08
SHIMAMURA Co. Ltd.	0.05%	0.05%	0.00%	11.69
Iida Group Holdings Co. Ltd.	0.07%	0.07%	0.00%	12.19

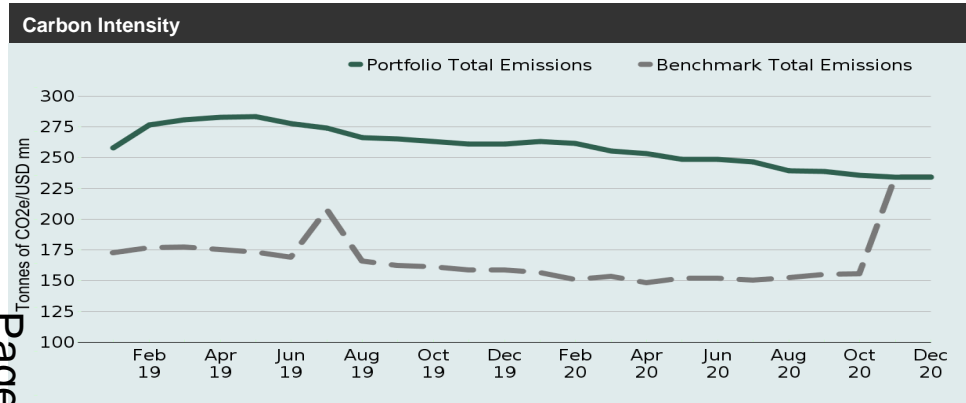
Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

# Climate Profile

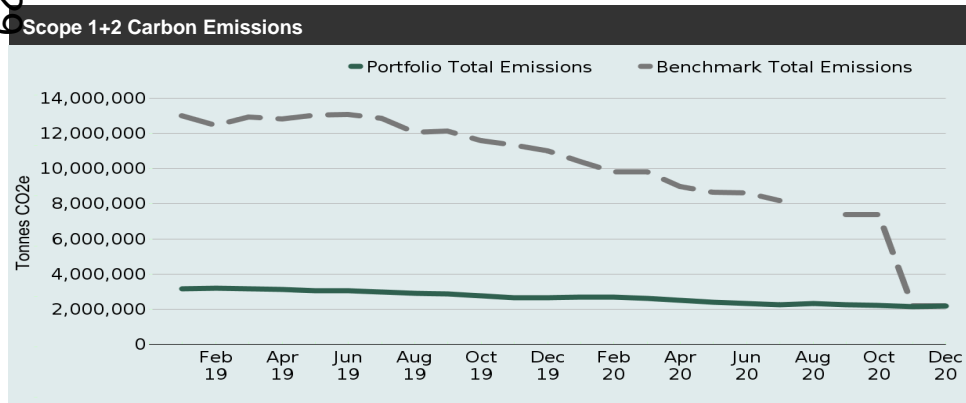
As of 31 Dec 2020

Japan ESG Screened Index Equity Sub-Fund

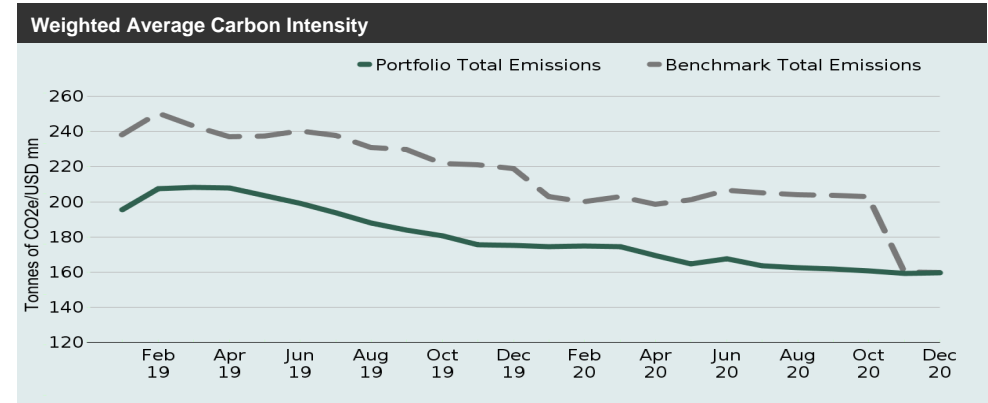
Benchmark: FTSE JAPAN EX CONTROVERSIES EX CW INDEX



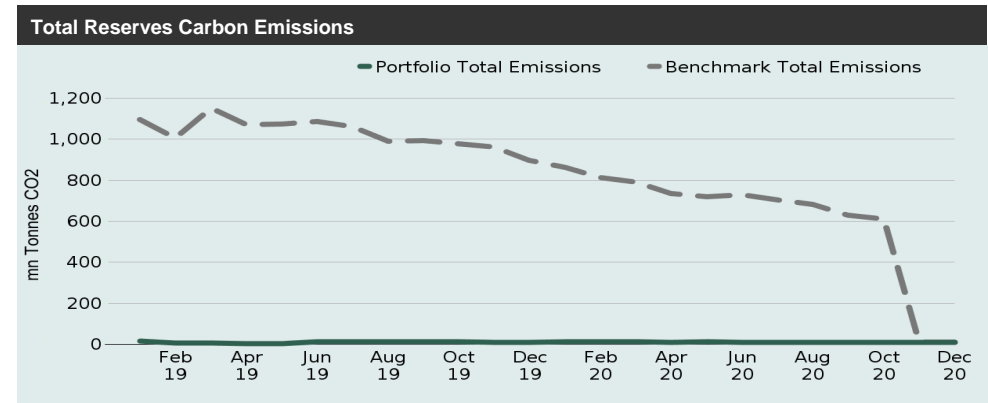
Source: SSGA Holdings as of 31 Dec 2020. Trucost data as of 30 Nov 2020.



Source: SSGA Holdings as of 31 Dec 2020. Trucost data as of 30 Nov 2020.



Source: SSGA Holdings as of 31 Dec 2020. Trucost data as of 30 Nov 2020.



Source: SSGA Holdings as of 31 Dec 2020. Trucost data as of 30 Nov 2020.

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## Quarterly Investment Report - 80237

As of 31 Dec 2020

Middlesbrough Borough Council

# Stewardship Profile

Japan ESG Screened Index Equity Sub-Fund

Benchmark: FTSE JAPAN EX CONTROVERSIES EX CW INDEX

Stewardship Profile	Q3 2020
Number of Meetings Voted	459
Number of Countries	1
Management Proposals	5,501
Votes for	91.38%
Votes Against	8.62%
Shareholder Proposals	122
With Management	92.62%
Against Management	7.38%

Source: SSGA as of 30 Sep 2020

Figures are based on State Street Global Advisors' general approach to voting at the companies held by the Fund at quarter end. This information is not a substitute for a proxy voting report, which can be requested through your relationship manager.

State Street Global Advisors' (SSGA) asset stewardship program is aimed at engaging with our portfolio companies on issues that impact long-term value creation across environmental, social and governance (ESG) considerations. In the recent past, SSGA has issued extensive guidance on key governance matters such as effective, independent board leadership. SSGA's current focus is on helping boards think about the possible impacts of environmental and social issues and incorporating a sustainability lens into boards' oversight of long-term strategy as a sound business practice.

As of 31 Dec 2020

Gender Diversity	
Women on Board	Number of Securities
0	197
1	226
2	73
3	13
4	1
5	1
6	0
7	0
8	0
9	0
10	0
10+	0
Not Available	0
<b>Total</b>	<b>511</b>

Source: Factset/SSGA. Holdings as of 31 Dec 2020, Factset data as of 30 Nov 2020.

# R-Factor™ Summary

As of 31 Dec 2020

Asia Pacific ex Japan ESG Screened Index Equity Sub-Fund

Benchmark: FTSE DEVELOPED ASIA PACIFIC EX JAPAN EX CONTROVERSIES EX CW INDEX

R-Factor Summary	Fund	Benchmark	Difference
R-Factor	61.43	61.45	-0.02
ESG	61.50	61.51	-0.01
Corporate Governance	51.06	51.09	-0.03

Source: SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

### What is R-Factor?

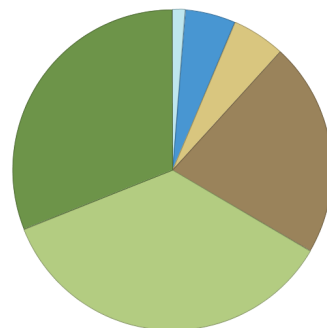
R-Factor™ is built off a transparent scoring methodology that leverages the Sustainability Accounting Standards Board (SASB) Materiality Map, corporate governance codes, and inputs from four best-in-class ESG data providers. R-Factor supports the development of sustainable capital markets by giving investors the ability to invest in solutions that integrate financially material ESG data while incentivizing companies to improve their ESG practices and disclosure in areas that matter.

Fund Coverage	Count	Percent of Total Securities	Percent of Total Market Value
R-Factor Securities Coverage	365	95.30%	98.67%
Total Number of Securities in Portfolio	383		

Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

### Fund R-Factor Profile

Not Available	1.33%
Laggard	5.10%
Underperformer	5.38%
Average Performer	21.61%
Outperformer	35.55%
Leader	31.03%



Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

The R-Factor summary reflects certain ESG characteristics only, and does not reflect the portfolio's performance. Certain instruments such as cash & derivatives are excluded. ESG analytics data reported on a one month lag relative to monthly performance reporting period. Please see Important Information section for more information and definitions of the ESG Metrics presented.

Top 10 Positions	Fund Weight	Benchmark Weight	Difference	R-Factor Rating
Samsung Electronics Co. Lt...	11.60%	11.62%	-0.02%	80.68
AIA Group Limited	4.91%	4.92%	-0.01%	70.17
Commonwealth Bank of Aus...	3.72%	3.71%	0.01%	69.15
CSL Limited	3.28%	3.27%	0.01%	65.13
Hong Kong Exchanges & Cl...	2.30%	2.31%	0.00%	67.94
National Australia Bank Limi...	1.90%	1.90%	0.01%	68.92
SK hynix Inc	1.86%	1.87%	0.00%	67.51
Samsung Electronics Co Ltd...	1.85%	1.85%	0.00%	80.68
Westpac Banking Corporati...	1.79%	1.78%	0.00%	68.10
Australia and New Zealand...	1.65%	1.64%	0.00%	71.70

Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

### Top 5 R-Factor Ratings

Dexus	0.26%	0.26%	0.00%	95.38
GPT Group	0.22%	0.22%	0.00%	93.10
Stockland	0.26%	0.25%	0.00%	82.55
COWAY Co. Ltd.	0.12%	0.12%	0.00%	82.48
Lenovo Group Limited	0.23%	0.23%	0.00%	81.60

Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

### Bottom 5 R-Factor Ratings

KOREA INVESTMENT HOLD...	0.09%	0.09%	0.00%	0.00
GS Retail Co. Ltd.	0.03%	0.03%	0.00%	9.84
HOTEL SHILLA CO. LTD.	0.08%	0.08%	0.00%	10.31
Hanssem Co. Ltd	0.03%	0.03%	0.00%	11.52
LS Corp.	0.04%	0.04%	0.00%	13.19

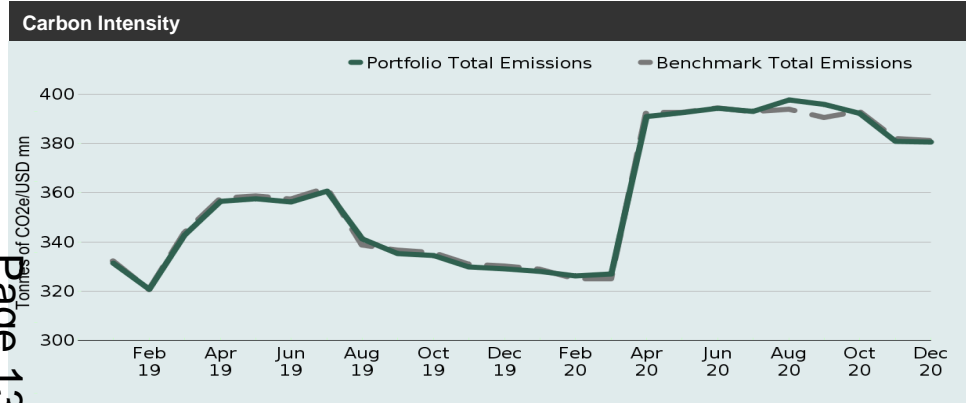
Source: Factset/SSGA. Holdings as of 31 Dec 2020, R-Factor data as of 30 Nov 2020.

# Climate Profile

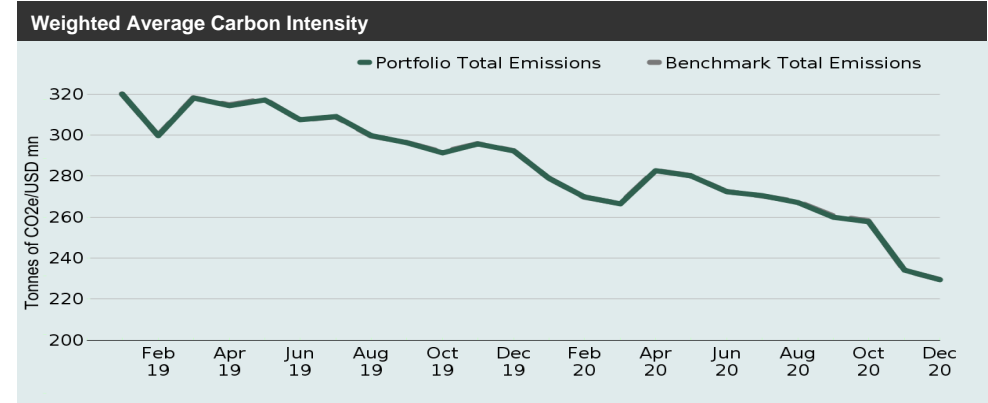
As of 31 Dec 2020

Asia Pacific ex Japan ESG Screened Index Equity Sub-Fund

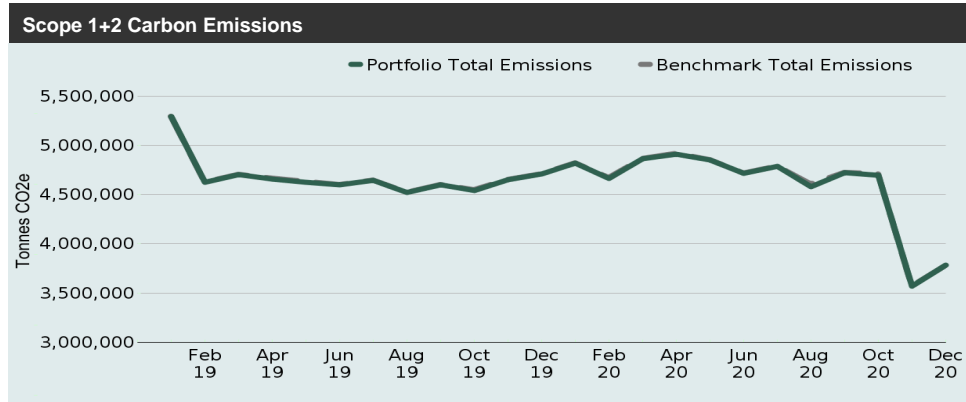
Benchmark: FTSE DEVELOPED ASIA PACIFIC EX JAPAN EX CONTROVERSIES EX CW INDEX



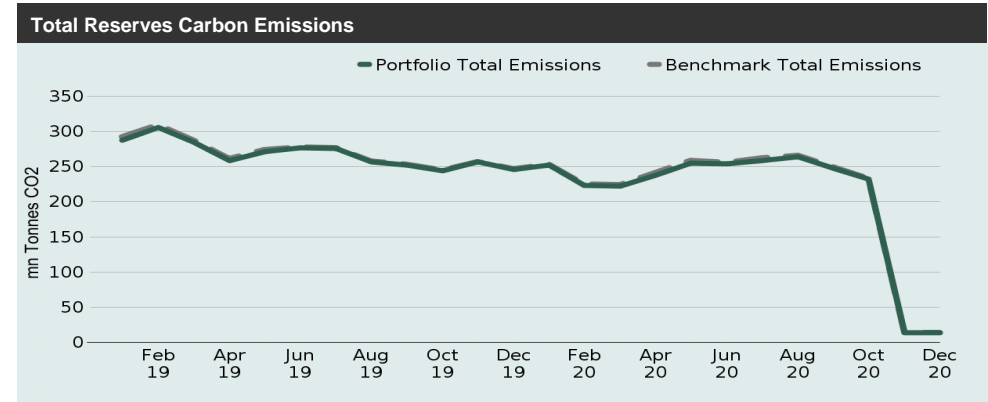
Source: SSGA Holdings as of 31 Dec 2020. Trucost data as of 30 Nov 2020.



Source: SSGA Holdings as of 31 Dec 2020. Trucost data as of 30 Nov 2020.



Source: SSGA Holdings as of 31 Dec 2020. Trucost data as of 30 Nov 2020.



Source: SSGA Holdings as of 31 Dec 2020. Trucost data as of 30 Nov 2020.

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# Stewardship Profile

As of 31 Dec 2020

Asia Pacific ex Japan ESG Screened Index Equity Sub-Fund

Benchmark: FTSE DEVELOPED ASIA PACIFIC EX JAPAN EX CONTROVERSIES EX CW INDEX

Stewardship Profile	Q3 2020
Number of Meetings Voted	273
Number of Countries	12
Management Proposals	1,940
Votes for	83.87%
Votes Against	16.13%
Shareholder Proposals	42
With Management	85.71%
Against Management	14.29%

Source: SSGA as of 30 Sep 2020

Figures are based on State Street Global Advisors' general approach to voting at the companies held by the Fund at quarter end. This information is not a substitute for a proxy voting report, which can be requested through your relationship manager.

State Street Global Advisors' (SSGA) asset stewardship program is aimed at engaging with our portfolio companies on issues that impact long-term value creation across environmental, social and governance (ESG) considerations. In the recent past, SSGA has issued extensive guidance on key governance matters such as effective, independent board leadership. SSGA's current focus is on helping boards think about the possible impacts of environmental and social issues and incorporating a sustainability lens into boards' oversight of long-term strategy as a sound business practice.

Gender Diversity	
Women on Board	Number of Securities
0	122
1	79
2	79
3	69
4	26
5	4
6	0
7	0
8	0
9	1
10	0
10+	0
Not Available	3
<b>Total</b>	<b>383</b>

Source: Factset/SSGA. Holdings as of 31 Dec 2020, Factset data as of 30 Nov 2020.

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## Important Information

- R-Factor™ is an ESG scoring system that leverages commonly accepted materiality frameworks to generate a unique ESG score for listed companies. The score is powered by ESG data from four different providers in an effort to improve overall coverage and remove biases inherent in existing scoring methodologies. R-Factor™ is designed to put companies in the driver's seat to help create sustainable markets.
- R-Factor™ Scores are comparable across industries. The ESG and Corporate Governance (CorpGov) scores are designed to be based on issues that are material to a company's industry and regulatory region. A uniform grading scale allows for interpretation of the final company level score to allow for comparison across companies.
- Responsible-Factor (R Factor) scoring is designed by State Street to reflect certain ESG characteristics and does not represent investment performance. Results generated out of the scoring model is based on sustainability and corporate governance dimensions of a scored entity.
- The returns on a portfolio of securities which exclude companies that do not meet the portfolio's specified ESG criteria may trail the returns on a portfolio of securities which include such companies. A portfolio's ESG criteria may result in the portfolio investing in industry sectors or securities which underperform the market as a whole.
- The R-Factor™ scoring process comprises two underlying components. The first component is based on the framework published by the Sustainability Accounting Standards Board ("SASB"), which is used for all ESG aspects of the score other than those relating to corporate governance issues. The SASB framework attempts to identify ESG risks that are financially material to the issuer-based on its industry classification. This component of the R-Factor™ score is determined using only those metrics from the ESG data providers that specifically address ESG risks identified by the SASB framework as being financially material to the issuer-based on its industry classification.
- The second component of the score, the CorpGov score, is generated using region-specific corporate governance codes developed by investors or regulators. The governance codes describe minimum corporate governance expectations of a particular region and typically address topics such as shareholder rights, board independence and executive compensation. This component of the R-Factor™ uses data provided by ISS Governance to assign a governance score to issuers according to these governance codes.
- Within each industry group, issuers are classified into five distinct ESG performance groups based on which percentile their R-Factor™ scores fall into. A company is classified in one of the five ESG performance classes (Laggard - 10% of universe, Underperformer - 20% of universe, Average Performer - 40% of universe, Outperformer - 20% of universe or Leader - 10% of universe) by comparing the company's R-Factor™ score against a band. R-Factor™ scores are normally distributed using normalized ratings on a 0-100 rating scale.
- Discrepancy between the number of holdings in the R-Factor™ Summary versus the number of holdings in the regular reporting package may arise as the R-Factor™ Summary is counted based on number of issuers rather than number of holdings in the portfolio.
- For examples of public language regarding R-Factor see the ELR Registration Statement here: <https://www.sec.gov/Archives/edgar/data/1107414/000119312519192334/d774617d497.html>
- Carbon Intensity - Measured in Metric tons CO2e/USD millions revenues. The aggregation of operational and first-tier supply chain carbon footprints of index constituents per USD (equal weighted).
- Weighted Average Carbon Intensity - Measured in Metric tons CO2e/USD millions revenues. The weighted average of individual company intensities (operational and first-tier supply chain emissions over



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Middlesbrough Borough Council

revenues), weighted by the proportion of each constituent in the index.

- Scope 1+2 Carbon Emissions- Measured in Metric Tons of CO<sub>2</sub>e. The GHG emissions from operations that are owned or controlled by the company, as well as GHG emissions from consumption of purchased electricity, heat or steam, by the company
- Total Reserves CO<sub>2</sub> Emissions - Measured in Metric tons of CO<sub>2</sub>. The carbon footprint that could be generated if the proven and probable fossil fuel reserves owned by index constituents were burned per USD million invested. Unlike carbon intensity and carbon emissions, the S&P Trucost Total Reserves Emissions metric is a very specific indicator that is only applicable to a very selected number of companies in extractive and carbon-intensive industries. Those companies are assigned Total Reserves Emissions numerical results by Trucost, whereas the rest of the holdings in other industries do not have numerical scores and are instead displaying "null", blank values. In order to present a more comprehensive overview of a portfolio's overall weighted average fossil fuel reserves, State Street Global Advisors replaces blank results with "zeros". While that might slightly underestimate the final weighted average volume, it provides a more realistic result, given that most companies in global indices have no ownership of fossil fuel reserves.
- We are currently using FactSet's own "People" dataset to disclose the number of women on the board, for each company in the Fund's portfolio.
- Data and metrics have been sourced as follows from the following contributors as of the date of this report, and are subject to their disclosures below. All other data has been sourced by SSGA.
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- All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.
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- State Street Global Advisors Limited is authorised and regulated by the Financial Conduct Authority.
- Registered Number: 4486031 England.

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- This report is prepared solely for the use of the named client and should not be used by any other party.
- All data sourced by State Street Global Advisors Limited unless stated otherwise.
- All valuations are based on Trade Date accounting.
- Performance figures are calculated 'Gross of Fees' unless otherwise stated.
- Returns are annualised for periods greater than one year.
- Returns are calculated using the accrual accounting method.
- Performance figures are calculated by the Modified Dietz method or by the True Time-Weighted return method.
- Past performance is not necessarily indicative of future investment performance.
- Performance returns greater than one year are calculated using a daily annualisation formula. Returns for the same time period based on other formulas, such as monthly annualisation, may produce different results.
- The account summary page details the opening balance at the start of the reporting period which is the equivalent of the closing balance of the previous reporting period.
- If you are invested into any pooled fund or common trust fund, it may use over-the-counter swaps, derivatives or a synthetic instrument (collectively "Derivatives") to increase or decrease exposure in a particular market, asset class or sector to effectuate the fund's strategy. Derivatives agreements are privately negotiated agreements between the fund and the counterparty, rather than an exchange, and therefore Derivatives carry risks related to counterparty creditworthiness, settlement default and market conditions. Derivatives agreements can require that the fund post collateral to the counterparty consistent with the mark-to-market price of the Derivative. SSGA makes no representations or assurances that the Derivative will perform as intended.
- If you are invested in an SSGA commingled fund or common trust fund that participates in State Street's securities lending program (each a "lending fund"), the Fund participates in an agency securities lending program sponsored by State Street Bank and Trust Company (the "lending agent") whereby the lending agent may lend up to 100% of the Fund's securities, and invest the collateral posted by the borrowers of those loaned securities in collateral reinvestment funds (the "Collateral Pools"). The Collateral Pools are not registered money market funds and are not guaranteed investments. The Fund compensates its lending agent in connection with operating and maintaining the securities lending program. SSGA acts as investment manager for the Collateral Pools and is compensated for its services. The Collateral Pools are managed to a specific investment objective as set forth in the governing documents for the Collateral Pools. For more information regarding the Collateral Pool refer to the "US Cash Collateral Strategy Disclosure Document." Securities lending programs and the subsequent reinvestment of the posted collateral are subject to a number of risks, including the risk that the value of the investments held in the Collateral Pool may decline in value, be sold at a loss or incur credit losses. The net asset value of the Collateral Pool is subject to market conditions and will fluctuate and may decrease in the future. More information on the securities lending program and on the Collateral Pools, including the "US Cash Collateral Strategy Disclosure Document" and the current mark to market unit price are available on Client's Corner and also available upon request from your SSGA Relationship Manager.
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- If you are invested in a Luxembourg sub-fund applying swing pricing (as set out in the prospectus of the SSGA Luxembourg SICAV, the "Prospectus"), performance of the fund is calculated on an unswung pricing basis, however, the fund price quoted and your mandate's return may be adjusted to take into consideration any Swing Pricing Adjustment (as defined in the Prospectus) . Please refer to the Prospectus for further information.
- The Net performance returns reflected in the Performance Summary report is from Jan 2020 reporting onwards.

# Border to Coast Pensions Partnership Ltd

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Teesside  
Pension Fund

10th March 2021

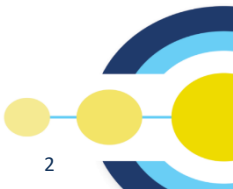


# Agenda

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- Border to Coast Update
- Equity Investments Update
  - UK Listed Equity Fund
  - Overseas Developed Markets Equity Fund
- Alternatives Investments Update
  - Private Equity
  - Infrastructure



# Border to Coast Pensions Partnership Ltd

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Border to Coast  
- Update



# Border to Coast: progress in 2020

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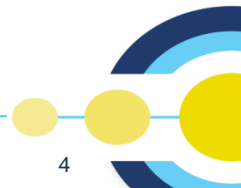
## Milestones achieved

- Saw our first co-investment, in our infrastructure fund.
- Launched two fixed income funds – the £2.5bn sterling Investment Grade Credit Fund and the £1.5bn Sterling Index-Linked Bond Fund.
- For the second year running we were named ‘Pool of the Year’ by the 2020 LAMP Investment Awards.
- At the 2020 LAMP we also won the ‘Collaboration’ award.

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## Key statistics

- Welcomes over 130 delegates at our first virtual conference.
- 58 partner Fund workshops during 2020 keeping our progress on track.
- Continued to recruit, over 20% of our colleagues have joined us during lockdown.
- The completed our first “crossing deal” which led to a saving of £3.4m for the Partner Funds involved.



# Investment Proposition Launch Timetable

	Scheduled 2020	Scheduled 2021	2022	2023 and beyond
Equities		Emerging Market Hybrid	Regional Alpha Emerging Markets Alpha	Passive/ Factor / ESG
Alternatives	Private Equity (series 1b) Infrastructure (series 1b) (etc annually)	Listed Alternatives Cashflow management	Legacy Diversified alternatives Asset Allocation	Impact Investing
Bonds	UK Investment Grade Index-Linked Gilts	Multi-Asset Credit		
Real Estate			Global Real Estate	UK Real Estate →
Other		Climate change strategy O/seas Dev equity review		Hedging →

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# Active Equity Fund Range - £15.6bn

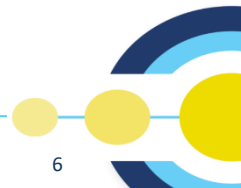
	Internal			External	
	<b>UK Listed Equity Fund</b>	<b>Overseas Developed Markets Equity Fund</b>	<b>Emerging Markets Equity Fund</b>	<b>UK Listed Equity Alpha Fund</b>	<b>Global Equity Alpha Fund</b>
<b>Approx. Size*</b>	£4.4bn	£3.4bn	£0.8bn	£1.3bn	£5.7bn
<b>Launch Date</b>	July 2018	July 2018	October 2018	December 2018	September 2019
<b>Benchmark</b>	FTSE All Share	Regional Comp	S&P Emerging	FTSE All Share	MSCI All World
<b>Target<sup>1</sup></b>	BM +1% p.a.	BM +1% p.a.	BM +1% p.a.	BM +2% p.a.	BM +2% p.a.

**Border to Coast – FCA Regulated ACS Structure**

<sup>1</sup> Measured over rolling three year periods net of costs.

Future forecasts are for illustration purposes only and are not a reliable indicator of future performance.

\* As at 31/12/2020



# Fixed Income Fund Range - £4.6bn

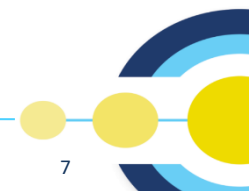
	Internal	External	
	<b>Sterling Index Linked Bond</b>	<b>Investment Grade Credit</b>	<b>Multi-Asset Credit <sup>2</sup></b>
<b>Approx. Size*</b>	£1.6bn	£3bn	£2-3bn
<b>Launch Date</b>	October 2020	March 2020	Q1 2021
<b>Benchmark</b>	FTSE A UK IL Gilts 15y	iBoxx GBP Non-Gilts	SONIA (Cash)
<b>Target<sup>1</sup></b>	BM +0.2% p.a.	BM +0.6% p.a.	BM +3 to 4% p.a.
<b>Border to Coast – FCA Regulated ACS Structure</b>			

\* As at 31/12/2020

<sup>1</sup> Measured over rolling five year periods net of costs.

<sup>2</sup> Includes an internally managed EMD sleeve

Future forecasts are for Illustration purposes only and are not a reliable indicator of future performance.



# Alternative Fund Range

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Launched Alternative Asset Classes			Other Alternatives
Private Equity	Infrastructure	Private Credit	
<i>Investment in privately held companies</i>	<i>Real assets providing essential services</i>	<i>Lending to privately held companies</i>	
Series 1A	£500m	£675m	£580m
Series 1B	£485m	£760m	n/a
Target <sup>1</sup>	10% p.a.	8% p.a.	6% p.a.

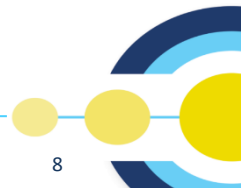
- Diversified
- Liquid
- Listed

## Border to Coast – Unregulated Collective Investment Scheme

Investments are held within an unregulated collective investment scheme which is not authorised or regulated by the Financial Conduct Authority.

<sup>1</sup> Measured over rolling three year periods net of costs.

Future forecasts are for Illustration purposes only and are not a reliable indicator of future performance.



# Teesside – Valuation & Commitments

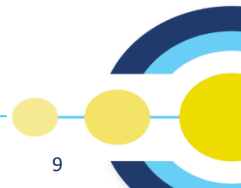
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Listed Investments	Teesside Value (as at 31/12/2020)	Total Fund Value (as at 31/12/2020)
	£	£
UK Listed Equity Fund	1,233.3m	4.4bn
Overseas Developed Markets Fund	262.1m	3.4bn

Alternative Investments	Teesside Commitment (Series 1a + 1b)	Committed by Border to Coast to Managers (*)	Total 1a + 1b Commitment (all Partner Funds)
	£	£ (% of commitment)	£
Infrastructure	150m	133.0m (89%)	1,435m
Private Equity	150m	132.7m (89%)	985m
Private Credit	---	---	581m

Source: Border to Coast. Past performance is not a reliable indicator of future performance and is not guaranteed.

(\*) As at 05/02/2021.



# Border to Coast Pensions Partnership Ltd

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UK Listed Equity Fund

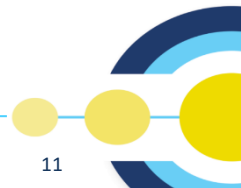


# UK Listed Equity Overview

## Q4 2020

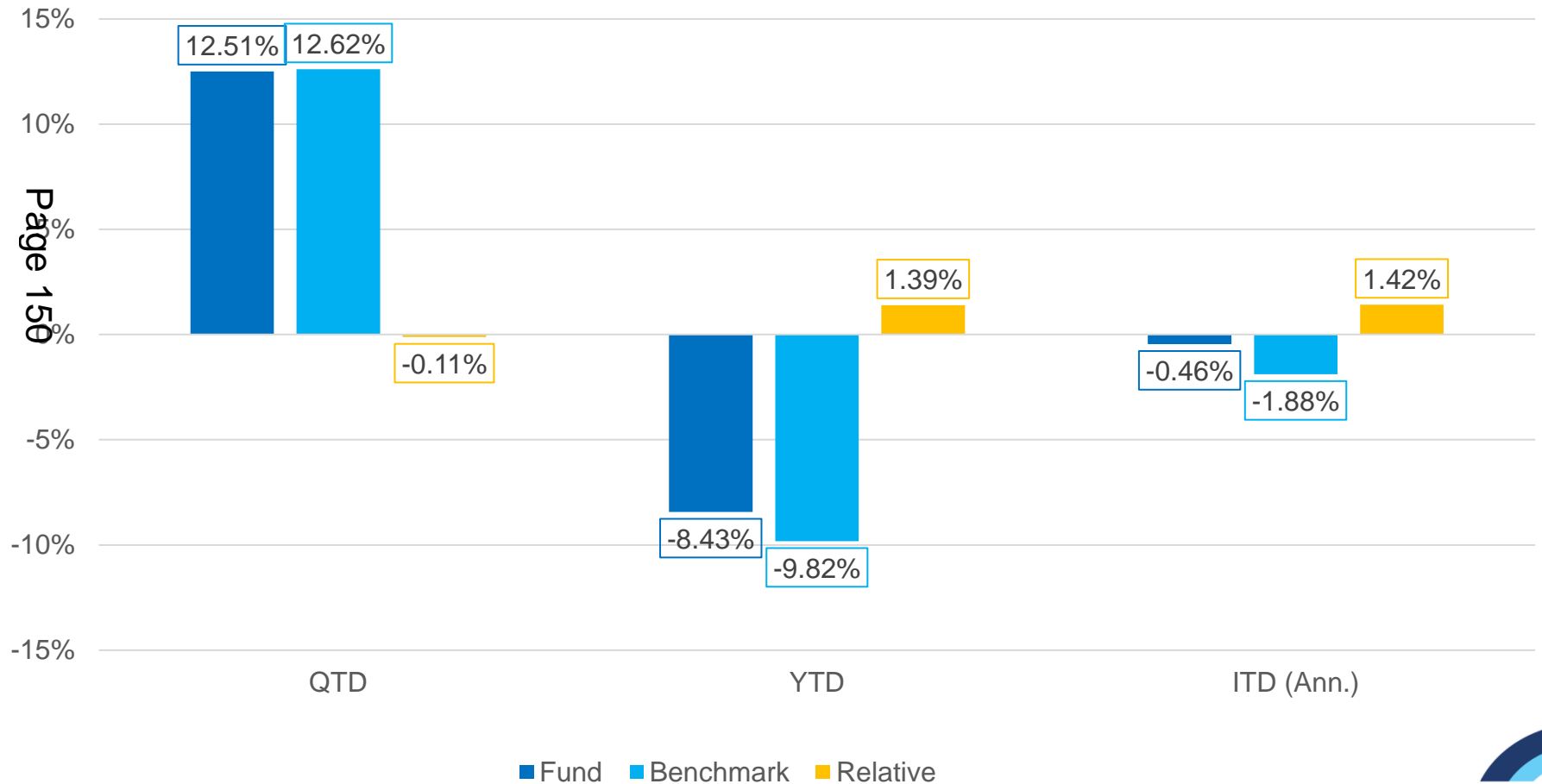
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- The UK was one of the strongest equity markets due to the delivery of a Brexit deal and positive news flow regarding vaccine development; the latter due to a combination of the recognition that the UK has been disproportionately impacted by the COVID-19 pandemic and the level of advance vaccine orders.
- The Fund was largely able to match the strong performance of the benchmark during the quarter and thus maintain the outperformance achieved in the first 9 months of the year. This has been due to the following factors:
  - Strong performance from specialist funds offering exposure to growth segments and smaller companies;
  - Strong selection and increasing exposure in both the Energy and Financials sectors, and
  - Strong stock selection in Consumer Discretionary and Communications Services.
- This was partly offset by:
  - An underweight position in smaller companies, which rebounded during the quarter;
  - Underweight to Consumer Discretionary and Communications Services sectors which have rebounded on the prospect of economic recovery, and
  - Weaker stock selection in Materials, Industrials and Healthcare.



# UK Listed Equity Fund Performance to 31<sup>st</sup> December 2020

## UK Listed Equity Fund



# UK Listed Portfolio Positioning for Q4 2020

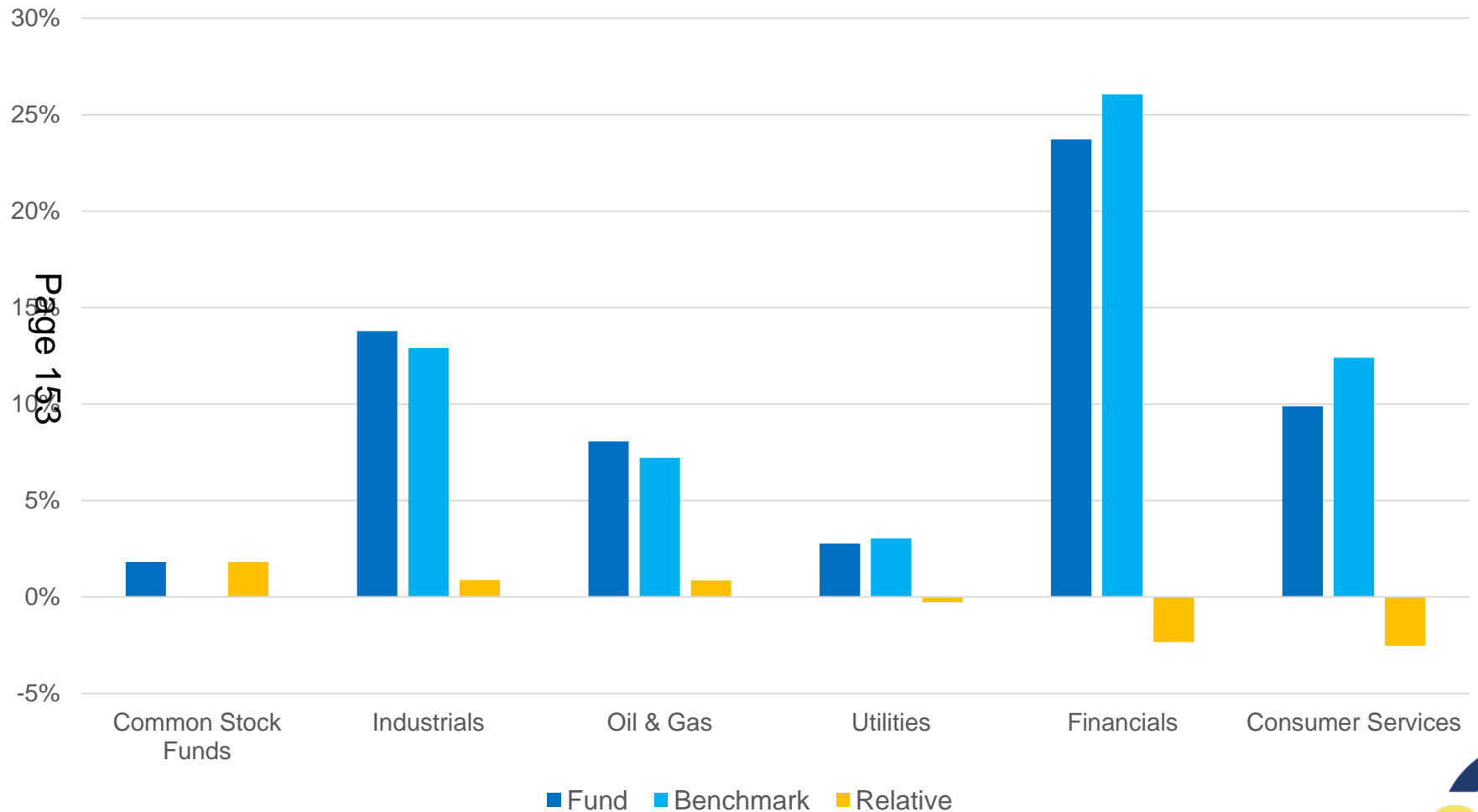
Top Five Active Positions	Top Five	Narrative
Antofagasta	1.1%	Low cost producer, long-term demand for copper, driven by electric vehicles, transition to renewable energy and Chinese infrastructure investment.
Impax Environmental	1.0%	Leading ESG focused fund delivering strong long-term outperformance, specialising in alternative energy, energy efficiency, water treatment, and waste technology.
Schroder Unit Trust	1.0%	Providing UK small-cap exposure, with a long-term track record of outperformance.
BHP	0.9%	Diversified commodity exposure and strong cash generator benefitting from low cost production, proximity to end markets and continued robust demand from China.
Liontrust UK Smaller Companies	0.9%	Specialist UK small-cap fund manager with long-term track record of outperformance.
Bottom Five Active Positions	Bottom Five	Narrative
Ocado	-0.5%	Beneficiary of UK online grocery market growth and offers a technology solution to food retailers globally; however, valuation is stretched and the company has recently received patent infringement challenge in US and UK.
Segro Plc	-0.5%	Real estate holding company focused upon logistics/industrial units across Europe; Fund has similar UK exposure through St Modwen.
Scottish Mortgage Investment Trust	-0.8%	Investment trust with a focus on global large-cap technology companies; preference for Allianz Technology Trust with a similar investment focus.
Flutter Entertainment	-0.9%	Beneficiary of the ongoing deregulation taking place in the US online and sports betting market; position established post quarter end.
Glencore	-1.2%	Ongoing corruption investigations into allegations of bribery; coal exposure higher than peers; poor ESG score relative to peer group.



# UK Listed Equity Fund Top Contributors/Detractors for Q4 2020

Contributors	Top Five	Narrative
Antofagasta (+)	0.2%	Higher copper prices, driven by robust infrastructure demand from China and Covid-19 related supply restrictions at major producers in central and southern America.
Ocado (-)	0.2%	Slowing sales growth, in part due to capacity constraints, and received a technology patent infringement challenge.
Herald Investment Trust (+)	0.1%	Benefitted from its focus on small-cap technology and media stocks, with a bias to the UK.
BlackRock Smaller Companies (+)	0.1%	Recovery in small-caps driven by the prospect of a vaccine-related reopening of the economy and a UK trade deal with the EU.
JP Morgan Smaller Companies (+)	0.1%	Recovery in small caps and narrowing of the discount to NAV.
Detractors	Bottom Five	Narrative
International Consolidated Airline (-)	-0.1%	Beneficiary of the COVID-19 vaccine announcements which open up the possibility of a return to air travel.
Natwest Group (-)	-0.1%	Loan impairments below expectations, strong capital position and mortgage volumes/pricing improving. Preference for Lloyds Bank which is seeing similar tailwinds.
Reckitt Benckiser (-)	-0.1%	Hygiene products have seen strong sales growth during pandemic but creates tough comparatives as vaccines emerge; infant nutrition in China remains challenging.
AstraZeneca (+)	-0.1%	Pharma sector weakness around the US election outcome (potential drug pricing reform) together with announcement of acquisition of US biotech company Alexion for \$39bn.
Glencore (-)	-0.3%	Robust commodity prices driven by Chinese demand although key bribery investigations remain unresolved.

# Sector Positioning – Top/Bottom Weights



# Material Trades in Q4 2020

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## Purchases

### Unilever PLC (£105.6m)

Share unification of the UK and Dutch lines led to a 120% increase in benchmark weight.



### Lloyds Bank PLC (£5.2m)

Added on valuation grounds, excess capital position and the prospect of a vaccine-led recovery in 2021 as the UK economy re-opens. Loan book impairments continue to be below expectations.



**LLOYDS BANK**

## Sales

### William Hill PLC (£24.1m)

Sold holding after the Board recommended acceptance of an all-cash bid from its US joint venture partner, Caesars Entertainment Inc.



### South32 Ltd (£9.0m)

Sold holding following the recent strong recovery in the share price and delays to the sale of the coal business in South Africa, which contributed to a poor carbon metric.



