TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on Wednesday 16 March 2022.

PRESENT: Councillors D Coupe (Chair), E Polano (Vice-Chair), J Beall, A Bell, R Creevy, T Furness and G Wilson

ALSO IN ATTENDANCE: W Bourne (Independent Adviser), P Moon (Independent Adviser)
R Elwell (Border to Coast Pension Partnership)
D Green (Hymans Robertson)
P Mudd (XPS Administration)
C Martindale (CBRE), A Owen (CBRE), A Peacock (CBRE)

OFFICERS: W Brown, S Lightwing, J McNally and N Orton

APOLOGIES FOR ABSENCE: Councillors Ms J Flaws, Mr B Foulger, J Hobson, G Nightingale, J Rostron, M Storey, S Walker and Mr T Watson

21/45 DECLARATIONS OF INTEREST

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Beall	Non pecuniary	Member of Teesside Pension Fund
Councillor Creevy	Non pecuniary	Member of Teesside Pension Fund

21/46 MINUTES - TEESSIDE PENSION FUND COMMITTEE - 15 DECEMBER 2021

The minutes of the meeting of the Teesside Pension Fund Committee held on 15 December 2021 were taken as read and approved as a correct record.

21/47 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 December 2021 were 11.23%. 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. There were no sales or purchases during the 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. £87.2 million was invested in the quarter.

Appendix A to the submitted report detailed transactions for the period 1 October 2021 to 31 December 2021. There were net sales of £60.3 million in the period, this compared to net sales of £100.8 million in the previous reporting period.

As at 30 December 2021, the Fund had £565.2 million invested with approved counterparties. This was an increase of £30.5million 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 31 December 2021, including cash, was £5,040 million, compared with the last reported valuation as at 30 September 2021, of £4,871 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 31 December 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 December 2021 the Fund's equity weighting was 67.1% compared to 70.9% at the end of September 2021. A schedule was in place to reduce investment in equities over the period 1 April 2021– 31 March 2022 by £725 million, and this figure would be reviewed throughout the year. In the quarter October-December 2021 the Fund sold £185 million. Further transactions would be reported at future meetings.

A summary of equity returns for the quarter 1 October–31 December 2021 was contained at paragraph 8.3 of the submitted report.

The Border to Coast Series 2 Alternative Funds would be live from 1 April 2022, and the Fund had agreed to commit £150 million per year for the next 3 years to the Infrastructure Fund and £100 million per year for the next 3 years to the Private Equity Fund. The Fund would also commit £100 million over the 3 year period to a new Border to Coast Climate Opportunities Fund. This amount might be scaled back to £80 million due to over-commitments.

As at 28 February 2022 total commitments to private equity, infrastructure, other alternatives and other debt were approaching £1,203 million and a breakdown of that figure was included at paragraph 8.7 of the submitted report.

ORDERED that the report was received and noted.

21/48 **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 31 December 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. 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 31 December 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 Fund was slightly below target and their Overseas Developed Markets Equity Fund was slightly above target since inception. The performance of the Emerging Markets Equity Fund was above benchmark (but below target) in the last quarter, however the Fund's investments only began earlier this year and it was too early to draw any meaningful conclusions from such a short investment period.

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 31 December 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 was 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 just over three 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.

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

It was confirmed that immediately prior to Russia's invasion of Ukraine, through the Border to Coast Emerging Markets Equity Fund approximately 0.1% of the Teesside Pension Fund was invested in Russia – about £5 million. Whilst the Teesside Pension Fund would look to disinvest, those assets could not currently be traded as the markets were closed. The value of those assets would be written down to zero or close to zero value in any case. There would be impacts on markets more widely because of the conflict but it was too early to say the longer term impact of this would be including, for example, on global energy prices.

ORDERED that the report was received and noted.

21/49 **PRESENTATION FROM THE FUND ACTUARY**

A representative from Hymans Robertson, the Fund's Actuary, gave a presentation covering the following items:

- Background to the Actuarial Valuation.
- Key Valuation Decisions and Outcomes.
- Outlook for the 2022 Valuation.
- Valuation Timetable.

Work had started on the valuation and assumptions would be presented to the Teesside Pension Fund Committee in the next quarter. Some modelling on Council contributions would also be presented. The Whole Fund results would be presented in the autumn and new contributions would be implemented from April 2023.

ORDERED that the information provided was received and noted.

21/50 **PENSION FUND BUSINESS PLAN 2021-22**

The Head of Pensions Governance and Investments presented the annual Pension Fund Business Plan 2022/2025, including the 2022/2023 Pension Fund budget, for approval.

The 2022/23 forecast income and expenditure was set out in the Business Plan, and summarised at paragraph 3.1 of the submitted report. It was highlighted that income was expected to be about £62 million less than expenditure and there were additional administration and management expenses of £7.5 million. Estimated investment income was £56 million, leaving a shortfall of around £12 million in the year. This was not of great concern currently as the Fund continued to hold large amounts of cash - anticipated to be over £700 million by the end of March 2022.

A copy of the Business Plan for 2022/25 was attached at Appendix 1 to the submitted report. The Business Plan included:

- The purpose of the Fund, including the Teesside Pension Fund Service Promise (Appendix A).
- The current governance arrangements for the Fund.
- The performance targets for the Fund for 2022/23, and a summary of the performance for 2021/22 (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 2021/22 and an estimate for income and expenditure for 2022/23 (see Appendix D and page 21 of Appendix 1).
- An annual plan for key decisions and a forward work programme for 2022/23 and an outline work plan for 2022 – 2025.

