

**TEESSIDE PENSION FUND COMMITTEE**

A meeting of the Teesside Pension Fund Committee was held on Friday 8 October 2021.

**PRESENT:** Councillors D Coupe, (Chair), E Polano (Vice-Chair), A Bell, T Furness, G Nightingale, (Redcar and Cleveland Council), J Rostron and S Walker

**ALSO IN ATTENDANCE:** W Bourne, P Moon, Independent Advisers  
A Owen, A Peacock, G Rutter, CBRE  
P Mudd, XPS Administration  
P Campbell, A Stone, A Faulkner, T Sankey, Border to Coast Pension Partnership  
N Beasley, A Ingram, Veritau

**OFFICERS:** S Lightwing, N Orton, C Breheny, W Brown and S Smithyman

**APOLOGIES FOR ABSENCE:** were submitted on behalf of Councillors J Beall, (Stockton On Tees Borough Council), R Creevy, (Hartlepool Borough Council), J Hobson, M Storey  
T Watson

21/15 **WELCOME**

The Chair welcomed all present to the meeting.

21/16 **ADJOURNMENT**

The meeting was held virtually and due to there being some technical difficulties, the Chair moved that the meeting was adjourned to allow all Members time to join the meeting.

**ORDERED** that the meeting was adjourned for a short period of time.

21/17 **DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Nightingale	Non pecuniary	Member of Teesside Pension Fund
Councillor Rostron	Non pecuniary	Member of Teesside Pension Fund

21/18 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 23 JUNE 2021**

The minutes of the meeting of the Teesside Pension Fund Committee held on 23 June 2021 were taken as read and approved as a correct record.

21/19 **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. Whilst it was considered that Bond yields would rise in the long run, at present yields did not meet the actuarial requirements for the Fund and should continue to be avoided at these levels unless held as a short term alternative to cash.

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 June 2021 were 8.31%. The Fund would continue to use cash to move away from its overweight position in equities and invest further in Alternatives.

Investment in direct property would continue on an opportunistic basis where the property had good covenant, yield and lease terms. During the quarter, a Development Funding Agreement was completed in respect of a £30 million property in Yeovil.

£47.3 million was invested in Alternatives during the last quarter. 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 April 2021 to 30 June 2021. There were net sales of £76.6 million in the period, this compared to net purchases of £10.1 million in the previous reporting period.

As at 30 December 2021, the Fund had £389.8 million invested with approved counterparties. This was a decrease of £49 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 June 2021, including cash, was £4,705 million, compared with the last reported valuation as at 30 March 2021, of £4,553 million.

A summary analysis of the valuation, attached at Appendix C to the submitted report, showed the Fund's percentage weightings in the various asset classes as at 30 June 2021 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 long term target Strategic Asset Allocation and the targets for 31 March 2022 were shown at paragraph 8.2 of the submitted report.

At the end of June 2021 the Fund's equity weighting was 75.68%. A schedule was in place to reduce investment in equities over the period 1 April 2021– 31 March 2022 by £725m, and this figure would be reviewed throughout the year. In the quarter March 2021 – June 2021 the Fund sold £125m. Further transactions would be reported at future meetings.

The transfer of £1.3bn from the SSGA Passively Managed Funds to the Border to Coast Actively Managed Overseas Developed Fund completed in May 2021, in line with the Committee's instructions.

A summary of equity returns for the quarter 1 April – 30 June 2021 was contained at paragraph 8.2 of the submitted report.

To date the Fund had agreed 3 Local Investments:

- GB Bank – Initial agreement of a £20m investment, this has been called in full. A further investment was agreed at the June 2021 Committee: this was dependent on the bank meeting agreed criteria.
- Ethical Housing Company - £5m investment of which £361k had been called.
- Waste Knot - £10m investment agreed at the June 2021 Committee, nothing called to date.

As at 30 August 2021 total commitments to private equity, infrastructure and other Alternatives were approaching £1,007m and a breakdown of that figure was included at paragraph 8.7 of the submitted report.