# Border to Coast Pensions Partnership Ltd

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Overseas Developed Markets  
Equity Fund



# Overseas Developed Equity Overview

## Q4 2020

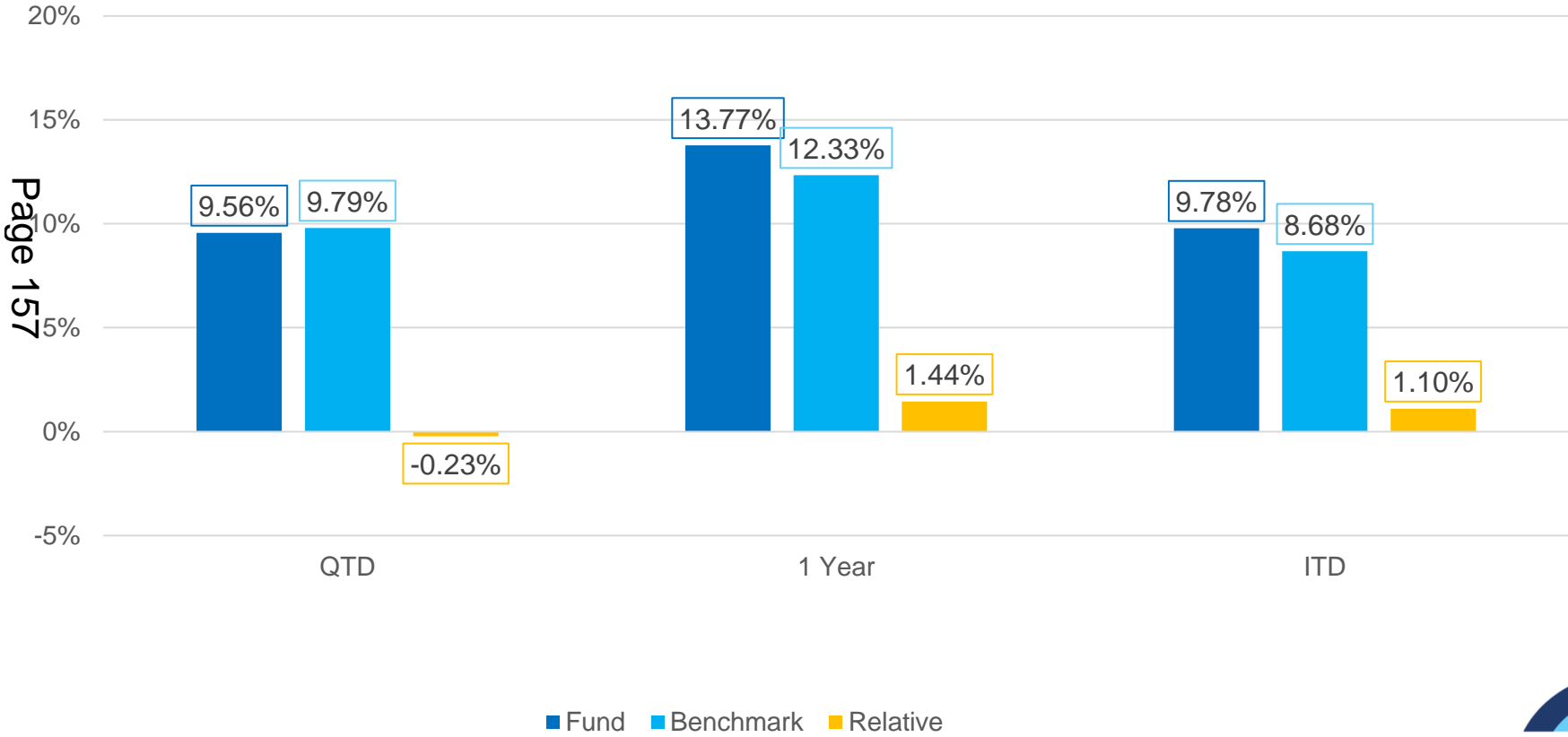
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- The Fund has continued to benefit from the recovery in equity markets, supported by extensive monetary and fiscal stimulus. Markets were buoyed by the prospect of vaccines bringing an end to the COVID-19 pandemic and carrying the prospect of an economic recovery. Markets remained firm through the quarter, despite the strength of the second wave of the pandemic impacting Europe and the US towards the end of the quarter.
- The Fund has underperformed due to the following:
  - Bias towards large-cap stocks, particularly in the US and Europe, and an underweight to smaller companies which have led the market during the quarter;
  - Weaker stock selection in Healthcare and Consumer Services, and
  - Underweight position in Financials which outperformed the broader market.
- This has been partly offset by:
  - Strong stock selection in Resources and Industrials;
  - Underweight position in Utilities which underperformed the broader market, and
  - Strong performance from Common Funds with investments in specialist growth segments and smaller companies.

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# Performance to 31<sup>st</sup> December 2020

## Overseas Equity Fund



Source: Northern Trust, Border to Coast Note: Inception date 9 July 2018.



# Top Contributors/Detractors for Q4 2020

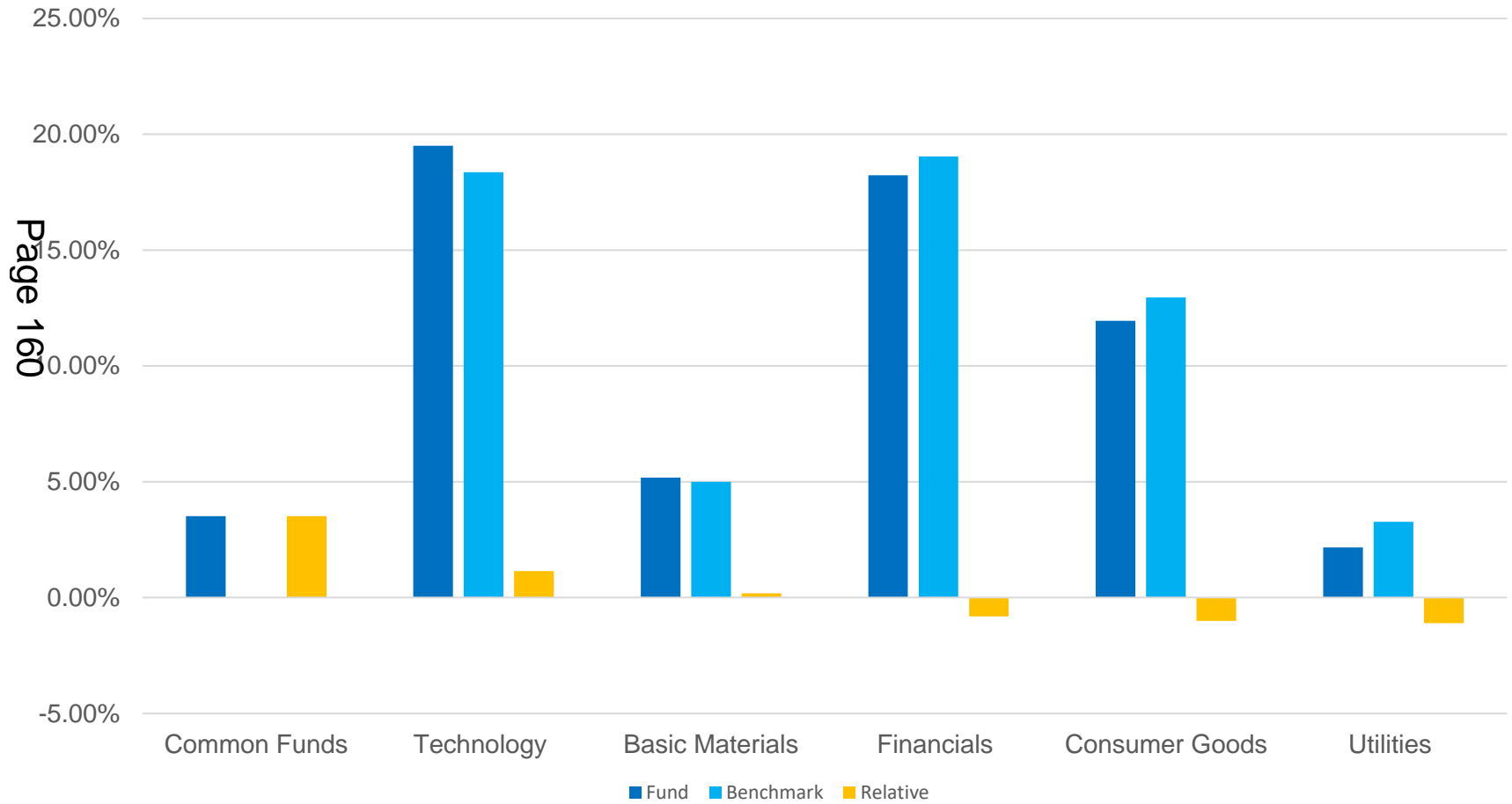
Contributors (Relative Weight)	Top Five	Narrative
<b>Samsung Electronics Ords (o/w)</b>	<b>0.15</b>	Prospects for recovery in all business segments, led by DRAM (dynamic random access memory) semiconductor chips, and potential for improved shareholder returns.
<b>Samsung SDI (o/w)</b>	<b>0.09</b>	Continued positive news flow regarding electric vehicle (EV) growth forecasts led to outperformance in the EV Battery names.
<b>Airbus (o/w)</b>	<b>0.08</b>	Beneficiary of the impact of positive vaccine developments on a recovery in air travel; aircraft deliveries were also slightly higher than expected.
<b>Xifeng Solar (o/w)</b>	<b>0.06</b>	Positive trading update and Chinese government policy supportive of industry growth prospects, leading to increased demand for solar products.
<b>Fortescue Metals (o/w)</b>	<b>0.06</b>	Strong rise in iron ore prices due to increased Chinese demand and continued supply disruptions.
Detractors (Relative Weight)	Bottom Five	Narrative
<b>Samsung Electronics Prefs (u/w)</b>	<b>-0.10</b>	Benefited from the same drivers as Samsung Electronics Ords. The Fund is overweight Samsung Electronics overall but has no exposure to the preference shares.
<b>NVIDIA Corporation (o/w)</b>	<b>-0.08</b>	Shares stalled following strong gains, strategically advantageous acquisition of Arm facing an anti-trust challenge.
<b>SAP (o/w)</b>	<b>-0.06</b>	Significant profit warning and reduced earnings guidance with expectations of higher capital expenditure as integration of recent acquisitions has not been successful.
<b>Home Depot (o/w)</b>	<b>-0.06</b>	Rotation away from companies that have benefited from pandemic disruption towards companies with greater leverage to a recovery.
<b>Dollar General (o/w)</b>	<b>-0.05</b>	Concern that record same store sales numbers will not be maintained at the current pace once the US recovers from the pandemic.

# Portfolio Positioning for Q4 2020

Top Five Active Positions	Top Five	Narrative
Vanguard US Mid Cap ETF	2.86%	Provides exposure to the smaller companies in the US index, although the portfolio retains an underweight exposure to smaller companies in aggregate.
Samsung Electronics	0.87%	Exposed to structural growth in the memory chip market; diversified earnings stream and large shareholder return potential; overweight in the ordinary shares partly offset by not owning the preference shares.
Alphabet A	0.70%	Parent company of Google; offset by not holding the C shares which results in a modest overweight exposure to Alphabet overall.
Visa Inc	0.43%	Exposed to strong drivers of the move to cashless payments and growth in cross border transactions.
JP Morgan European Smaller Companies	0.43%	Provides relatively defensive exposure to smaller companies in Europe.
Bottom Five Active Positions	Bottom Five	Narrative
Tesla	-0.68%	High valuation requires support from as yet unproven revenue streams from autonomous driving and/or shared mobility.
Alphabet C	-0.64%	Exposure in A shares aggregate to a modest overweight exposure to Alphabet overall.
Mastercard	-0.40%	Preference for Visa, the other global payment network company with similar exposure to growth trends in the payments space, on valuation grounds.
Samsung Electronics Prefs	-0.35%	Overweight Samsung Electronics overall via the more liquid Ordinary shares.
PayPal	-0.35%	Growth in payments platform and processing but exposure accessed through other portfolio holdings including Visa and FIS.



# Sector Positioning – Top/Bottom Weights



# Material Trades in Q4 2020

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## Purchases

### Banks (£9.9m)

Westpac (+£2.9m); BOC HK (+£2.5m); KB Financial (+£2.5m); and DBS (+£2.0m) – Reduced underweight in Banks in Pacific portfolio as market started to focus on the potential recovery in the sector.



## Sales

### Unilever (£17.0m)

Full disposal as company is no longer in the index following full relocation to the UK.



### Xinyi Solar (£4.5m)

Strong performance enabled the Fund to continue to take profits in this non-benchmark holding.



# Border to Coast Pensions Partnership Ltd

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Alternative Investments



# Alternative Investments - Fund Range

## Launched Alternative Asset Classes

Page 163  
Series 1A  
Series 1B  
Target<sup>1</sup>

	<b>Private Equity</b> <i>Investment in privately held companies</i>	<b>Infrastructure</b> <i>Real assets providing essential services</i>	<b>Private Credit</b> <i>Lending to privately held companies</i>
Series 1A	£500m	£675m	£580m
Series 1B	£485m	£760m	n/a
Target <sup>1</sup>	10% p.a.	8% p.a.	6% p.a.

**Border to Coast – Unregulated Collective Investment Scheme**

Investments are held within an unregulated collective investment scheme which is not authorised or regulated by the Financial Conduct Authority.

<sup>1</sup> Measured over rolling three year periods net of costs.

Future forecasts are for Illustration purposes only and are not a reliable indicator of future performance.

# Border to Coast Pensions Partnership Ltd

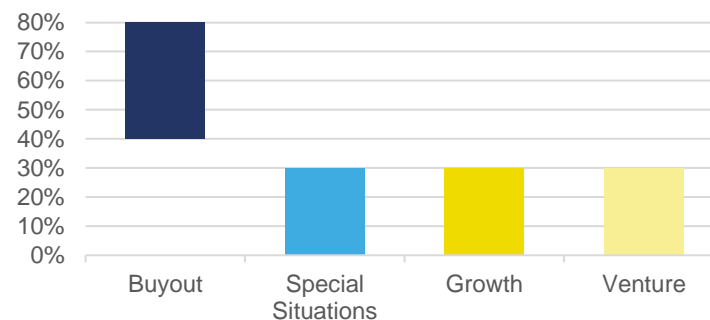
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Private Equity

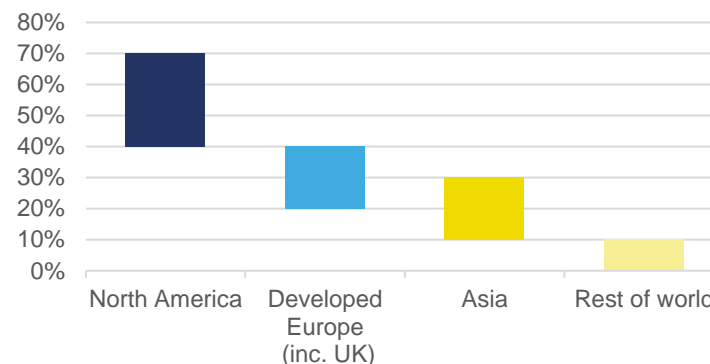


# Private Equity: Asset Allocation

Strategy	Permitted Range <sup>1</sup>
Buyout	40 – 80%
Special Situations	0 – 30%
Growth	0 – 30%
Venture	0 – 30%



Geography	Permitted Range <sup>1</sup>
North America	40 – 70%
Developed Europe (inc. UK)	20 – 40%
Asia	10 – 30%
Rest of world	0 – 10%



**Benchmark** 10% p.a. (net)<sup>2</sup>

**Series 1A Commitments** £500m  
**Series 1B Commitments** £485m

<sup>1</sup> Based on total commitments over a full Series (e.g. 1A, 1B, 1C)

<sup>2</sup> Secondary benchmark – MSCI ACWI + 3% (PME+ basis)

# Private Equity: Areas of Focus

## OPERATIONAL VALUE ADD

Deliver enhanced returns through operational improvements rather than being reliant on leverage.

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## BUY AND BUILD

Adding value through building a platform and taking advantage of higher multiples for scale businesses.

## MID-MARKET FOCUS

Lower valuation multiples and leverage levels; greater opportunity for operational value add and buy and build strategies.

## CO-INVESTMENTS

Access to a diversified range of investments, either through co-investment funds or direct co-investments, with a lower fee structure.

# Private Equity: Areas of Focus

## ASIA

Stronger economic growth over the long term and less developed Private Equity market.

## SECTOR SPECIALISTS

Industry expertise a real differentiator in terms of value creation and deal sourcing.

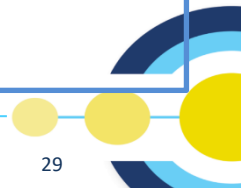
## SECTOR THEMES

Long term structural drivers – Technology (AI, IoT, cloud) and Healthcare (trends in global demographics and increased per capita spending).

## DISTRESSED

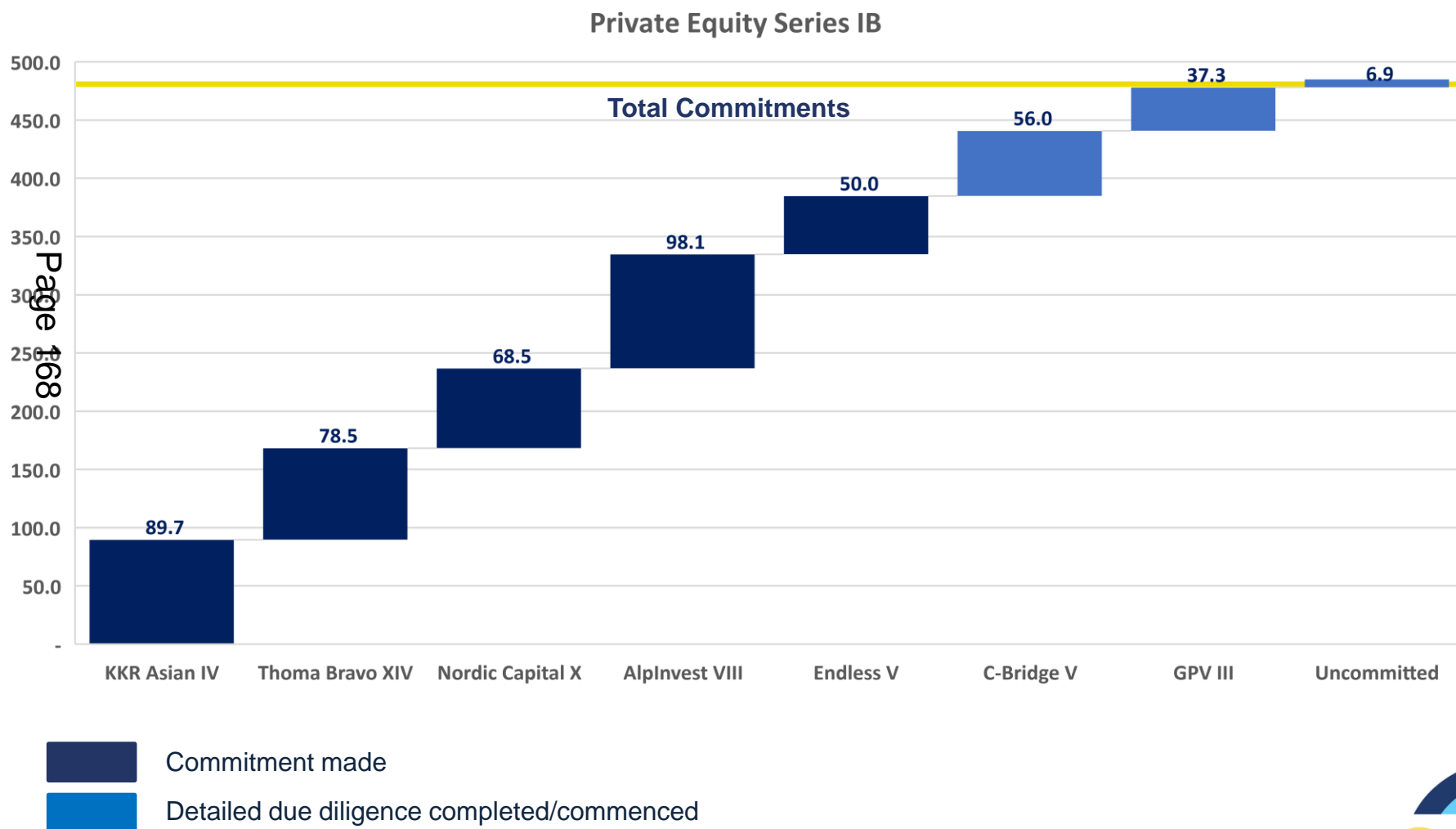
Potential for attractive opportunities given position in business cycle and extended valuations in addition to impact from Covid-19.

Note: These are areas of focus and will form part of a suitably diversified portfolio





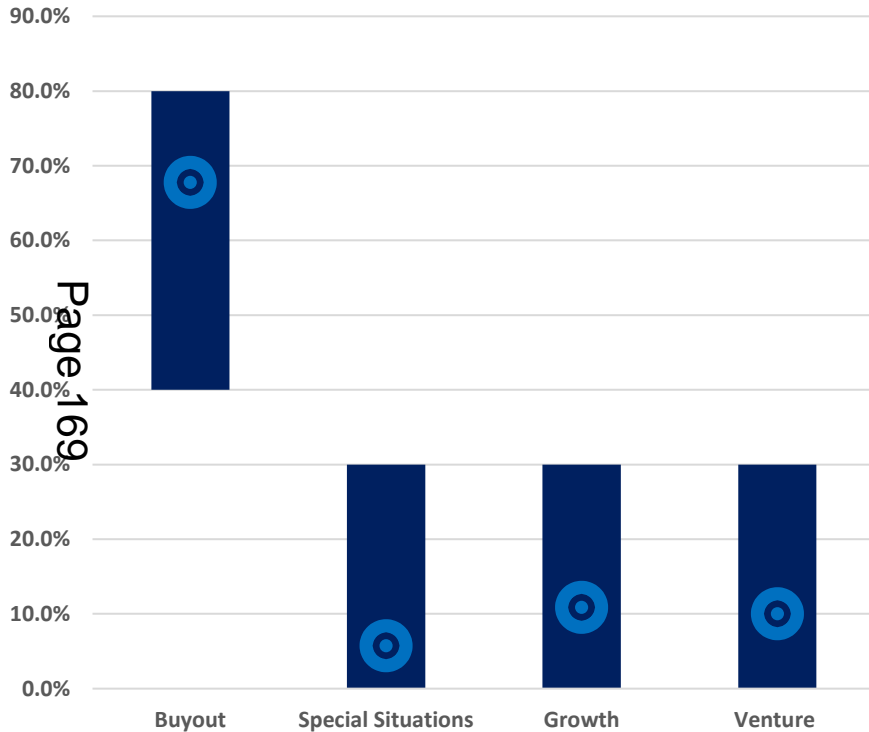
# Private Equity 1B: Commitments to Date



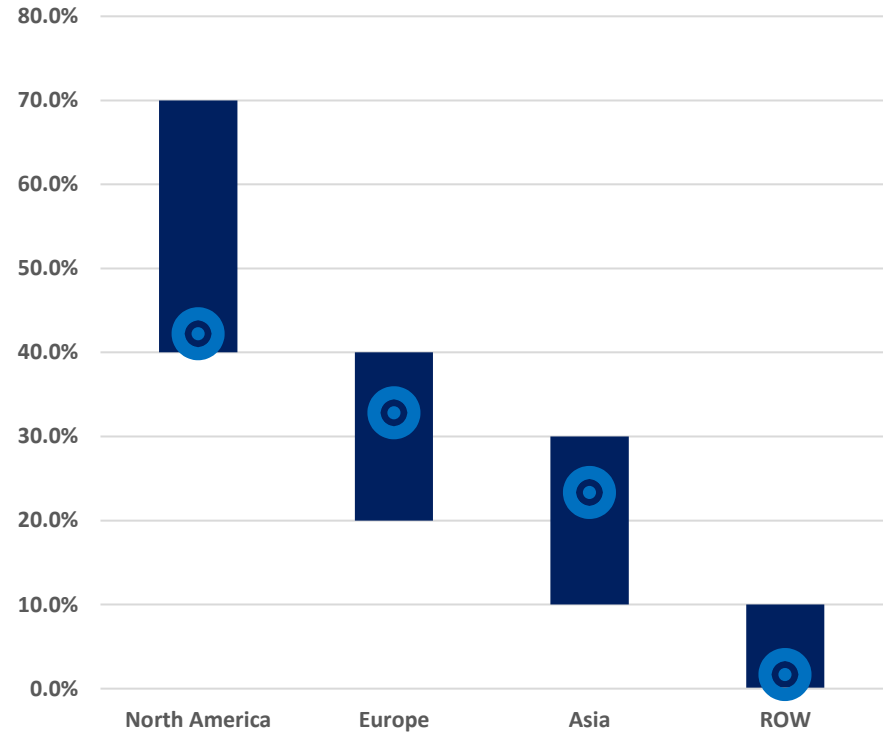
Note: Commitments in £m using exchange rates at time of approval  
Residual uncommitted capital to be cancelled

# Private Equity: Asset Allocation

Private Equity Series I

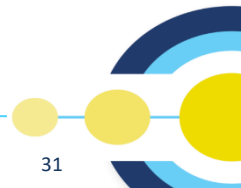


Private Equity Series I



- Permitted range
- Current allocation

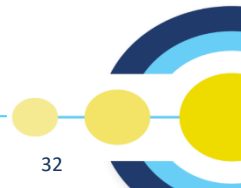
Note: Current allocation is based on commitments made to date or where detailed due diligence has commenced and is in reference to the permitted ranges for Series I as a whole



# Private Equity: 1C pipeline

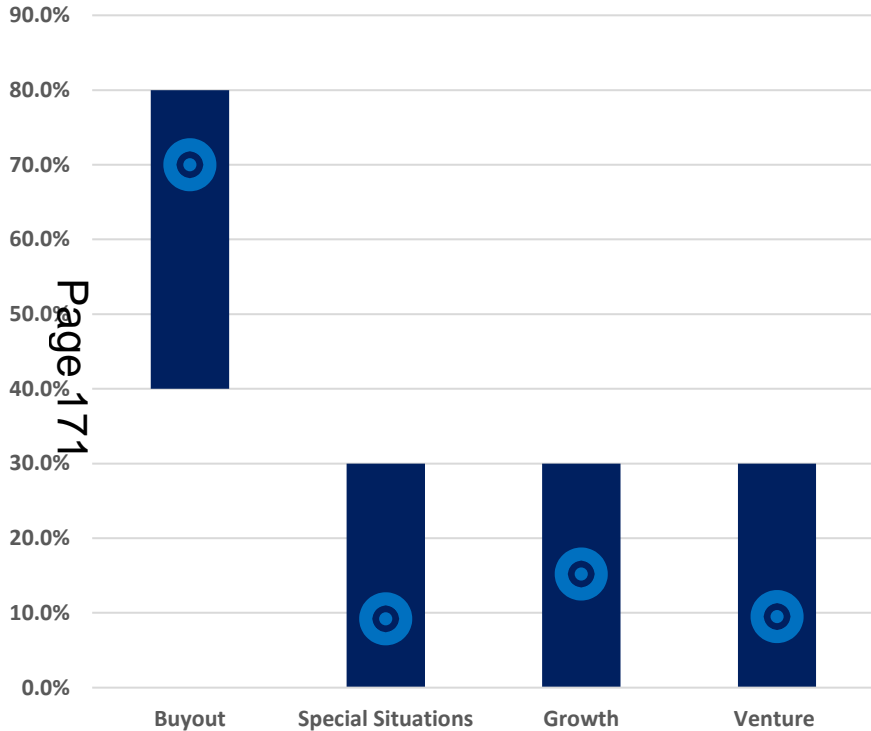
Strategy	Geography	Commitment
Buy-out	North America	£70m
Buy-out	North America	£65m
Buy-out	Europe	£70m
Co-investment Fund (Buy-out)	Global	£100m
Special Situations	Global (North America: 50%; Europe: 50%)	£80m
Growth	Global (North America: 75%)	£60m
Venture	North America	£40m

Note: Assumes that commitments of £485m are received for Series 1C (based on commitments received for Series 1B)

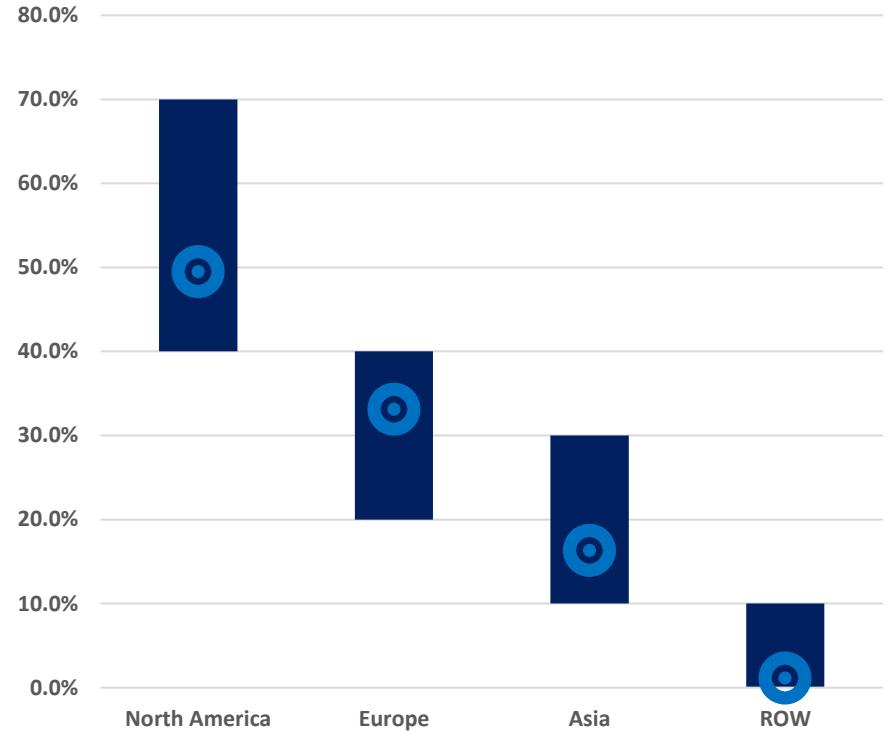


# Private Equity: Asset Allocation (post 1C)

Private Equity Series I



Private Equity Series I



■ Permitted range  
● Expected allocation

# Border to Coast Pensions Partnership Ltd

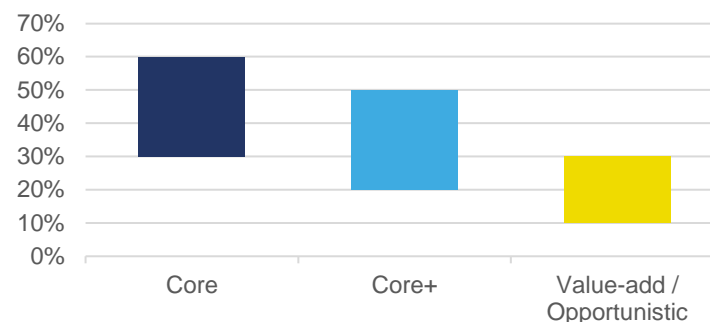
Page 172

Infrastructure



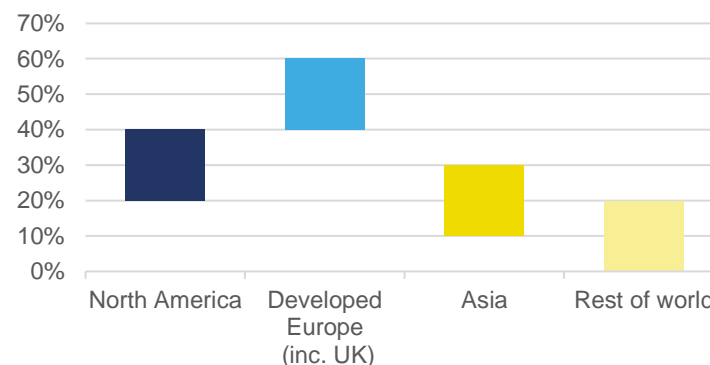
# Infrastructure: Asset Allocation

Strategy	Permitted range <sup>1</sup>
Core	30 – 60%
Core+	20 – 50%
Value-add / Opportunistic	10 – 30%



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Geography	Permitted range <sup>1</sup>
North America	20 – 40%
Developed Europe (inc. UK)	40 – 60%
Asia	10 – 30%
Rest of world	0 – 20%



<b>Benchmark</b>	<b>8% p.a. (net)</b>
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<b>Series 1A Commitments</b>	<b>£675m</b>
<b>Series 1B Commitments</b>	<b>£760m</b>

<sup>1</sup> Based on total commitments over a full Series (e.g. 1A, 1B, 1C)

# Infrastructure: Areas of Focus

## OPERATIONAL VALUE ADD

Deliver enhanced returns through operational improvements with a focus towards income and less reliance on leverage to generate returns.

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## SECTOR THEMES

Energy transition – investments that enable or benefit from the move to a lower carbon economy; Digital revolution – growing demand for data and access to networks

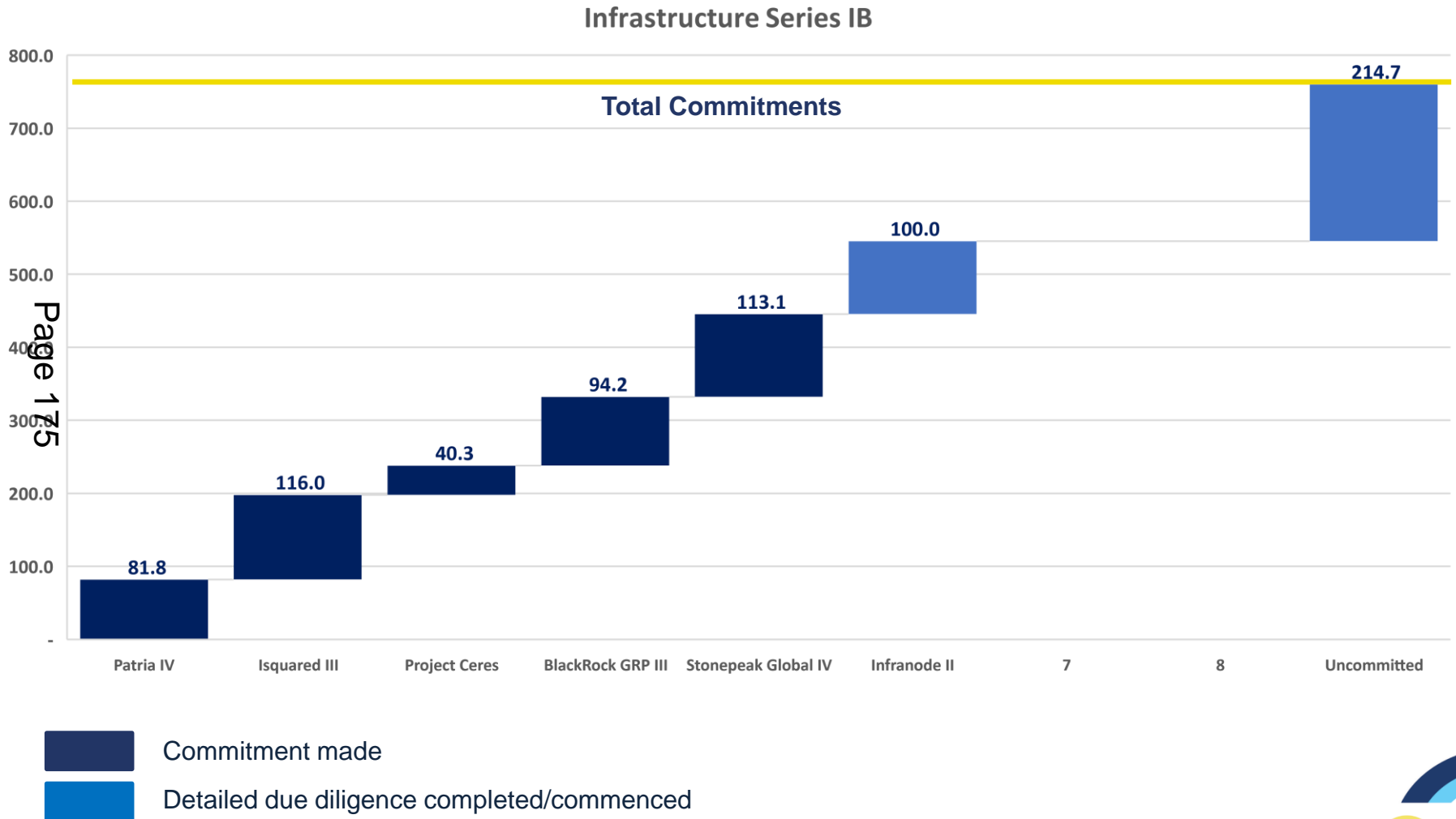
## GREENFIELD

Capture additional returns from development/extension opportunities whilst demonstrating strong risk mitigation techniques.

## EMERGING MARKETS

Stronger economic growth and longer term demographics driving demand for infrastructure in a less developed market with lower valuation and leverage levels albeit with a different risk profile.

# Infrastructure 1B: Commitments to Date

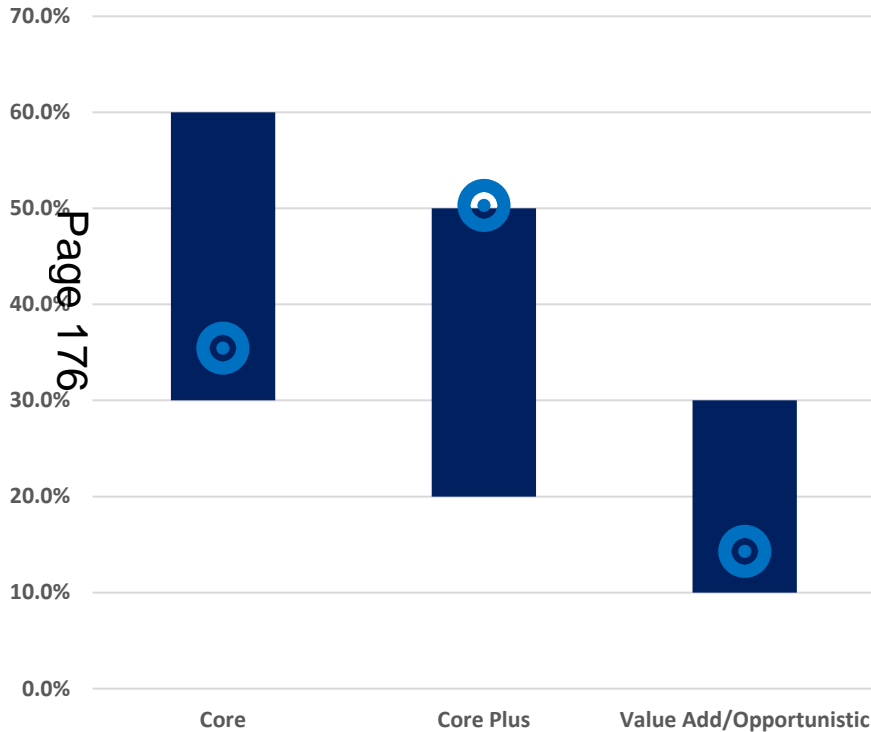


Note: Commitments in £m using exchange rates at time of approval  
Residual uncommitted capital to be cancelled

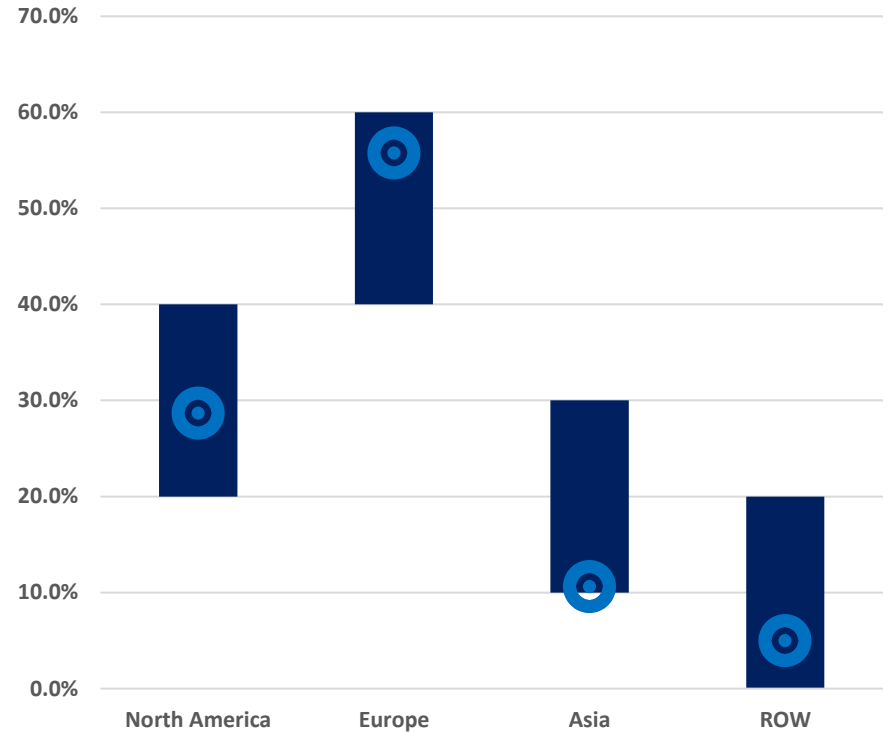


# Infrastructure: Asset Allocation

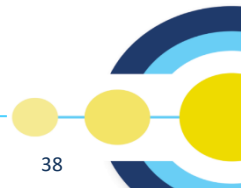
Infrastructure Series I



Infrastructure Series I



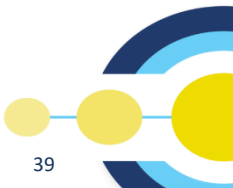
Note: Current allocation is based on commitments made to date or where detailed due diligence has commenced and is in reference to the permitted ranges for Series I as a whole



# Infrastructure: 1C pipeline

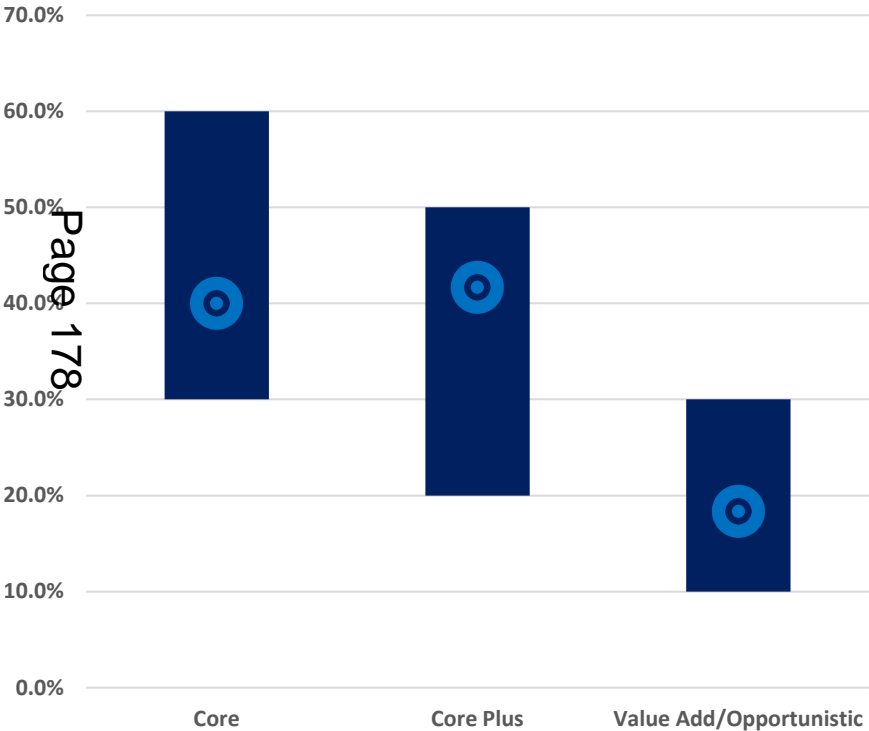
Strategy	Geography	Commitment
Core (Brownfield)	North America	£120m
Core+	Asia	£100m
Core (Open Ended)	Global	£120m
Core+ (Specialist)	Global	£100m
Core+ (Renewables)	Global	£120m
Core (Greenfield)	Europe	£100m
Core (Greenfield)	North America	£100m

Note: Assumes that commitments of £760m are received for Series 1C (based on commitments received for Series 1B)

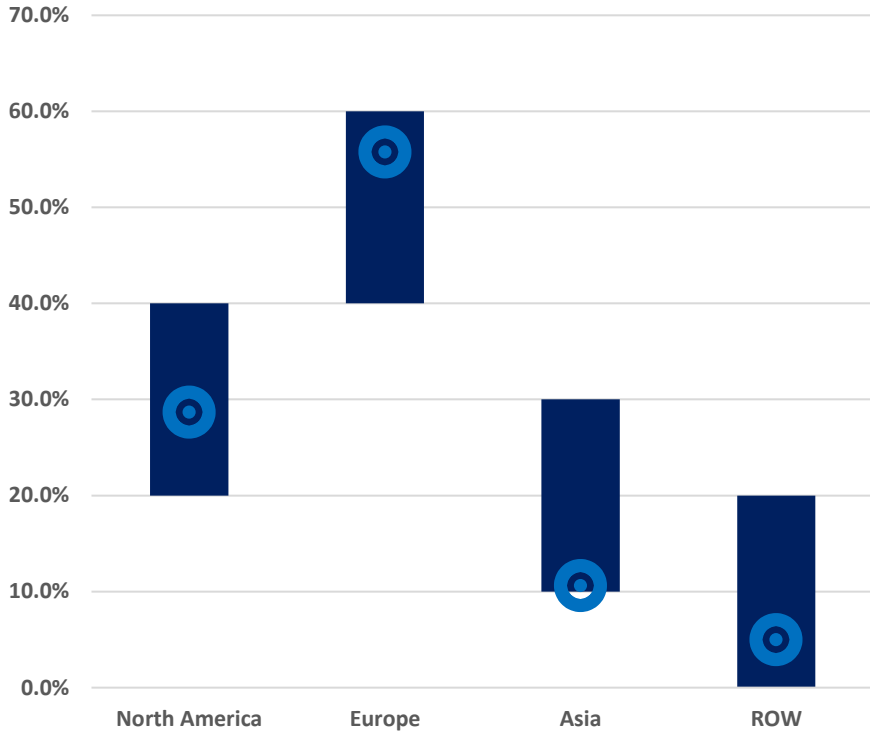




# Infrastructure: Asset Allocation (post 1C)

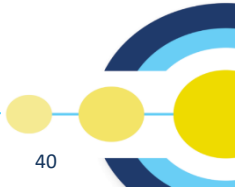
Infrastructure Series I



Infrastructure Series I



 Permitted range  
 Expected allocation



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**TEESSIDE PENSION FUND**

Administered by Middlesbrough Council

**AGENDA ITEM 8**

**PENSION FUND COMMITTEE REPORT**

**10 MARCH 2021**

**DIRECTOR OF FINANCE – IAN WRIGHT**

**Strategic Asset Allocation Update**

**1. PURPOSE OF THE REPORT**

- 1.1 To ask Members to agree to a revision to the Pension Fund’s strategic asset allocation and that a short consultation should be carried out with employers in the Fund to explain the purpose of the proposed changes.