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

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 June 2021, the Fund had investments in the Border to Coast UK Listed Equity Fund, the Border to Coast Overseas Developed Markets Equity Fund and the Border to Coast Emerging Markets Equity Funds. For all three sub funds the return target was an annual amount, expected to be delivered over rolling three year periods, before calculation of the management fee.

The Fund also had 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 2020/2021, in addition to £100 million commitments to each sub-fund in 2019/2020. Up to 30 June 2021, around 15% of this total had been invested and these investments were not reflected within the Border to Coast report attached at Appendix A to the submitted report.

The Border to Coast report showed the market value of the portfolio as at 30 June 2021 and the investment performance over the preceding quarter, year, and since the Fund's investments began. Border to Coast had 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 were also included. Border to Coast's UK Listed Equity and Overseas Developed Markets Equity performance had dipped slightly over the last quarter and last year, but both still remained broadly in line with target since inception. The performance of the Emerging Markets Equity Fund was below benchmark in the initial quarter, however the Fund's investments only began in the second half of the quarter and it was too early to draw any meaningful conclusions from such a short investment period.

State Street had a passive global equity portfolio invested across four different region tracking indices appropriate to each region. The State Street report (attached at Appendix B to the submitted report) showed the market value of the State Street passive equity portfolio and the proportions invested in each region as at 30 June 2021.

Performance figures were 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 had been investing a small proportion of its assets in these regions passively since then. For North America and Europe ex UK the inception date was in September 2018, therefore performance figures only covered around two and three quarter years as this represented a comparatively new investment for the Fund. The nature of passive investment – where an index was closely tracked in an automated or semi-automated way – meant deviation from the index should always be low.

State Street continued to include additional information with their report this quarter, giving details of how the portfolio compared to the benchmark in terms of environmental, social and governance factors including separate sections on climate and stewardship issues. Since the State Street investments were passive and closely tracked the appropriate regional equity indices, the portfolio's rating in those terms closely matched the benchmark indices ratings.

As previously reported to the Committee, State Street advised investors in a number of its passively-invested funds, including the four State Street equity funds the Fund invests in, that it had decided to exclude UN Global Compact violators and controversial weapons companies from those funds and the indices they tracked. For the four State Street funds the Fund was invested in, the combined effect of applying this change to benchmarks excluded around 3.6% by value of the companies/securities across the regions. The latest report showed performance of the State Street funds against the revised indices and as expected for a passive fund, performance closely matched the performance of the respective indices.

Border to Coast had been working with its reporting providers to develop reporting which covered the Environmental Social and Governance (ESG) issues and impact of the investments it managed, together with an assessment of the carbon exposure of these investments. This was easier with some asset classes than others, and Border to Coast had initially focussed on reporting on listed equities as this was the asset class where most

information was available and this type of reporting was more advanced.

Appendix C to the submitted report contained the latest available ESG and carbon exposure in relation to the three Border to Coast listed equity sub-funds the Fund invested in. The reports included information on the highest and lowest ESG-rated companies within those Border to Coast sub-funds, together with an analysis of the carbon exposure of the sub-funds on a number of metrics. The sub-funds' ESG position and carbon exposure was also compared to benchmarks representing the 'average' rating across the investment universe of that particular benchmark.

A detailed explanation of the reports on the equity sub-funds was provided at the meeting by a representative of Border to Coast.

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

21/21

## **BORDER TO COAST UPDATE INCLUDING REAL ESTATE PROPOSAL**

Border to Coast's representatives provided an update which focussed on a detailed presentation in respect of the Partnership's real estate capabilities and included the following elements:

- Update on UK proposition.
- Update on Global proposition.
- Business Case for Teesside.
- High-Level Timeline.
- Conclusion.

A copy of the presentation slides were included at item 7 of the agenda pack for the meeting.

It was highlighted that phase one of BCP's ambition to create an institutional quality, low-cost Real Estate capability for the Partner Funds and launch UK and Global Funds was complete. Viability for both UK and Global propositions had been tested and independently validated. Other soft benefits that were not quantifiable included:

- Greater market access with dominant, durable assets.
- Strategic alignment with BCP and the Teesside Pension Fund (TPF) through the consultation process.
- Institutional investment management team to run it and help TPF invest the property allocation as part of the wider strategic asset allocation.
- The business case supported the pooling of all assets.
- Resilience over the long term.
- If the assets were transferred from Middlesbrough Council's balance sheet to BCP this would take an element of risk away from the Council.

It was emphasised that this was a long term funding solution and savings would only be realised once money passed into the main fund. The earliest date identified for savings was 2033. The bid offer price spread was very similar to other funds at plus 6% minus 1%.

In relation to costs for potentially re-organising the portfolio, it was stated that all four funds' current portfolios were similarly aligned, with similar types of assets that were low risk and focussed on income. Typically, all the assets were fit for purpose and would deliver the kind of returns expected. However, it was also acknowledged that some of the properties would be too small for a £3.5 billion fund and there would need to be some rotation over time. Experience suggested that selling assets as two or three-property portfolios would provide a premium return which would cover the cost of reinvestment.

It was clarified that the 7 basis points that would be paid for an External Manager to run the portfolio for a fairly short amount of time was the average cost over 15 years. The assumption made was that they would be paid 18 basis points, which was what the TPF was currently paying for management of £259 million assets. Eighteen basis points on potentially £3.5 billion of assets would be a much higher revenue. It was also highlighted that BCP was a non-profit organisation and therefore did not aim to generate the same revenues, salaries or bonuses as the private sector.

The main difference highlighted by the BCP proposition and the current TPF arrangement with CBRE, was resilience. The oversight provided by TPF managing CBRE would be internalised at BCP, and that long term resilient management of the Fund would make it more efficient. The other benefit would be the range of the underlying assets that TPF would be able to access.

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

## 21/22 **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. Further commentary was provided at the meeting.

Peter Moon's portfolio recommendations remain unchanged. Equities along with the rest of the quoted markets were less attractive and it was increasingly difficult to find Alternatives that provided a better return than cash and were low risk. It would be a slow move away from Equities and into the Alternatives markets. The current rise in inflation was masked by the bounce-back effect from the Covid pandemic and was expected to rise further.

William Bourne commented that he believed inflation was more supply-led than demand-led at the moment and that it would subside rather than being sustained. A concern was expressed that central banks could raise interest rates too quickly, or perhaps reduce their balance sheets and withdraw monetary stimulus too quickly. There was some merit in holding cash as it had a value when things were changing as it was liquid and immediate advantage could be taken of any opportunities.

**ORDERED** that the reports were received and noted.

## 21/23 **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.

Investment activity had picked up since the summer and property was a popular area of investment at the current time. The focus of most of the market continued within the industrial sector where there was huge demand. The US viewed the UK's industrial market as still quite cheap and good value and that was driving yields. In the regions typical yields were sub 4% and in the London sub 3%.

The Fund remained underweight in property and CBRE continued to seek new good value assets. Any new assets needed to be accretive to the portfolio.

Out-of-town continued to attract investment – typically retail parks where there was value. Yields were coming in and values were going up. Most of the Fund's retail warehousing assets were coming up in value which was reflective of the current market.

Overseas demand for offices in London was driving that sector although the rest of the UK office market was more subdued in terms of available stock and interest. It was anticipated this would improve over the next three to six months.

The report as submitted was taken as read. As at 30 June 2021, the portfolio comprised 28 mixed-use properties located throughout the UK, with a combined value of £280.63m. There had been a 2.75% increase over the last quarter and the valuation was now approximately £288 million.

An update on asset management was provided as follows:

- A new 15 year lease to PureGym at Unit 1, Cirencester Retail Park had been completed. The company had fitted out the unit and was now trading.
- The lease for Peacock stores at Unit 2, Cirencester had been surrendered and a new lease agreed with Hobbycraft.