**2. RECOMMENDATION**

- 2.1 That Members note this report, agree to the revised asset allocation set out in paragraph 6.4 and agree that a revised Investment Strategy Statement (ISS) including the updated asset allocation should be circulated to Pension Fund employers for comment. Any substantive changes agreed to the revised ISS following the consultation will be brought to the next Committee meeting, but if there are no such changes the ISS will be published in due course.

**3. FINANCIAL IMPLICATIONS**

- 3.1 There are no specific financial implications arising from this report.

**4. BACKGROUND**

- 4.1 The Pension Fund’s target strategic asset allocation is set out in its Investment Strategy Statement which was last updated in February 2019. The following table shows the strategic asset allocation alongside the actual allocation of the Pension Fund at the end of the quarter the allocation was published (31 March 2019) and at the end of the last quarter (31 December 2020):

Asset Class	Target Strategic Allocation	Maximum	Minimum	As at 31.03.2019	As at 31.12.2020
GROWTH ASSETS		<b>98%</b>	<b>60%</b>	<b>86.7%</b>	<b>90.7%</b>
UK Equities	<b>22%</b>	80%	40%	30.2%	28.1%
Global Equities	<b>28%</b>			45.3%	48.9%
Property and Property Debt	<b>15%</b>	20%	10%	8.6%	7.6%
Alternatives	<b>15%</b>	20%	10%	2.6%	7.1%
PROTECTION ASSETS		<b>40%</b>	<b>2%</b>	<b>13.3%</b>	<b>8.3%</b>
Bonds	<b>18%</b>	40%	2%	0%	0%
Cash	<b>2%</b>			13.3%	8.3%
Total Pension Fund value				£4,084m	£4,385m

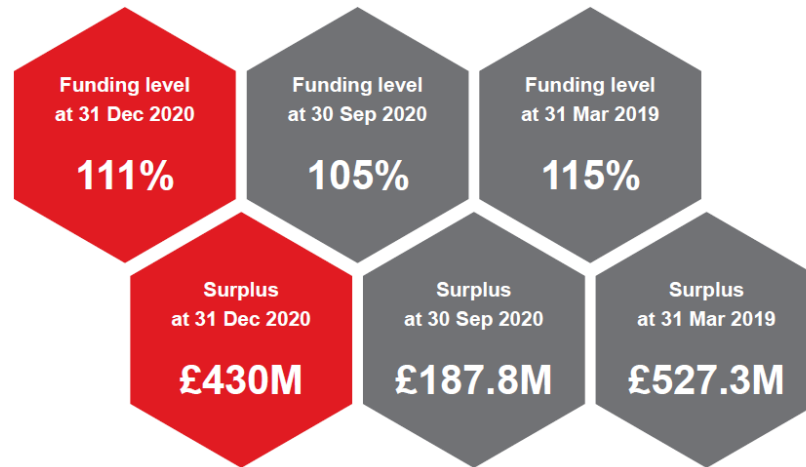
4.2 The Investment Strategy Statement highlights that the target allocation is a long term goal, and that while bonds continue to be viewed as expensive, the allocation to equities is likely to be towards the high end of the range:

“Note this target allocation will take time to implement, in particular the allocation to alternatives may remain underweight for some time, owing to the timescale typically involved in investing efficiently in this asset class. Also, the allocation to bonds is only likely to be implemented once this asset class is appropriately priced. In the meantime it is likely that the Fund’s equity allocation will be above target.”

4.3 However, while the Pension Fund remains heavily invested in equities its assets are subject to significant volatility. While this can be tolerated to a certain extent given the Pension Fund’s long investment time horizon, this volatility can cause issues for the Pension Fund’s employers if the triennial valuation coincides with a low point in valuations.

4.4 As an indication of this volatility, the graph on the following page shows the actuary’s assessment of how the funding level of the Fund has change over the period since the effective date of the last valuation (31 March 2019). There is also a graphic showing how the estimated surplus will have fluctuated. Some of this variation is a consequence of movements in asset values (principally equity values) and some is due to a change in the actuary’s views on future long term investment returns (the actuary is now more pessimistic on this). Note, this funding level update is very much an estimate - see the “Method” notes on the page following the graph for more details of the assumptions used.

### Change to funding level since the valuation at 31 March 2019



*See notes on method overleaf*



## Method

---

- This funding update is consistent with the calculations for the formal actuarial valuation as at 31 March 2019. The assumptions used have been modified only insofar as is necessary to maintain consistency with the approach set out in the latest Funding Strategy Statement, reflecting the change in the effective date and in relevant market conditions.
- The funding update is projected from the results of the formal actuarial valuation as at 31 March 2019 and is therefore approximate. Since the update is not based on up-to-date membership data, it becomes more approximate the longer the period of time that has elapsed since the last actuarial valuation.
- The funding update takes account of the following over the period since the last formal actuarial valuation:
  - Cashflows into and out of the Fund estimated based on the 2019 valuation results;
  - Actual price inflation and its impact on benefit increases.
- Demographic experience since the last formal actuarial valuation has been assumed to be in line with the assumptions set out in the 2019 Valuation Report.
- This update is designed to give a broad picture of the direction of funding changes since the actuarial valuation but does not have the same level of reliability as, and therefore does not replace the need for, formal actuarial valuations.
- It does not reflect any changes to assumptions which would be made if a full actuarial valuation were to be carried out to reflect, for example, changes to the investment strategy or economic outlook.
- For the purpose of this funding update, we have used an un-audited value of the assets as at 31 December 2020 provided by the Administering Authority
- The whole of fund total employer contribution rates shown in this funding update allow for the following:
  - a recovery period ending 31 March 2042 when in surplus and 31 March 2040 when in deficit;
  - a target funding level of 105% when in surplus.
- The assumptions used in this funding update are as follows:

	Discount rate	Pay growth	Pension increases
31 March 2019	4.45%	3.1%	2.1%
30 September 2020	4.30%	3.1%	2.1%
31 December 2020	4.30%	3.2%	2.2%

## 5. ASSET ALLOCATION APPROACH

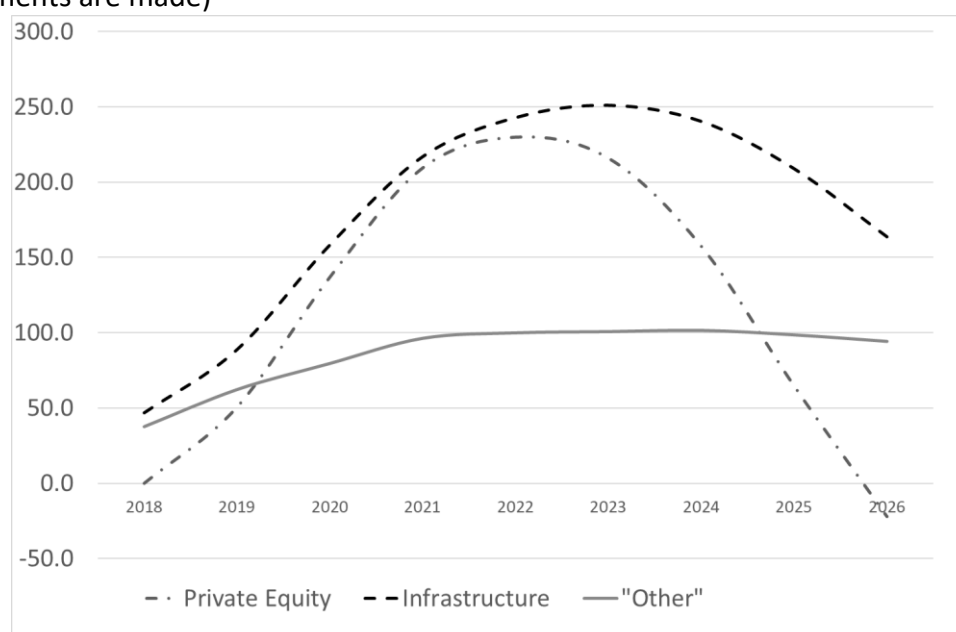
- 5.1 The Pension Fund Committee sets the overall asset allocation based on recommendations from officers and advisors. The practical implementation is delegated to officers, with the advisors providing market updates every quarter to the Committee to inform decision-making on short-term and longer-term asset allocation.
- 5.2 Over the two years since the Pension Fund moved to its current strategic asset allocation, the Pension Fund's advisors have consistently cautioned against investing in bonds whilst acknowledging that while the Pension Fund remains relatively well funded, it would make sense to reduce the equity allocation to take some volatility out of the portfolio. However, other liquid return-seeking assets are not particularly attractive and investment in some categories of private market investments is seen as a better alternative. Property offers some risks and opportunities, and holding cash can potentially reduce risk in the short term.
- 5.3 For some time now the Pension Fund's investment team has been working on increasing the allocation to illiquid 'alternative' investments - private equity, infrastructure, other alternatives, in order to match the long term strategic allocations to these investments. This process began before Border to Coast had developed a programme of alternative investments and involves a combination of money allocated directly to fund managers, and money allocated to Border to Coast for the pooling company to invest via fund managers it has selected.
- 5.4 Investing money in alternatives typically takes longer than investing in more liquid investments – the process involves deciding how much to commit to a manager, waiting for that manager to draw down that commitment (usually in stages, as the manager finds suitable investment opportunities) and receiving money back from the manager (distributions) as those investments are ultimately completed or sold. Depending on the type of investment, the investment process can take a number of years and usually by the time all the committed capital is being put to work by the manager some of it has started to be returned to the investor as early projects are completed.
- 5.5 Over the 21 month period shown in the table in paragraph 4.1 above, investments in alternatives increased from 2.6% to 7.1% of the Pension Fund. Although this is still less than half the 15% target allocation, it represents considerable progress given the necessarily slow pace of investment into this asset class. As at 31 December 2020 total **commitments** to private equity, infrastructure and other alternatives were approaching £910m, or more than 20% of the Pension Fund's value at that time, split as follows:

	Total committed	Total draw down at 31/12/2020
Border to Coast infrastructure (2019/20 and 2020/21):	£150m	£21m
Other infrastructure managers:	£212m	£105m
Border to Coast private equity (2019/20 and 2020/21):	£150m	£15m
Other private equity managers:	£305m	£76m
Other alternatives (various managers):	£93m	£69m
Totals	£910m	£286m

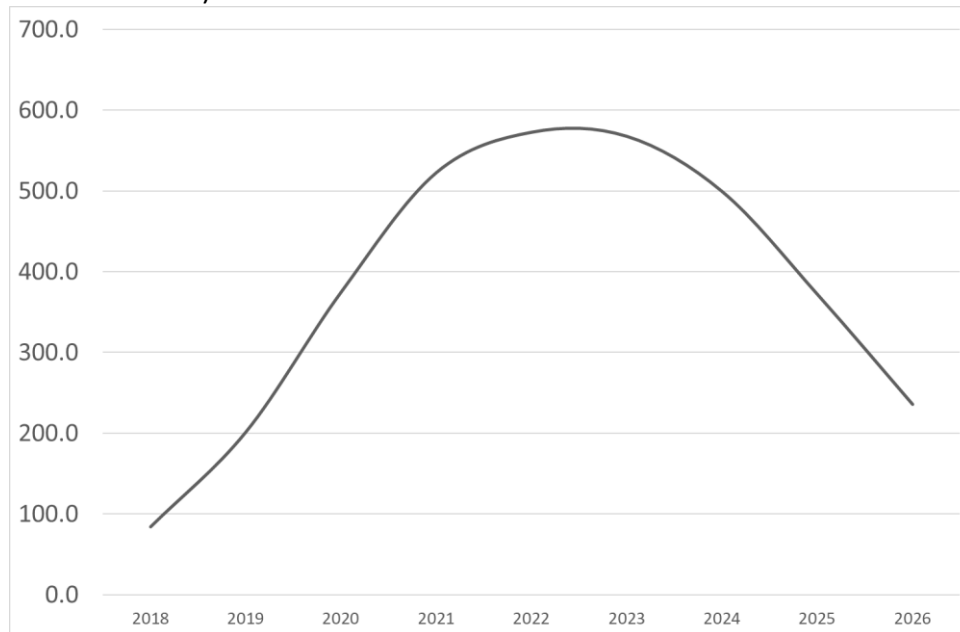
However, as is shown in the above table, only just under a third of this money had been drawn down and **invested** by managers at that point, and a proportion of this had been paid back in distributions.

- 5.6 Building and maintaining an illiquid investment portfolio takes time and also usually requires commitments in excess of the desired portfolio allocation. To illustrate this point, the following two graphs give an approximate indication of how the amount the Pension Fund has invested in alternative asset classes is expected to fluctuate over coming years. Note, these graphs do not take into account future investment commitments that are likely to be made – in practice the Pension Fund will make additional commitments in future to prevent the drop in allocation to alternatives in future years shown in these graphs. Also, various broad assumptions have been made about the pace at which managers will draw down and distribute capital which are unlikely to be completely accurate.

**Graph A:** Estimated investment in alternatives by asset class over time (assuming no further commitments are made)



**Graph B:** Estimated total investment in alternatives over time (assuming no further commitments are made)



- 5.7 The investment team continues to work with the Pension Fund’s advisors and managers to ensure the required allocation to alternatives can be built and maintained in an effective and efficient manner.
- 5.8 The Pension Fund’s allocation to property / property debt has reduced over the 21 month period in paragraph 4.1. This is due to a number of factors:
- The value of the Pension Fund’s indirect and direct property portfolio has been adversely affected by the impact of the global pandemic and subsequent market conditions.
  - The Pension Fund has not been able to source and acquire additional property assets for its portfolio, although we continue to work with our property manager to locate suitable additional property assets for the Pension Fund.
  - Initial investigations into possible property debt investments were put on hold in March last year while the market was turbulent and unclear. This work will recommence and the investment team will continue to consider potential property debt investment options.
- 5.9 The issues set out above – 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, mean no progress has been made to date in reducing the Pension Fund’s equity exposure. This is despite a phased sell-off of £125 million of US equities over the 15 months to 31 December 2020.

## 6. REVISED ASSET ALLOCATION

6.1 Officers have been working with the Pension Fund’s investment advisors Peter Moon and William Bourne 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 will allow the Committee to judge more quickly whether appropriate progress is being made in reallocating the Pension Fund’s assets.

6.2 The revised strategic asset allocation includes the following features:

- A significantly lower allocation to UK equities – this partly reflects the fact the UK market is increasingly concentrated on a number of sectors such as consumer staples, financials and commodities, meaning the market’s performance is 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 can be classed as ‘protection’ rather than ‘growth’ assets – this acknowledges the long-term secure nature of the types of infrastructure the Pension Fund invests in.
- Property debt is also reclassified as part of ‘other debt’ as a ‘protection’ asset, and so separated from property which remains classified as a ‘growth’ asset.
- A short / medium term target of 65% equities by 31 March 2022. This may be challenging and will require careful implementation. The longer term equity target increases slightly from 50% to 55%.

6.3 The current strategic asset allocation is as follows:

Asset Class	Target Strategic Allocation	Maximum	Minimum
<b>GROWTH ASSETS</b>		<b>98%</b>	<b>60%</b>
UK Equities	<b>22%</b>	80%	40%
Global Equities	<b>28%</b>		
Property and Property Debt	<b>15%</b>	20%	10%
Alternatives	<b>15%</b>	20%	10%
<b>PROTECTION ASSETS</b>		<b>40%</b>	<b>2%</b>
Bonds	<b>18%</b>	40%	2%
Cash	<b>2%</b>		

6.4 This is the proposed revised strategic asset allocation:

Asset Class	Long Term Target Strategic Asset Allocation	31 March 2022 Target Strategic Asset Allocation
<b>GROWTH ASSETS</b>	<b>75%</b>	<b>78%</b>
UK Equities	10%	12%
Overseas Equities	45%	53%
Property	10%	7%
Private Equity	5%	3%
Other Alternatives	5%	3%
<b>PROTECTION ASSETS</b>	<b>25%</b>	<b>22%</b>
Bonds / Other debt / Cash	15%	14%
Infrastructure	10%	8%

## 7. NEXT STEPS

7.1 If Members agree to the proposed revised strategic asset allocation:

- The table in paragraph 6.4 will be incorporated into an updated ISS and circulated to Pension Fund employers for comment. Any substantive changes agreed to the revised ISS following the consultation will be brought to the next Committee meeting, but if there are no such changes the ISS will be published in due course.
- Officers will work to implement the revised strategic asset allocation and will report back to future Committee meetings on progress.

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## TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 9

### PENSION FUND COMMITTEE REPORT

10 MARCH 2021

DIRECTOR OF FINANCE – IAN WRIGHT

#### National Knowledge Assessment Outcome

#### 1. PURPOSE OF THE REPORT

- 1.1 To report to Members the outcome of the National Knowledge Assessment recently undertaken by Teesside Pension Board and Pension Fund Committee members, and to discuss a potential training plan to address gaps in knowledge identified by the assessment.

#### 2. RECOMMENDATIONS

- 2.1 That Members note and discuss this report and agree that:
- The proposed training plan in Appendix A should be delivered to Committee and Board members.
  - A training budget initially set at £40,000 is set aside to allow external companies and individuals to be commissioned to assist with this training where appropriate.
  - Expenditure on external training will be determined by the Head of Pensions Governance and Investments in consultation with the Chair and Vice Chair.

#### 3. FINANCIAL IMPLICATIONS

- 3.1 There is a suggested budget of £40,000 (or £2,000 per Committee and Board member) which, if agreed, will be set aside to fund external training, this will be recharged to the Fund's governance costs and will be reviewed at least annually..

#### 4. BACKGROUND

- 4.1 The Local Government Pension Scheme (LGPS) Regulations 2013 were amended in line with requirements introduced by the Public Service Pensions Act 2013 for all public service pension schemes to establish a pension board. Under the LGPS Regulations, each LGPS administering authority had to set up a Local Pension Board with effect from 1 April 2015.
- 4.3 In order to fulfil this function, and to comply with the requirements of the overriding regulations and legislation, the Board needs to have and maintain appropriate knowledge and understanding of the LGPS and pensions in general, In particular (as set out in the Board's Terms of Reference: a member of the Board **must be conversant with:**



- the legislation and associated guidance of the Local Government Pension Scheme (LGPS), and
- any document recording policy about the administration of the LGPS that is adopted by the Teesside Pension Fund.

a member of the Board **must have knowledge and understanding of –**

- The law relating to pensions, and
- Any other matters which are prescribed in regulations.

4.4 The Board is a reviewing and scrutiny body, whereas the Pension Fund Committee retains the decision-making power relating to all the Pension Fund's activities including investment, administration and governance. Nevertheless there is currently no legal requirement for Committee members to have a specific level of knowledge and understanding in relation to pensions or investments in general or the Local Government Pension Scheme in particular. However, the expectation is that this anomaly will not continue for long and the Scheme Advisory Board has recently carried out a review of governance in the LGPS which recommends to government that Committee members should be required to have appropriate knowledge and understanding in future.

## 5. KNOWLEDGE ASSESSMENT

5.1 Actuarial and consultancy firm Hymans Robertson developed a knowledge assessment tool which has already been used by at least 20 LGPS Funds to help assess the knowledge and understanding of their local pension boards and pension fund committees. The knowledge assessment tool consists of at least five multiple choice questions in each of the following areas:

- Committee Role and Pensions Legislation
- Pensions Governance
- Pensions Administration
- Pensions Accounting and Audit Standards
- Procurement and Relationship Management
- Investment Performance and Risk Management
- Financial Markets and Product Knowledge
- Actuarial Methods, Standards and Practices

5.2 The Committee and the Board agreed to participate in the knowledge assessment and a summary of the main outcomes is included in this report. As well as giving an indication of individual strengths and weaknesses, more importantly this type of assessment helps identify any areas where collectively the Board and the Committee require development. This then allows more targeted training to be developed and delivered.

## **6. ASSESSMENT PROCESS**

6.1 Ten out of fourteen Pension Fund Committee Members and three out of six Board Members participated in the assessment. This represents a collective participation rate of 65%, just above average compared with the 22 Fund that have carried out the assessment nationally.

6.2 Each respondent was given the same set of 47 questions on these 8 areas:

1. Committee Role and Pensions Legislation
2. Pensions Governance
3. Pensions Administration
4. Pensions Accounting and Audit Standards
5. Procurement and Relationship Management
6. Investment Performance and Risk Management
7. Financial Markets and Product Knowledge
8. Actuarial Methods, Standards and Practices

Under each subject heading, there were at least 5 multiple choice questions to answer. Each question had 4 possible answers, of which one answer was correct. This builds a picture of the knowledge levels of each individual member in each of the topics, and identifies overall levels of knowledge in each area.

6.3 Consultants Hymans Robertson analysed the outcome and as well as providing each participant with individual scores and feedback collated the information into a report. Extracts from the report are enclosed at Appendix A.

## **7. OUTCOME AND NEXT STEPS**

7.1 The outcome of the Knowledge Assessment was discussed with the Board at its 8 February 2021 meeting, which agreed that a training programme should be discussed and agreed by the Committee which Board members could also participate in.

7.2 The report identifies a number of areas where the Committee and Board would benefit from additional training. Hymans Robertson included a suggested training plan which is also shown in Appendix A.

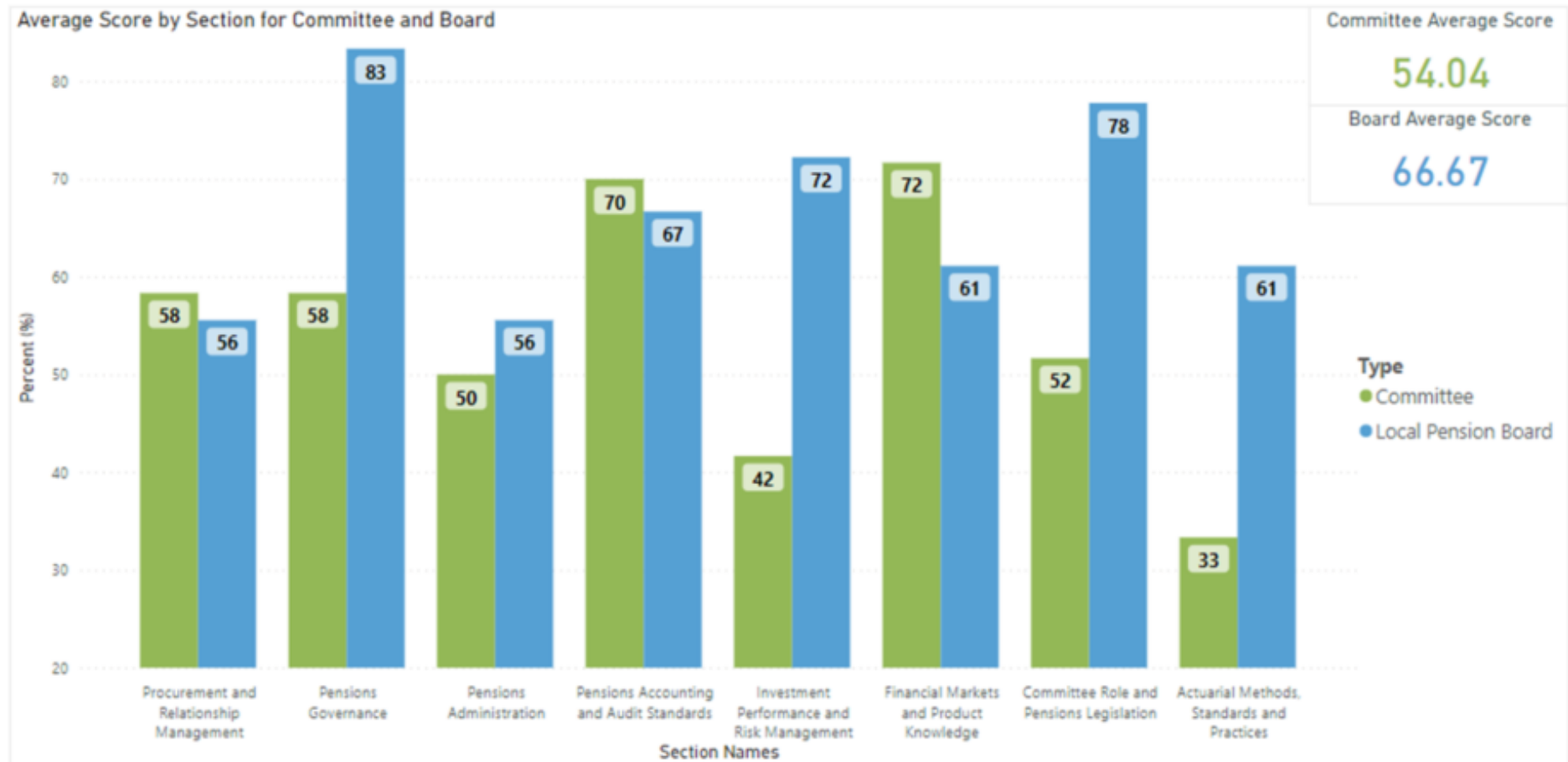
7.3 The provision of a specific training budget allows more flexibility on how training can be delivered. An initial budget of £40,000 representing £2,000 per Committee and Board member is suggested, with any expenditure subject to discussion and agreement with Chair and Vice Chair as well as appropriate use of procurement processes and procedures.

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### National Knowledge Assessment Outcomes

For each of the assessment’s eight areas this graph shows the results for both the Committee and Board. These have been shown in the order in which the sections appeared in the survey. There is also a summary showing the average scores across all sections for the Committee and Board



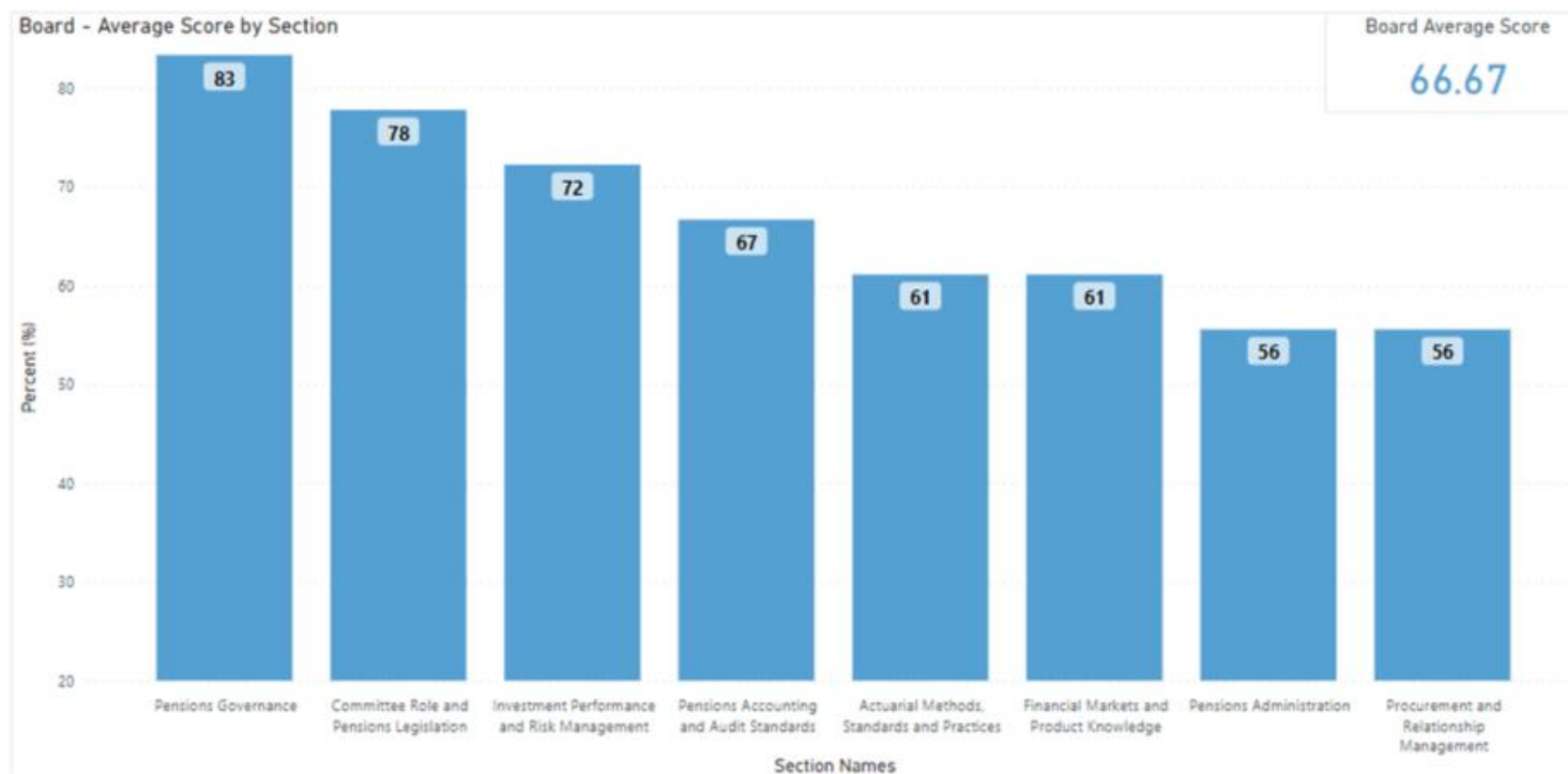
**Performance in each area**

The results can be ranked for each section from the highest score (greatest knowledge) to lowest score (least knowledge). This is shown separately for both the Committee and the Board. The intention is that training plans and/or timetables can be tailored to focus on the areas of least knowledge, whilst ensuring the Committee and Board maintain the high level of knowledge in the stronger areas.

***Pension Committee***



Financial markets and product knowledge was the highest scoring area for the Committee. Pensions accounting also scored well. Actuarial methods was the lowest scoring area with a significantly low score, while the score for investment performance and risk management was also low.

**Pension Board**

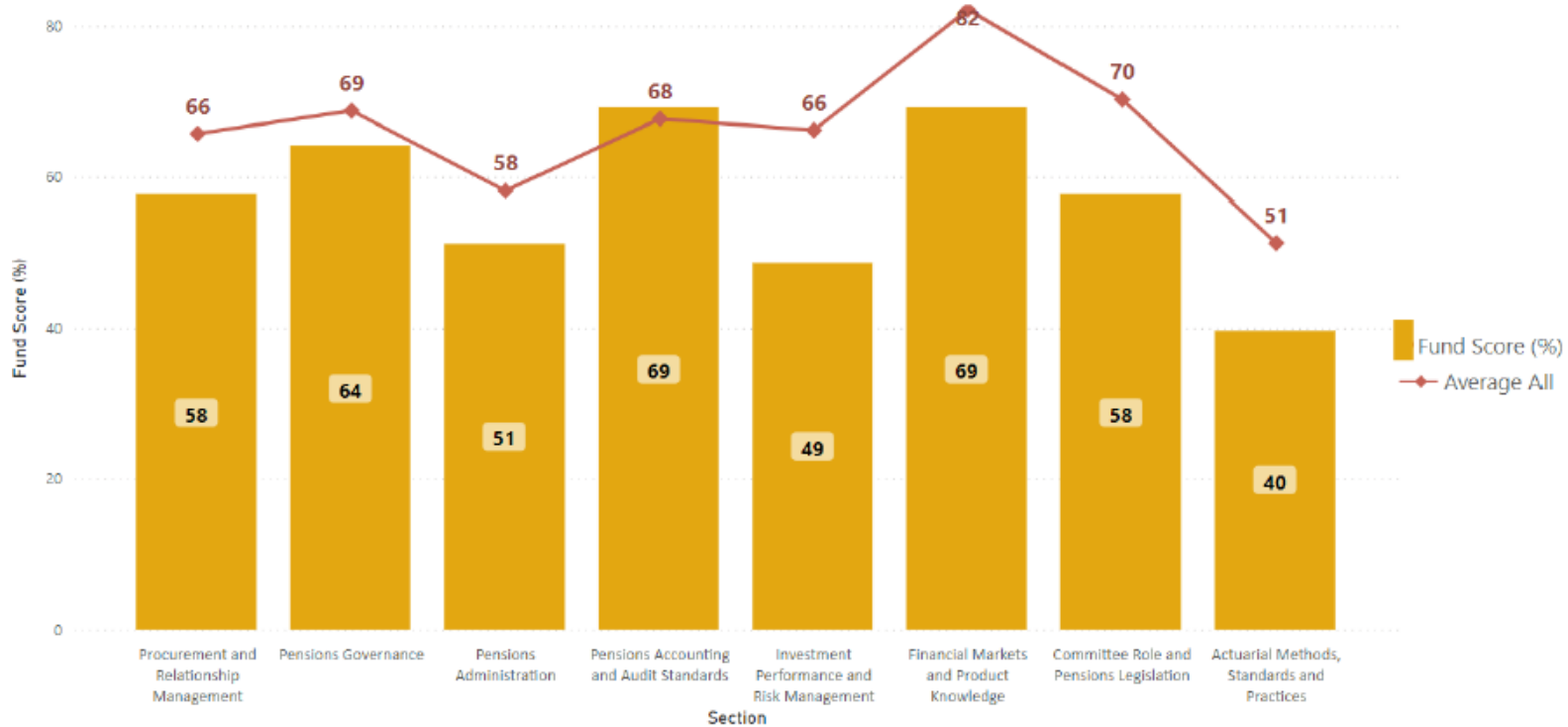
Pensions governance was the highest scoring section for the Board which, given the role of the Board, is very encouraging. Questions on the Committee's role and investment performance were also answered strongly. It does appear that the Board's knowledge across most areas is generally good. Procurement and pensions administration would be the key areas to focus on based on these results. This is highlighted further in the following section which compares the Teesside results, with all participating funds' results.

**Benchmarking**

As this assessment has been conducted at national level across 22 LGPS funds the report provides details of how our Fund’s results compare to those across the average of all funds who have taken part to date. The following charts provide a comparison of the results for both the Fund’s Committee and Board, versus the average scores nationally for each group. This gives an idea of the knowledge levels across these groups, relative to the national average.

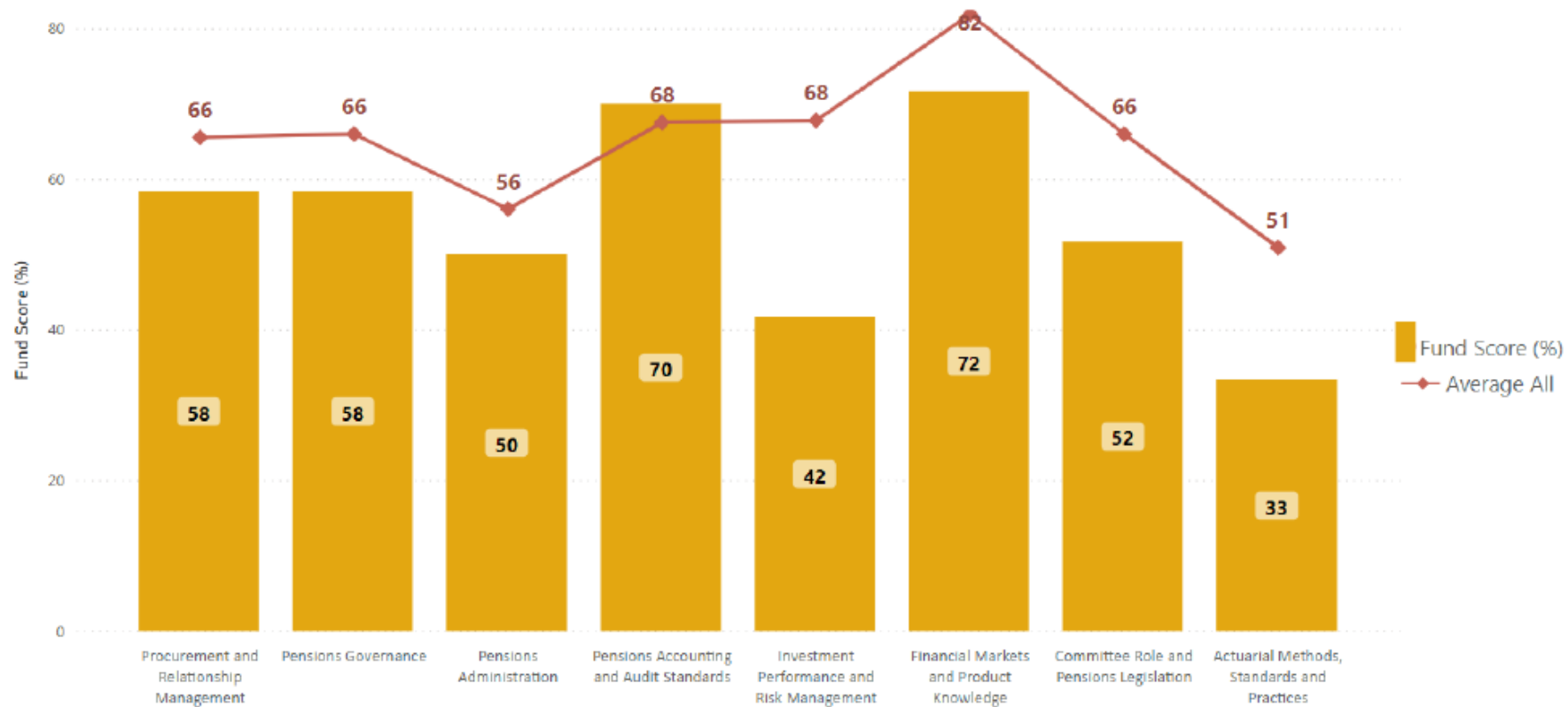
**Committee and Board combined**

Teesside Pension Fund  
vs. Average across all funds



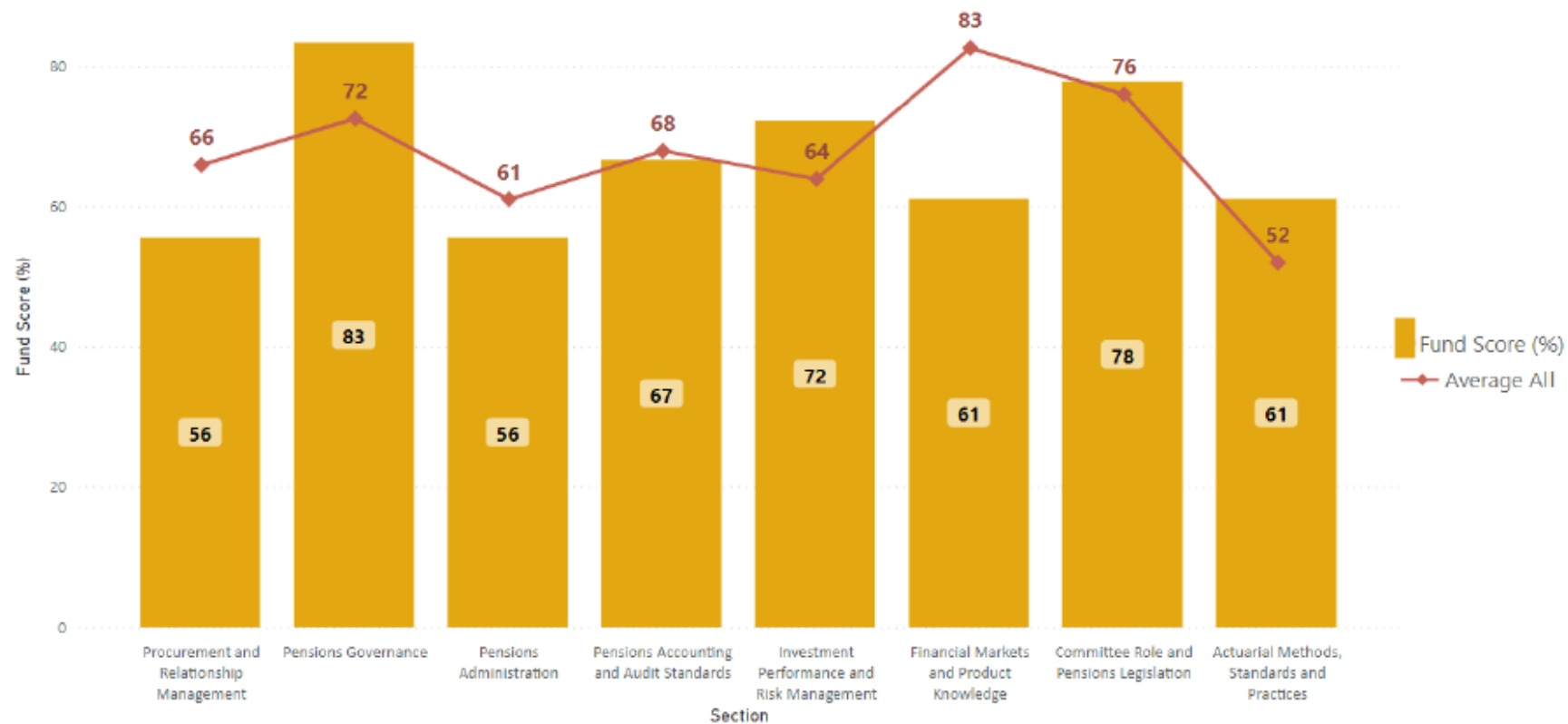
Pension Committee

Teesside Pension Fund  
vs. Average across all funds



Pension Board

Teesside Pension Fund  
vs. Average across all funds





**Comments from Hymans Robertson on the outcomes:**

“It is clear that there are areas of greater knowledge levels as well as areas in which knowledge should be developed over time. We would fully expect there to be gaps in the knowledge of all members, no matter their role on the Committee/Board, their tenure or indeed their background in terms of pensions experience. The most important thing to emphasise is that not everybody needs to be an expert in all areas, rather there should be a spread of knowledge across your Committee and Board which is supported by advice from officers and professional advisors.

Just as important as gaining the relevant knowledge and understanding expected of a Pension Committee or Board is the application of that knowledge and understanding, including the utilisation of an individual’s own background and perspective. To supplement a Fund’s training plan, we recommend that case study analysis is also included as part of both the Committee and Board training plans, allowing time for reflection on how both groups react and act on issues.

**Committee**

The results show that financial markets and pensions accounting topics have the highest levels of knowledge, but that the areas to focus any specific initial training on might be actuarial methods, as well investment performance and risk management in particular, which you might expect to be stronger for the Committee.

**Local Pension Board**

The results show that the highest levels of knowledge relate to pension governance and the role of the Committee, but that the areas to focus any initial specific training on might be procurement and pensions administration for the Board. The next step would be to try and develop the knowledge of the lower scoring areas.”

**Engagement**

One of the key areas that we recommend funds focus on is Committee and Board engagement. With the ever-increasing pace of change in the pensions and investments world, member engagement is critical to maintaining strong collective knowledge. There is an expectation that they need to be not only willing, but keen to develop their knowledge and understanding across the raft of topics upon which they will need to make, or ratify, decisions.

### Overall engagement

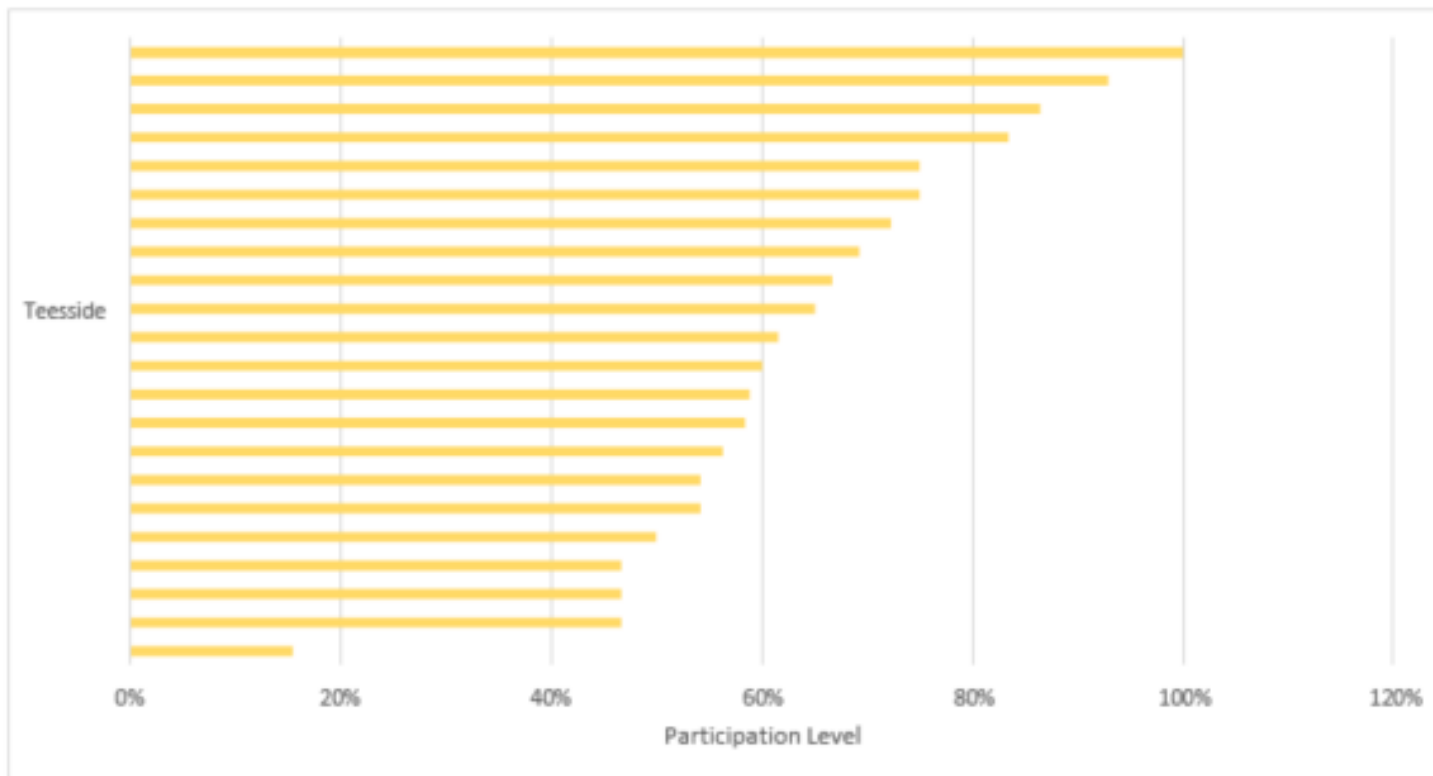
One measure of the engagement of members is their willingness to participate in training. As such, we have used the participation level of this survey to measure the engagement of your Committee and Board members. The table below shows the breakdown of the total number of participants from the Teesside Pension Fund, as a proportion of those who could have responded.

	Participants	Total Number	Participation rate
Committee	10	14	71%
Board	3	6	50%
<b>Total</b>	<b>13</b>	<b>20</b>	<b>65%</b>

We understand that different Committees function in different ways and have different numbers of members. We therefore draw no conclusions or make any inferences from these results. The information is simply being provided to the Fund officers, as they will be best placed to draw any conclusions.

### Engagement benchmarking

The chart below shows how your Fund's participation level compares with that of all other funds who took part.



**Training feedback from participants.**

One of the final sections of the survey asked participants to indicate which topics they would like to receive training on. There was a list of options available, covering a broad spectrum of the topics believed to be most relevant to allowing Committee and Board members to effectively perform their roles.

The chart below summarises the areas in which members indicated training would be beneficial.



### Suggested Training Plan

We have put together a summarised training plan below, picking out the key areas for development based on participant assessment results and the training requests. We would further advise that the Fund remains flexible with the training topics chosen and that regular reviews of the most pertinent training given assessed at regular (monthly) intervals. By keeping track at this level of frequency, the Fund can properly assess its progress against its Training plan and training strategy.

2021/22 – Q2	<ul style="list-style-type: none"> <li>Pensions administration, which as well as being low scoring for the Board and Committee, was also the second most requested topic. It might also be beneficial to include McCloud as part of the session.</li> </ul>
2021/22 – Q3	<ul style="list-style-type: none"> <li>The impact of COVID-19 on the Fund + investment performance and Environmental, Social &amp; Governance topic(s). We would also suggest that some time is included to discuss the SAB Good Governance project.</li> </ul>
2021/22 – Q4	<ul style="list-style-type: none"> <li>For the Board – procurement and relationship management and pension administration</li> <li>For the Committee – the role of the committee which was one of the lower scoring areas and is arguably one of the most important areas for the Committee to understand. We would also advise a session is devoted to pension administration.</li> </ul>
2022/23 – Q1	<ul style="list-style-type: none"> <li>For the Committee – actuarial methods</li> <li>For the Board – financial markets and product knowledge.</li> </ul>
2022/23 – Q2	<ul style="list-style-type: none"> <li>Valuation training sessions – purpose, role, outcomes etc. This has been timed to coincide with the 2022 Actuarial Valuations.</li> </ul>
2022/23 – Q3	<ul style="list-style-type: none"> <li>Pensions governance</li> </ul>

**TEESSIDE PENSION FUND**

Administered by Middlesbrough Council

**AGENDA ITEM 10****PENSION FUND COMMITTEE REPORT****10 MARCH 2021****DIRECTOR OF FINANCE, IAN WRIGHT****PENSION FUND BUSINESS PLAN 2021/24****1. PURPOSE OF THE REPORT**

- 1.1 To present to Members of the Teesside Pension Fund Committee (the Committee) the annual Business Plan for the Fund.

**2. RECOMMENDATION**

- 2.1 That Members approve the Business Plan including the 2021/22 Pension Fund budget.

**3. FINANCIAL IMPLICATIONS**

- 3.1 The 2021/22 forecast income and expenditure is set out in the Business Plan, and is summarised below (expenditure in brackets):

	<b>£ millions</b>
Income from members	108.0
Expenditure to members	(170.0)
Administration and management expenses	(8.0)
Estimates net return on investments	25.0
<b>Net increase/decrease in net assets available for benefits</b>	<b>(45.0)</b>

**4. BACKGROUND**

- 4.1 In order to comply with the recommendations of the Myners Review of Institutional Investment it was agreed that an annual Business Plan should be presented to Members for approval. The Business Plan should contain financial estimates for the Fund, including the budgeted costs for investment and management expenses.
- 4.2 The Teesside Pension Fund Business Plan is designed to set out how the Pension Fund Committee operates, what powers are delegated and to provide information on key issues. The Business Plan sits alongside the Fund's other governance documents, which set out the delegated powers and responsibilities of officers charged with the investment management function.

4.3 The Business Plan for 2021/24 is attached (Appendix 1). The Business Plan includes:

- The purpose of the Fund, including the Teesside Pension Fund Service Promise (see 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 (see 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 (see Appendix D and page 21 of Appendix 1); and
- An annual plan for key decisions and a forward work programme for 2021/22 and an outline work plan for 2022 – 2024.

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# Business Plan

## 2021 – 2024



Teesside Pension Fund



## EXECUTIVE SUMMARY

The purpose of this Business Plan is to outline the Fund's objectives and provide a plan of action as to how key priorities will be achieved in order to further these objectives.

Over the last few years the Fund has faced increasing complexities and there has been and continues to be new legislation that has fundamentally changed the way in which we work and our relationship with our stakeholders. The complexities have stemmed from but are not limited to the following;

- Asset Pooling
- The Public Service Pensions Act 2013
- Increased risk monitoring
- Funding pressures resulting from longevity risk and volatile financial markets
- Overriding HMRC legislation
- Increased diversity of scheme employers resulting from alternative service provision models
- Changing Local Government Pension Scheme regulations

To manage these challenges the Fund needs to be flexible and responsive to adapt in a timely and effective manner.

This Business Plan also outlines the expected non-investment related Fund receipts and payments for the financial year 2020-21, and projections for 2021-22, as well as the administration and investment expenses.

The Business Plan also details the key performance indicators by which the Fund's performance will be measured. A full listing of these indicators can be found in section 5.

Officers will update the Pensions Committee and the Pension Board on the progress made against all aspects of the Business Plan in update reports presented at future meetings.

## INTRODUCTION

Middlesbrough Borough Council is the Administering Authority for the Teesside Pension Fund (the Fund). The Fund is part of the Local Government Pension Scheme (LGPS), a defined benefit pension scheme providing ongoing benefits on a career average revaluated earnings (CARE) basis, with most benefits earned before April 2014 calculated on a final salary basis. It is principally funded by contributions from its constituent employers and members and by investment income.

The Fund currently has over 70,000 scheme members from over 150 employer bodies, including four Local Authorities.

At the last Actuarial Valuation, as at March 2019, the assets worth £4.088 billion, were sufficient to meet 115% of the Fund's liabilities.

## PURPOSE OF THE FUND

### Mission Statement

*"To provide an efficient and effective pension scheme for all scheme members and employers in accordance with the requirements of the regulations and legislation for the Local Government Pension Scheme."*

### Purpose

The Fund is a vehicle by which scheme benefits are delivered. The purpose of the Fund is to:

- Receive monies in respect contributions from employers and employees, transfer values and investment income.
- Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the LGPS Regulations 2013 and as required in the LGPS (Management and Investment of Funds) Regulations 2016.

### Aims

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due.
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to the taxpayers, and scheduled and admission bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the

risk profile of the fund and employers, and the risk exposure policies of the administering authority and employers alike.

- Seek returns on investments within reasonable risk parameters.

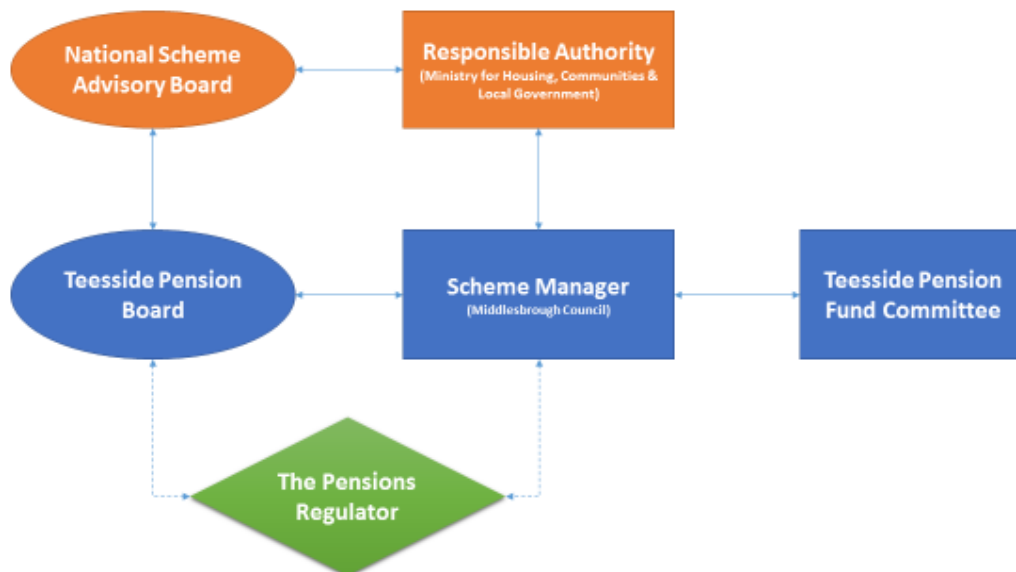
### Service Promise

*“We will provide a customer-focused pension service meeting the needs of members and employers, and manage the investments of the Fund to achieve solvency and long-term cost efficiency for our customers.”*

The full service promise is attached as Appendix A, and sets out the promises to the four key stakeholders of the Fund.

## GOVERNANCE ARRANGEMENTS

The Public Service Pensions Act 2013 updated the national and local governance framework for all public sector pension schemes, including the LGPS. The interaction of the various bodies is shown below.



### Responsible Authority

For the LGPS, this is the Ministry of Housing, Communities and Local Government (MHCLG); its primary roles being:

- The LGPS Scheme ‘sponsor’;
- Ensuring affordability of the LGPS for members and employing authorities;
- Developing policy for the operation of the LGPS to reflect government policy and LGPS specific experience; and

- Commissioning and updating legislation and actuarial guidance.

### **National Scheme Advisory Board**

The Local Government Pension Scheme Advisory Board (SAB):

- Advises on policy, best practice, and governance issues;
- Reporting responsibility;
- Single source of information for LGPS stakeholders on general and specific health of the LGPS; and
- Liaison role with the Pensions Regulator.

Further information on the Scheme Advisory Board, its role and operation can be found at the SAB website: <http://www.lgpsboard.org/> .

### **The Pensions Regulator**

The statutory objectives of the Pension Regulator are:

- Protect member benefits (although they accept that in the LGPS these are effectively guaranteed); and
- Promote and improve understanding of good administration.

Please visit The Pensions Regulator website for more information:

<http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx> .

In addition to the national bodies, each individual LGPS Fund has a single employing authority designated as the administering authority for its geographic area. Middlesbrough Council was appointed the Administering Authority for the Teesside Pension Fund by the Secretary of State, replacing the former Cleveland County Council Fund following Local Government Reorganisation in 1996.

Each administering authority is responsible for the financial and administrative functions of their Fund. For the Teesside Fund, this function is delegated to the Teesside Pension Fund Committee, which is assisted by the Teesside Pension Board.

### **Teesside Pension Fund Committee**

The Pension Fund Committee's principal aim is to carry out the functions of Middlesbrough Council as the Scheme Manager and Administering Authority for the Teesside Pension Fund in accordance with Local Government Pension Scheme and any other relevant legislation.

In its role as the administering authority, Middlesbrough Council owes fiduciary duties to the employers and members of the Teesside Pension Fund and must not compromise this with its own particular interests. Consequently this fiduciary duty is a responsibility of the Pension Fund Committee and its members must not compromise this with their own individual interests.

The Pension Fund Committee will have the following specific roles and functions, taking account of advice from the Chief Finance Officer and the Fund's professional advisers:

- a) Ensuring the Teesside Pension Fund is managed and pension payments are made in compliance with the extant Local Government Pension Scheme Regulations, Her Majesty's Revenue & Customs (HMRC)'s requirements for UK registered pension schemes and all other relevant statutory provisions.
- b) Ensuring robust risk management arrangements are in place.
- c) Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non-statutory best practice guidance in relation to its management of the Teesside Pension Fund.
- d) Determining the Pension Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:
  - i) Governance – approving the Fund's Governance Policy and Compliance Statement for the Fund within the framework as determined by Middlesbrough Council and making recommendations to Middlesbrough Council about any changes to that framework.
  - ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, ensuring appropriate funding plans are in place for all employers in the Fund, overseeing the triennial valuation and any interim valuations, and working with the actuary in determining the appropriate level of employer contributions for each employer.
  - iii) Investment strategy - approving the Fund's Investment Strategy Statement and Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite.
  - iv) Administration Strategy – approving the Fund's Administration Strategy determining how the Council will the administer the Fund including collecting payments due, calculating and paying benefits, gathering information from and providing information to scheme members and employers.
  - v) Communications Strategy – approving the Fund's Communication Strategy, determining the methods of communications with the various stakeholders including scheme members and employers.
  - vi) Discretions – determining how the various administering authority discretions are operated for the Fund.

- e) Monitoring the implementation of these policies and strategies on an ongoing basis.
- f) In relation to the Border to Coast Pensions Partnership ('Border to Coast'); the Asset Pooling Collaboration arrangements:
  - i) Monitoring of the performance of Border to Coast and recommending actions to the Joint Committee, The Mayor or his Nominee (in his role as the nominated person to exercise Shareholder rights and responsibilities), Officers Groups or Border to Coast, as appropriate.
  - ii) Undertake the role of Authority in relation to the Border to Coast Inter Authority Agreement, including but not limited to:
    - Requesting variations to the Inter Authority Agreement
    - Withdrawing from the Inter Authority Agreement
    - Appointing Middlesbrough Council officers to the Officer Operations Group.
- g) Considering the Fund's financial statements and the Fund's annual report.
- h) Selection, appointment, dismissal and monitoring of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension fund administrator, independent professional advisers and Additional Voluntary Contribution (AVC) provider.
- i) Liaison with internal and external audit, including providing or agreeing recommendations in relation to areas to be covered in audit plans, considering audit reports and ensuring appropriate changes are made following receipt of audit findings
- j) Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.
- k) Agreeing the terms and payment of bulk transfers into and out of the Fund.
- l) Agreeing Pension Fund business plans and monitoring progress against them.
- m) Agreeing the Fund's Knowledge and Skills Policy for all Pension Fund Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.
- n) Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
- o) Receiving ongoing reports from the Chief Finance Officer, the Head of Pensions Governance and Investments and other relevant officers in relation to delegated

functions.

No matters relating to Middlesbrough Council's responsibilities as an employer participating within the Teesside Pension Fund are delegated to the Pension Fund Committee.

### **Teesside Pension Board**

The Board is responsible for assisting the Administering Authority:

- a) To secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme; and
- b) To ensure the effective and efficient governance and administration of the Scheme.

The Council considers this to mean that the Pension Board is providing oversight of these matters and, accordingly, the Pension Board is not a decision making body in relation to the management of the Pension Fund. The Board makes recommendations and provides assurance to assist in the management of the Fund.

### **Teesside Pension Officer Support**

In order to support the Teesside Pension Fund Committee and Teesside Pensions Board and enable them to fulfil their obligations under the LGPS investment regulations administering authorities are required to take proper advice. "*Proper advice*" is defined in the LGPS Investment Regulations 2016 as "*the advice of a person whom the authority reasonably considers to be qualified by their ability in and practical experience of financial matters.*"

Advice is taken from internal and external sources:

- Internal advice comes from the **Director of Finance**, who has Section 151 responsibilities. It is the Director who is responsible for ensuring that adequate expertise is available internally and, where he deems that not to be the case, he will advise when external advice should be sought. Internal expertise and advice is provided by:
  - The **Head of Legal Services** on legal matters pertaining to the Fund.
  - The **Head of Pensions Governance and Investments** on investment and LGPS governance issues.
  - The **Head of Pensions (XPS Administration)** on fund administration and regulatory issues.
  - The **Head of Finance and Investment** on issues relating to the Statement of Accounts.
- External advice is provided by:
  - The **Fund's Investment Advisors** on asset allocation and investment matters.

- The **Fund's Actuary**, Aon, on actuarial matters.
- The **Fund's Solicitors**, Nabarro, on regulatory and administrative matters, and Freeths LLP, on legal matters relating to the Fund's property investments.
- The **Fund's Auditor**, EY LLP, regarding auditing the accounts and internal controls and systems.
- Other external advisors as the Director of Finance shall see fit to recommend.

## PROCEDURE FOR THE REVIEW OF MANAGERS AND ADVISORS

The Fund's management arrangements, the arrangements for the appointment of advisors and other external service providers and the regular review of those arrangements have been determined by the Committee.

- The LGPS (Management and Investment of Funds) Regulations 2016 included the requirement for all LGPS Funds to pool their assets. The Fund is one of eleven Funds who are shareholder partners in Border to Coast Pension Partnership Limited ('Border to Coast') and is moving to a position where Border to Coast will manage the majority of investment assets for the Fund.
- Initial asset transfers took place during 2018-19 which resulted in all the Fund's UK equities being transferred to be under Border to Coast's management, and the Fund has also bought some units in Border to Coast's overseas equity sub-fund. However, for risk management reasons, most of the Funds overseas equities are currently managed passively by State Street Global Advisors – this position is under review.
- There are a number of investment assets which will remain with the Fund to manage, either because they will never transfer to Border to Coast, e.g. cash or local investments, or their transfer is delayed until Border to Coast is in a position begin management of these assets, e.g. property. These will continue to be managed by an internal team.
- Fund Investment Advisor arrangements were reviewed during 2018-19 and following a procurement exercise two independent Investment Advisors were appointed.
- The contract to provide Custodian Services to the Fund is carried out by Northern Trust – the contract started on 1 May 2019.
- Pension Administration Services are provided by XPS Administration (formerly Kier Group) under the terms of a contract for a period of ten years commencing 1 June 2001. This arrangement was approved by the Investment Panel on 2 March 2001. A five year extension to this contract was approved by the Investment Panel on 3 March 2010 and another five year extension was also approved on 17 June 2015. XPS



Administration bought the Kier pension administration function with effect from November 2018, and the contract, staff and software to administer the Teesside Pension Fund transferred to XPS Administration as part of that sale.

- The contract to provide Actuarial Services to the Fund was tendered in 2012/13. Aon Hewitt was appointed on 12 December 2012 for a period of seven years. This contract was extended by 6 months to allow for the completion of the actuarial work for the 31 March 2019 valuation (published on 31 March 2020). The contract was extended by a further 12 months to allow a replacement contract to be put in place using a refreshed framework during 2021.
- Fund Additional Voluntary Contribution (AVC) provision was reviewed by the Investment Panel on 12 July 2002 and the Prudential Assurance Company Ltd were appointed. The long-term nature of AVC provision does not lend itself to the regular review of providers.

## PERFORMANCE TARGETS

Targets are set for each of these key areas to monitor the performance of the Fund.

### Funding

The Funding Strategy Statement sets out a comprehensive strategy for the whole Fund, balancing and reconciling the many interests which arise from the nature of the Scheme and the requirements to fund benefits now and in the future. The Funding Strategy Statement was last updated and published in March 2020.

The funding target of the Fund is to achieve fully funded status, i.e. the assets of the Fund match, exactly, its liabilities. This is expressed as a percentage, with fully funded status represented as 100% funded. The Fund's Actuary, AON Hewitt, carries out a full actuarial valuation every three years, with the last valuation undertaken based on the assets and membership at 31 March 2019 – the final valuation report was published on 31 March 2020.

### Investments

The Investment Strategy Statement sets out the Fund's strategy asset allocation (also known as the customised benchmark), a tailor made mix of investments which is reached after an Actuarial Valuation and subsequent Asset/Liability Study. The strategic asset allocation was last reviewed in September 2018. The Investment Strategy Statement was last reviewed and published in February 2019.

Monitoring investment performance is one way in which Members can assess how well the Fund is being managed. Performance is measured against the tailor-made mix of

investments which should produce returns over the medium and long term to meet the Fund's liabilities; the strategic asset allocation and customised benchmark.

The Fund's investment performance is measured by Portfolio Evaluation Limited (PEL), a leading provider of performance services to public and private sector pension schemes. Investment performance is reported as part of the Fund's Annual Report & Accounts and to the Pension Fund Committee each year.

Investment performance is measured against the customised benchmark over three time periods; one year, three year and ten year (i.e. short, medium and long term performance).

### **Pensions Administration**

Key Performance Indicators (KPIs) relating to pensions administration are included within the terms of the contract with XPS Administration and performance against those KPIs is monitored as part of that contract. The current KPIs and targets are:

<b>Pension Administration KPI</b>	<b>Target</b>
All new entrant processed within eighteen working days of receipt of notification being received by pensions.	98.50%
Transfer Values - To complete the process within one month of the date of receipt/request for payment.	98.50%
Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being received.	98.75%
Statements issued within ten working days - Estimate of benefits (of receipt of request) and Deferred Benefits (of receipt of all relevant information). (Formerly F68 and F72)	98.25%
Pension costs to be recharged monthly to all employers.	98.75%
Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	98.75%
Payment of retirement grant payment to be made within 6 working days of the later of the payment due date and the date of receiving all of the necessary information.	98.75%
Pay eligible pensioners a monthly pension on the dates specified by the Council.	100.00%
All calculations and payments are correct.	98.75%

These KPIs will be reviewed as part of the process for retendering the pensions administration contract, with a view to updating them and the target rates. Results against these KPIs are reported to each meeting of the Pension Fund Committee and the Pension Board.

## **Accounting**

The Fund's Annual Report and Accounts are prepared in line with the current guidelines and reported to the Teesside Pension Fund Committee. The Annual Report and Accounts are audited by the Fund's External Auditors (EY LLP). EY present their audit findings to the Teesside Pension Fund Committee and provide their audit opinion based on the findings of the report. The target is for the External Auditors to report that the Annual Report & Accounts show a true and fair view of the transactions the Fund.

To ensure there are adequate internal controls in place to manage and administer the Fund effectively, Internal Audit carry out an independent audit review every year, and the final reports are presented to the Teesside Pension Board. Internal Audit report their findings and an audit assurance level. The target for both internal audits is to receive an assurance level of a strong control environment.

## **Governance**

In addition to the Funding Strategy Statement and Investment Strategy Statement, the Fund is required to have in place a number of other key governance documents to allow the Fund to run effectively and smoothly. These additional governance documents are:

- Governance Policy and Compliance Statement
- Training Policy
- Conflicts of Interest Policy
- Risk Management Policy
- Procedures for Reporting Breaches of the Law
- Communication Policy
- Pension Administration Strategy and Employer Guide
- Discretions Policy and Fund Officers' Scheme of Delegation

All governance documents should be reviewed at least every three years to ensure they are still relevant and represent best practice.

A summary of performance against all targets is presented in Appendix B of this report.

## RISK MANAGEMENT

The Fund's Risk Management Policy details the risk management strategy for the Fund, including:

- The risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk.
- How risk management is implemented.
- Risk management responsibilities.
- The procedures that are adopted in the Fund's risk management process.
- The key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

Effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, the Fund can:

- Demonstrate best practice in governance.
- Improve financial management.
- Minimise the risk and effect of adverse conditions.
- Identify and maximise opportunities that might arise.
- Minimise threats.

The Fund adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance of the Fund at a strategic and operational level.

In relation to understanding and monitoring risk, the Administering Authority aims to:

- Integrate risk management into the culture and day-to-day activities of the Fund.
- Raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners).
- Anticipate and respond positively to change.
- Minimise the probability of negative outcomes for the Fund and its stakeholders.
- Establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice.
- Ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Fund, the Administering Authority will aim to comply with:

- The CIPFA Managing Risk publication.

- The Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes as they relate to managing risk.

The Fund's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections:



### **Risk Identification**

The risk identification process is both a proactive and reactive one: looking forward i.e. horizon scanning for potential risks, and looking back, by learning lessons from reviewing how previous decisions and existing processes have manifested in risks to the organisation.

### **Risk Analysis & Evaluation**

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the impact if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating.

When considering the risk rating, the Administering Authority will have regard to the existing controls in place and these will be summarised on the risk register.

### **Risk Response**

The extent to which the identified risks are covered by existing internal controls is reviewed to determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pension Fund Committee approval may be

required where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- **Tolerate** – the exposure of a risk may be tolerable without any further action being taken; this is partially driven by the Administering Authority's risk 'appetite' in relation to the Pension Fund;
- **Treat** – action is taken to constrain the risk to an acceptable level;
- **Terminate** – some risks will only be treatable, or containable to acceptable levels, by terminating the activity;
- **Transfer** - for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action.

### **Risk Monitoring & Review**

Risk monitoring is the final part of the risk management cycle and is the responsibility of the Pension Fund Committee. In monitoring risk management activity, the Committee considers whether:

- The risk controls taken achieved the desired outcomes
- The procedures adopted and information gathered for undertaking the risk assessment were appropriate
- Greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- There are any lessons to be learned for the future assessment and management of risks.

### **Risk Reporting**

Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to the internal controls, will be provided on an annual basis to the Pension Fund Committee – see attached Appendix C. The Pension Fund Committee will be provided with updates on a quarterly basis in relation to any changes to risks and any newly identified risks and a formal review will be carried out at least twice a year.

As a matter of course, the local Pension Board will be provided with the same information as is provided to the Pension Fund Committee and they will be able to provide comment and input to the management of risks.

In order to identify whether the objectives of this policy are being met, the Administering Authority will review the delivery of the requirements of this Policy on an annual basis taking into consideration any feedback from the local Pension Board.

The risks identified are of significant importance to the Pension Fund. Where a risk is identified that could be of significance to the Council it will be included in the Risk Register.

## Risk Matrix

The risk matrix is adapted from the one used by the Council and the External Auditor's assessment of materiality (for the 2020/21 audit £37.4 million) is used as a very high fund value for the purposes of scoring the identified risks.

<b>Likelihood</b>	<b>5</b>	<b>Almost Certain &gt;80%</b>	Low (5)	Medium (10)	Medium (15)	High (25)	High (35)
	<b>4</b>	<b>Likely 51% - 80%</b>	Low (4)	Low (8)	Medium (12)	High (20)	High (28)
	<b>3</b>	<b>Possible 21% - 50%</b>	Low (3)	Low (6)	Medium (9)	Medium (15)	High (21)
	<b>2</b>	<b>Unlikely 6- 20%</b>	Low (2)	Low (4)	Low (6)	Medium (10)	Medium (14)
	<b>1</b>	<b>Rare &lt;6%</b>	Low (1)	Low (2)	Low (3)	Low (5)	Low (7)
			<b>1</b>	<b>2</b>	<b>3</b>	<b>5</b>	<b>7</b>
			<b>Insignificant</b>	<b>Minor</b>	<b>Moderate</b>	<b>Major</b>	<b>Extreme</b>

## TRAINING PLAN

The Fund has adopted the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills. It is a requirement of the Code that an annual statement on compliance must be included in the Fund's Statement of Accounts.

Investment Officers are required to acquire, by examination, the Investment Management Certificate (IMC) or relevant qualification. Officers without the relevant qualification and with less than five years relevant experience must undergo a minimum of twenty hours relevant training.

The Principles included in the Myners Review of Institutional Investment included a requirement under "Effective Decision Making" that Trustees should have sufficient expertise and be offered appropriate training.

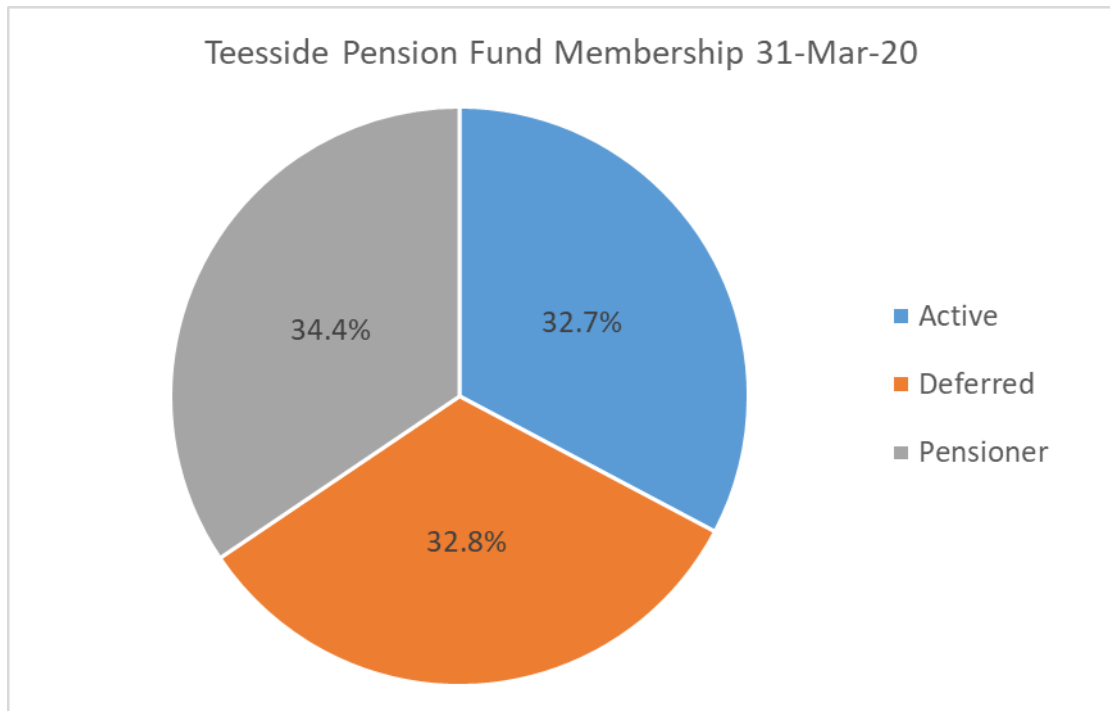
It is a requirement that all Members serving on the Teesside Pension Fund Committee and those who may act as substitute received adequate training. This facility is extended to also include non-Middlesbrough Council members of the Committee. All Teesside Pension Board Members have received training and undertaken the Pension Regulator's toolkit.

Training for Members and the staff employed by the Fund is essential as the Fund is moving to a position where it is effectively managing two critically important outsourcing contracts with Border to Coast managing the majority of the Fund's investment assets, and XPS Administration managing the Fund's pension administration service.

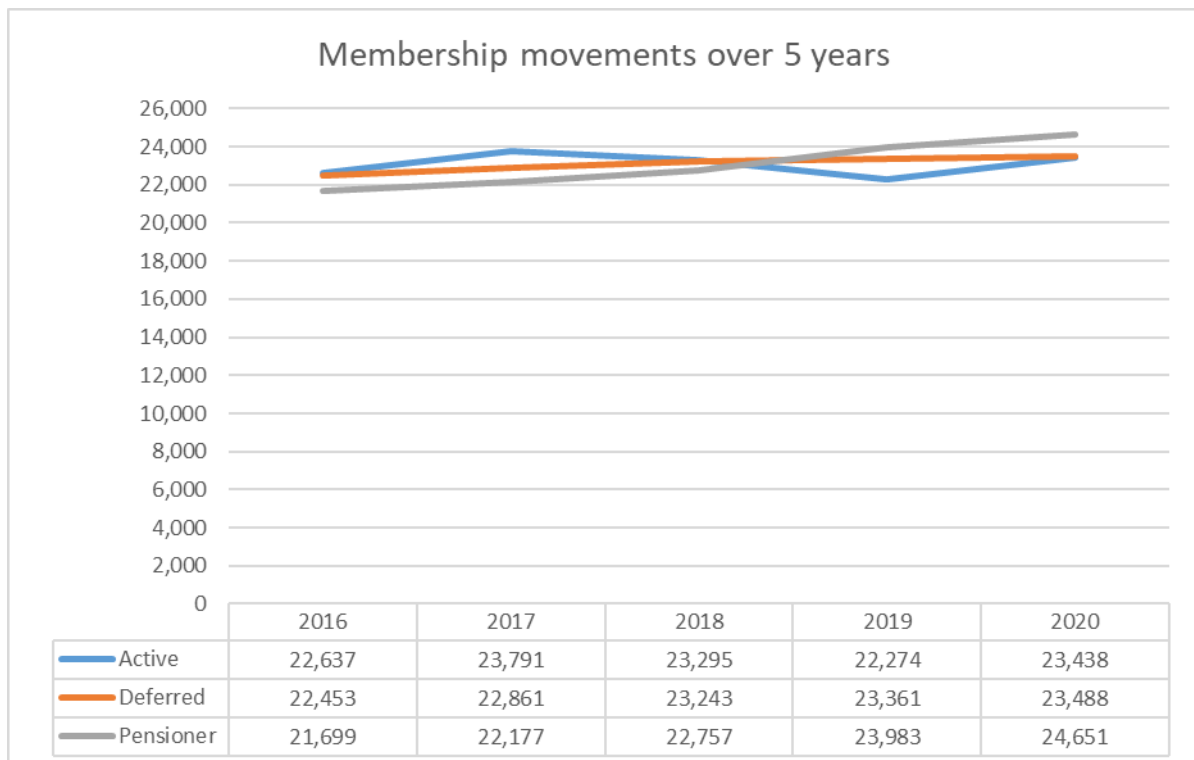
## MEMBERSHIP DATA

The total scheme membership for the Fund as at 31 March 2020 was 71,577 made up of the following membership types:



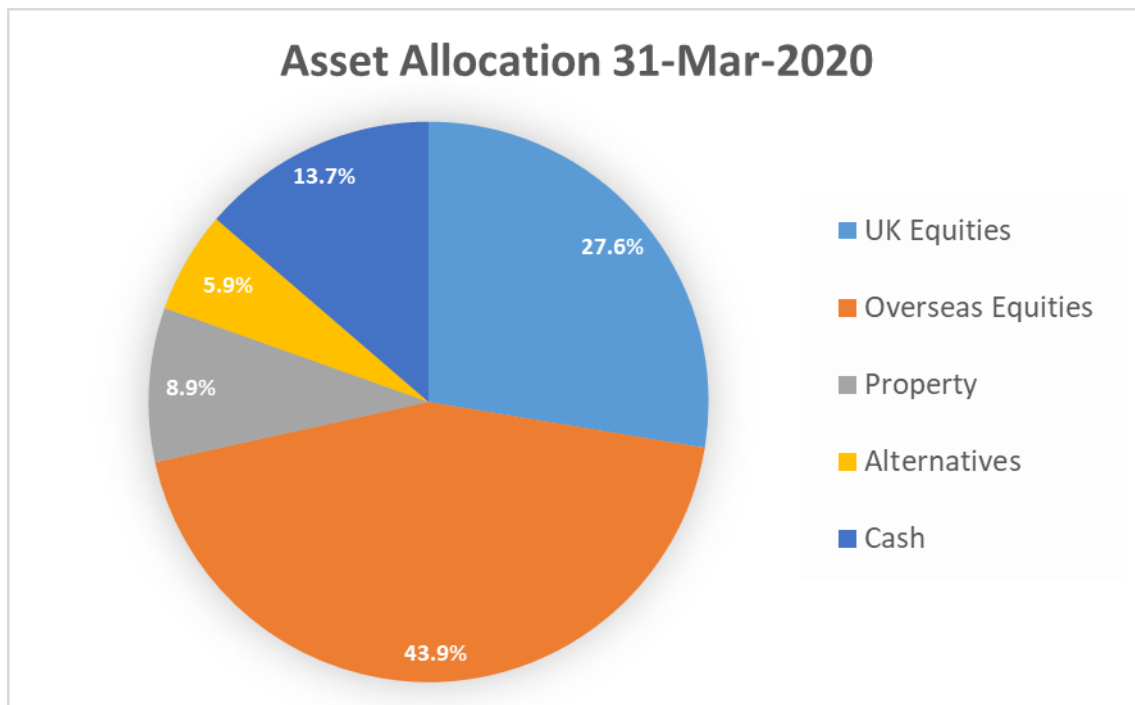


The changes to the scheme membership types is shown below. Whilst the total membership has increased by approx. 3,000 members over the period, the numbers of active members has fluctuated but increased slightly, whereas the numbers of deferred and pensioner members have increased more steadily over the period.

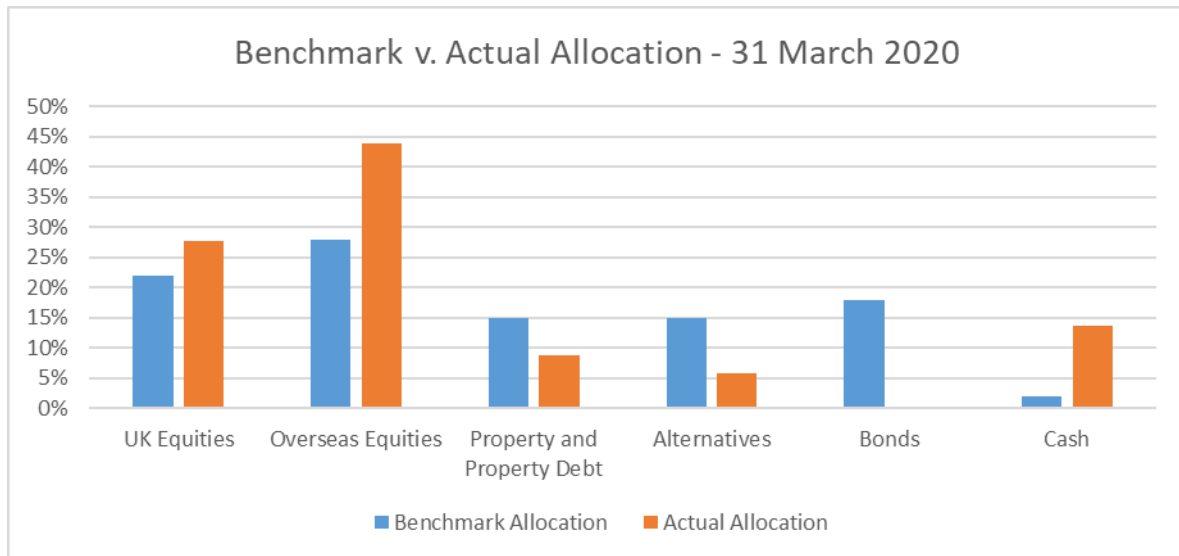


## INVESTMENTS AND FUNDING

The Pension Fund invests in a wide range of asset classes and regularly reviews its asset allocation policy to ensure that it remains appropriate for the Fund.



The Fund's Investment Strategy Statement sets out the Asset Allocation Strategy. This strategy is set for the long term and is reviewed every 3 years as part of the Fund's Asset/Liability study to ensure that it remains appropriate to the Fund's liability profile. As part of the strategy the Administering Authority has adopted a strategic benchmark representing the mix of assets best able to meet the long term liabilities of the Fund. A revised strategic benchmark was agreed by the Pension Fund Committee at its September 2018 meeting, and this revised benchmark was used to update the Investment Strategy Statement. As at 31 December 2019 the actual assets compared to the revised strategic benchmark as follows:



Actuarial valuations are carried out every three years with the last completed valuation dated 31 March 2019. These valuations calculate the value of the Fund’s liabilities and compare them to the market value of the assets to determine a funding ratio. At the 2019 valuation, there was a surplus of £527.3 million, which corresponded to a funding ratio of 115%.

The next triennial valuation (as at 31 March 2022) will be published by 31 March 2023. The result of that valuation will be implemented from 1 April 2023, with any changes to employer contribution rates due to take effect then.

**FUND ACCOUNT, INVESTMENT AND ADMINISTRATION COSTS**

The following table provides a summary of the fund account, investment and administration income and expenditure:

Description	2019-20 Actual £'000s	<b>2020-21 Estimate £'000s</b>	<b>2021-22 Estimate £'000s</b>
Contributions	-99,421	-97,125	-98,000
Transfers in from other pension funds	-8,546	-3,313	-5,000
Other income	-3,985	-7,713	-5,000
<b>Total income from members</b>	<b>-111,952</b>	<b>-108,151</b>	<b>-108,000</b>
Benefits payable	146,259	153,100	156,000
Payments to and on account of leavers	13,683	8,000	14,000
<b>Total expenditure to members</b>	<b>159,942</b>	<b>161,100</b>	<b>170,000</b>
Management expenses	7,455	6,623	8,000
<b>Total income less expenditure</b>	<b>55,445</b>	<b>59,572</b>	<b>70,000</b>
Investment income	-40,980	-28,255	-25,000
Change in Asset Market Value	368,157	0	0
<b>Net return on investments</b>	<b>327,177</b>	<b>-28,255</b>	<b>-25,000</b>
<b>Net (increase) / decrease in net assets available for benefits during the year</b>	<b>382,622</b>	<b>31,317</b>	<b>45,000</b>

Further detail behind the above summary is attached in Appendix D.

## ANNUAL PLAN FOR RECEIVING REPORTS

The Teesside Pension Fund Committee meets four times each year, with an additional meeting to approve the Annual Report & Accounts. These should be before the end of:

- June;
- July;
- September;
- December; and
- March.

This allows for the presentation of key reports, which are needed to meet statutory deadlines:

June	Fund Performance Report
July	Annual Report & Accounts Audit Report
September	Interim Actuarial Valuation Report (where relevant)
December	Shareholder Governance Annual Report
March	Business Plan Annual External Audit Plan

## FORWARD PLAN FOR KEY DECISIONS

A number of reviews and reports have been scheduled as a result of earlier Pension Fund Committee decisions and the requirement to put out to external tender services provided to the Fund. It may be necessary to delay non-contractual elements of the Plan, depending on resources available.

### 2021/22:

#### Pooling of Investment Assets:

- Continue to commit assets to Border to Coast's private equity and infrastructure funds as they become available.
- Commit assets to Border to Coast's emerging markets equity fund, subject to appropriate due diligence.

#### Pension Fund Governance:

- Complete the remaining part of the review of the Fund's Governance Arrangements (ensure the policies are in line with Regulations and the

Pension Regulator’s Code of Practise (Code 14), develop a new training plan for Investment Panel/Pension Board Members and implement new reporting processes after the review).

Pension Investments:

- Review management of Property assets – assess whether to pool direct property investment through Border to Coast.
- Implement the asset allocation instructions from the Pension Fund Committee.
- Monitor and report investment performance of the Fund, as measured against the Fund's customised benchmark.
- Continue to review and assess opportunities for investment in ‘alternatives’
- Assess any local investment opportunities that arise, with a view to making recommendations to the Pension Fund Committee where appropriate.
- Continue to monitor the Fund’s overweight equity position against its strategic asset allocation, and assess and implement protection approaches if appropriate.