- A new 10 year lease on Unit B at Acre Road, Reading had been completed with Active PCB, an existing occupier of Unit C on the estate.
- A 5 year lease with Halfords had been agreed at Congleton.
- B and M at Congleton had indicated that they would be renewing their lease in a year's time and negotiations had started. B and M was one of the larger retailers on that site.
- Rent review had commenced on the Unipart Unit in the Midlands and there was likely to be a sizeable increase in rent.

In relation to the arrears, the information provided was now out of date, since the meeting of the Teesside Pension Fund Committee had been held at a later date than originally scheduled. All rent demands had been sent out on 29 September 2021. The two companies that owed the highest amounts of rent were on payment plans and those plans were up to date.

There were some tenants who had not paid rent since March 2020 and due to the current Covid restrictions on eviction it was very difficult to have any impact. However, the restrictions were due to be lifted in April 2022 and CBRE would continue to press for payment.

On a positive note, the rent collection for this portfolio was ahead of all the benchmarks and also other Funds.

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

21/24

## **INTERNAL AUDIT REPORTS**

Middlesbrough Council's Internal Auditors, Veritau, carried out two planned audits of the Pension Fund's activities during the 2020/21 financial year, one covering investments and one covering administration. The reports and recommendations in respect of those audits were attached at appendices A and B to the submitted report.

The Investments Audit looked at the transition of assets from the Pension Fund to Border to Coast Pensions Partnership to determine whether this was carried out in a planned, controlled, manner and whether plans were adequately monitored and appropriately reviewed. Although the audit did identify some issues relating to how up-to-date some policies were, and whether risk reviews were being appropriately documented, the overall conclusion was that a sound system of governance, risk management and control existed and that this provided substantial assurance.

One priority 3 agreed action was identified and it was agreed that every time the Teesside Pension Fund risk register was presented to the Committee, Pentana will be updated to reflect the fact that a review of the risk register had taken place. Pentana was the software the Council and the Pension Fund used for risk management.

The scope and objectives of the Pension Fund Administration audit were: to provide assurance to management that procedures and controls within the system would ensure that:

- Pensions Administration was operated in accordance with relevant legislation and agreed processes, and that support and guidance was provided to employers to ensure the quality of returns.
- Correct and timely payments were received from employers, which were regularly reconciled to Business World and to the Teesside Pension Fund bank account.
- For those members who retired early, where there was a strain on the fund, payments from employers were monitored to ensure the deficit was paid in full within agreed timescales.
- Processes were in place for monitoring and recording the receipt of income from member transfers in from previous employment.

The overall conclusion of the audit was that a sound system of governance, risk management and control existed, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. Veritau's overall opinion of the controls within the system at the time of the audit was that they provided Substantial Assurance.

Three priority 3 agreed actions were identified as follows:

- Several strategy and policy documents relating to the administration of the Pension Fund had passed their scheduled review date without being reviewed. Revised documents would be prepared and presented to the December 2021 Pension Fund Committee.
- The Pension Fund should consider introducing a charging policy to cover circumstances where employers consistently fail to provide required information in respect of pension administration.
- A formal process should be put in place to ensure late payment of invoices in respect of employer pension scheme costs was monitored and escalated as appropriate.

Target dates to complete the actions identified were set out in the appendices and progress would be monitored and reported back to subsequent Committee meetings.

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

21/25 **QUORUM**

The Chair noted that at this point in proceedings, the meeting was inquorate. In accordance with Procedure Rule 16 of Middlesbrough Council's Constitution, the Chair abandoned the meeting. The remaining business would be considered at the next ordinary meeting of the Committee.

21/26 **RISK REGISTER**

Due to the meeting being inquorate at this point, this item was **DEFERRED**.

21/27 **XPS PENSIONS ADMINISTRATION REPORT**

Due to the meeting being inquorate at this point, this item was **DEFERRED**.

21/28 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, CAN BE CONSIDERED**

Due to the meeting being inquorate at this point, this item was **DEFERRED**.