Pension Administration:

- Continue to implement customer service improvements – updated website, better liaison with scheme employers
- Commence retendering exercise for pension administration

Funding:

- Continue to work with scheme employers to improve data quality prior to 31 March 2022 valuation.
- Review and update the Investment Strategy Statement if required.
- Re-tender actuary contract

**2022/23:**

- Asset/Liability Study.
- Review of the Governance Policies.
- Continue / complete transfer of investment assets to Border to Coast.
- Actuarial Valuation – work with actuary to determine and understand outcomes

**2023/24:**

- Transfer of property assets to Border to Coast (subject to value for money assessment)
- Assess Border to Coast’s performance

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# Teesside Pension Fund

## Our Service Promise

*We will provide a customer-focused pension service meeting the needs of members and employers, and manage the investments of the Fund to achieve solvency and long-term cost efficiency for our customers.*

**Contact:**

Nick Orton, Head of Pensions Governance and Investments  
nick\_orton@middlesbrough.gov.uk / 01642 729040.

### Scheme Members

---

- Payment of pension payments/retirement grants
- New entrants to the LGPS processed
- Accurate transfer values calculated and paid
- Provide annual benefit statements

### Scheme Employers

---

- Accurate contribution calculated and collected
- Pension costs accurately calculated and recharged
- Cash flow data supplied to the Actuary for IAS19/FRS17 reports

### Pension Fund Committee

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- Safe custody of the Fund's assets
- Invest the Fund's monies in accordance with LGPS Regulations and Pension Fund Committee instructions
- Manage the relationship with the Fund's pooling asset management company (Border to Coast Pensions Partnership)
- Report the Fund's investment transactions & asset valuations
- Produce a Business Plan for approval
- Hold accurate scheme membership data
- Statutory and selected non-statutory returns will be completed.

### Pension Board

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- Annual Report & Accounts produced in accordance with the latest CIPFA LGPS Code of Practice.



### What we'll do for you:

- We will administer and manage the Fund in accordance with the relevant statute and regulations.
- We will process transactions and payments listed in this Service Promise in line with the timescales stipulated.
- We will provide annual benefit statements to all scheme members, in accordance with the LGPS Regulations by 31 August every year.
- We will provide Rates & Adjustment Certificates to scheme employers following the triennial valuation of the Fund's assets and liabilities, in accordance with the LGPS Regulations by 31 March the year following the valuation.



### What you can do for us:

- Scheme employers provide all required information within the timeliness required for the task and in the format required.
- Scheme employers make contribution payments on time and in line with the Regulations and their Admission Agreements.
- Scheme employers provide a bond or other guarantee required by their Admission Agreements.
- All scheme members and scheme employers provide updated information relevant to the general upkeep of the data needed to maintain their records accurately.

## SUMMARY OF PERFORMANCE AGAINST TARGETS

### **Funding:**

	Target	Actual
2019 Triennial Actuarial Valuation	100%	100%

### **Investments:**

	As at 31 December 2020	
	Benchmark	Actual
Performance Return – 1 Year	3.7%	3.7%
Performance Return – 3 Year (per annum)	4.9%	4.6%
Performance Return – 5 Year (per annum)	9.3%	8.7%
Performance Return – 10 Year (per annum)	7.0%	7.9%

### **Pensions Administration:**

	As at 31 December 2020	
	Target	Actual
All new entrant processed within eighteen working days of receipt of notification being received by pensions.	98.50%	100.00%
Transfer Values - To complete the process within one month of the date of receipt/request for payment.	98.50%	100.00%
Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being received.	98.75%	100.00%
Statements issued within ten working days - Estimate of benefits (of receipt of request) and Deferred Benefits (of receipt of all relevant information). (Formerly F68 and F72)	98.25%	100.00%
Pension costs to be recharged monthly to all employers.	98.75%	100.00%

	As at 31 December 2020	
	Target	Actual
Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	98.75%	100.00%
Payment of retirement grant payment to be made within 6 working days of the later of the payment due date and the date of receiving all of the necessary information.	98.75%	100.00%
Pay eligible pensioners a monthly pension on the dates specified by the Council.	100.00%	100.00%
All calculations and payments are correct.	98.75%	100.00%

**Accounting:**

	Target	Actual
External Auditor Opinion	True & Fair View	True & Fair View
Internal Audit Opinion – Investments	Strong Control Environment	Strong Control Environment
Internal Audit Opinion – Administration	Strong Control Environment	Strong Control Environment

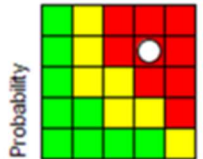
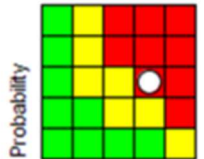
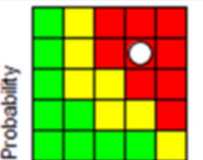
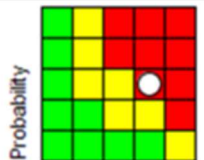


**Governance:**

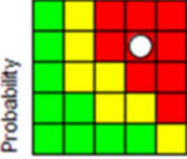
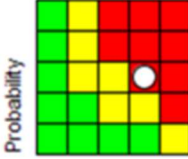
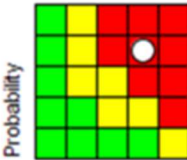
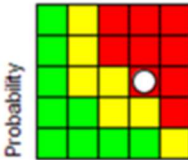


	Target	Actual
Funding Strategy Statement	Last 3 Years	2019
Investment Strategy Statement	Last 3 Years	2019
Governance Policy & Compliance Statement	Last 3 Years	2017
Training Policy	Last 3 Years	2017
Conflict of Interest Policy	Last 3 Years	2017
Risk Management Policy	Last 3 Years	2017
Procedures for Reporting Breaches of Law	Last 3 Years	2017
Communication Policy	Last 3 Years	2017
Pension Administration Strategy & Employer Guide	Last 3 Years	2017

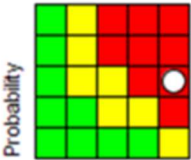
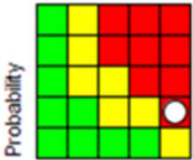
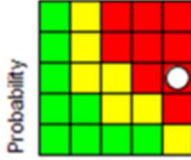
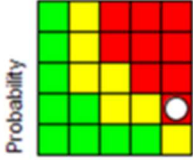
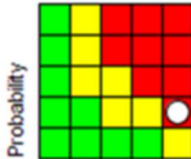
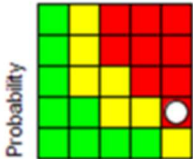
	Target	Actual
Discretions Policy & Fund Officers' Scheme of Delegation	Last 3 Years	2017

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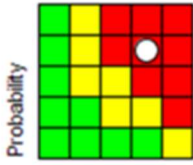
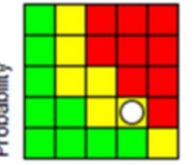

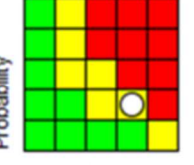

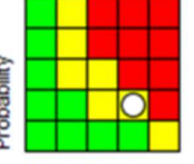
Teesside Pension Fund Risk Register

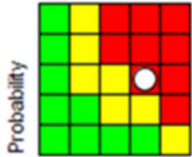
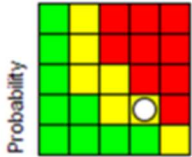
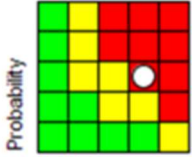
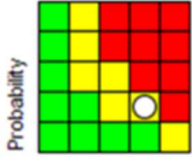

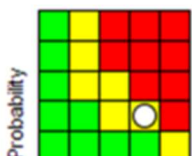
Code	Title	Original Score	Current Score
TPF001	<p>INFLATION</p> <p>Price inflation is significantly more than anticipated: an increase in CPI inflation by 1% more than anticipated will increase the liability valuation by 20%.</p> <p>Fund &amp; Reputation Impact-5 Employers Impact-5 Member Impact-5</p>	 <p>20</p>	 <p>15</p>
<b>Current Mitigation</b>		<b>Future Mitigation</b>	<b>Responsible Officer</b>
In assessing the member liabilities, the triennial Fund Actuary assumptions made for inflation are "conservatively" set based on independent economic data, and hedged against by setting higher investment performance targets.			Head of Pensions Governance and Investments
TPF002	<p>ADVERSE ACTUARIAL VALUATION</p> <p>Impact of increases to employer contributions following the actuarial valuation.</p> <p>Fund &amp; Reputation Impact-3 Employers Impact-5 Member Impact-1</p>	 <p>20</p>	 <p>15</p>
<b>Current Mitigation</b>		<b>Future Mitigation</b>	<b>Responsible Officer</b>
Interim valuations provide early warnings. Actuary has scope to smooth impact for most employers.			Head of Pensions Governance and Investments
TPF003	<p>GLOBAL FINANCIAL INSTABILITY</p> <p>Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, leading to tightened financial conditions, reduced risk appetite and raised credit risks.</p> <p>Fund &amp; Reputation Impact-5 Employers Impact-5 Member Impact-1</p>	 <p>20</p>	 <p>15</p>
<b>Current Mitigation</b>		<b>Future Mitigation</b>	<b>Responsible Officer</b>
Increasing investment diversification will allow the Fund to be better placed to withstand this type of economic instability. As a long-term investor the Fund does not have to be a forced seller of assets when they are depressed in value.			Head of Pensions Governance and Investments

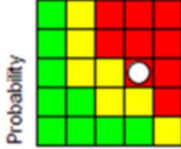
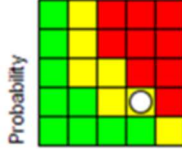
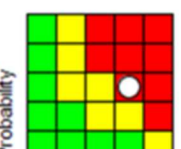
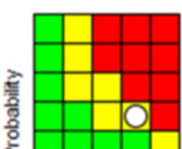
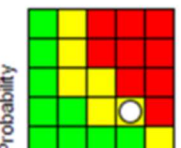

<p>TPF004</p>	<p>POLITICAL RISK</p> <p>Significant volatility and negative sentiment in investment markets following the outcome of adversely perceived political changes.</p> <p>Fund &amp; Reputation Impact-5 Employers Impact-5 Member Impact-1</p>	 <p>20</p>	 <p>15</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>Increasing investment diversification, including a global investment approach, will allow the Fund to be better placed to withstand this type of political instability. As a long-term investor the Fund does not have to be a forced seller of assets when they are depressed in value.</p>			<p>Head of Pensions Governance and Investments</p>
<p>TPF005</p>	<p>INVESTMENT CLASS FAILURE</p> <p>A specific industry investment class/market fails to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.</p> <p>Fund &amp; Reputation Impact-5 Employers Impact-5 Member Impact-1</p>	 <p>20</p>	 <p>15</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>Increasing investment diversification will allow the Fund to be better placed to withstand this type of market class failure. As a long-term investor the Fund does not have to be a forced seller of assets when they are depressed in value.</p>			<p>Head of Pensions Governance and Investments</p>
<p>TPF012</p>	<p>POOLING INVESTMENT UNDERPERFORMANCE</p> <p>Investments in the investment pool not delivering the required return.</p> <p>Fund &amp; Reputation Impact-5 Employers Impact-5 Member Impact-1</p>	 <p>15</p>	 <p>15</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
			<p>Head of Pensions Governance and Investments</p>

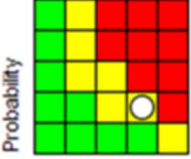
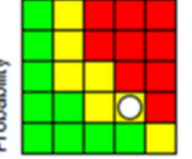
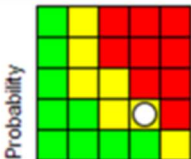
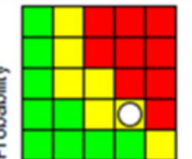

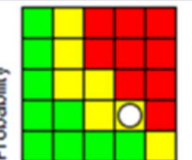
<p>TPF009</p>	<p>HIGHER THAN EXPECTED COSTS OF INVESTMENT POOLING</p> <p>Higher setup and ongoing costs of Border to Coast and of the management associated with investment pooling arrangements (or lack of reduction compared to current costs).</p> <p>Fund &amp; Reputation Impact-7 Employers Impact-2 Member Impact-1</p>	 <p>21</p>	 <p>14</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	
<p>Border to Coast's budget is set annually with the agreement of at least 9 of the 11 partner funds. Expenditure is monitored and reported to the quarterly Joint Committee meetings. Tenders for on-going suppliers and staff are all now in place.</p>		<p>Head of Pensions Governance and Investments</p>	
<p>TPF010</p>	<p>INADEQUATE POOLING TRANSPARENCY</p> <p>Lack of transparency around investment pooling arrangements.</p> <p>Fund &amp; Reputation Impact-7 Employers Impact-1 Member Impact-1</p>	 <p>21</p>	 <p>14</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	
<p>With the pooling of investment assets TPF staff will work closely with Border to Coast sub-fund asset managers and Border to Coast management to gain full clarity of performance, with training provided to TPF staff as required.</p>		<p>Head of Pensions Governance and Investments</p>	
<p>TPF021</p>	<p>INAPPROPRIATE INVESTMENT STRATEGY</p> <p>Mismatching of assets and liabilities, inappropriate long term asset allocation of investment strategy, mistiming of investment strategy.</p> <p>Fund &amp; Reputation Impact-7 Employers Impact-7 Member Impact-1</p>	 <p>14</p>	 <p>14</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	
<p>This is mitigated by the Triennial Valuation and the engagement of Two Independent Investment Advisors.</p>		<p>Head of Pensions Governance and Investments</p>	



<p>TPF007</p>	<p><b>KEYMAN RISK</b></p> <p>Concentration of knowledge &amp; skills in small number of officers and risk of departure of key staff - failure of succession planning.</p> <p>Fund &amp; Reputation Impact-5 Employers Impact-1 Member Impact-1</p>	 <p>20</p>	 <p>10</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	
<p>A deputy position was created in 2018/19 - this acts to support deputise as required from an investments perspective for the Head of Investments, Governance and Pensions.</p>		<p><b>Responsible Officer</b></p> <p>Head of Pensions Governance and Investments</p>	
<p>TPF008</p>	<p><b>INSUFFICIENT STAFF</b></p> <p>Causes failure to have time to adopt best practice by properly developing staff and processes.</p> <p>Fund &amp; Reputation Impact-5 Employers Impact-5 Member Impact-1</p>	 <p>20</p>	 <p>10</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	
<p>In preparation for the pooling of investment assets to Border to Coast, the team was expanded and has a total complement of 9 staff. Investment transaction volumes have significantly reduced owing to the change in investment approach.</p>		<p><b>Responsible Officer</b></p> <p>Head of Pensions Governance and Investments</p>	
<p>TPF011</p>	<p><b>UNANTICIPATED PAY RISES</b></p> <p>Increases are significantly more than expected for employers within the Fund.</p> <p>Fund &amp; Reputation Impact-5 Employers Impact-5 Member Impact-1</p>	 <p>15</p>	 <p>10</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	
<p>1) Fund employers will monitor own experience. 2)Triennial Actuarial valuation Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) will be long term assumptions, any employer specific assumptions above the actuaries long term assumption would lead to further review. 3) Employers are made aware of generic impact that salary increases can have upon final salary linked elements of LGPS benefits.</p>		<p><b>Responsible Officer</b></p> <p>Head of Pensions Governance and Investments</p>	

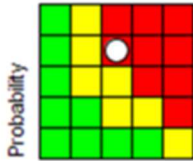
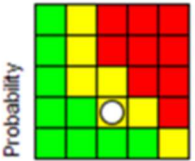

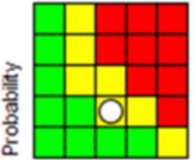
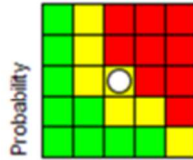
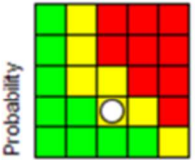
<p>TPF013</p>	<p><b>POOLING SYSTEMIC RISKS</b></p> <p>Systemic and other investment risks not being properly managed within the investment pool; for example appropriate diversification, credit, duration, liquidity and currency risks.</p> <p>Fund &amp; Reputation Impact-5 Employers Impact-5 Member Impact-1</p>	 <p>Probability</p> <p>Impact</p> <p>15</p>	 <p>Probability</p> <p>Impact</p> <p>10</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>Appropriate due diligence is carried out regarding the structure, targets, diversification and risk approach for each sub-fund before investment. In addition, The Pensions Head of Service and Section 151 officer, will closely monitor and review Border to Coast sub-fund investment elements on an on-going basis, and reported to TPF Committee and Board.</p>			<p>Head of Pensions Governance and Investments</p>
<p>TPF014</p>	<p><b>LONGEVITY</b></p> <p>Pensioners living longer: adding one year to life expectancy will increase pension fund liabilities by 8%</p> <p>Fund &amp; Reputation Impact-5 Employers Impact-5 Member Impact-1</p>	 <p>Probability</p> <p>Impact</p> <p>15</p>	 <p>Probability</p> <p>Impact</p> <p>10</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>In assessing the member longevity and pension liabilities, the Triennial Actuary assumptions made for longevity are "conservatively" set based on the latest life expectancy economic data. They are reviewed and updated at each three year Actuarial valuation. If required, further investigation can be carried out of scheme specific/employer longevity data.</p>			<p>Head of Pensions Governance and Investments</p>
<p>TPF017</p>	<p><b>BULK TRANSFER VALUE DISPUTE</b></p> <p>Failure to ensure appropriate transfer is paid to protect the solvency of the fund and equivalent rights are acquired for transferring members.</p> <p>Fund &amp; Reputation Impact-3 Employers Impact-5 Member Impact-1</p>	 <p>Probability</p> <p>Impact</p> <p>15</p>	 <p>Probability</p> <p>Impact</p> <p>10</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>A mechanism exists within the regulations to resolve such disputes - this should reduce the financial impact of any such event.</p>			<p>Head of Pensions Governance and Investments</p>

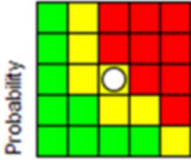



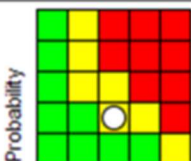

<p>TPF018</p>	<p>TPF INVESTMENT UNDERPERFORMANCE</p> <p>Investment Managers fail to achieve performance targets over the longer term: a shortfall of 1% on the investment target will result in an annual impact of £41m.</p> <p>Fund &amp; Reputation Impact-5 Employers Impact-5 Member Impact-1</p>	 <p>Probability</p> <p>Impact</p> <p>15</p>	 <p>Probability</p> <p>Impact</p> <p>10</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>1) The asset allocation made up of equities, bonds, property, cash etc funds, is sufficiently diversified to limit exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal asset allocation. 3) Actuarial valuation and asset/liability study take place automatically every three years. 4) Interim valuation data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance of a measure over CPI over gilts is regarded as achievable over the long-term when compared with historical data.</p>			<p>Head of Pensions Governance and Investments</p>
<p>TPF019</p>	<p>TPF GOVERNANCE SKILLS SHORTAGE</p> <p>Lack of knowledge of Committee &amp; Board members relating to the investment arrangement and related legislation and guidance.</p> <p>Fund &amp; Reputation Impact-5 Employers Impact-3 Member Impact-1</p>	 <p>Probability</p> <p>Impact</p> <p>15</p>	 <p>Probability</p> <p>Impact</p> <p>10</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>Pension Fund Committee new members have an induction programme and will have subsequent training based on the requirements of CIPFA Knowledge and Skills Framework including Pooling.</p>			<p>Head of Pensions Governance and Investments</p>
<p>TPF025</p>	<p>OUTSOURCED MEMBER ADMIN FAILURE</p> <p>XPS Administration service fails to the point where it is unable to deliver its contractual services to employers and members.</p> <p>Fund &amp; Reputation Impact-1 Employers Impact-1 Member Impact-5</p>	 <p>Probability</p> <p>Impact</p> <p>10</p>	 <p>Probability</p> <p>Impact</p> <p>10</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>XPS Administration is a well-resourced established pensions administration provider which is not in financial difficulty.</p>			<p>Head of Pensions Governance and Investments</p>

<p>TPF026</p>	<p><b>INSECURE DATA</b> Failure to hold personal data securely - i.e data stolen. Fund &amp; Reputation Impact-3 Employers Impact-1 Member Impact-5</p>	 <p>10</p>	 <p>10</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>XPS Administration have advised they are not aware of any attempted hacking events, and they have suitable data security measures in place.</p>			<p>Head of Pensions Governance and Investments</p>
<p>TPF028</p>	<p><b>INADEQUATE POOLING INVESTMENT EXPERTISE</b> Inadequate, inappropriate or incomplete investment expertise exercised over the pooled assets. Fund &amp; Reputation Impact-5 Employers Impact-5 Member Impact-1</p>	 <p>10</p>	 <p>10</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>Border to Coast has completed recruitment of experienced and capable management team, alongside most of its final expected complement of 90+ staff.</p>			<p>Head of Pensions Governance and Investments</p>
<p>TPF029</p>	<p><b>INSUFFICIENT RANGE OF POOLING ASSET CLASSES</b> Insufficient range of asset classes or investment styles being available through the investment pool. Fund &amp; Reputation Impact-5 Employers Impact-3 Member Impact-1</p>	 <p>10</p>	 <p>10</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>There is now in place a roll-out plan of different asset classes and engagement with Border to Coast to identify relevant future asset classes</p>			<p>Head of Pensions Governance and Investments</p>

TPF031	INTERNAL COMPLIANCE FAILURES Failure to comply with recommendations from the local pension board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator. Fund & Reputation Impact-5 Employers Impact-1 Member Impact-1		10		10
	<b>Current Mitigation</b>	<b>Future Mitigation</b>	<b>Responsible Officer</b>		
The Pension Board is able to make direct recommendations to the Pension Fund Committee if necessary and officers will ensure these are followed up and progress tracked and reported.				Head of Pensions Governance and Investments	
TPF030	COMMITTEE MEMBERSHIP CHANGE Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding. Fund & Reputation Impact-2 Employers Impact-1 Member Impact-1		8		8
	<b>Current Mitigation</b>	<b>Future Mitigation</b>	<b>Responsible Officer</b>		
Officers and advisers provide continuity and training following changes to Committee membership.				Head of Pensions Governance and Investments	
TPF039	BORDER TO COAST FAILURE Failure of the operator itself, or its internal risks and controls failure of corporate governance, responsible investment, or the failure to exercise voting rights according to policy. Fund & Reputation Impact-7 Employers Impact-4 Member Impact-1		7		7
	<b>Current Mitigation</b>	<b>Future Mitigation</b>	<b>Responsible Officer</b>		
Officers liaise closely with Border to Coast and receive regular updates on its plans, finances and ongoing development				Head of Pensions Governance and Investments	



<p>TPF015</p>	<p>EMPLOYER FAILURE</p> <p>An employer ceasing to exist with insufficient funding, or being unable to meet its financial commitments, adequacy of bond or guarantee. Any shortfall would be attributed to the fund as a whole.</p> <p>Fund &amp; Reputation Impact-2 Employers Impact-3 Member Impact-3</p>	 <p>12</p>	 <p>6</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>1) Fund employers should monitor own experience. 2) Triennial Actuarial Assumptions will account for the possibility of employer(s) failure (for the purposes of IAS19/FRS102 and actuarial valuations). Any employer specific assumptions above the actuaries long term assumption, would lead to further review. 3) Employer covenant review.</p>			<p>Head of Pensions Governance and Investments</p>
<p>TPF016</p>	<p>ADVERSE LEGISLATIVE CHANGE</p> <p>Risk of changes to legislation, tax rules etc.; resulting in increases required in employer contributions.</p> <p>Fund &amp; Reputation Impact-3 Employers Impact-3 Member Impact-3</p>	 <p>12</p>	 <p>6</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>The process of legislative change and the actuarial valuation cycle means any such change would be flagged up well in advance. The actuary has scope to mitigate any contribution increase in respect of most Fund employers.</p>			<p>Head of Pensions Governance and Investments</p>
<p>TPF022</p>	<p>GDPR COMPLIANCE</p> <p>Non-compliance with GDPR regulations.</p> <p>Fund &amp; Reputation Impact-3 Employers Impact-1 Member Impact-1</p>	 <p>9</p>	 <p>6</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>Data protection privacy notices have been distributed by XPS Administration. The Council has established GDPR-compliant processes and procedures.</p>			<p>Head of Pensions Governance and Investments</p>

<p>TPF023</p>	<p><b>INACCURATE DATA RECORD COLLATION</b></p> <p>Failure to maintain proper, accurate and complete data records leading to increased errors and complaints.</p> <p>Fund &amp; Reputation Impact-1 Employers Impact-3 Member Impact-3</p>	 <p>9</p>	 <p>6</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>Administration data quality is being assessed as part of the triennial valuation process, as well as being assessed regularly in order to meet Pensions Regulator requirements on scheme data.</p>			<p>Head of Pensions Governance and Investments</p>
<p>TPF024</p>	<p><b>STRUCTURAL CHANGES TO EMPLOYER MEMBERSHIP</b></p> <p>Risk that TPF are unaware of structural changes to an employer's membership, or changes (e.g. closing to new entrants) meaning the individual employer's contribution level becomes inappropriate.</p> <p>Fund &amp; Reputation Impact-2 Employers Impact-3 Member Impact-2</p>	 <p>9</p>	 <p>6</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>The XPS Administration employer liaison team will improve this by working closely with employers.</p>			<p>Head of Pensions Governance and Investments</p>
<p>TPF032</p>	<p><b>INADEQUATE POOLING DATA</b></p> <p>Inability to gather robust, quality or timely information from Border to Coast.</p> <p>Fund &amp; Reputation Impact-3 Employers Impact-1 Member Impact-1</p>	 <p>6</p>	 <p>6</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>With the pooling of investment assets TPF staff will work closely with Border to Coast sub-fund asset managers and Border to Coast management to gain full clarity and reporting of performance, with training provided to TPF staff as required.</p>			<p>Head of Pensions Governance and Investments</p>

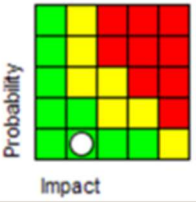
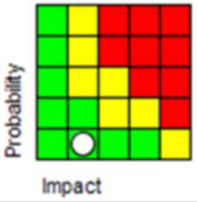
TPF033	ESG REPUTATIONAL DAMAGE Insufficient attention to environmental, social and governance (ESG) leads to reputational damage. Fund & Reputation Impact-2 Employers Impact-1 Member Impact-1	 Probability Impact	6	 Probability Impact	6
	<b>Current Mitigation</b>	<b>Future Mitigation</b>	<b>Responsible Officer</b>		
Border to Coast provides increased focus on Responsible Investment.				Head of Pensions Governance and Investments	
TPF034	THIRD PARTY SUPPLIER FAILURE Financial failure of third party supplier results in service impairment and financial loss. Fund & Reputation Impact-3 Employers Impact-3 Member Impact-1	 Probability Impact	6	 Probability Impact	6
	<b>Current Mitigation</b>	<b>Future Mitigation</b>	<b>Responsible Officer</b>		
Suppliers' financial stability is assessed through the procurement process				Head of Pensions Governance and Investments	
TPF035	PROCUREMENT PROCESS CHALLENGES Procurement processes may be challenged if seen to be non-compliant with public sector procurement rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non-compliant process. Fund & Reputation Impact-3 Employers Impact-1 Member Impact-1	 Probability Impact	6	 Probability Impact	6
	<b>Current Mitigation</b>	<b>Future Mitigation</b>	<b>Responsible Officer</b>		
Council's procurement team is consulted throughout procurement processes				Head of Pensions Governance and Investments	



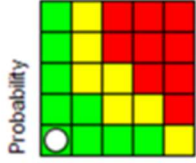
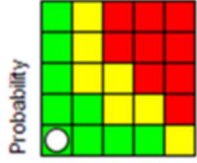
<p>TPF036</p>	<p>ASSET POOLING TRANSITION RISK</p> <p>Loss or impairment as a result of Asset transition. Fund &amp; Reputation Impact-3 Employers Impact-3 Member Impact-1</p>	<p>6</p>	<p>6</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>Asset transitions closely monitored and evaluated, using specialist transition manager support where appropriate</p>			<p>Head of Pensions Governance and Investments</p>
<p>TPF037</p>	<p>COMPLIANCE FAILURES</p> <p>Failure to comply with legislative requirements e.g. SIP, FSS, Governance Policy, Freedom of Information requests, Code of Practice 14.</p> <p>Fund &amp; Reputation Impact-3 Employers Impact-2 Member Impact-0</p>	<p>6</p>	<p>6</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>Robust processes are in place for responding to information requests within statutory deadlines and to ensure production of scheme information at appropriate times</p>			<p>Head of Pensions Governance and Investments</p>
<p>TPF038</p>	<p>CUSTODY DEFAULT</p> <p>The risk of losing economic rights to pension fund assets, when held in custody or when being traded. The risk might arise from missed dividends or corporate actions (e.g. rights issues) or problems arising from delays in trade settlements.</p> <p>Fund &amp; Reputation Impact-3 Employers Impact-3 Member Impact-1</p>	<p>6</p>	<p>6</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>Good relationship maintained with Global Custodian, advice sought as required</p>			<p>Head of Pensions Governance and Investments</p>

TPF020	INADEQUATE BORDER TO COAST OVERSIGHT Insufficient resources to properly monitor pooling & Border to Coast. Fund & Reputation Impact-5 Employers Impact-5 Member Impact-1	 Probability Impact	15	 Probability Impact	5
	<b>Current Mitigation</b>	<b>Future Mitigation</b>	<b>Responsible Officer</b>		
Sufficient resources exist within the team to oversee and monitor Border to Coast. External providers are also involved, such as Portfolio Evaluation Limited and the two independent investment advisors.				Head of Pensions Governance and Investments	
TPF042	DECISION MAKING FAILURES Failure to take difficult decisions inhibits effective Fund management. Fund & Reputation Impact-5 Employers Impact-2 Member Impact-1	 Probability Impact	5	 Probability Impact	5
	<b>Current Mitigation</b>	<b>Future Mitigation</b>	<b>Responsible Officer</b>		
Committee and officers receive support from two Independent Investment Advisors				Head of Pensions Governance and Investments	
TPF043	CASH INVESTMENT FRAUD Financial loss of cash investments from fraudulent activity. Fund & Reputation Impact-5 Employers Impact-5 Member Impact-1	 Probability Impact	5	 Probability Impact	5
	<b>Current Mitigation</b>	<b>Future Mitigation</b>	<b>Responsible Officer</b>		
Appropriate internal processes and checks are in place				Head of Pensions Governance and Investments	
TPF027	SCHEME MEMBER FRAUD Fraud by scheme members or their relatives (e.g. identity, death of member). Fund & Reputation Impact-1 Employers Impact-1 Member Impact-2	 Probability Impact	8	 Probability Impact	4
	<b>Current Mitigation</b>	<b>Future Mitigation</b>	<b>Responsible Officer</b>		
XPS Administration has identification and validation processes in place				Head of Pensions Governance and Investments	

TPF040	INACCURATE FUND INFORMATION In public domain leads to damage to reputation and loss of confidence. Fund & Reputation Impact-2 Employers Impact-2 Member Impact-1	4	4	Responsible Officer Head of Pensions Governance and Investments
	<b>Current Mitigation</b> Information reviewed prior to publication	<b>Future Mitigation</b>		
TPF041	LIQUIDITY SHORTFALLS Risk of illiquidity due to difficulties in realising investments and paying benefits to members as they fall due. Fund & Reputation Impact-2 Employers Impact-1 Member Impact-1	4	4	Responsible Officer Head of Pensions Governance and Investments
	<b>Current Mitigation</b> Cash balances are likely to remain high in the short to medium term	<b>Future Mitigation</b>		
TPF044	ICT SYSTEMS FAILURE Prolonged administration ICT systems failure. Fund & Reputation Impact-2 Employers Impact-2 Member Impact-3	3	3	Responsible Officer Head of Pensions Governance and Investments
	<b>Current Mitigation</b> ICT systems at Council and at XPS are backed up regularly – disaster recovery procedures are in place	<b>Future Mitigation</b>		

TPF045	CONTRIBUTION COLLECTION FAILURE Failure to collect employee/er member pension contributions. Fund & Reputation Impact-1 Employers Impact-2 Member Impact-1	 2	 2
	<b>Current Mitigation</b>	<b>Future Mitigation</b>	<b>Responsible Officer</b>
	Employer contribution receipt is monitored on a monthly basis, with exceptions reported back to officers as required and to Committee on a quarterly basis		Head of Pensions Governance and Investments
TPF046	INADEQUATE DISPUTES RESOLUTION PROCESS Failure to agree and implement an appropriate complaints and disputes resolution process. Fund & Reputation Impact-1 Employers Impact-2 Member Impact-2	 2	 2
	<b>Current Mitigation</b>	<b>Future Mitigation</b>	<b>Responsible Officer</b>
	Process is in place and has been operating successfully for several years		Head of Pensions Governance and Investments
TPF047	BORDER TO COAST CESSATION Partnership disbands.. Fund & Reputation Impact-2 Employers Impact-2 Member Impact-1	 2	 2
	<b>Current Mitigation</b>	<b>Future Mitigation</b>	<b>Responsible Officer</b>
	Advance warning would be given of any cessation, Assets could be moved and reinvested elsewhere as required.		Head of Pensions Governance and Investments

TPF048	<p>POOLING CUSTODIAN FAILURE</p> <p>Failure to ensure safe custody of assets.</p> <p>Fund &amp; Reputation Impact-2 Employers Impact-2 Member Impact-1</p>		
	<p><b>Current Mitigation</b></p>	<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p> <p>Head of Pensions Governance and Investments</p>
TPF049	<p>OFFICER FRAUD</p> <p>Fraud by administration staff.</p> <p>Fund &amp; Reputation Impact-5 Employers Impact-1 Member Impact-1</p>		
	<p><b>Current Mitigation</b></p> <p>Appropriate internal processes and checks are in place</p>	<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p> <p>Head of Pensions Governance and Investments</p>
TPF050	<p>EXCESSIVE ADMIN COSTS</p> <p>Excessive costs of member benefit administration leads to lack of VFM and loss of reputation.</p> <p>Fund &amp; Reputation Impact-1 Employers Impact-1 Member Impact-1</p>		
	<p><b>Current Mitigation</b></p> <p>Costs are agreed in advance through the contract with any variation requiring prior agreement</p>	<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p> <p>Head of Pensions Governance and Investments</p>
TPF051	<p>ERRONEOUS MEMBER BENEFIT CALCS</p> <p>Risk of incorrect calculation of members benefits.</p> <p>Fund &amp; Reputation Impact-1 Employers Impact-1 Member Impact-2</p>		
	<p><b>Current Mitigation</b></p> <p>XPS Administration is responsible for ensuring quality of output and rectifying any errors</p>	<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p> <p>Head of Pensions Governance and Investments</p>

<p>TPF052</p>	<p>INADEQUATE MEMBER COMMS</p> <p>Increased workload for pensions team or increased opt-outs if communications inadequate or misunderstood.</p> <p>Fund &amp; Reputation Impact-2 Employers Impact-1 Member Impact-1</p>	 <p style="text-align: center;">1</p>	 <p style="text-align: center;">1</p>
<p><b>Current Mitigation</b></p>		<p><b>Future Mitigation</b></p>	<p><b>Responsible Officer</b></p>
<p>Member communications drafted by XPS Administration are reviewed and agreed by the Head of Pensions Governance and Investments</p>			<p>Head of Pensions Governance and Investments</p>

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### ***Fund account, investment and administration - detailed analysis***

	<b>2019-20 Actual £'000s</b>	<b>2020-21 Estimate £'000s</b>
<b><i>Income from members</i></b>		
<i>Employers contributions normal</i>	-68,491	-66,000
<i>Employers contributions additional</i>	-12	-5
<i>Employers contributions deficit recovery</i>	-1,004	-1,120
<i>Members contributions</i>	-29,914	-30,000
<i>Transfers in from other schemes</i>	-8,546	-3,313
<i>Other income</i>	-3,985	-7,713
	<b>-111,952</b>	<b>-108,151</b>

	<b>2019-20 Actual £'000s</b>	<b>2020-21 Estimate £'000s</b>
<b><i>Expenditure to members</i></b>		
<i>Pensions paid</i>	119,302	125,000
<i>Commutations and lump sum retirement benefits</i>	24,257	25,000
<i>Lump sum death benefits</i>	2,700	3,100
<i>Payments to and on account of leavers</i>	13,683	8,000
	<b>159,942</b>	<b>161,100</b>



	<b>2019-20 Actual £'000s</b>	<b>2020-21 Estimate £'000s</b>
<b>Management expenses:</b>		
<b>Administration costs</b>	<b>2,185</b>	<b>1,389</b>
<b>Investment management expenses</b>		
<i>Custody fees</i>	14	14
<i>External investment management expenses</i>	840	900
<i>Internal investment management expenses</i>	506	520
<i>Transaction costs</i>	120	200
<b>Total Investment management expenses</b>	<b>1,480</b>	<b>1,634</b>
<b>Oversight &amp; governance costs</b>		
<b>Total Oversight &amp; governance costs</b>	<b>3,790</b>	<b>3,600</b>
	<b>7,455</b>	<b>6,623</b>

	<b>2019-20 Actual £'000s</b>	<b>2020-21 Estimate £'000s</b>
<b>Investment Income</b>		
<i>Investment income from bonds</i>	0	
<i>Investment income from equities</i>	-1,511	0
<i>Investment income from pooled investment vehicles</i>	-19,253	-11,578
<i>Other investment income</i>	0	
<i>Property gross rental income</i>	-15,870	-14,604
<i>Property expenses</i>	188	462
<i>Interest on cash deposits</i>	-4,534	-2,535
	<b>-40,980</b>	<b>-28,255</b>

## TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 11

### PENSION FUND COMMITTEE REPORT

10 MARCH 2021

DIRECTOR OF FINANCE – IAN WRIGHT

#### Update on Current Issues

#### 1. PURPOSE OF THE REPORT

- 1.1 To provide Members with an update on current issues affecting the Pension Fund locally or the Local Government Pension Scheme (LGPS) in general.

#### 2. RECOMMENDATIONS

- 2.1 That Members note this report.

#### 3. FINANCIAL IMPLICATIONS

- 3.1 There are no specific financial implications in respect of the information contained in this report.

#### 4. REGULATIONS IMPOSING £95,000 EXIT CAP REVOKED

- 4.1 The government has a long-standing manifesto commitment to restrict the level of payment that can be made to individuals leaving the public sector to under £100,000. In November 2020 regulations came into effect that would cap the maximum payment made to (or in respect of) someone leaving Local Government Pension Scheme (LGPS) employment at £95,000. However, these regulations were problematic as when they were introduced they directly contradicted existing LGPS regulations which have not yet been updated. This anomaly, and some concerns about the consultation process, meant the government was facing several judicial reviews in relation to the introduction of the capping regulations, and these were due to be heard from March 2021.
- 4.2 Before these judicial reviews could be heard, on 12 February 2021 the government announced that it was revoking the LGPS £95,000 cap regulations and subsequently clarified that anyone who had been subject to the cap since they took effect (on 4 November 2020) should have their benefits recalculated and paid without any cap applying.
- 4.3 This is seemingly just a pause in the implantation of a cap on exit payments, as the guidance revoking the cap regulations included the following statement:

“For the avoidance of doubt, it is still vital that exit payments deliver value for the taxpayer and employers should always consider whether exit payments are fair and proportionate. HM Treasury will bring forward proposals at pace to tackle unjustified exit payments.”

- 4.4 It seems likely that further regulations will be brought forward that introduce a similar cap on exit payments, presumably at the same time as wider reform of LGPS exit payments is put in place.
- 4.5 Employers in the Fund had already been advised to act with caution in respect of any payments made to individuals who were subject to the £95,000 cap. XPS has advised that they are not aware of anyone who has left employment from a Fund employer since 4 November 2020 who would have been subject to the (now revoked) £95,000 cap regulations.

## **5. SCHEME ADVISORY BOARD – GOOD GOVERNANCE REVIEW FINAL REPORT**

- 5.1 The Scheme Advisory Board (SAB) has published its final report on Good Governance in the LGPS, and has also issued an action plan to the government giving its recommendations on improving the governance of the LGPS. A copy of the report is enclosed at Appendix A.
- 5.2 Most of the recommendations in the report build on those included in the earlier report that the SAB produced, which was presented to the 22 January 2020 Pension Fund Committee. The recommendations made in the report are as follows:
- A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).
  - A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund (“the LGPS senior officer”).
  - A.3 Each administering authority must publish an annual governance compliance statement (GCS) that sets out how they comply with the governance requirements for LGPS funds, as per statutory Guidance. This statement must be co-signed by the LGPS senior officer and S151.
  - B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance.
  - B.2 The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB
  - C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to voting rights for each party.

- D.1 Introduce a requirement via the Guidance for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
- D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding.
- D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
- D.4 CIPFA should be asked to produce appropriate guidance and training modules for s151 officers.
- E.1 Each administering authority must document key roles and responsibilities relating to the LGPS and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution, and be consistent with role descriptions and business processes.
- E.2 Each administering authority must publish an administration strategy.
- E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service
- E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.
- F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.
- F.2 LGA to consider establishing a peer review process for LGPS Funds.

5.3 Assuming the government adopts these recommendations, some of the most significant changes affecting our Fund will be:

- A more detailed conflicts of interest policy will be required
- A requirement for all officers and Committee members involved in the LGPS to have an appropriate level of knowledge and understanding to carry out their roles effectively
- The Fund's performance against nationally set indicators on governance and administration should be reported.
- The Fund's governance should be subject to a biennial governance review.

## **6 INCREASING THE NORMAL MINIMUM PENSION AGE: CONSULTATION ON IMPLEMENTATION.**

- 6.1 Her Majesty's Treasury (HMT) published a consultation document on 11 February 2021 confirming the government's commitment to increase the minimum pension age from 55 to 57 (with some limited exceptions) from 6 April 2028.
- 6.2 The consultation seeks views on the implementation of the increase to the minimum pension age and the proposed protections for existing members. As set out in the consultation, the proposed protections would mean those scheme members who remain in active scheme membership after the 2028 cut-off date would continue to be able to draw their pension benefits from as early as age 55, but they would lose this protection if they left employment before drawing their benefits.
- 6.3 The closing date for the consultation is 21 April 2021. The Local Government Association has said it will share a draft response to the consultation with LGPS Funds before the closure date. This response is expected to cover any relevant LGPS-specific issues that need raising.

## **7. NEXT STEPS**

- 7.1 Further updates will be provided periodically.

CONTACT OFFICER: Nick Orton – Head of Pensions Governance and Investments

TEL NO.: 01642 729040

# Good Governance: Phase 3 Report to SAB

February 2021

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## Good Governance: Phase 3

### Report to SAB

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## Introduction

The Scheme Advisory Board accepted the proposals in the Good Governance report Phase 2 on 3 February 2020 and requested that the project team and working groups provide further detail on the implementation of these proposals. The project has suffered delays as a result of COVID and the requirement for key stakeholders in their main roles to focus on and prioritise the response to the pandemic. However, some meetings were held early in 2020 and working papers and notes have been circulated over the last months to collate feedback and reflect the wide range of views from the group.

We considered that some proposals from Phase 2 didn't need further detail in order to progress with implementation and focussed on the proposals which needed further analysis or consideration ahead of implementation. We have provided additional details on these proposals for the consideration of the SAB. This paper should be read in conjunction with the paper from Phase 2.

For reference, all the proposals from Phase 2 are listed below and we have indicated with a \* the proposals addressed further in this report.

Area	Proposal
A. General	* <b>A.1</b> MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. ("the Guidance").
	* <b>A.2</b> Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. ("the LGPS senior officer").
	<b>A.3</b> Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be co-signed by the LGPS senior officer and S151.
B. Conflicts of interest	* <b>B.1</b> Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance.
	* <b>B.2</b> The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB – <b>now updated*</b>
C. Representation	* <b>C.1</b> Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to voting rights for each party.
D. Knowledge and understanding	* <b>D.1</b> Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
	* <b>D.2</b> Introduce a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding.
	* <b>D.3</b> Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
	* <b>D.4</b> CIPFA should be asked to produce appropriate guidance and training modules for s151 officers.
E. Service Delivery for the LGPS Function	<b>E.1</b> Each administering authority must document key roles and responsibilities relating to the LGPS and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of



	delegation and constitution and be consistent with role descriptions and business processes.
	*E.2 Each administering authority must publish an administration strategy.
	*E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.
	*E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.
F. Compliance and improvement	*F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.
	F.2 LGA to consider establishing a peer review process for LGPS Funds.

### Atypical administering authorities

This report has been drafted largely using terminology relevant to the majority of administering authorities who are local authorities. However, it is recognised that there are some administering authorities which do not fit this model. In taking forward any of the proposals outlined in this report it will be necessary to ensure that principles can be applied universally to LGPS funds and that any guidance recognises the unique position of some funds.

### Use of terms

Throughout this document the following terms have a specific meaning unless the context makes clear that another meaning is intended;

**Administering authority** refers to a body listed in part 1 of Schedule 3 to the LGPS Regulations 2013 that is required to maintain an LGPS pension fund. In particular the term is used here when such a body is carrying out LGPS specific functions.

For example "Each administering authority must publish an annual report".

**Committee** a committee formed under s101 of the Local Government Act 1972 to which the administering authority delegates LGPS responsibilities and decision making powers. Alternatively, can refer to an advisory committee or panel which makes recommendations on LGPS matters to an individual to whom the administering authority has delegated LGPS decision making responsibility.

For example "The pensions committee should have a role in developing the business plan".

**Host authority** refers to a council or other body that is also an administering authority but is used to refer to that body when it is carrying out wider non-LGPS specific functions.

For example "Delivery of the LGPS function must be consistent with and comply with the constitution of the host authority"

**The fund** carries a more general meaning and is used to refer to the various activities and functions that are necessary in order to administer the LGPS.

For example "Taking this course of action will improve the fund's administration".

Alternatively, the term is used in the context of the scheme members and employers who contribute to the LGPS arrangements of a specific administering authority.

For example “The number of fund employers has increased in recent years”.

# Further Discussion on Recommendations

## A General

**A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).**

The intention throughout this review has been that any SAB recommendations should be enacted via the introduction of new statutory governance guidance which will supersede current guidance<sup>1</sup>. It was felt that this approach would be quicker and more responsive than relying on changes to secondary legislation. The LGPS regulations contain a provision<sup>2</sup> that allows the secretary of state to issue guidance on the administration and management of the scheme.

We have noted that the outcome of The Supreme Court’s judgment on LGPS boycotts (The Palestinian Case)<sup>3</sup> may impact the extent to which future changes are enacted through guidance rather than changes to legislation.

**A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the LGPS senior officer”).**

This is one of the core recommendations in Phase 2 report and we have provided further detail on the proposal below, including details on the core requirements of the role, organisational guidelines and personal competencies for individuals.

### Core Requirements

The role of the LGPS senior officer is to lead and take responsibility for the delivery of the LGPS function. The core requirements include but are not limited to:

- Following appropriate advice, developing the fund’s strategic approach to funding, investment, administration, governance and communication;
- Ensuring that there is a robust LGPS specific risk management framework in place which embeds risk management into the culture of the fund and identifies, assesses and mitigates the risks facing the fund;
- Ensuring the pension fund is organised and structured in such a way as to deliver its statutory responsibilities and compliance with The Pensions Regulator’s codes of practice;
- Managing delivery of the LGPS function to meet service level agreements;
- Providing advice to members of committees that have a delegated decision-making responsibility in respect of LGPS matters;
- Providing advice and information to members of local pensions board to assist them in carrying out their responsibilities;
- Ensuring that the role of the pension fund and LGPS matters are understood and represented at the local authority’s senior leadership level;

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<sup>1</sup> [LOCAL GOVERNMENT PENSION SCHEME GOVERNANCE COMPLIANCE STATEMENTS STATUTORY GUIDANCE – NOVEMBER 200](#)

<sup>2</sup> See Regulation 2(3A)

<sup>3</sup> [R \(on the application of Palestine Solidarity Campaign Ltd and another\) \(Appellants\) v Secretary of State for Housing, Communities and Local Government \(Respondent\)](#)

- Working with partner funds and the pool company (if appropriate) to ensure effective governance in respect of investment pooling arrangements;
- Where the LGPS Senior Officer is not themselves the local authority's s151 officer, support the s151 officer to ensure the proper administration of the fund's financial affairs; and
- Acting with the highest integrity in the interests of the fund's members and employers.

### Underpinning principles and characteristics

This section considers what needs to be in place for an LGPS senior officer to successfully deliver the role. It is split into the organisation principles that the administering authority should consider when drawing up the role of Senior Officer as well as the personal characteristics and competencies that the individual should exhibit.

#### Organisational Principles

In appointing a LGPS senior officer, administering authorities should have consideration of the following organisational principles.

**Representing the fund at a senior level.** The Senior Officer should be of sufficient seniority to ensure that pension issues can be brought the attention of the senior leadership team as necessary. This also ensures that the Senior Officer is close enough to the strategic direction of the host organisation and able to influence decisions where they impact on the management of the fund. It is unlikely that the Senior Officer role could be carried out effectively by an individual lower than third tier in the organisation.

**Capacity.** The role of Senior Officer is demanding and those undertaking it should be able to give it the necessary attention. While the Senior Officer might have some other responsibilities within the organisation, these should not be of a scale that they impact adversely on the ability to ensure the effective delivery of the LGPS function. When considering capacity, it would be appropriate to consider both the Senior Officer role and the capacity and seniority of their direct reports working in the LGPS.

**Reporting Lines.** As the individual with responsibility for delivering the LGPS function, it is appropriate that those with key LGPS functions come under a reporting structure which falls under the Senior Officer's supervision.

From time to time the fund will employ resource and expertise from other areas of the authority, for example project management, IT or legal services. It is not the intention that all that all of these functions should fall under the Senior Officer, however the expectation is that key functions such as investment, administration, employer liaison, communications, fund accounting etc do.

**Resourcing.** The senior officer is responsible for the delivery of the LGPS function and as such must be able to ensure that they run an operation that is sufficiently resourced. The intention is that the Senior Officer is responsible for drawing up the fund's budget and agreeing it with the Pension Committee.

In doing so the Senior Officer needs to be cognisant of the need to maximise the value of any spend from the public purse.

## Personal Competencies

The following are the personal and professional attributes that should be embodied by the LGPS Senior Officer.

**An ability to build strong relationships and influence.** The Senior officer will be expected to influence matters at the highest levels of the organisation. They should be comfortable dealing with elected members and understand the requirements of working in a political environment.

The Senior Officer will need to build and maintain strong relationships with employers within the Fund as well as partners within the investment pool.

The Senior Officer will also need the ability to build strong relationships with professional advisers, including challenging them when appropriate and work to enable the effective operation of the pension board

The Senior Officer will also be expected to represent the fund at a national level.

**Strong technical skills.** There is no requirement for an LGPS senior officer to have a specific professional qualification, although a relevant qualification (accounting, investment, actuarial, pensions management, legal) may be advantageous. They should have a strong understanding of all aspects of the LGPS. The Senior Officer should have a good grasp of the funding, investment and regulatory matters that impact the fund. They should also be able to explain and simplify difficult concepts to non-technical audiences.

**Strategic thinking.** It is the role of the Senior Officer to set the strategic direction of the fund. This requires an individual who can synthesise information from a broad range of sources, learn from experiences and bring new ideas to the table. The LGPS senior officer should develop a strong idea of how the delivery of the service will change over time and how the fund can be ready to meet new challenges.

**Operational effectiveness.** The Senior Officer should be leader with the ability to drive improvement within the organisation and motivate others to buy into their vision. They will need to put plans in place to deliver effective services yet be flexible enough to deal with a volatile pensions landscape.

**Strong ethical standards.** The LGPS environment can produce the potential for conflicts of interest to arise. The Senior officer should be an individual who embodies the highest ethical standards and acts in the interests of the fund's members and employers. They demonstrate and positively promote the seven principles of public life.

## Organisational Structure

Appendix 1 contains examples of how the Senior officer role could be incorporated into various organisational structures.

***A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.***

In order to improve the transparency and auditability of governance arrangements, each fund must produce an enhanced annual governance compliance statement, in accordance with the statutory governance guidance, which sets out details of how each fund has addressed key areas of fund governance. The preparation and sign off of this statement will be the responsibility of the LGPS senior officer and it must be co-signed by the host authority's s151 officer, where that person is not also the LGPS senior officer. The expectation will also be that committees and local pension boards would be appropriately involved in the process.

It should be noted that the current LGPS regulations<sup>4</sup> require that administering authorities publish an annual governance compliance statement concerning matters relating to delegation and representation on pension committees. We recommend that amendments are made such that all requirements are incorporated into a single governance compliance statement.

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<sup>4</sup> See Regulation 55 “Administering Authorities: Governance Compliance Statement”

## B Conflicts of Interest

***B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.***

One of the key objectives of the Good Governance Review was to consider how potential conflicts of interest manifest themselves within current LGPS set up and to suggest how those potential conflicts can be managed to ensure that they do not become actual conflicts. In doing so, the SAB was of the view that the democratically accountable nature of the LGPS be maintained.

Since almost all LGPS funds are rooted in local authority law and practice, those elected members who serving on pension committees are subject to local authority member codes of conduct<sup>5</sup>. These will require members to register existing conflicts and to recognise when conflicts arise during the course of their duties and how to deal with them. Elected members must also comply with the Seven Principles of Public Life (often referred to as the Nolan Principles). Non-elected members sitting on committees and local pension boards should be subject to the same codes and principles.

There are, however, specific conflicts that can arise as a result of managing a pension fund within the local authority environment. The intention of this recommendation is that all administering authorities publish a specific LGPS conflicts of interest policy. This should include information on how it identifies, monitors and manages conflicts, including areas of potential conflict that are specific to the LGPS and will be listed in The Guidance. The expectation is that the areas covered will include:

- Any commercial relationships between the administering authority or host authority and other employers in the fund/or other parties which may impact decisions made in the best interests of the fund. These may include shared service arrangements which impact the fund operations directly but will also include outsourcing relationship and companies related to or wholly owned by the Council, which do not relate to pension fund operations;
- Contribution setting for the administering and other employers;
- Cross charging for services or shared resourcing between the administering authority and the fund and ensuring the service quality is appropriate for the fund;
- Dual role of the administering authority as an owner and client of a pool;
- Investment decisions about local infrastructure; and
- How the pension fund appropriately responds to Council decisions or policies on global issues such as climate change.
- Any other roles within the Council being carried out by committee members or officers which may result in a conflict either in the time available to dedicate to the fund or in decision making or oversight. For example, some roles on other finance committees, audit or health committees or cabinet should be disclosed.

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<sup>5</sup> **Similar codes apply for non-local authority administering authorities.**



Each administering authority's policy should address:

- How potential conflicts of interest are identified and managed;
- How officers, employer and scheme member representatives, elected members, members of the local pension board and advisers and contractors understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- Systems, controls and processes, including maintaining records, for managing and mitigating potential conflicts of interest effectively such that they never become actual conflicts;
- How the effectiveness of its conflict of interest policy is reviewed and updated as required;
- How a culture which supports transparency and the management and mitigation of conflicts of interest is embedded; and
- How the specific conflicts that arise from its dual role as both an employer participating in the Fund and the administering authority responsible for delivering the LGPS for that fund are managed.

In putting together such a policy it is recognised that membership of the LGPS is not, in and of itself, a conflict of interest.

The Guidance should require each fund to make public its conflicts of interest policy.

***B.2 The Guidance should include reference to the latest available legal opinion on how statutory and fiduciary duties impact on all those involved in the management of the LGPS, and in particular those on decision making committees.***

There are no immediate plans for SAB to opine on or publish a statement on fiduciary duty given the conflict between Nigel Giffin's opinion and those of the Supreme Court in the Palestine case. Therefore, this recommendation has been updated.



## C Representation

***C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.***

One of the key principles of the Good Governance Review is the recognition that each administering authority knows its own situation best and that The Guidance should avoid being overly prescriptive and limiting. In the matters of delegating responsibilities and appointing members to committees, most administering authorities must comply with the Local Government Act 1972. Nothing within The Guidance can, or should, override or limit the provisions of the 1972 Act. The intention behind this recommendation is simply that administering authorities prepare, maintain and publish their policy on representation and to require that they provide:

- the rationale for their approach to representation for non-administering authority employers and local authority and non-local authority scheme members on any relevant committees; and
- the rationale as to whether those representatives have voting rights or not.

The SAB's view is that **it would expect** scheme managers to have the involvement employers and member representatives on any relevant committees.

In addition to representation on committees, administering authorities should state other ways in which they engage their wider employer and Scheme membership

The Guidance should also acknowledge the important principle that administering authorities may wish to retain a majority vote on decision making bodies in order to reflect their statutory responsibilities for maintaining the fund.

## D Skills and training

***D.1 Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.***

There was widespread agreement throughout the Good Governance Review process that those making decisions about billions of pounds of public money and the pension provision of millions of members should be properly trained to carry out the responsibilities of their role. The level of knowledge and understanding of technical pensions topics will vary according to role.

The Guidance should require the Administering Authority to identify training requirements for key individuals having regard for:

- topics identified in relevant frameworks or in publications by relevant bodies (e.g. CIPFA, TPR etc)
- the workplan of the Administering Authority; and
- current or topical issues.

The Administering Authority should develop a training plan to ensure these training requirements are met and maintain training records of key individuals against the training plan. These records should be published in the Governance Compliance Statement.

### Pension Committees

The private sector has seen an increasing move towards the professionalisation of trustees and the introduction in to the LGPS in recent years of TPR, local pension boards and MIFID have made knowledge and skills for committees and boards a greater focus.

The membership of committees typically includes some or all of the following:

- administering authority elected members;
- other local authority elected members;
- other employer representatives; and
- scheme member representatives.

Training requirements for pensions committees apply to all members.

The Guidance should clarify that the expectation is that the TPR requirements that apply to Local Pension Boards should equally apply to pension committees. As a minimum those sitting on pension committees or the equivalent should comply with the requirements of MiFID II opt-up to act as a professional client but the expectation is that a higher level and broader range of knowledge will be required.

At committee, knowledge should be considered at a collective level and it should be recognised that new members will require a grace period over which to attain the requisite knowledge.

A pension committee member is not being asked to be a subject matter expert or act operationally. Instead the role involves receiving, filtering and analysing professional advice in order to make informed decisions.

A pension committee member should put aside political considerations, act in the interest of all employers and members and act within a regulatory framework.

When considering what training is appropriate for committee members, it might help to consider how pension committee operate and what makes an effective committee. To carry out the role effectively a committee member must have the following;

- An ability to focus on the issues that make the most difference and produce the most value and not be distracted by lower order issues;
- Access expert professional advice in the form of external advisers and administering authority officers; and
- An ability to seek reassurance, challenge the information provided and bring their own experiences to bear in decision making.

***D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.***

Treasury Guidance<sup>6</sup> requires that all government departments should have professional finance directors and that “It is good practice for all other public sector organisations to do the same, and to operate to the same standards”.

Professionally qualified in this context refers to both being a qualified member of one of the five bodies comprising the Consultative Committee of Accounting Bodies (CCAB) in the UK and Ireland; and having relevant prior experience of financial management in either the private or the public sector.

The intention behind this recommendation is that an understanding of the LGPS should be a requirement for s151 officers (or those aspiring to the role). During the Good Governance project itself the view was put forward by some the profession that requiring an element of LGPS training could form part of an individual’s ongoing continuous professional development requirements. This would have the advantage of ensuring the topics covered remain current and relevant.

The expectation would be that an appropriate level of LGPS knowledge must be attained by S151 officers of an administering authority. A level of LGPS knowledge should also be attained by S151 officers of other public bodies participating in the LGPS in order that they can understand issues relating to the participation of their own organisation, although it is not expected that that they should have the depth and breadth of knowledge required of the S151 officer of an administering authority.

***D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.***

Many funds already publish training strategies which set out training strategies which establish how members of the Pension Committee, Pension Board and fund officers will attain the knowledge and understanding they need to be effective and to challenge and effectively carry out their decision making responsibilities. The intention is that all LGPS funds should produce a strategy which should set out how those involved with the fund will:

- have their knowledge measured and assessed;
- receive appropriate training to fill any knowledge gaps identified;
- ensure that knowledge is maintained; and
- evidence the training that is taking place

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<sup>6</sup> See *Managing Public Money (July 2013), Annex 4.1*

***D.4 CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.***

The intention is that SAB engage with the professional accountancy bodies to develop LGPS training modules for accountancy professionals operating within local authorities.

## E Service delivery for the LGPS Function

### ***E.2 Each administering authority must publish an administration strategy.***

This proposal has been progressed by the Cost Management, Benefit Design and Administration subcommittee to the SAB. When it met on the 6<sup>th</sup> January 2020 the following proposals were discussed:

- Changing the status of Regulation 59 from discretionary to mandatory and introduce the requirement for Pension Administration Strategy statements to be prepared and maintained in accordance with new statutory guidance
- Reviewing the remainder of Regulations 59 and 70 to identify whether any additional changes should be made;
- Exploring the scope for empowering administering authorities to penalise inefficient scheme employers in a more effective way;
- Recommending that MHCLG publishes new statutory guidance including :-
  - Minimum standards of performance;
  - Assessment of inefficiency costs;
  - Timescales for submitting scheme data
- Extending Regulation 80 to include a duty on all scheme employers to comply with the new Pension Administration Strategy statements.
- Changing the name of the statement to make it clear that it is wholly relevant to scheme employers.

### ***E.3 Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.***

The working group considered this and recommend that rather than attempting to define a universal set of standards for administration across the LGPS. the KPIs should focus on ensuring that each fund has defined service standards, and has the governance in place to monitor their service standards and to benchmark those standards against other funds where appropriate.

## Governance KPIs

<b>Subject Area</b>	<b>KPI</b>	<b>Notes</b>
<b>Breadth of representation</b>	1. Percentage make-up (employer/member) on committee and board and number of LPB representation	
	2. Average attendance level at meetings (percentage) – split between absence and vacancies	<i>1. and 2. may be incorporated in the Governance Compliance Statement (GCS) by including a clear statement of committee members and their attendance at meetings</i>
<b>Training and expertise</b>	3. Hours of relevant training undertaken across panel/board in last year	
	4. Relevant experience across senior management team	A qualitative statement on the LGPS Senior Officer and their direct reports (or other senior pensions staff) to include professional qualifications and financial services/pension/LGPS experience. Also include % time spent on pension fund business by each person
<b>Compliance/Risk</b>	5. Number of times risk register reviewed annually – number of times on agenda at committee/board.	This is not measuring the quality of the register but the expectation that it will be viewed regularly at the committee should also improve quality.
	6. Number of times carried out business continuity testing and/or cyber security penetration testing	<i>Key focus of TPR</i>
<b>Appropriate governance time spent on key areas</b>	7. Split of committee/board spent on administration/governance/investment	How should this be measured, is it just by number of items on the agenda keeping in mind it needs to be auditable?

## Administration KPIs

		Notes
<b>Data quality</b>	1. Common/conditional data score, in line with TPR expectations	
	2. Annual Benefit Statement percentage as at 31 August	<i>Include explanation where less than 100%.</i>
<b>Service standards/SLAs</b>	3. Number and percentage of pension set-ups (new retirements) within disclosure requirement timeframe	
	4. Does the Fund monitor and report its own standards?	Y/N
	5. Percentage of calls to customer helpline answered and resolved at first point of contact	
<b>Engagement and communication – capabilities and take-up</b>	6. Specify which online services are available to members/employers	<i>Measuring services provided by Fund online, perhaps against an agreed standardised list.</i>
	7. Percentage of members registered for the fund's online services and the percentage that have logged onto the service in the last 12 months split by status	<i>Measuring take up of services</i>
	8. Number of employer engagement events and/or briefings held in last 12 month and percentage take-up	<i>Percentage take-up could be weighted to size of employer.</i>
<b>Customer satisfaction</b>	9. Percentage of members (or employers if appropriate) satisfied with the service provided by their LGPS fund (this could be obtained via a simple questionnaire of no more than 5 questions).	<i>Members and employers should be measured separately, and funds should also report the number completing the questionnaire to ensure appropriate coverage. For consistency in comparison we suggest a general question is drafted and Funds told to incorporate into their surveys – e.g. “The service was excellent – Strongly Disagree/ Disagree/Agree/Strongly Agree.”</i>

***E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.***

Each Administering Authority has a specific legal responsibility to administer the LGPS within their geographical region and to maintain a specific reserve for that purpose. It is important therefore that the fund's budget is set and managed separately from the expenditure of the host authority.

Budgets for pension fund functions should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and employers. The budget setting process should be one initiated and managed by the fund's officers and the pension committee and assisted by the local pension board.

Required expenditure should be based on the fund's business plan and deliverables for the forthcoming year. The practice should not simply be to uprate last year's budget by an inflationary measure or specify an "available" budget and work back to what level of service that budget can deliver.

The body or individual with delegated responsibility for delivering the LGPS service should have a role in setting that budget. Typically, this will involve the pension committee being satisfied that the proposed budget is appropriate to deliver the fund's business plan, but it is recognised that other governance models exist within the LGPS. Whichever approach is used, it should be clearly set out in the roles and responsibilities matrix and be consistent with the host authority's scheme of delegation and constitution.

Where a proposed budget is approved, the senior LGPS officer will confirm in the governance compliance statement that the administering authority has approved the budget required to deliver the pensions function to the required standard.

If the budget is not approved, the senior LGPS officer will declare that in the governance compliance statement, including the impact of that on service delivery as expressed in a reduced business plan.

These statements in the governance compliance statement will be co-signed by the S151 officer where this is not the same person as the senior LGPS officer.



## F Compliance and Improvement

***F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified.***

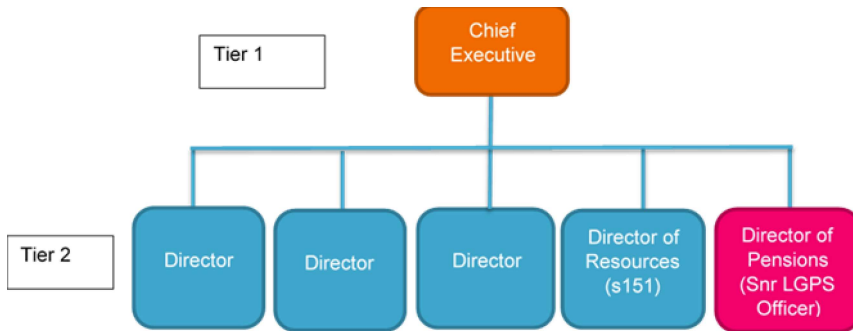
IGR reports to be assessed by a SAB panel of experts.

The Phase 2 report sets out the key features required in the Independent Governance Review. A sample outline for further discussion is included in Appendix 3.

## Appendix 1 - Senior officer organisational structures

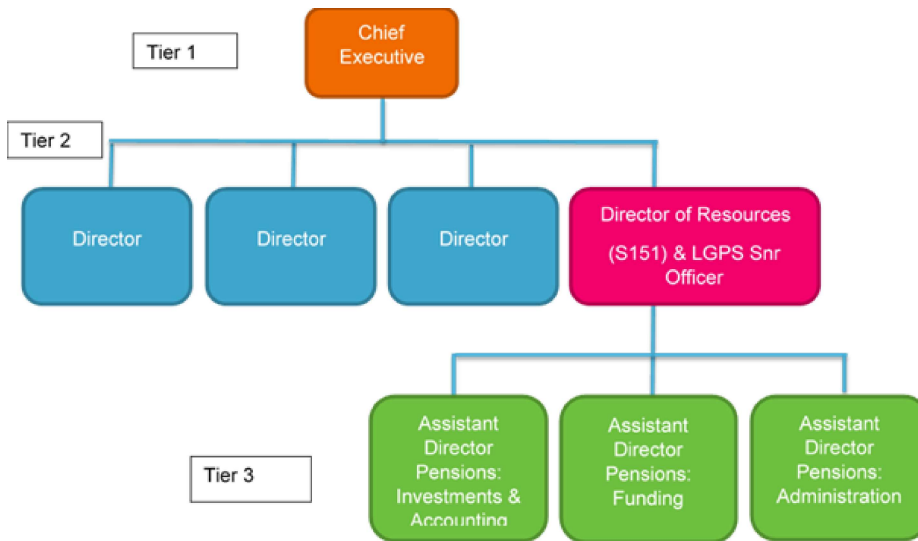
The following organisational structure charts show where the LGPS senior officer role may sit.

Example 1



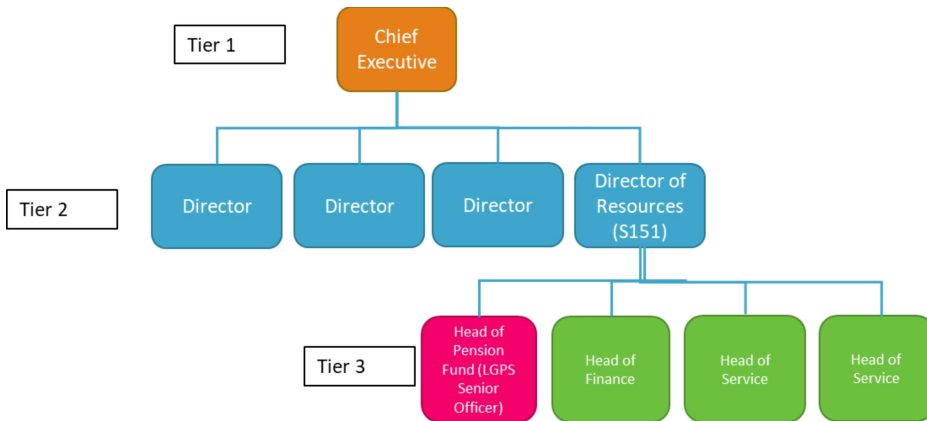
In this structure the LGPS Senior Officer is the Director of Pensions. As a tier 2 officer in the organisation the Director of Pensions will have the appropriate seniority for the role and with only LGPS responsibilities they will have the capacity to focus solely on delivery of the LGPS function.

Example 2



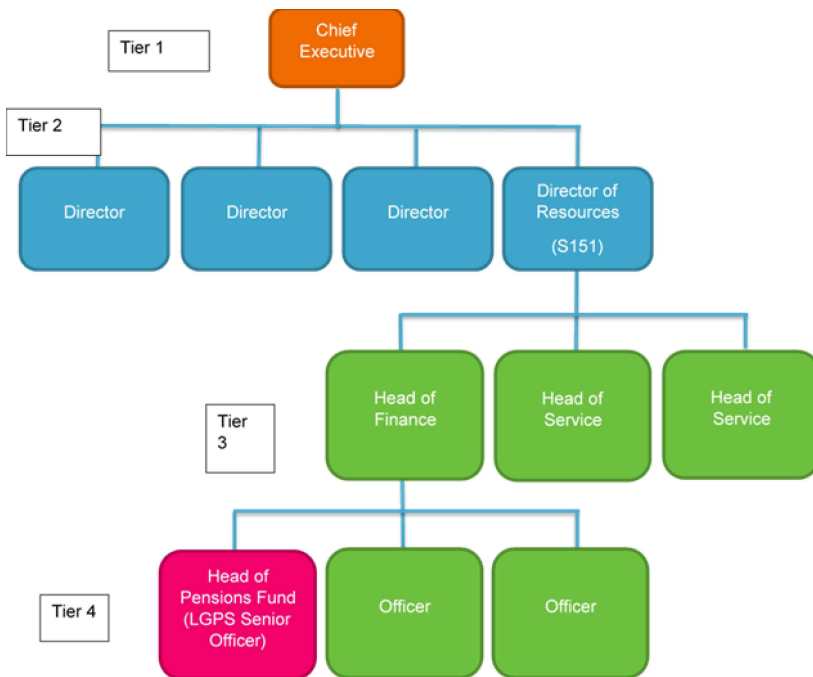
In this model the LGPS Senior Officer is a Tier 2 Director with significant other responsibilities. The diagram shows the LGPS Senior Officer as the Director of Resources and s151 officer, but a similar situation could arise if pension responsibilities lay within another Directorate, for example under a director with responsibility for legal/governance (in which case the LGPS Senior Officer would likely be the monitoring officer as well). Although the Senior officer has other responsibilities in this scenario, they are supported by a senior team of assistant directors, who are themselves tier 3 officers. The strength of the management team in this case is likely to mean that the LGPS Senior Officer has the ability to delegate aspects of LGPS delivery to an appropriately senior team, while retaining the ability to influence the strategic direction of the fund.

Example 3



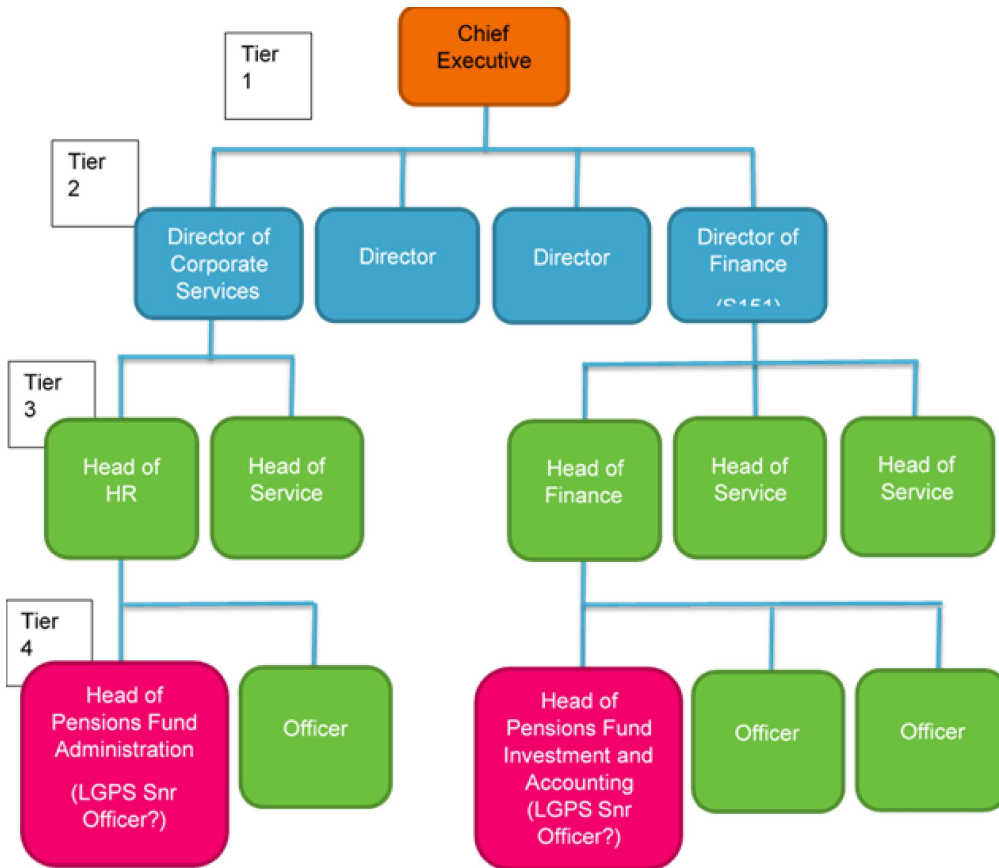
Under this structure the Head of Pensions is a Tier 3 officer reporting to the S151 officer.

Example 4



Under this structure the Head of Pensions sits at tier 4 with a reporting line that runs through the Head of Finance, Director of Resources (s151) and to the Chief Executive. As long as the reporting lines are clear and there is sufficient support for the Head of Pensions from senior officers this structure may provide an appropriate level of seniority and capacity for the Senior officer. However, some members of the working group expressed the view that in order to manage the scope and exert the required influence, the LGPS Senior Officer role should be held by an individual no lower than Tier 3.

Example 5



In this structure it becomes difficult to identify where the LGPS Snr officer should sit. While the investment and accounting functions sit within the function at tier 4, the administration of the fund is delivered by a fourth tier officer in the corporate services directorate who reports to the Head of HR. such an arrangement makes it difficult to for any one person to have full sight of all LGPS functions. Separate reporting lines in this fashion militate against a joined strategy and decision making for the fund.

## Appendix 2 - Governance compliance statement

The following is an example of a governance compliance statement. It is recognised that under the current LGPS regulations, administering authorities must prepare, publish and maintain a statement on the following matters;

- (a) whether the authority delegates its functions, or part of its functions under the LGPS regulations to a committee, a sub-committee or an officer of the authority;
- (b) if the authority does so-
  - (i) the terms, structure and operational procedures of the delegation,
  - (ii) the frequency of any committee or sub-committee meetings,
  - (iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;
- (c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and
- (d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 (local pension boards: establishment).

These matters should continue to form part of each administering authority's governance compliance statement.

It is recommended that the new governance compliance statement incorporates the existing requirements alongside the recommendations arising from this review.

### A Conflicts of interest

#### A1. Conflicts of Interest Policy

The Fund has published a conflict of interest policy which sets out:

- How it identifies potential conflicts of interest (including those set out in recommendation B1)
- How it ensures that understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- That the policy applies to officers, elected members, members of the local pension board and advisers and contractors;
- Systems, controls and processes for managing and mitigating conflicts of interest effectively;
- How it reviews the effectiveness of its conflict of interest policy and updates it as required;
- How it embeds a culture which supports the management and mitigation of conflicts of interest.

The Governance Compliance Statement includes a link to this policy.

## A2. Conflicts of Interest Process

The fund embeds the management of conflicts of interest into its everyday processes. This includes:

- Providing regular training to members of the pension committee, pension board and officers on identifying and managing potential conflicts of interest;
- Ensuring a record is kept of situations where the Conflict of Interest Policy has been applied to mitigate or manage a potential conflict situation;
- Ensuring that a declaration of interests forms part of the agenda for all pension committee and pension board meetings and that an annual declaration of interests is completed;
- Ensuring actual and potential conflicts of interest are considered during procurement processes; and
- Ensuring that conflicts of interest form part of the Fund's suite of policies for example the Funding Strategy Statement and Administration Strategy.

## A3. The Council as administering authority and employer

The Council recognises that its dual role as both an employer participating in the Fund and the body legally tasked with its management can produce the potential for conflicts of interest. It is important that these potential conflicts are managed in order to ensure that no actual or perceived conflict of interest arises and that all of the Fund's employers and scheme members are treated fairly and equitably.

The Fund achieves this in the following ways:

- The Funding Strategy Statement sets out the Fund's approach to all funding related matters including the setting of contribution rates. This policy is set with regard to the advice of the Fund actuary and is opened to consultation with all Fund employers before being formally adopted by the Pension Committee. The approach to contribution setting is based on specific employer characteristics such as its time horizon, strength of covenant and risk profile. This approach ensures a consistency across all employers and removes the possibility of any employer receiving more, or less, favourable treatment.
- The Fund also has an admissions policy which details its approach to admitting new employers to the Fund. This includes its approach to the use of guarantors, bonds and the setting of a fixed contribution rate for some employers. This policy, in conjunction with the Funding Strategy Statement, ensures a consistent approach when new employers are admitted in to the Fund.
- The Fund's administration strategy sets out the way in which the Fund works with its employers and the mutual service standards that are expected. The policy details how the Fund will assist employers to ensure that they are best placed to meet their statutory LGPS obligations. On occasions where an employer's failure to comply with required processes and standards has led to the Fund incurring additional cost, the policy also provides for that cost to be recovered from the employer in question. This policy has been opened to consultation with all the Fund's employers and is operated in a consistent fashion across all of the employer base.
- The pension fund is run for the benefit of its members and on behalf of all its employers. It is important therefore that the Fund's budget is set and managed separately from the expenditure of the Council. Decisions regarding pension fund resource are taken to the Pension Committee who then make recommendation to the S151 officer.

## **B Clarity of Roles and Responsibilities**

### **B.1 Clear decision making**

The Council's constitution and scheme of delegation set out the terms of reference for the Pension Committee.

The Pension Board's terms of reference and the membership and terms of reference for any sub-committees are also published.

The scheme of delegation is supported by:

- clearly documented role and responsibilities for the LGPS Senior Officer, S151 and pension fund officers / Head of Pension Fund; and
- a decision matrix which sets out the key decisions that are required to be made in the management of the Fund and the role that the main decision makers have in those decisions. The matrix sets out when an individual or body is responsible for a decision, accountable for a decision or where they must be consulted or informed of a decision.

On a regular basis the Fund's business processes are referenced against the decision matrix, to ensure that they properly reflect the correct responsibility and accountability.

The terms of references for the Committee & Board are publicly available and should be reviewed on a regular basis.

## **C Sufficiency of resources for service planning and delivery**

In order to ensure that the Fund has the appropriate resource to deliver its statutory obligations it has adopted a 3 stage approach.

### **C.1 Business planning and budget setting**

The Fund operates a 3 year business plan which sets out the priorities for the Fund's services. It is comprehensively reviewed, updated and agreed by the Pension Committee before the start of each financial year. If necessary, the plan is reviewed and updated on a more frequent basis. The business plan is publicly available.

The business plan takes into account the risks facing the Fund, performance of the Fund (including backlogs of work) and anticipated regulatory changes.

The business plan also includes the Fund's budget. Resource requirements (including staff recruitment, procurement and other specialist services) are determined by the requirements of the Fund's business plan.

The business plan also sets out the Key Performance Indicators (KPIs) which will be used to monitor progress against the business plan.

Progress against the business plan, including actual spend, is monitored by the Pension Committee on a regular basis and published in the Fund's annual report and accounts.

### **C.2 Service delivery**

The Fund publishes an administration strategy which sets out how it will deliver the administration of the Scheme. The strategy includes:

- details of the structures and processes in place for the delivery of the pension administration function;
- expected levels of performance for the delivery of key Fund and employer functions;
- the Fund's approach to training and development of staff;



- the Fund's approach to the use of technology in pension administration.

### C.3 Monitoring delivery and Control environment

The Fund recognises the importance of monitoring and reporting how it delivers progress against the business plan. This is done on the following ways:

- Performance against KPIs is reported to the Pension Committee and Pension Board on a regular and agreed basis. KPI performance is reported in the Fund's annual report. Plans to address any backlogs added to business planning process above.
- Every year the Fund's internal auditors carry out reviews to provide assurance that the Fund's processes and systems are appropriate for managing risks. The areas for review are agreed in advance with the Pension Committee and findings are reported to them.
- This year the internal audit also included an assessment of the Fund's performance against the requirements of The Pension Regulator's Code of Practice 14. The assessment recognised that the Fund is fully compliant in most areas but did make a number of suggestions about how the Fund could improve its internal controls for managing data. These suggestions have been adopted into the Fund's data improvement plan.
- Last year the Pension Board assisted the committee by undertaking an independent review of the sufficiency and appropriateness of the Fund's governance and operational resources. The review found that the Fund was for the most part properly resourced although the use of regular staff to tackle a backlog of aggregation cases was causing the backlog project to fall behind and having an adverse impact on business as usual. The review suggested procuring additional temporary resource in order to address the backlog issue.
- The Fund also participates in national benchmarking exercises which provides information on how costs, resource levels and quality of service compare with other LGPS funds and private sector schemes. The benchmarking did not identify any significant areas of concern.

### D. Representation and engagement

The Fund has published a Policy on representation and engagement.

#### D.1 Representation on the main decision making body

The policy recognises all scheme members and employers should be appropriately represented in the running in the Fund while at the same time ensuring that the Council, as the body with ultimate responsibility for running the Fund, maintains a majority position on the key governance bodies. To this end the Fund's representation policy and the Council's constitution specify that the Council shall maintain a majority of voting members on the Pension Committee. The present Pension Committee is constituted as follows;



**Pensions Committee – Membership and Meeting Attendance (Governance KPIs 1 and 2)**

	Administering Authority / Employer / Member representative / Other	Meeting Date				Attendance (%)
		MM/YY	MM/YY	MM/YY	MM/YY	
<b>Voting Members</b>						
Cllr A (chair)	Administering Authority	Y	N	Y	Y	75%
Cllr B (vice-chair)	Administering Authority	Y	Y	Y	Y	100%
Cllr C	Administering Authority	Y	N	Y	Y	75%
Cllr D	Administering Authority	N	Y	Y	N	50%
Cllr E	Administering Authority	Y	Y	Y	Y	100%
<b>F</b>	Employer representative	Y	Y	N	Y	75%
<b>G</b>	Member representative	N	Y	Y	Y	75%
Vacancy		N	N	N	N	0%
Average attendance (including vacancies) %						78%
Average attendance (excluding vacancies) %						69%
Proportion of voting members not from the Administering Authority						2 out of 7 (28%)
<b>Non-Voting Members</b>						
<b>H</b>	Member representative	Y	Y	Y	N	75%
<b>I</b>	Member representative	Y	Y	Y	Y	100%

**D.2 Membership of the Local Pension Board**

The Local Pension Board is constituted as follows;

- 4 employer representatives comprising;
  - 2 elected members of the Council
  - 1 elected member of the District Council
  - 1 member representing all other employers
- 4 scheme member representatives comprising;
  - 1 member appointed by trade unions
  - 3 members representing active, deferred and pensioner Scheme members (to be appointed by an open election process)
- 1 independent chair

With the exception of the Chair, all members are full voting members.

The Pension Board has an independent adviser.

**D.3 Engagement with employers**

The Fund carries out a range of activities that are designed to engage employers. These are set out within the Fund's Communication strategy and include:

- An Annual Employer Forum which provides an opportunity for employers to receive an update on the performance of the Fund, provide feedback on the service and receive updates on the LGPS and related issues;

- The Fund engages and consults with employers during the actuarial valuation and specifically on key strategies such as the Funding Strategy Statement;
- A quarterly employer newsletter provides update on technical changes, process reminders and a calendar of key upcoming dates;
- Training sessions which can be provided on request covering the main areas of employer responsibility, for example year end returns, processing ill health cases and internal dispute resolution procedures; and
- The Fund is available to provide support on issues such as outsourcing services or workforce restructuring.

#### **D.4 Engagement with members**

The Fund's Communication Strategy sets out how it engages with active, deferred and pensioner scheme members including:

- The Fund maintains a website which provides general advice, information and updates including copies of all current policies.
- Members have secure online access to their own pension records in order to run retirement estimates.
- Member's annual benefit statements are available online or in writing (including large text) on request.
- Scheme members are able to arrange one to one appointments, by phone or at our offices, with members of the pension team to discuss specific matters.

### **E. Training**

#### **E.1 Training Strategy**

The Fund has adopted a training strategy which establishes how members of the Pension Committee, Pension Board and Fund officers will attain the knowledge and understanding they need to be effective and to challenge and act effectively within the decision making responsibility placed upon them. The training strategy sets out how those involved with the Fund will:

- Have their knowledge assessed; and
- Receive appropriate training to fill any knowledge gaps identified.

The Fund will measure and report on progress against the training plans.

#### **E.2 Evidencing standards of training**

Details of the training undertaken by members of the Pension Committee and Pension Board are reported in the Fund's annual report and in this statement.

Committee and Board members' subject knowledge is assessed on an annual basis. The results are analysed and any gaps identified are addressed as part of the ongoing training plans.

Targeted training will also be provided that is timely and directly relevant to the Pension Committee and Board's activities as set out in the business plan.

Officers involved in the management and administration of the Fund are set annual objectives which will include an element of personal development. These objectives are monitored as part of each individual's annual appraisal.

The CIPFA requirement for continuous professional development for s151 officers now includes a regular LGPS element. This requirement applies to the s151 officer for the Council as well as the district and borough councils within the Fund. The fund has complied fully with this requirement.

#### Pensions Committee – Training for Financial Year YYYY/YY

Training Completed (hours)	Subject				Total (hours)	
	Governance	Investment	Pensions Administration	Other (specify)		
<b>Pensions Committee</b>						
Cllr A (chair)	2	5	1	1	9	
Cllr B (vice-chair)	2	4	1	1	8	
Cllr C	4	5	2	2	13	
Cllr D						
Cllr E						
F						
G						
Vacancy						
<b>Sub-Total</b>					<b>130</b>	
<b>Pensions Board</b>						
R (chair)	2	5	1	1	9	
S (vice-chair)	2	4	1	1	8	
T	4	5	2	2	13	
U						
V						
W						
X						
<b>Sub-Total</b>					<b>100</b>	
<b>Officers</b>						
LGPS Senior Officer	6	8	3	4	9	
X						
Y						
Z						

## Appendix 3 - KPI Reporting

This appendix includes example tables for reporting committee structure and training KPIs.

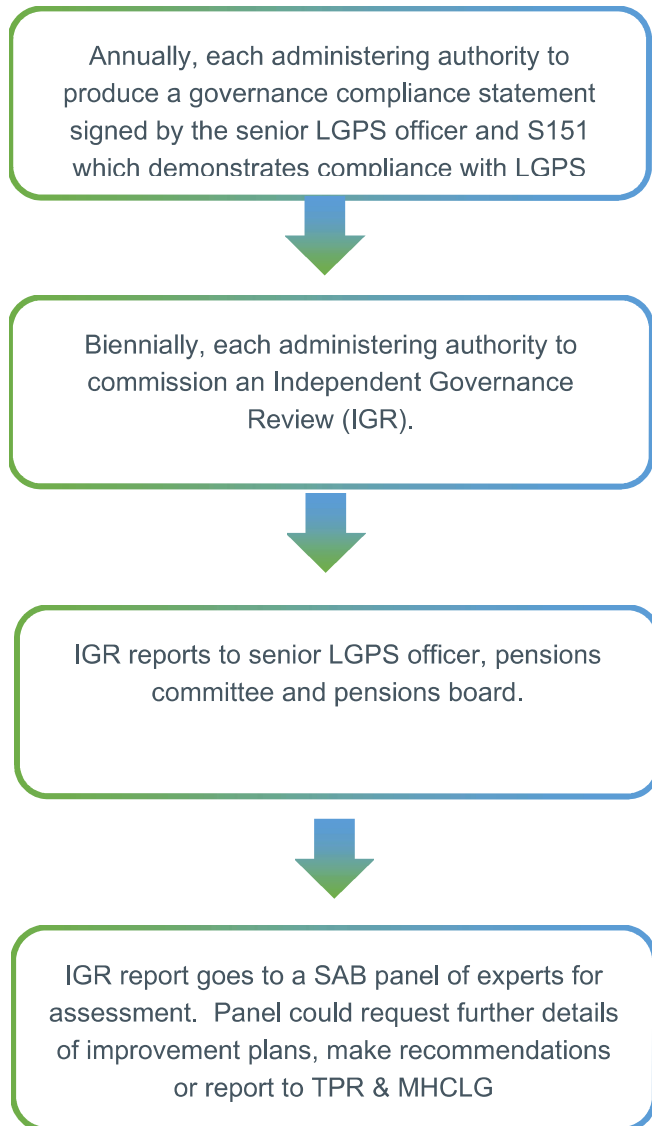
### Pensions Committee – Membership and Meeting Attendance (Governance KPIs 1 and 2)

	Administering Authority / Employer / Member representative / Other	Meeting Date				Attendance (%)
		MM/YY	MM/YY	MM/YY	MM/YY	
<b>Voting Members</b>						
Cllr A (chair)	Administering Authority	Y	N	Y	Y	75%
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Cllr C	Administering Authority	Y	N	Y	Y	75%
Cllr D	Administering Authority	N	Y	Y	N	50%
Cllr E	Administering Authority	Y	Y	Y	Y	100%
<b>F</b>	Employer representative	Y	Y	N	Y	75%
<b>G</b>	Member representative	N	Y	Y	Y	75%
Vacancy		N	N	N	N	0%
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Proportion of voting members not from the Administering Authority						2 out of 7 (28%)
<b>Non-Voting Members</b>						
<b>H</b>	Member representative	Y	Y	Y	N	75%
<b>I</b>	Member representative	Y	Y	Y	Y	100%

## Pensions Committee – Meeting Content (Governance KPI 7)

			<i>Meeting Date</i>				Number of times item considered
			<i>MM/YY</i>	<i>MM/YY</i>	<i>MM/YY</i>	<i>MM/YY</i>	
Meeting duration (hours)			3.0	2.5	4.0	2.5	
<b>Governance</b>							
	Declaration of Conflicts of Interest		X	X	X	X	4
	Policies/Strategies			X	X		2
	Business Planning					X	1
	Budget setting					X	1
	Annual report and accounts			X			1
	Governance Compliance Statement			X			1
	Audit matters (internal/external)		X	X	X		3
	Risk Register		X	X	X	X	4
	Business Continuity			X			1
	Data Security				X		1
	Breaches		X	X	X	X	4
	Regulatory Update			X		X	2
	Update from Pension Board		X				1
	Pool Governance issues			X		X	2
	Review of Effectiveness		X				1
	Training		X		X		2
	Other [to be specified]						
<b>Funding</b>							
	Actuarial Valuations		X	X			2
	Funding Strategy Statement		X	X			2
	Interim Funding Update				X	X	2
	Other [to be specified]						
<b>Investment</b>							
	Strategy review				X		
	Policies/Strategy (Investment Strategy Statement, Responsible Investment)				X	X	
	Strategy implementation - Asset Pooling - Investment manager appointments		X		X	X	3
	Monitoring of investments - Market update - Investment managers - Performance		X	X	X	X	4
	Other [to be specified]						
<b>Pensions Administration</b>							
	Administration Strategy					X	1
	Communications Strategy						0
	Performance Indicators		X	X	X	X	4
	Updates on Projects			X		X	2
	Other [to be specified]						

## Appendix 4 - Summary of the Independent Governance Review



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**TEESSIDE PENSION FUND**

Administered by Middlesbrough Council

**AGENDA ITEM 12**

**PENSION FUND COMMITTEE REPORT**

**10 MARCH 2021**

**DIRECTOR OF FINANCE – IAN WRIGHT**

**INVESTMENT ADVISORS' REPORTS**

**1. PURPOSE OF THE REPORT**

- 1.1 To provide Members with an update on current capital market conditions to inform decision-making on short-term and longer-term asset allocation.

**2. RECOMMENDATION**

- 2.1 That Members note the report.

**3. FINANCIAL IMPLICATIONS**

- 3.1 Decisions taken by Members, in light of information contained within this report, will have an impact on the performance of the Fund.

**4. BACKGROUND**

- 4.1 The Fund has appointed Peter Moon and William Bourne to act as its independent investment advisors. The advisors will provide written and verbal updates to the Committee on a range of investment issues, including investment market conditions, the appropriateness of current and proposed asset allocation and the suitability of current and future asset classes.
- 4.2 Brief written summaries of current market conditions from William Bourne and Peter Moon are enclosed as Appendices A and B. Further comments and updates will be provided at the meeting.

CONTACT OFFICER: Nick Orton – Head of Pensions Governance and Investments

TEL NO.: 01642 729040



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## Independent Adviser's Report for Teesside Pension Fund Committee

William Bourne

25th February 2021

### Market commentary

1. When I wrote in December, I was cautious about bond markets but generally expected the upward trend in equities to continue. Since the COVID crisis broke in March 2020 I have consistently argued that the scale of monetary and fiscal support makes economic recovery inevitable, providing substantial underpinning to equities.
2. Bond yields have risen further in recent months and the UK 10 year gilt is now trading at a yield of 0.7% compared to 0.4% in early December and 0.1% in August. By comparison the equivalent maturity US bond trades at a yield of 1.4% (0.9% in December, 0.5% at the low). **It is normal for bond yields to rise at this stage in the cycle and is fully consistent with economic recovery.**
3. Inflation expectations have gone up, with industrial commodities such as tin and copper particularly strong. However, there are few signs of inflation on the high street other than in food and I do not believe this is the harbinger of a major surge in either inflation or bond yields.
4. The major theme of the quarter has been harsher lockdown in many western countries to try and prevent health systems being overwhelmed. This contrasts with the steady return to normality in many Asian countries. The authorities have once again done their best to provide ample fiscal and monetary support, but industries such as airlines, hotels and retail remain under the cosh.
5. **In aggregate US companies have reported 2020 Q4 revenue 1% higher than one year earlier**, which is a reflection both of the support provided but also the scale of the economic recovery. 2020 earnings per share were 12% lower than 2019 but analysts expect a rise of 23% in 2021. There is less hard data from China but most companies seem to be reporting earnings growth despite COVID.
6. On the political front, President Biden's new administration is showing signs of reversing a number of Trump policies and working more collaboratively with other countries. However, it is too early to be confident what direction it will take and there are early signs of friction with China.
7. The UK BREXIT transition period ended on 31<sup>st</sup> December. While the worst case scenarios have been avoided, trade volumes have diminished dramatically. Financial services remain in limbo, without any agreement. The combination of this and COVID resulted in 2020 UK economic growth at -10%, the worst for 300 years. There will be some bounce-back as the pandemic recedes and new arrangements settle down, but despite the vaccination success UK growth is likely to lag the rest of the world.
8. China was first affected by the pandemic and looks to be first out. The authorities used markedly less stimulus in 2020 than other countries and remain roughly neutrally positioned. The economy grew by 2.3% in 2020, the only major economy to expand. As the engine of the region, I would expect other Asian economies broadly to follow the same path over the next few months and western

economies to recover after them. Already there are plenty of signs of a healthy increase in trade, such as container rates and the increase in industrial commodity prices.

9. Against this background many equity markets reached new highs. There has been a recent change in leadership away from US tech, with some stocks such as Tesla already 20% off their high. Central banks are still pumping money into the economy, not daring to take away the punchbowl from the party. The UK market was an exception, dragged down by the heavy 'old world' weightings in the FTSE 100 index.
10. **As the economy recovers, it is normal for investors to sell financial assets and invest in the real economy.** Financial markets are good at anticipating recovery but rarely do so well during it. I expect the same to happen this time and equity markets to peak at some point in 2021. If bond yields carry on rising to a level where they offer a positive real yield, investors may choose to allocate back to them. This may result in further selling of equities.
11. As last quarter real estate remains the asset class with most uncertainty hanging over it. Core quality assets, outside retail and travel, have been little affected and landlords have been able to collect 80% to 90% of their rent. Valuations and transaction volumes seem to have crept up in the last quarter as a degree of certainty returns. However, the renewed lockdown has intensified stress in the most affected areas and, as I said last time, at some point there will be substantial write downs. This will present both opportunities and risks for investors.
12. In the short term I would expect the current market environment broadly to continue, but we are in my view approaching a turning point. I expect bond yield curves to steepen further and equity markets to peak in 2021 as investors continue to shift from the growth stocks which have done so well to a broader market. My central expectation is that the steepening happens by long bond yields rising but it may be that that short rates move negative if super easy monetary policy continues.

## Portfolio recommendations

13. As a consequence of the above, I expect equities in aggregate to return less than the actuarial expectation of 6.5%<sup>1</sup> over the next few years. The change in market leadership away from growth stocks should provide scope for Border to Coast to outperform the indices, which may mitigate this.
14. The Fund's heavy reliance on equities makes it vulnerable to a bigger sell-off. This is not my central scenario but is a possible outcome if bond yields rise more than I expect. Officers have discussed this at length with the Fund's advisers and a paper is being brought to the meeting separately with our combined recommendations.

---

<sup>1</sup> At June 2020 Aon's 10 year return forecast for Developed Markets ranged from 5.9% in the U.S. to 7% in the UK.

## Investment report for Teesside Pension Fund March 2021

### Political and economic outlook

Thank goodness for vaccines and the NHS. The UK now has over 20 million people who have had their first dose against the covid virus. At the time of the meeting that number could be nearing 25 million, a truly Impressive result. As we all know coronavirus will only start to be controlled when there is mass immunisation across the globe and that still seems to be a long way off . The performance of the European Union shows just how difficult it is to organise a coordinated response even when the infrastructure is apparently in place. Hopefully those countries such as the UK and the US will be in a position to restart their economies from the middle of the year, or soon after, preventing more substantial Economic and Social damage. All this uncertainty on the timing of the Economic recovery worldwide indicates that fiscal and monetary Policy will remain extremely lax. The expectation for the UK budget is for further largesse with tightening next year or maybe the year after. This is a pattern which I would expect to be followed across International developed economies. The damage done to economies will take a long time to repair so this loose policy stance might persist into the future longer than I currently anticipate. As I have said previously it is difficult to see how some sectors of the economy will ever recover totally. The hope is that new sectors and new ways of doing business will fill in the gaps left by these permanently injured areas of the economy. I suppose generally that is the way of things so there could be reasons to be optimistic!

2021 should have been a year where uncertainty was beginning to decline. We had a different and more stable president entering the White House. Brexit trade negotiations had been formalised and completed. Vaccines were being deployed which would curtail the impact and extent of the

pandemic. However the discovery of 3 new variants of the virus and the realisation that any return to the new normal would take rather longer than expected has heightened uncertainty as we have gone into the new year. Furthermore the Brexit agreement has not delivered quite the seamless free trade area that was suggested which is likely to have an ongoing impact on the UK and the European economies until a workable solution is put in place.

Continued assertiveness of China and policy stances being taken by Russia indicate that high levels of uncertainty are here to stay. No doubt markets will accommodate this state but periods of high market volatility should be expected.

## **Markets**

Given the uncertainties and the pandemic you would rationally expect stock markets to be at a lower level than they are now. Markets are not rational however and market pricing uncertainty can cause them to move to extreme levels by following trends. We could be in that situation now as many markets have recovered to levels which would have been seen as unrealistic after the market falls of the first quarter of 2020. So despite the uncertainty over corporate earnings and the duration of the pandemic there is reason to believe that stock markets could trend higher from these levels. The policy stance of governments would tend to support this as it has done over the past decade and more. I do not rule out significant gains by equities over the medium term.

Government bond markets continue to look expensive despite the recent uptick in yields and this has a knock on effect onto credit and non government bond markets.

The future of property markets remains extremely uncertain. If we have seen a permanent shift in working practices and styles of shopping then

there will be major dislocation within large areas of the property market. However nobody is sure how much of a drift back to the old ways will occur. One thing is certain in that the power of the landlord has been reduced over the medium term.

Pressure for action on climate change will throw up significant opportunities in some areas of alternatives. This pressure is looking irresistible.

Generally the low interest rate environment will spawn many investment opportunities in the alternative investment arena.

## **Portfolio recommendations**

The Fund's high weighting in equities over the long-term has served it well and has left it in a relatively well funded position. It is the intention to bring down this high equity weighting and invest in alternative asset classes over the medium term. This will not be an easy process as the due diligence required will take a long time. Borders to Coast and the internal investment team will carry out this asset shift in tandem to maximize resources devoted to this transfer.

Property backed investments and infrastructure are also likely to be major recipients on the transfer to the alternative sector.

It is likely the cash levels will be higher during the transition which should bring some comfort given the ongoing overweight in equities and our zero position in bonds.

**Peter Moon**

26 February 2021

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**CBRE**

**Agenda Item 13**

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# **TEESSIDE PENSION FUND**

Quarterly Portfolio Strategy Report

30<sup>th</sup> September – 31<sup>st</sup> December 2020

*Prepared 17th February 2020*

PREPARED FOR

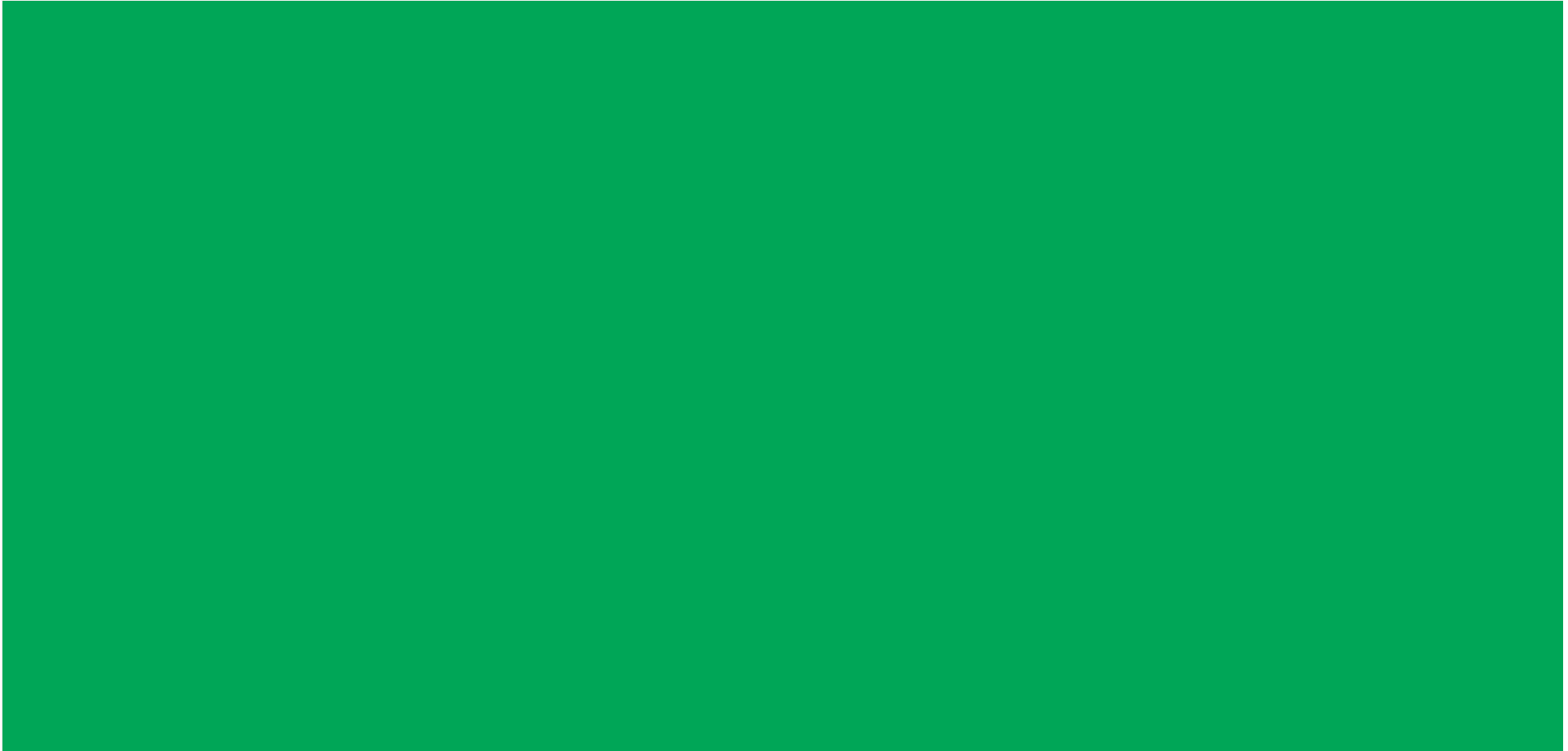


Agenda Item 13



# CONTENTS

1. EXECUTIVE SUMMARY
2. ECONOMIC PERFORMANCE AND PROPERTY MARKET
3. PORTFOLIO STRATEGY AND FORECASTING
4. PORTFOLIO ACTIVITY



# 1 EXECUTIVE SUMMARY

# EXECUTIVE SUMMARY

## Portfolio Strategy

You have advised us that your objective is to increase the property portfolio to £350m in a risk controlled manner.

### CBRE Recommended Strategy

- To diversify the portfolio through different property types, unit sizes, occupier businesses, quality, income expiry and geographical regions.
- To make acquisitions and disposals that help balance the portfolio's overall lease expiry profile.
- Maintain a long term heavily weighted position in industrial and retail, alongside an under weight position in offices. Acquire prime, well let properties, together with some RPI linked assets.
- Keep the vacancy rate lower than typical institutional investment portfolio levels, whilst reducing income risk in particular years.

SECTOR	CURRENT WEIGHTING	TARGET WEIGHTING
Industrial	49.7%	40.2%
Retail Warehouse	24.3%	30.0%
Long Income	10.8%	18.5%
Offices	2.7%	2.5%
High Street Retail	12.4%	8.8%
	<b>100%</b>	<b>100%</b>

# EXECUTIVE SUMMARY

## Portfolio Profile

- At 31<sup>st</sup> December 2020, the portfolio comprised 28 mixed-use properties located throughout the UK, with a combined value of £268.52m. This reflects an overall Net Initial Yield of 5.08%, and an Equivalent Yield of 5.86%.
- The portfolio comprises principally prime and good secondary assets. High Street retail, retail warehouse and industrial comprise 86.5% of the portfolio by capital value. There are 75 demises and a total net lettable area of 1,949,442 sq ft.
- The weighted average unexpired term is 7.7 years to the earlier of first break or expiry, and 8.8 years to expiry, ignoring break dates.
- The portfolio also has the following characteristics:
  - The vacancy rate is currently 2.45% of Estimated Rental Value. By comparison we are informed, ‘MSCI Quarterly Index Q3 2020 Void Rate’, is 11.90%.
  - The top ten tenants constitute 54.2% of the total gross annual income of the portfolio, while the top twenty tenants constitute 76.8%.
  - Current gross passing rent is £14,804,215 per annum, against a gross current market rent of £16,619,463 per annum, making the portfolio slightly reversionary in nature.

# EXECUTIVE SUMMARY

## Portfolio Activity

### Investments

#### Sales

- No sales this period.

#### Acquisitions

- The Fund has agreed terms to purchase an income strip as a liability matching asset. This is focussed on the development of a 210,000 sq ft industrial unit for £28.2m reflecting 5.04% NIY. The unit will be let to Leonardo MW on a 35-year lease, with fixed annual 2.70% uplifts. There will be an option to purchase the asset in favour of the tenant at lease expiry.

# EXECUTIVE SUMMARY

## Portfolio Activity & Strategy

The rent collection across the entire portfolio in the previous three quarters has reflected the following.

June – 96.0%

September – 95.0%

December - 80.7%

The total Collectable Arrears on the entire portfolio is £1,795,031 as at 11th February.

The Collectable Arrears exclude the following:

- Tenants that are insolvent (99p Stores Limited at Cirencester, Laura Ashley Ltd at Congleton, Homestyle Group Operations Ltd at Congleton) and also tenants that have overall credit balances on their accounts.

Below, is a summary of the top eight tenants with the greatest arrears, which account for 82.6% (£1,481,231) of the total arrears:

- **Halcyon Fine Art Group Holding Limited (Park Royal)** – Total arrears of £608,687 (33.9% of the collectable arrears). Most of these arrears relate to a back dated rent review increase going back to 2018, albeit they have not yet paid their December quarter's rent. A 50% rent concession is being agreed for the December 2020 and March 2021 due to assist with Covid-trading issues.
- **River Island Clothing Co. Limited (Lincoln)** – Total arrears of £261,250 (14.6% of the collectable arrears). This tenant has not yet been granted any rent concession. A few small payments have been made but these arrears relate to 9½ months' worth of rent outstanding between 1st April 2020 and 28th February 2021. A new lease backdated lease is being finalised, due to commence on 7 July 2020. This will see most of the arrears cleared.
- **Nuffield Health (Guildford)** – Total arrears of £184,478 (10.3% of the collectable arrears). This tenant was granted a one-quarter rent concession for the March 2020 quarter. Their arrears relates mainly to the June 2020 quarter rent to which they have made no payment towards and the December quarter rent where they have so far paid one third's instalment. There are also some insurance and head landlord service charges outstanding. The tenant originally advised that they would begin to pay rent monthly from their date of reopening from lockdown 1 (25th July 2020).

- **Peacocks Stores Limited (Cirencester)** – Total arrears of £123,430 (6.9% of the collectable arrears). This tenant has not yet been granted any rent concession and the arrears relates to their monthly rent from 28th March 2020 through to 27th February 2021 (11-months), plus service charge and insurance premium. No payments have been received at all since 2nd March 2020.
- **Sportsdirect.com Retail Limited (Cirencester)** – Total arrears of £115,111 (6.4% of the collectable arrears). This tenant has not been granted any rent concession and the arrears relates to their monthly rent from 28th March 2020 through to 27th February 2021 (11-months), plus service charge and insurance premium. No payments have been received at all since 2nd March 2020.
- **Pizza Hut (UK) Limited (Ipswich)** – Total arrears of £75,107 (4.2% of the collectable arrears). This tenant was granted a one-quarter rent concession for the March 2020 quarter. This tenant has not paid their June, September or December quarter rents and have insurance and service charge also outstanding. The tenant entered a CVA in September. Under the term of the CVA rent is now turnover based and this is in the process of being calculated. Negotiations are ongoing with Pizza Hut in relation to their lease.
- **Toughglaze (UK) Limited (Park Royal)** – Total arrears of £70,932 (4.0% of the collectable arrears). These arrears relate mainly to the December quarter's rent and service charge for which no payment has been made. They have also not paid last year's insurance premium.
- **Partridges of Sloane Street Limited (Gloucester Road)** – Total arrears of £42,236 (2.4% of the collectable arrears). These arrears relate mainly to the December quarter's rent for which no payment has yet been made.

**The remaining £312.442 (17.4 % of the collectable arrears) of arrears is spread across 61 tenants, ranging from £39,675 to £.04.**

# EXECUTIVE SUMMARY

## Quarterly Rent Collection Statistics

### Quarterly Rent Collection Statistics at 101<sup>th</sup> February 2021

			Targets	92.00%	96.00%	98.00%	99.00%		
	Rent Due 29 September	Collectable Rent	Quarter Date up to and including 29/09/2020	Week 1 up to and including 06/10/2020	Week 2 up to and including 13/10/2020	Week 3 up to and including 20/10/2020	Week 4 up to and including 27/10/2020	Payment after 27/10/2020	Difference
	3,826,828.71	3,826,828.71	2,182,009.49	415,645.48	231,748.36	24,059.69	98,006.50	137,961.35	737,397.84
Non Collectable Total		0.00							
Collections Including non collectables			57.02%	67.88%	73.94%	74.56%	77.13%	80.73%	
Collections Excluding non collectables			57.02%	67.88%	73.94%	74.56%	77.13%	80.73%	

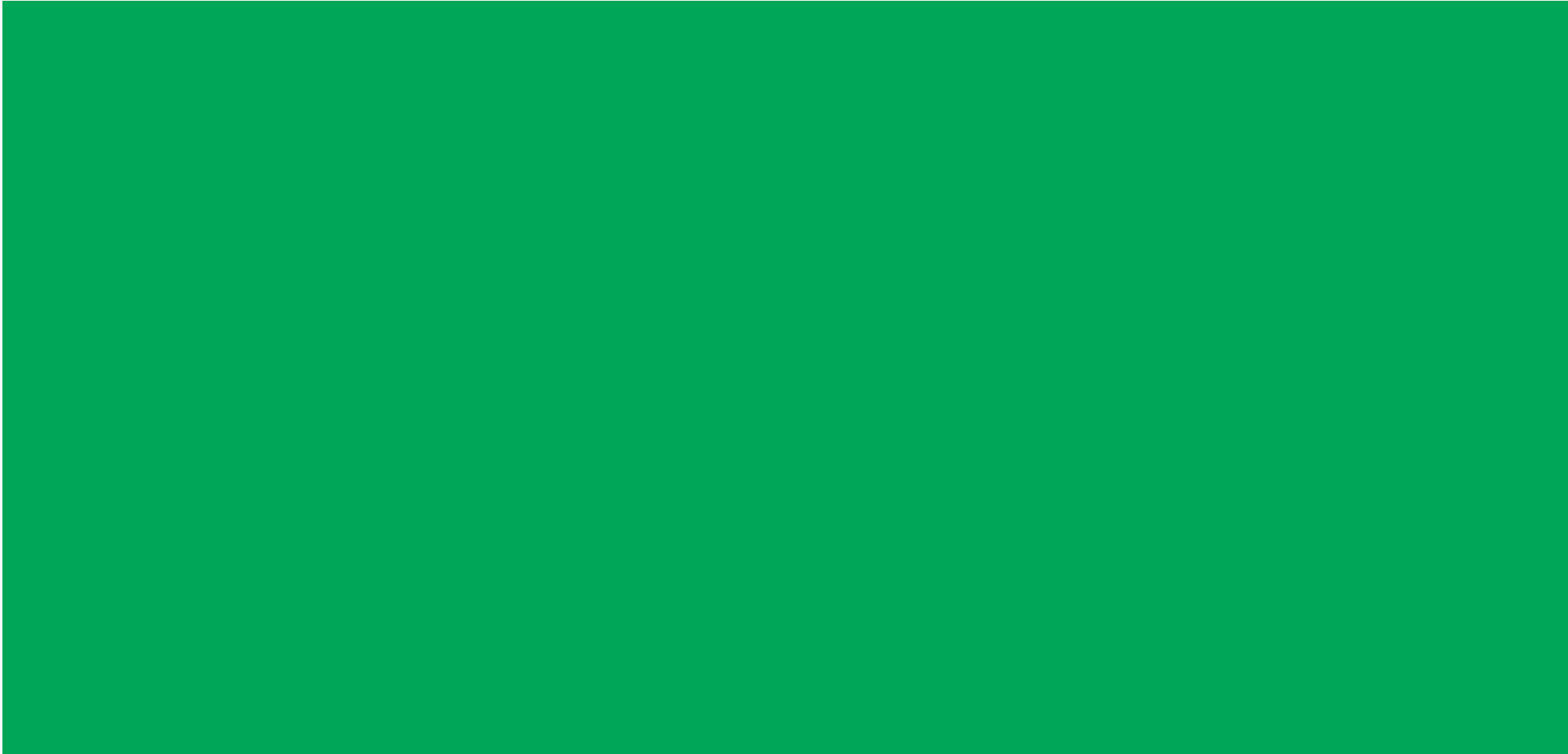
These figures relate to rents that only became due on the September English Quarter Day (25<sup>th</sup> December 2020).

The difference of £737,398 relates to a number of Tenants and is due to varying situations across the portfolio, on a Tenant specific basis. The 5 largest debtors for the December quarter include H&M Hennes & Mauritz Uk Ltd (£222,000), Halcyon Fine Art ( £90,000), Nuffield Health (£70,943), Toughglaze (UK) Ltd (£66,180), and Partridges of Sloane Street (£42,000).

All tenants are either being chased or have paid, with payment receipt pending bank transfer completion. A number of Tenants are subject to varying temporary arrangements with regards to their rental payments as a result of the ongoing Covid-19 pandemic. These are being handled on a tenant specific basis, with each request and agreement being considering in isolation.

CBRE have collected 81% of collectable rent (to 11<sup>th</sup> February 2021).





## **2 ECONOMIC PERFORMANCE AND PROPERTY MARKET**

# PROPERTY MARKET & SECTOR FORECASTS

## Economic Performance Q4 2020

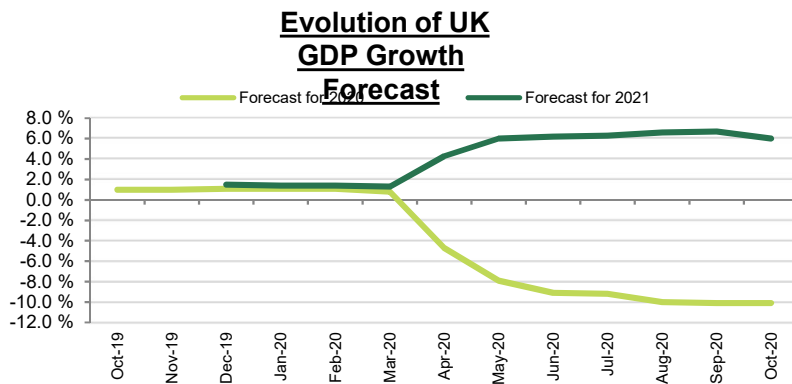
November data confirmed that the second national lockdown in England had a far smaller impact on activity than the first, as businesses and consumers adapted to the new environment and key sectors such as construction and education remained open. December likely saw m/m growth as non-essential retailers were allowed to open in the first half of the month. Taken together, we expect GDP grew 0.4% in the final quarter, implying a contraction of 9.9% in 2020 overall.

Looking forward, it is likely to be a challenging first quarter. The government's vaccination programme aims to vaccinate all over-70s by the middle of February and the high priority groups (over 50) by Easter. For the economy, this almost certainly means that the majority of services that are closed will remain closed for the most (if not all) of the first quarter.

That said, we remain optimistic that UK activity will pick up considerably from Q2. If the vaccine rollout is successful in reducing cases and hospitalisations (which we think it will be), in Q2 over 50% of the population will have been partly vaccinated, unlocking allowing the government to lift restrictions and unlock considerable services spending in the economy.

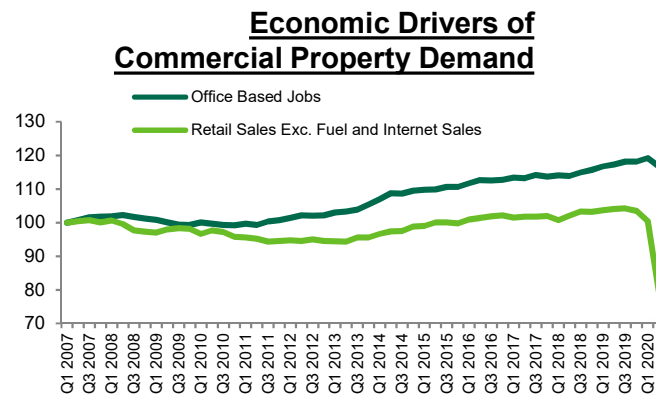
As with the first lockdown, we expect a strong mechanical bounce back in Q2 2021 followed by above average growth rates for the rest of the year, with the UK economy returning to pre-pandemic levels of output in mid-2022.

It's important to note that the 2021 outlook remains highly uncertain with the risks tilted to the downside. While the end of Brexit negotiations will bring an end to some of the uncertainty faced by businesses, the rules surrounding financial services and 'equivalence' will continue to be negotiated into 2022. In any case, we continue to believe Covid-19 and its consequences pose a greater risk to commercial real estate, and thus financial services and the risk to financial service occupiers should be considered in perspective.



CBRE

Source: HM Treasury Consensus



Source: CBRE, Oxford Economics, ONS

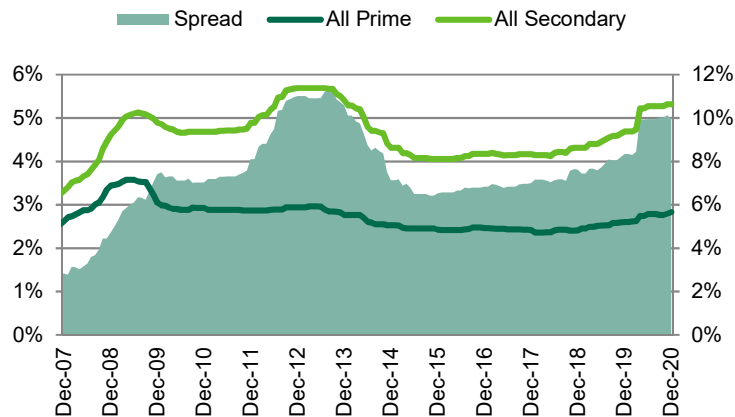


# PROPERTY MARKET & SECTOR FORECASTS

## Property Market Q4 2020

- Year on year total returns for All UK Property fell by -2.2% (-7.6%\* capital return, 5.8%\* income return) for the period Q4 2019 to Q4 2020\*\*. Year on year returns at this level are significantly lower than the 5-year average as the down draft of the pandemic hits performance but especially the Retail sector.
- Quarterly total returns for All UK Property for Q4 recorded 1.6% (0.2% capital return, 1.4% income return).
- Industrials total returns were very strong over Q4 2020 at 7.3% (4.8% capital return, 4.9% income return).
- Rental values for All UK Property fell by -0.5% over the fourth quarter of 2020. This figure was largely pulled down by a fall of -1.9% in the Retail sector and marginal falls for Offices. The industrial sector reported rental value growth over the quarter.

Prime Vs Secondary All Property Yields (excl. Central London)  
Returns

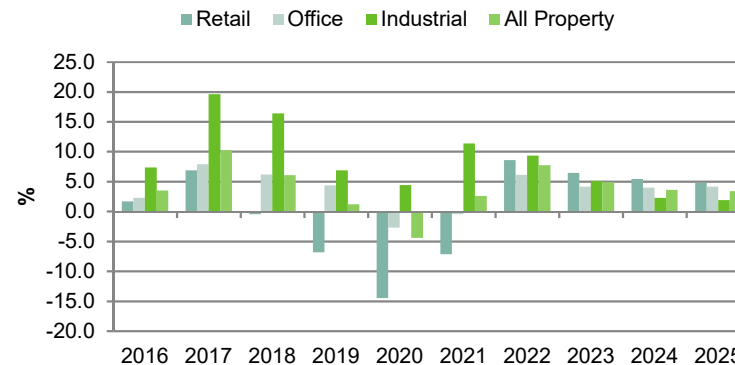


Source: CBRE Monthly Yields, Dec 2020

\* Return figures will not always sum due to separate compound calculations

\*\* Based on CBRE Monthly Index, all property total returns Dec 2020

Property Total



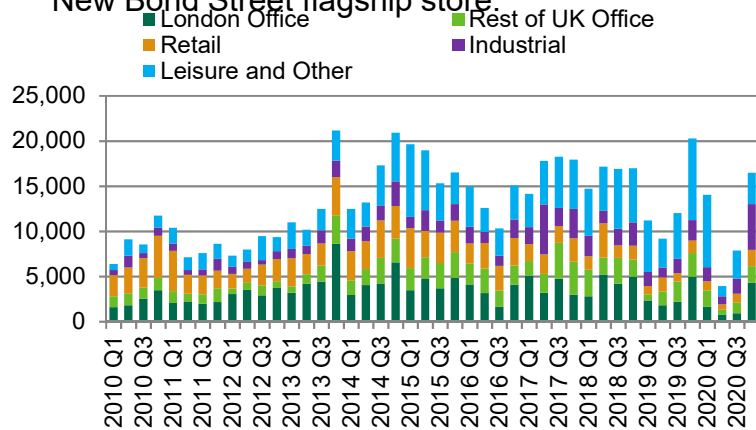
Source: MSCI, CBRE, November 2020

# PROPERTY MARKET & SECTOR FORECASTS

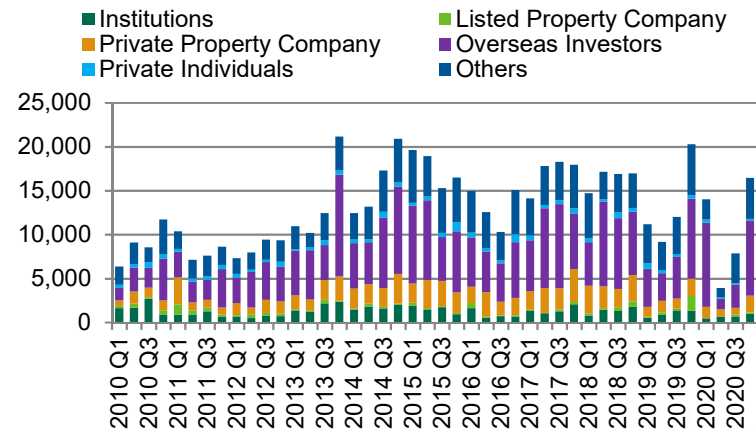
## Property Market Q4 2020 Transactions

- Investment into UK commercial real estate across all sectors reached £16.5bn in Q4, bringing volumes for 2020 to £42.3bn. This is a 20% drop from 2019 investment levels (£53.2bn), with OPRE and Central London offices the hardest hit (44% and 33% fall respectively).
- International investors were responsible for more than half (52%) the capital invested into UK commercial real estate in Q4 2020, above the 10-year quarterly average of 43%. Global travel restrictions had hindered international investment since March, with only 32% of investment capital coming from overseas in Q2 and Q3.
- Investment transactions for 'All Offices' totalled £6.1bn in Q4 2020, almost half the annual total of £13.0bn. The Central London office market saw £4.3bn transact in the final quarter of the year, above the 5-year quarterly average of £3.3bn. The largest deal in Q4 was 1&2 New Ludgate for £552m to Singaporean investor Sun Venture.
- The Industrial sector saw seven portfolios transact for more than £100m in the final quarter of 2020, pushing volumes to £5bn in Q4, making it the 2<sup>nd</sup> highest quarterly total on record for the sector.
- Retail transactions totalled £1.8bn for the quarter, the largest of which was Chanel's £300m acquisition of their New Bond Street flagship store.

Commercial Property Investment Transactions (£millions)



Source: : CBRE, Property Data, January 2021



Source: : CBRE, Property Data, January 2021

# PROPERTY MARKET & SECTOR FORECASTS

## UK Returns Forecast Q4 2020

	2018	2019	2020	Forecast					Annualised
				2021	2022	2023	2024	2025	2021-2025
<b>Total return: % per year</b>									
Retail	-0.5	-6.8	-14.5	-7.1	8.6	6.5	5.4	4.8	3.5
Office	6.2	4.4	-2.7	-0.5	6.1	4.1	4.0	4.1	3.6
Industrial	16.4	6.9	4.4	11.4	9.4	5.1	2.3	1.9	5.9
All Property	6.0	1.2	-4.4	2.6	7.7	4.9	3.6	3.4	4.4
<b>Income return: % per year</b>									
Retail	5.1	5.3	5.5	6.0	5.9	5.7	5.6	5.6	5.8
Office	4.0	4.1	3.9	4.0	4.0	3.9	3.9	3.9	3.9
Industrial	4.5	4.4	4.3	4.1	4.1	4.0	4.1	4.3	4.1
All Property	4.6	4.6	4.5	4.3	4.3	4.2	4.2	4.3	4.3
<b>Capital growth: % per year</b>									
Retail	-5.3	-11.6	-19.0	-12.3	2.5	0.7	-0.2	-0.8	-2.2
Office	2.1	0.3	-6.3	-4.3	2.1	0.2	0.1	0.2	-0.4
Industrial	11.4	2.4	0.1	7.0	5.1	1.0	-1.8	-2.3	1.7
All Property	1.4	-3.3	-8.5	-1.7	3.3	0.6	-0.6	-0.9	0.1
<b>Nominal rental value growth: % per year</b>									
Retail	-2.2	-4.9	-10.3	-8.3	-1.3	-0.6	-0.9	-1.0	-2.4
Office	0.8	1.5	-1.7	-4.8	0.6	2.6	3.2	2.9	0.9
Industrial	4.6	2.9	1.9	2.1	3.3	2.3	2.0	1.4	2.2
All Property	0.5	-0.6	-3.5	-2.8	1.1	1.4	1.2	0.8	0.3
<b>Equivalent Yields - % at end year</b>									
Retail	5.7	6.1	6.7	7.0	6.7	6.6	6.4	6.4	-0.4
Office	5.6	5.6	5.7	5.7	5.6	5.6	5.7	5.8	0.1
Industrial	5.3	5.3	5.3	5.0	4.9	4.9	5.1	5.3	-0.1
All Property	5.5	5.6	5.7	5.6	5.5	5.4	5.5	5.6	-0.2

\*Forecast figures based on Q3 2020 quarterly valuations

The spread in performance between the sectors is currently at its widest with the sector performance divergence persisting over time. The covid-19 pandemic increased ecommerce and much of the increase in internet shopping will persist. The retail sector seeing values fall significantly before reaching a new level.

The all Property Total Returns for outturn for 2019 was 1.2% and losses are expected at the aggregate level in 2020 (-4.4%). Retail is forecast to post losses of -14.5% in 2020 with significant falls in values that has been more significant in shopping centres than elsewhere. Supermarkets in the retail space have performed better. The industrial sector will continue to outperform other sectors. The demand for logistics space from greater online shopping has supported the industrial sector. Continued investor demand for industrial assets has pushed yields down. We expect All Property Returns to recovery marginally in 2021 with a stronger return expect in 2022. On the whole the outlook is driven by the economic recovery and with interest rates remaining low any push upward on property yields is most unlikely to come from rising interest rates in the near term. The 5-year annualised total return for 2021-2025 is 4.4% per annum.

Rental falls are forecast in the near term for all sectors except industrial property.



### 3 PORTFOLIO STRATEGY AND FORECASTING

# PORTFOLIO STRATEGY AND FORECASTING

## Portfolio Strategy

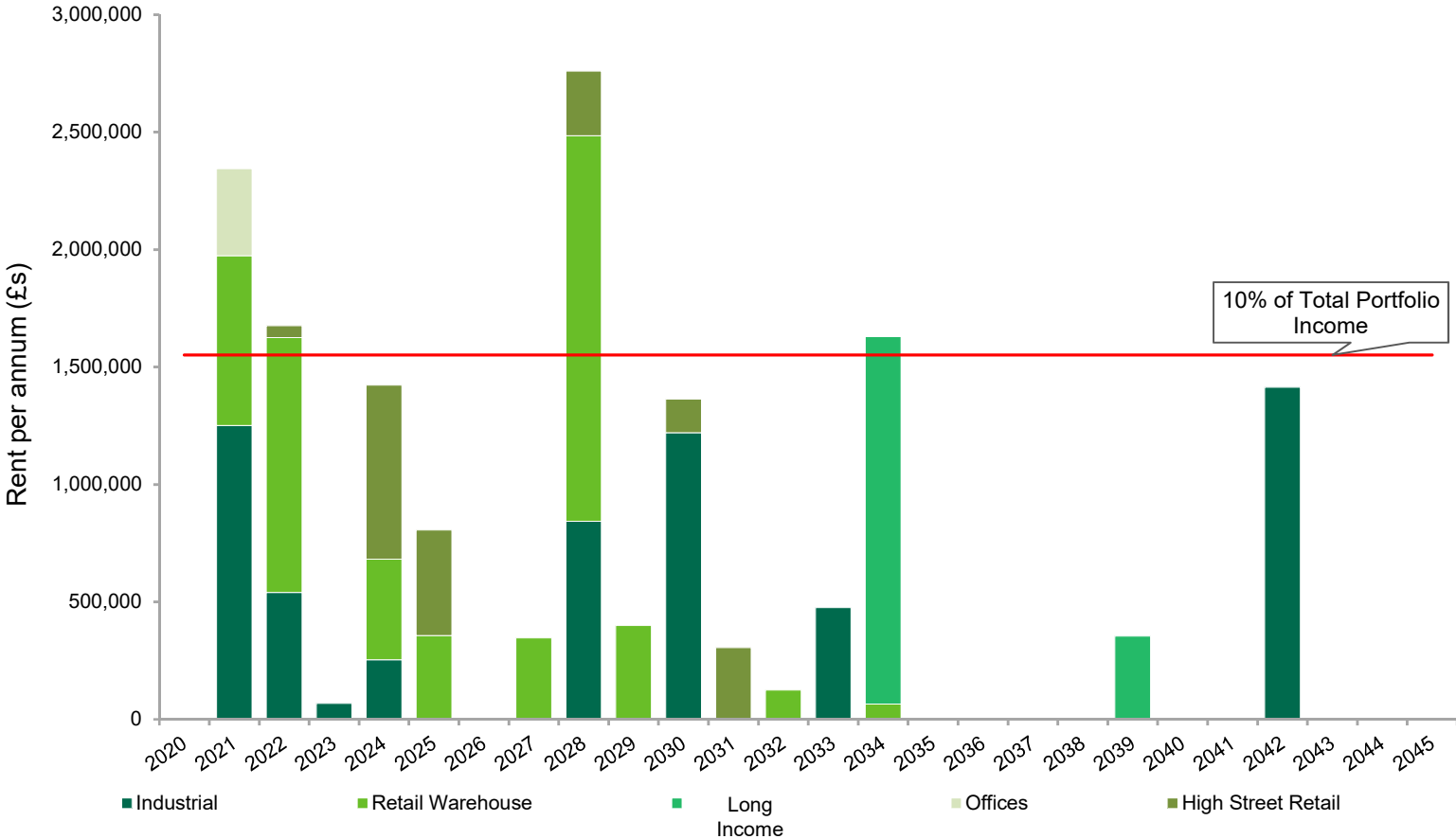
### Top Down Strategy

- The Teesside Pension Fund was valued at £4.150bn in June 2020. The Direct Property Portfolio held by the Fund was valued at £268.52m (December 2020), equating to 6.5% of overall Fund value. The Fund's level of real estate exposure is generally considered underweight, when compared with similar pension funds.
- We will seek to extend the weighted average unexpired lease term (WAULT) of the portfolio, as well as diversifying the lease expiry profile.
- In addition to recommendations on industrial purchases, we may also recommend alternative and long-let investments that offer good covenants, attractive yields and long unexpired terms; these may include hotels, car showrooms, healthcare, leisure, supermarkets and student housing.
- Set against a backdrop of low economic growth, we will seek to make purchases where both occupational and investment supply and demand conditions are strong. This will ensure that purchases are accretive to the portfolio's performance.
- As we continually assess all of the properties within the portfolio, we will also consider sales based on asset specific considerations.
- A key driver of the portfolio performance will continue to come from effective asset management of the existing stock to maximise rental income and extend lease lengths.
- A graph showing the expiry profile, per sector, is shown overleaf.

# PORTFOLIO STRATEGY AND FORECASTING

## Portfolio Strategy

### Lease Expiry Profile



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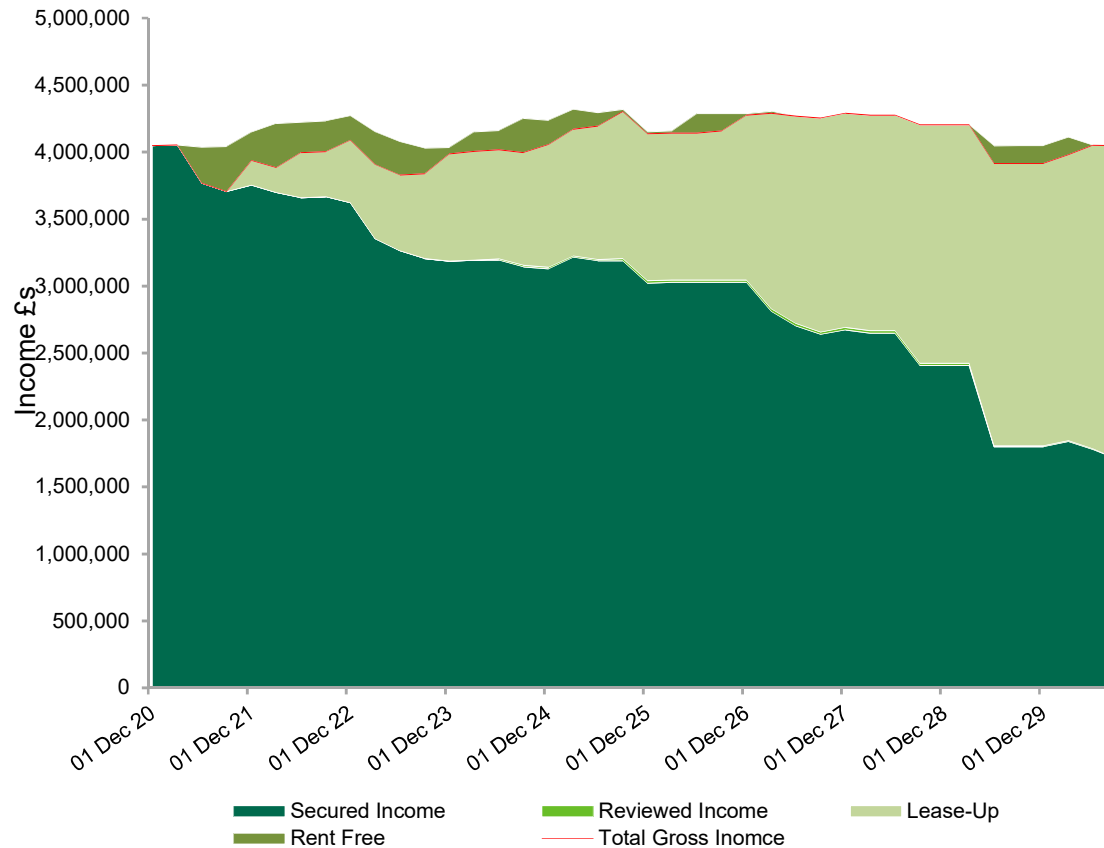




# PORTFOLIO POSITIONING AND FORECASTING

## Portfolio Analysis

### Existing Portfolio Income Profile



The income forecast includes our current rental growth projections. These have been adapted to reflect anticipated rental movement, based on the quality and sub-location of individual assets.

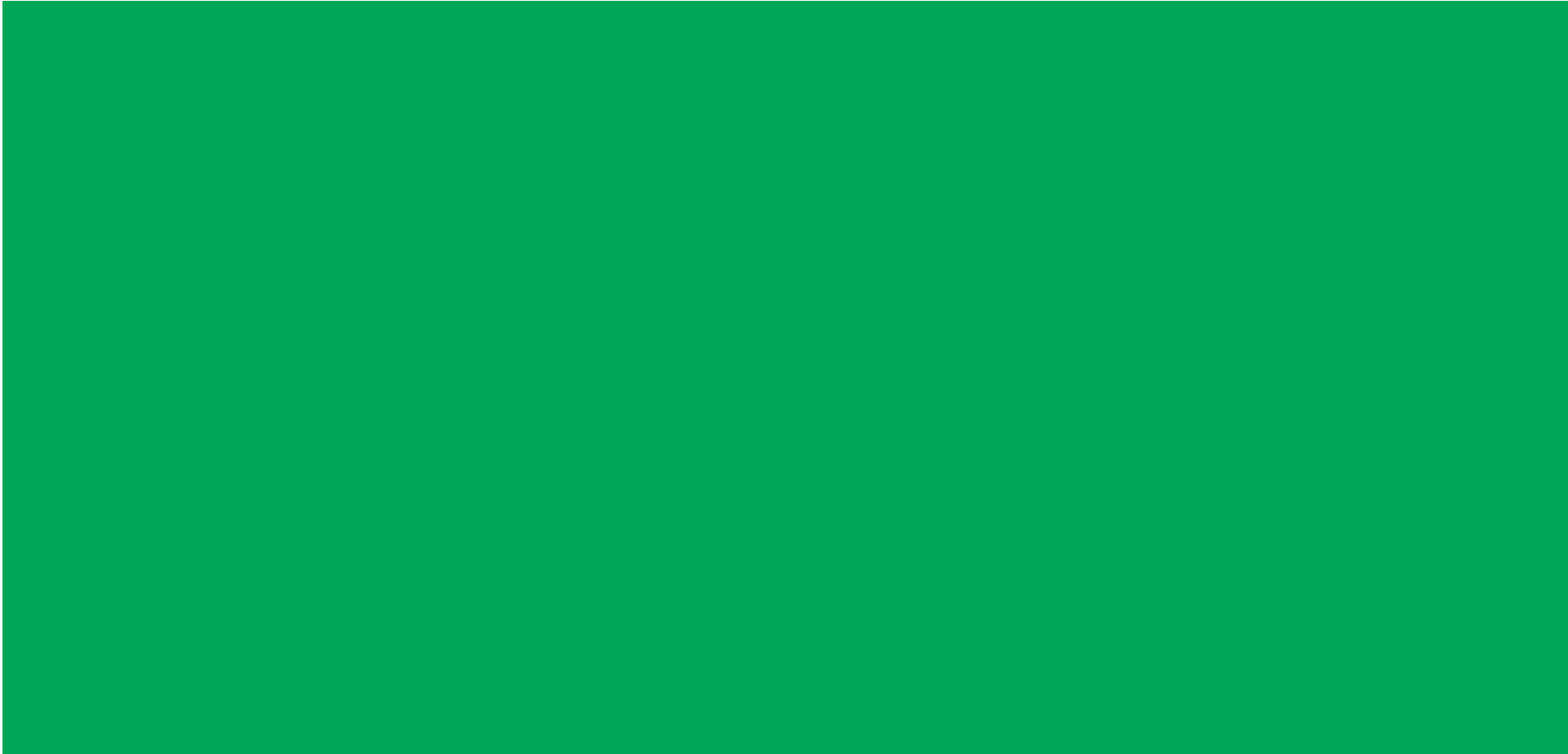
REGION	% OF PORTFOLIO CAPITAL VALUE
London	12.7%
South East	9.0%
South West	8.9%
East	6.0%
West Midlands	27.0%
North East	30.8%
North West	3.9%
Scotland	1.7%
<b>Total</b>	<b>100%</b>

SECTOR	% OF PORTFOLIO (Rental Value)
Industrial	39.1%
Retail Warehouse	33.3%
Long Income	12.4%
Offices	2.5%
High Street Retail	12.7%
<b>Total</b>	<b>100%</b>



## TOP 20 TENANTS (BY CURRENT RENT)

POSITION	TOP 20 TENANTS	TOTAL AREA	CURRENT RENT (£PA)	ERV (£PA)	% OF PORTFOLIO	NO. OF LEASES	FIRST LEASE EVENT
1	Omega Plc	320,815	£1,413,690	£1,400,000	8.69%	1	21 August 2042
2	Royal Mail Group Limited	207,572	£1,000,000	£1,000,000	6.15%	1	23 September 2030
3	B&Q plc	107,068	£997,000	£1,010,000	6.13%	2	31 January 2027
4	DHL Supply Chain Ltd.	146,138	£868,635	£875,000	5.34%	1	28 September 2021
5	Libra Textiles	129,952	£850,000	£780,000	5.23%	1	01 August 2034
6	Brunel Healthcare	136,342	£843,761	£680,000	5.19%	1	10 April 2028
7	ASDA Stores Limited	122,157	£755,000	£755,000	4.64%	1	25 December 2025
8	H&M	32,501	£740,000	£570,000	4.55%	1	23 June 2024
9	Tesco Stores Limited	25,084	£713,853	£570,000	4.39%	1	28 July 2034
10	Matalan Retail Limited	51,753	£500,000	£415,000	3.07%	1	27 November 2028
11	Halycon Fine Art Ltd	38,722	£475,000	£500,000	2.92%	1	22 December 2033
12	Barclays	18,833	£450,000	£410,000	2.77%	1	23 June 2025
13	Wickes Building Supplies Limited	28,338	£396,750	£385,000	2.44%	1	29 September 2028
14	DSG Retail Limited (t/a Currys/PC World)	25,000	£375,000	£315,000	2.31%	1	28 September 2022
15	B&M Retail Limited (t/a B&M Homestore)	25,000	£375,000	£315,000	2.31%	1	28 September 2022
16	Institute of Cancer Research	9,502	£371,420	£371,420	2.28%	1	17 February 2021
17	Nuffield Health	26,458	£354,715	£331,000	2.18%	1	04 April 2039
18	Pets at Home Ltd	15,577	£325,825	£242,500	2.00%	2	05 January 2024
19	Aurum Group Limited	1,440	£305,000	£282,000	1.88%	1	01 March 2031
20	River Island Clothing Co Ltd	1,270	£275,000	£195,000	1.69%	1	30 November 2028
	<b>TOTAL</b>	<b>1,469,522</b>	<b>£12,385,649</b>	<b>£11,401,9204</b>	<b>76.1%</b>	<b>22</b>	



## 4 PORTFOLIO ACTIVITY



# PORTFOLIO ACTIVITY

## ASSET MANAGEMENT COMMENTARY



### LUTTERWORTH, MAGNA PARK

February 2021

A new 10-year reversionary lease has been completed with ASDA, the sitting tenant, at a rent of £755,000 pax, an increase of 14%. This Lease completed 12<sup>th</sup> February 2021.



### BIRMINGHAM, BROMFORD CENTRAL

January 2021

The Fund has agreed terms with a new tenant at Unit 4, Bromford Central. The Lease reflects a 10-year term with a tenant only break in the 5<sup>th</sup> anniversary of the Lease. Agreed at a rent of £110,461 pax, in-line with the current unit valuation. Solicitors have been appointed to complete the letting.



### CIRENCESTER, UNIT 1

December 2020

Terms have been agreed with a gym operator to take the vacant unit at Cirencester Retail Park. The Lease is for a 15 year term with a tenant break option on the 10<sup>th</sup> anniversary. Solicitors are currently appointed to complete the letting.



### READING, ACRE ROAD

February 2021

Terms are close to being agreed with a national logistics operator to let Unit 2 Acre Road, currently vacant. The lease will reflect a 10-year term with a tenant only break option on the 5<sup>th</sup> anniversary. It is anticipated terms will be agreed by March 2021. The unit will also benefit from a planned external respray of the paintwork, modernising the estate.

The CBRE logo is displayed in white, bold, uppercase letters in the top left corner of the slide. The background is a dark green, abstract geometric pattern of overlapping polygons and lines.

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For more information regarding this presentation please contact:

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**TEESSIDE PENSION FUND**

Administered by Middlesbrough Council

**AGENDA ITEM 14**

**PENSION FUND COMMITTEE REPORT**

**10 MARCH 2021**

**DIRECTOR OF FINANCE - IAN WRIGHT**

**TEESSIDE PENSION COMMITTEE – ADMINISTRATION REPORT**

**1. PURPOSE OF THE REPORT**

- 1.1 To provide an overview of administration services provided to the Teesside Pension Fund by XPS Administration.

**2. RECOMMENDATIONS**

- 2.1 That Board Members note the contents of the paper.

**3. FINANCIAL IMPLICATIONS**

- 3.1 There are no financial implications for the Fund.

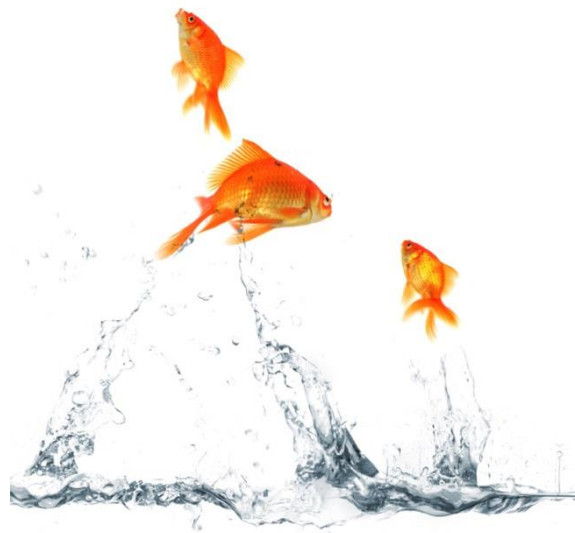
**4. BACKGROUND**

- 4.1 To enable the Board to gain an understanding of the work undertaken by XPS Administration and whether they are meeting the requirements of the contract. The report is contained within Appendix A.
- 4.2 The report will also cover progress on recruitment to the posts discussed at previous meetings relating to the improvement to services.

CONTACT OFFICER: Graeme Hall (Operations Manager)

TEL. NO.: (01642) 030643

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# Teesside Pension Fund

## Service Delivery Report

2020/21



# Teesside Pensions Fund

## Headlines

### McCloud judgement

On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the McCloud and Sargeant case.

The case concerns the transitional protections provided to older members of the judges and firefighter pension schemes when the schemes were reformed in 2015, as part of the public sector pension scheme changes. On 20 December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified.

A consultation document was issued on the proposed remedy in respect of the LGPS. The consultation covers both future provisions and proposed retrospective changes to enable the Scheme to remedy the findings of discrimination. Draft amending legislation accompanied the consultation which had a closing date of 8 October 2020.

The proposals contained in the consultation go beyond the immediate remedy of age discrimination that the McCloud judgement seeks to rectify and also contain broader changes which MHCLG propose to implement to rectify what they view as historic anomalies that have existed since the introduction of the new Scheme in 2014, some of which would require retrospective amendment.

The immediate remedy proposals have significant administrative impact and the more extensive proposals will place a further administrative burden upon the Fund, XPS and employers within the Fund. A response was submitted to the consultation agreeing with the broad principles of the remedy but highlighting the major administrative impact that the changes will impose.

### Legislation on restricting exit payments (£95k cap)

The Restriction of Public Sector Exit Payments Regulations 2020 ('the Cap Regulations'), will come into force on 4 November 2020, in advance of the changes to LGPS regulations proposed by MHCLG in the further reform consultation. These changes will amend the LGPS regulations to provide for the payment of reduced pensions in whole (as is the current provision) and in part.

From 4 November 2020 up to the enactment of the MHCLG further reform proposals there is a position of legal uncertainty. This is due to the apparent discrepancy between the obligations on scheme employers under the Cap Regulations to limit strain cost payments, and the requirement for administering authorities to pay unreduced pensions to qualifying scheme members under existing LGPS regulations.

The Fund is now following the Scheme Advisory Board's recommended approach that anyone retiring on redundancy or business efficiency grounds who exceeds the cap will be offered a

choice of deferred benefits or reduced immediate benefits, and employers are recommended to follow the SAB guidance and not make a 'top up' payment to individuals in these circumstances at this stage.

## Regulations and guidance

The LGPS (Amendment) (No2) Regulations 2020 – exit credits

On 27 February 2020, MHCLG published a partial response to the consultation covering changes to the local valuation cycle and the management of employer risk. The response covered the proposals on exit credits only.

On 26 August 2020, MHCLG published a second partial response to the Local valuation cycle and the management of employer risk consultation that was issued in May 2019.

The response confirms that the LGPS 2013 Regulations will be amended to allow greater flexibility on employer exit payments and the ability to review employer contributions between valuations. The LGPS (Amendment) (No.2) Regulations 2020 provide for the changes and were laid on 27 August 2020. They came into effect from 23 September 2020.

A further response will be made by MHCLG in relation to the other proposals in the consultation (changes to the local fund valuation cycle, interim valuations and the status of further education, Sixth Form College and higher education corporations in England and Wales) in due course.

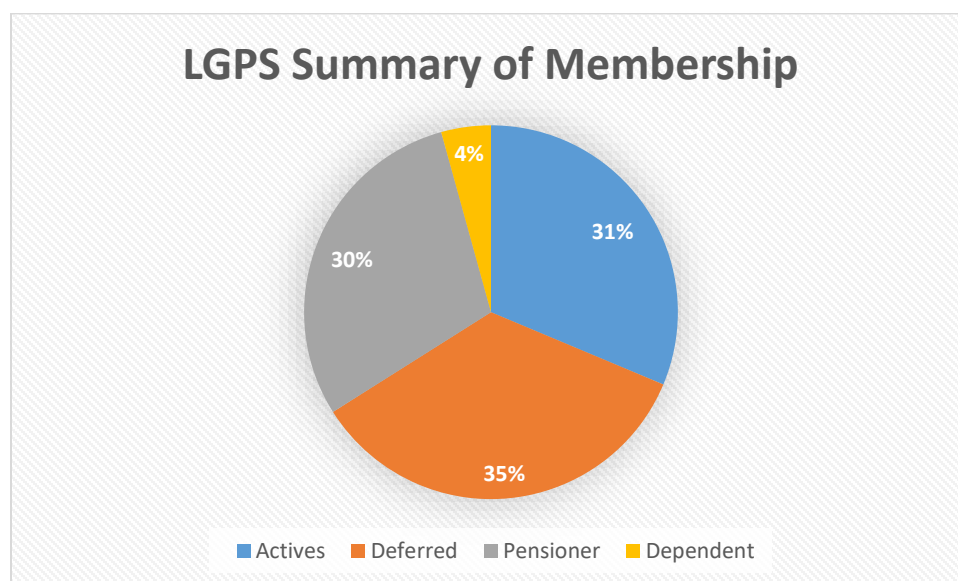
## Covid-19

XPS update

Following the latest lockdown due to Covid-19, XPS introduced further restrictions on who can work from the office (based on work undertaken and any special circumstances). At this moment there is no timeframe, nor rush, to commence a full return to an office environment. XPS will maintain a watching brief on governmental guidance.

## Membership Movement

	Actives		Deferred		Pensioner		Widow/Dependent	
Q3 2020/21	23,199	▲	25,713	▼	21,971	▲	3,182	▲
Q2 2020/21	23,018	▼	25,936	▼	21,763	▲	3,134	▲
Q1 2020/21	23,243	▲	25,958	▲	21,538	▲	3,101	▼
Q4 2019/20	22,997	▼	25,799	▼	21,521	▲	3,114	▲
Q3 2019/20	23,123	▲	25,948	▼	21,355	▲	3,093	▲
Q2 2019/20	22,463	▼	26,136	▲	21,179	▲	3,071	▲

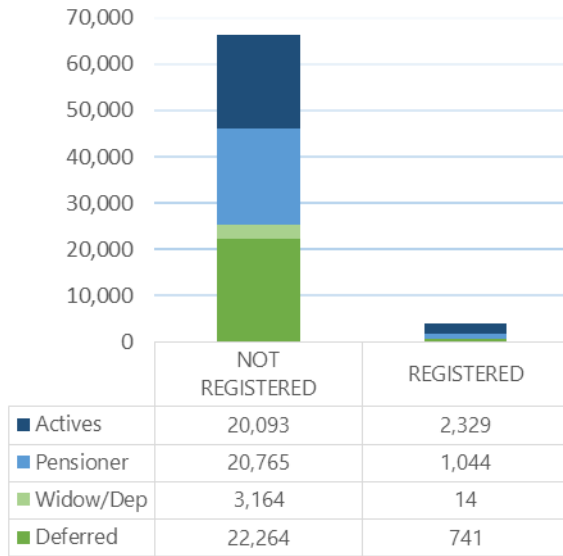


## Member Self Service

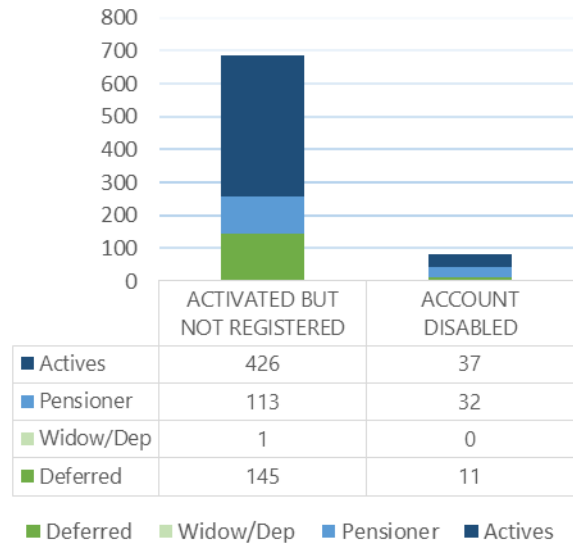
Below is an overview on the activity and registration of the Member Self Service System:

	NOT REGISTERED	REGISTERED	ACTIVATED BUT NOT REGISTERED	ACCOUNT DISABLED	TOTAL	% Uptake
Actives	20,093	2,329	426	37	<b>22,885</b>	<b>10.3%</b>
Deferred	22,264	741	145	11	<b>23,161</b>	<b>3.2%</b>
Pensioner	20,765	1,044	113	32	<b>21,954</b>	<b>4.9%</b>
Widow/Dep	3,164	14	1	0	<b>3,179</b>	<b>0.4%</b>
<b>Total</b>	<b>66,286</b>	<b>4,128</b>	<b>685</b>	<b>80</b>	<b>71,179</b>	<b>5.9%</b>

### Registration Summary No's



### Other Account Status No's

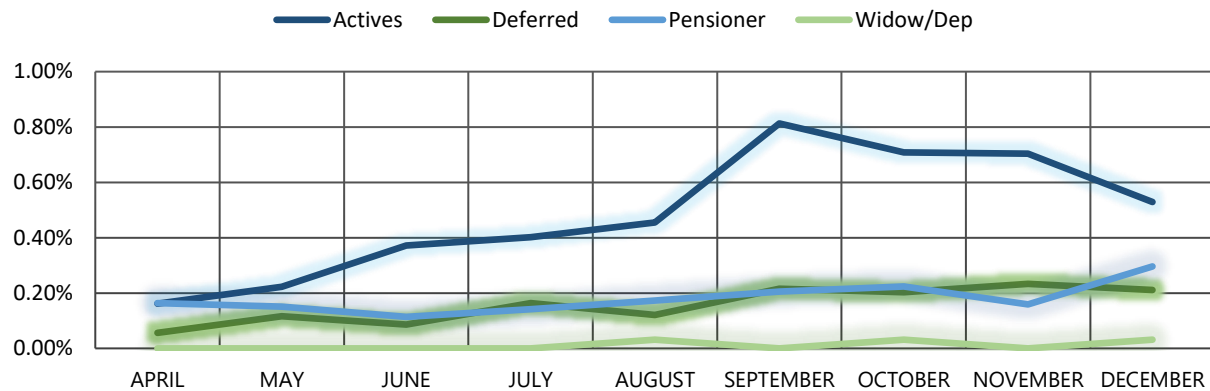


		APRIL		MAY		JUNE	
QUARTER 1	Actives	49	0.21%	63	0.27%	108	0.47%
	Deferred	15	0.06%	34	0.15%	35	0.15%
	Pensioner	40	0.18%	37	0.17%	22	0.10%
	Widow/Dep	-	-	-	-	-	-
	<b>Total</b>	<b>104</b>		<b>134</b>		<b>165</b>	

		JULY		AUGUST		SEPTEMBER	
QUARTER 2	Actives	145	0.63%	157	0.68%	302	1.31%
	Deferred	44	0.19%	43	0.19%	84	0.36%
	Pensioner	35	0.16%	40	0.18%	54	0.25%
	Widow/Dep	-	-	2	0.06%	2	0.06%
	<b>Total</b>	<b>224</b>		<b>242</b>		<b>442</b>	

		OCTOBER		NOVEMBER		DECEMBER	
QUARTER 3	Actives	196	0.85%	161	0.70%	121	0.53%
	Deferred	49	0.21%	54	0.23%	49	0.21%
	Pensioner	44	0.20%	35	0.16%	65	0.30%
	Widow/Dep	-	-	-	-	1	0.03%
	<b>Total</b>	<b>289</b>		<b>250</b>		<b>236</b>	

## Percentage of Registered Users Accessing Member Self Service Each Month of the Year Ending 31st March 2021



## Additional Work

Guaranteed Minimum Pension reconciliation exercise

Work continues on this project, with expectation being Stage 2 will be complete by end of May. We will then move on to Rectification Stage 1 which will highlight those cases that need recalculating.

## Complaints

Type of complaint	Date received	Date responded

## Internal Dispute Resolution Process

For the 3 months to 31<sup>st</sup> December 2020 there are two known IDR cases:

- 1 related to November complaint regarding non-receipt of an Expression of Wish form
- 1 related to escalation to Stage 2 of a previous IDR case relating to ill health retirement.

Papers have been issued to the Stage 2 nominated person and we are awaiting a response.

## Pensions Ombudsman

For the 3 months to 31<sup>st</sup> December 2020 there are no known cases passed for consideration to, nor a ruling by, the Pensions Ombudsman.

## High Court Ruling

For the 3 months to 31<sup>st</sup> December 2020 there are no known cases.

## Common Data

Data Item	Teesside Pension Fund				107 dependents	
	Max Population	Total Fails	% OK	Prev %		
NINo	74,742	140	99.81%	99.80%	107 dependents	
Surname	74,742	0	100.00%	100.00%		
Forename / Inits	74,742	0	100.00%	100.00%		
Sex	74,742	0	100.00%	100.00%		
Title	74,742	52	99.93%	99.96%		
DoB Present	74,742	0	100.00%	100.00%		
Dob Consistent	74,742	0	100.00%	100.00%		
DJS	74,742	0	100.00%	100.00%		
Status	74,742	0	100.00%	100.00%		
Last Status Event	74,742	652	99.13%	99.27%		
Status Date	74,742	1,349	98.20%	98.62%		
No Address	74,742	349	99.53%	99.53%		
No Postcode	74,742	467	99.38%	99.37%		
Address (All)	74,742	4,104	94.51%	94.61%		
Postcode (All)	74,742	4,115	94.49%	94.61%		
Common Data Score	<b>74,742</b>	<b>2,597</b>	<b>96.53%</b>	<b>97.07%</b>		
Members with Multiple Fails	<b>74,742</b>	<b>396</b>	<b>99.47%</b>	<b>99.50%</b>		

## Conditional Data

XPS Administration, Middlesbrough are working on a method to report Conditional Data. Discussions are ongoing with Aquila Heywood on a cost for this reporting function along with investigation on whether this can be achieved internally. This follows the issuance by SAB of 22 data fields that should be reported on.

An overview of the Conditional (Scheme Specific) Data for the three Police schemes are:

<b>Scheme</b>	<b>Member Total</b>	<b>Errors from tests carried out</b>	<b>%age accuracy based on tests carried out</b>
TPF (inc GMP)	68,296	9,151	86.60
TPF (exc GMP)	68,296	1,197	98.25

These scores come from the following tests. Only those tests shown in yellow have been reported on; the other reports will be developed and added to results in future reports.

Report	Report Description	Test 1	Test 2	Test 3	Member Totals	Errors	%
1.1.1	Divorce Details						
1.1.2	Transfers in	Date the transfer in was received is present on record	Ensure the transfer value on record isn't blank	N/A	45,183	65	99.86
1.1.3	Additional Voluntary Contribution (AVC) Details and other additional benefits						
1.1.4	Total Original Deferred Benefit						
1.1.5	Tranches of Original Deferred Benefit						
1.1.6	Total Gross Pension						
1.1.7	Tranches of Pension						
1.1.8	Total Gross Dependant Pension						
1.1.9	Tranches of Dependant Pension						
1.2.1	Date of Leaving	Date of Leaving Blank	Date joined blank or <01/01/1900	Date joined later than Date of Leaving	4,164	43	98.97
1.2.2	Date Joined scheme	Check all Key Dates are present and later than 01/01/1900	N/A	N/A	68,296	11	99.98
1.2.3	Employer Details	Employer Code present	N/A	N/A			



<b>1.2.4</b>	Salary	Pay not within 12 months	N/A	N/A	46,338	1,078	97.67
<b>1.3.1</b>	CARE Data	CARE Missing on relevant records	N/A	N/A			
<b>1.3.2</b>	CARE Revaluation						
<b>1.4.1</b>	Benefit Crystallisation Event (BCE) 2 and 6						
<b>1.4.2</b>	Lifetime allowance						
<b>1.4.3</b>	Annual allowance						
<b>1.5.1</b>	Date Contracted Out	Date Contracted Out missing					
<b>1.5.1</b>	NI contributions and earnings history						
<b>1.5.2</b>	Pre-88 GMP				24,400	7,954	67.40
<b>1.5.3</b>	Post-88 GMP						

## Customer Service

Since December 2016, XPS Administration, Middlesbrough have included a customer satisfaction survey with the retirement options documentation.

A summary of the main points are as follows:

Issued	Returned	%
15,867	3,055	19.25

Question	Previous Response*	Current Response*
1. It was easy to see what benefits were available to me	4.26	4.27
2. The information provided was clear and easy to understand	4.19	4.19
3. Overall, the Pensions Unit provides a good service	4.29	4.29
4. The retirement process is straight forward	4.03	4.03
5. My query was answered promptly	4.45	4.45
6. The response I received was easy to understand	4.43	4.44
7. Do you feel you know enough about your employers retirement process	76.46%	76.51%
8. Please provide any reasons for your scores (from 18/05/17)		
9. What one thing could improve our service		
10. Did you know about the <a href="http://www.teespen.org.uk">www.teespen.org.uk</a> website? (from 18/05/17)	47.27%	47.53%
11. Did you use the website to research the retirement process? (from 18/05/17)	27.24%	27.40%
12. Have you heard of Member Self Service (MSS)? (from 18/05/17)	23.75%	23.80%

\*scoring is out 5, with 5 being strongly agree and 1 being strongly disagree

## Service Development

Following the agreement of the Pensions Committee to fund enhancements to the Pensions Administration Services at their meeting of 7<sup>th</sup> March 2018, XPS Administration, Middlesbrough has looked to recruit into the roles required to provide this enhanced service.

Additional funds were only drawn down when roles were filled to undertake the additional services. This has so far led to:

### Initial Planning

To help with the creation of the teams that will assist with the additional services two new posts were created to covering Governance & Communications plus Systems & Payroll. These were filled by Paul Mudd and Neale Watson respectively on 11<sup>th</sup> July 2018. Their roles were then to look at how XPS could then provide the agreed services to the Fund.

### Employer Liaison

On 1<sup>st</sup> May 2019, the Employer Liaison team leader was appointed. Quickly followed by an assistant on 24<sup>th</sup> June 2019.

Since appointment, they have undertaken numerous tasks including Employer training, late contribution monitoring, and data cleansing. They have recently started Employer Health checks, which are now undertaken virtually due to the Covid restrictions.

The team are also working with the actuary to provide relevant and timely information.

Next steps will be to work with the Fund to determine how to undertake employer covenant and introducing the monthly contribution process across all employers.

#### Communications

The Communications Coordinator was appointed on 16<sup>th</sup> December 2019 with an initial remit to review fund's website and develop a new version with greater accessibility and easier to navigate; this will be demonstrated at this meeting.

Once the new website is live, the next area to review will be the bulk communications that we issue (newsletters and Annual Benefit Statements) before reviewing any other documentation.

#### Next Steps

XPS are currently reviewing processes to enable a move to monthly contribution postings which should lead to greater efficiencies, and more up to date information on member records. It is expected that this will occur during the 2021/22 financial year. Since March 2018, the plan has changed from the recruitment of two additional members of staff to use a piece of software that will provide an auditable process that will allow employers to upload member data directly to records. This will help ensure starters, leavers and variations are provided in a timely manner and current data is held to speed up the calculation process.

The next steps will include the procurement of the additional software and the recruitment of at least one further member of staff to assist with the processing of the data.

## Performance

Following discussions with both the Pension Board and Committee, XPS Administration are investigating a way to report the time between a member being entitled to a benefit and it being finalized (e.g. time between date of leaving and deferred benefit statement being issued or pension being brought into payment).

XPS Administration are therefore investigating whether sufficient reporting tools already exist within the pension administration system or whether bespoke reports are required to be developed (either internally or via the administration software providers).

The Pension Committee will be kept updated on the progress to provide this information.

## Employer Liaison

### Employers & Members

We have started our Employer Health Check communication where we are virtually going to meet each employer to find out what they need from us in regards to training, and what we expect from them. These meetings will also involve general discussions on how employers are finding matters in the current situation. The first few meetings we have completed have been successful and more are scheduled in the coming months. Analysis of needs is being collated and will be an ongoing exercise throughout the checks.

### Late Payments

I requested that accounts liaise with me more regularly in order to keep on top of the late payments. This has now begun and they email me monthly once the deadline for payments has passed. This seems to be working well and will continue.

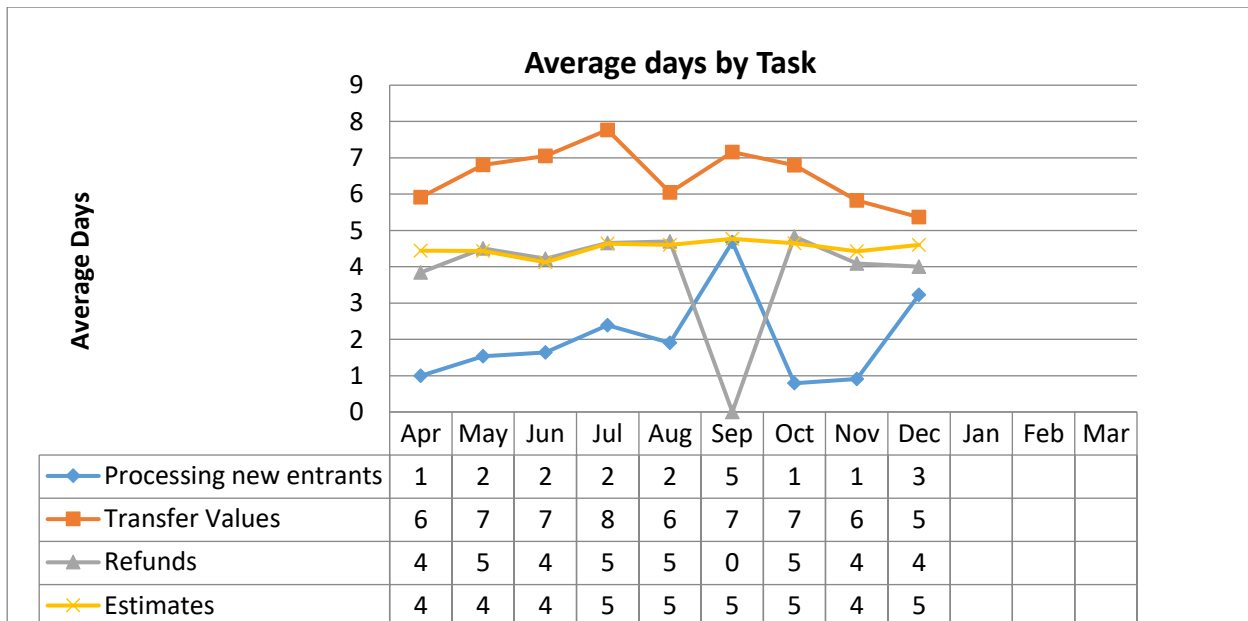
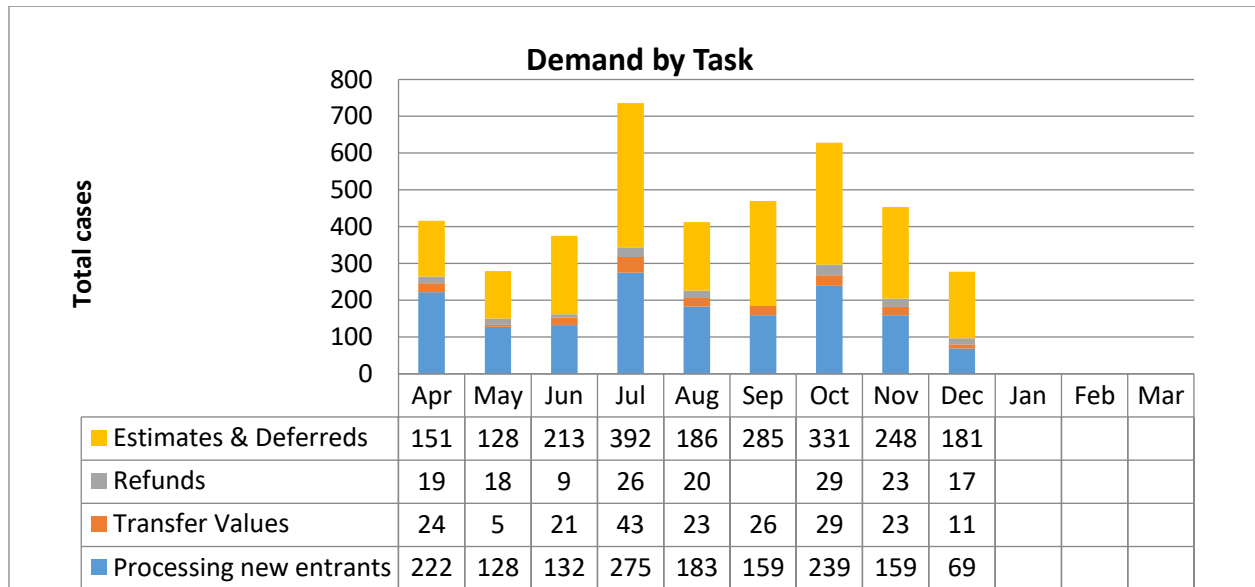
One regular late payment employer has now caught up.....Creative Management. Lockwood Parish was named on the late payment list however once I contacted them it turned out the member had left the fund and no contributions were due.

Date	Expected Payments	Late Payments	% Late	<10 Days Late	>10 Days Late
Aug-19	148	3	4.00%	2	1
Sep-19	148	4	4.00%	3	1
Oct-19	148	1	4.00%	0	1
Nov-19	156	6	2.00%	2	4
Dec-19	156	4	3.00%	4	0
Jan-20	158	4	3.00%	4	0
Feb-20	158	4	3.00%	4	0
Mar-20	158	2	1.00%	2	0
Apr-20	138*	4	3.00%	-	-
May-20	151	3	2.00%	0	3
Jun-20	151	2	1.00%	1	1
Jul-20	150	6	4.00%	6	0
Aug-20	150	9	6.00%	0	9

Date	Expected Payments	Late Payments	% Late	<10 Days Late	>10 Days Late
Sept-20	149	8	5.00%	3	5
Oct-20	149	3	2.00%	3	0
Nov-20	149	3	2.00%	3	0

## Performance Charts

Overall Demand



The following charts show performance against individual service level requirements.

April 2020

Standard Reference No.	KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Days	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target
F64	All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	99.55%	1.00	222	1	222	221
F65	Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100%	6	24	0	24	24
F67	Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	100%	4	19	0	19	19
F68 & F72	Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	100.0%	4	151	0	151	151
F78	Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A		
F83	Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	100%	N/A	N/A	N/A		
F86	Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A		
F87	Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A		
F88	All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A		

May 2020

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Standard Reference No.	KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Days	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target
F64	All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	1.53	128	0	128	128
F65	Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100%	7	5	0	5	5
F67	Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	100%	5	18	0	18	18
F68 & F72	Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	100.0%	4	128	0	128	128
F78	Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A		
F83	Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	100%	N/A	N/A	N/A		
F86	Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A		
F87	Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A		
F88	All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A		

June 2020

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Standard Reference No.	KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Days	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target
F64	All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	1.64	132	0	132	132
F65	Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100%	7	21	0	21	21
F67	Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	100%	4	9	0	9	9
F68 & F72	Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	100.0%	4	213	0	213	213
F78	Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A		
F83	Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	100%	N/A	N/A	N/A		
F86	Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A		
F87	Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A		
F88	All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A		



# July 2020

Standard Reference No.	KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Days	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target
F64	All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	2.39	275	0	275	275
F65	Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100%	8	43	0	43	43
F67	Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	100%	5	26	0	26	26
F68 & F72	Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	100.0%	5	392	0	392	392
F78	Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A		
F83	Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	100%	N/A	N/A	N/A		
F86	Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A		
F87	Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A		
F88	All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A		

## August 2020

KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Days	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target
All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	1.90	183	0	183	183
Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100%	6	23	0	23	23
Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	100%	5	20	0	20	20
Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	100.0%	5	186	0	186	186
Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A		
Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	100%	N/A	N/A	N/A		
Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A		
Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A		
All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A		

# September 2020

KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Days	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target
All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	4.68	159	5	159	159
Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100%	7	26	0	26	26
Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	0%	#DIV/0!	0	0	0	0
Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	0.0%	5	285	0	285	285
Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A		
Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	100%	N/A	N/A	N/A		
Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A		
Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A		
All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A		

# October 2020

<b>KEY PERFORMANCE REQUIREMENTS (KPR)</b>	<b>MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)</b>	<b>KPR Days</b>	<b>MINIMUM PERFORMANCE LEVEL (MPL)</b>	<b>ACTUAL PERFORMANCE LEVEL (APL)</b>	<b>Average Case Time (days)</b>	<b>Number of Cases</b>	<b>Over target</b>	<b>TOTAL (cases)</b>	<b>Within Target</b>
All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	0.79	239	0	239	239
Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100%	7	29	0	29	29
Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	100%	5	29	0	29	29
Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	100.0%	5	331	0	331	331
Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A		
Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	0%	N/A	N/A	N/A		
Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A		
Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A		
All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A		

# November 2020

KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Days	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target
All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	0.91	159	0	159	159
Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100%	6	23	0	23	23
Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	100%	4	23	0	23	23
Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	100.0%	4	248	0	248	248
Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A		
Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	0%	N/A	N/A	N/A		
Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A		
Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A		
All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A		

# December 2020

KEY PERFORMANCE REQUIREMENTS (KPR)	MONITORING PERIOD (Annually, Quarterly, Monthly, Half Yearly)	KPR Days	MINIMUM PERFORMANCE LEVEL (MPL)	ACTUAL PERFORMANCE LEVEL (APL)	Average Case Time (days)	Number of Cases	Over target	TOTAL (cases)	Within Target
All new entrant processed within twenty working days of receipt of application.	Monthly	20	98.50%	100.00%	3.23	69	0	69	69
Transfer Values - To complete the process within one month of the date of receipt of the request for payment.	Monthly	20	98.50%	100%	5	11	0	11	11
Refund of contributions - correct refund to be paid within five working days of the employee becoming eligible and the correct documentation being supplied.	Monthly	5	98.75%	100%	4	17	0	17	17
Merged Estimate Of Benefits and Deferred Benefits	Monthly	10	98.25%	100.0%	5	181	0	181	181
Pension costs to be recharged monthly to all employers.	Monthly		98.75%	100%	N/A	N/A	N/A		
Annual benefit statements shall be issued on a rolling basis ensuring that a scheme member shall receive a statement once a year.	Annual	April	98.75%	0%	N/A	N/A	N/A		
Payment of lump sum retiring allowance - Payment to be made within 6 working days of payment due date and date of receiving all the necessary information.	Monthly		98.75%	100%	N/A	N/A	N/A		
Pay eligible pensioners a monthly pension on the dates specified by the Council.	Monthly		100%	100%	N/A	N/A	N/A		
All calculations and payments are correct.	Monthly		98.75%	100%	N/A	N/A	N/A		

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