The Committee was informed that Stockton On Tees Borough Council had recently undertaken a scrutiny investigation regarding Pension Fund Membership and how to encourage uptake. It was agreed that a copy of the Final Report would be forwarded to the Head of Pensions Governance and Investment for information.

ORDERED that the Pension Fund Business Plan 2022/2025 was approved.

21/51 **CURRENT ISSUES**

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

The issues covered in the report included:

- LGPS and Levelling Up.
- Government Actuary's Department Section 13 Report – Main Findings.
- Government Actuary's Department Section 13 Report – Fund Comparisons.
- Triennial Actuarial Valuation as at 31 March 2022.
- Department for Work and Pensions (DWP) Consultation on the Draft Pensions Dashboard Regulations 2022.
- Public Service Pensions and Judicial Offices Bill – Amendment.

The Head of Pensions Governance and Investment highlighted the following points:

<u>LGPS and Levelling Up</u>

The Government published its "Levelling up the United Kingdom" White Paper on 2 February 2022. The scope of the White Paper was broad: its stated objective was to take radical steps to improve UK prosperity by "tackling the regional and local inequalities that unfairly hold back communities and to encourage private sector investment right across the UK". The White Paper included information about the role the Local Government Pension Scheme will be expected to play with a number of references to Local Government Pension Scheme (LGPS) Funds being used to support local investment.

There was huge potential for institutional investment to support levelling up, across infrastructure, housing, regeneration and SME finance. Institutional investors currently held UK pension assets of over £3.5tn. Within that, the LGPS had total investments of over £330bn, making it the largest pension scheme in the UK. Only a tiny fraction of those funds were currently allocated to local projects. If all LGPS funds were to allocate 5% to local investing, this would unlock £16bn in new investment.

Since 2016 the Teesside Pension Fund had put in place a protocol to enable local investment opportunities to be considered and, where suitable, approved by the Pension Fund Committee. The Fund defined “local” within the context of its own geographical area, so local investments in this context were those within the Teesside area (the areas covered by Hartlepool, Middlesbrough, Redcar & Cleveland and Stockton-on-Tees Councils). The Fund’s investment approach allowed up to 5% of its assets to be invested in local projects. One of the important criteria for assessing any potential local investment was to ensure it had the right risk and return characteristics to meet the Fund’s financial objectives. Any local investment in itself needed to generate an acceptable economic return for the Fund.

A consultation document was expected later in the year which should provide more clarity on the government’s ambition for LGPS Funds to invest 5% of their assets in projects that supported local areas, and on whether this would be implemented through statutory guidance or legislation.

Government Actuary’s Department Section 13 Report – Main Findings

On 16 December 2021 the Government Actuary’s Department (GAD) published its Section 13 Report on the actuarial valuations carried out across the LGPS as at 31 March 2019. The Report was named after Section 13 of the Public Service Pensions Act 2013 which required the government to commission a report after each triennial valuation to assess whether the following four aims had been achieved: compliance, consistency, solvency and long term cost efficiency. A summary of the report’s findings was included in the submitted report.

The Report was broadly positive about the LGPS and acknowledged that since the 31 March 2016 valuation, market value of the scheme’s assets increased from £217 billion to £291 billion and its aggregate funding position on prudent local bases had increased from 85% to 98%. GAD added a note of caution about potential funding issues in the future: ”the size of funds has grown significantly over the three years to 31 March 2019. However, the ability of tax backed employers to increase contributions if this was to be required (as measured by their core spending power) has not kept pace. This could be a risk if, for example, there was to be a severe shock to return seeking asset classes.”

Government Actuary’s Department Section 13 Report – Fund Comparisons

In producing the Report, GAD compared each LGPS Fund’s 31 March 2019 valuation on a single standard basis which was typically less prudent than the Fund’s own basis but allowed better comparison between Funds. An extract from the Report’s appendix including several relevant graphs was attached at Appendix A to the submitted report. The main points to note from the comparison graphs were as highlighted as follows:

- The Teesside Pension Fund had the second highest funding level in the LGPS on a local valuation basis but was only the twentieth highest on a Scheme Advisory Board standard basis.

- The Fund had the sixth smallest percentage difference between the funding level it reported in its valuation report and the standard basis funding level.

- The Fund had the 22nd highest pre-retirement discount rate and the 10th highest assumed asset outperformance within its discount rate. This was an assessment by GAD of the degree of investment return the Fund was assuming compared with ‘risk-free’ (government bonds) investment taking inflation into account.

These points indicated that the Fund might have probability of funding success that could be lower than average, and might also be anticipating a higher return from its assets than the average LGPS Fund. However this needed to be considered in the context of the Fund’s asset mix which, at the last valuation, was significantly more heavily weighted towards equities than the average LGPS Fund. By its nature, GAD’s Report was primarily backward looking, although the recommendations would be considered and taken into account, where relevant, by the Fund’s actuary as the 31 March 2022 valuation was undertaken.

Department for Work and Pensions (DWP) Consultation on the Draft Pensions Dashboards Regulations 2022

On 31 January 2022 the DWP published a consultation document on draft regulations designed to implement pensions dashboards. Pensions dashboards would be an internet-based service which allowed individuals to access information about their pensions, ideally from all sources (private sector, public sector and state pension) all in one place. The intention was that pensions dashboards would put individuals in control of planning for their retirement by bringing together their pensions information from multiple sources, including information on their State Pension, which could be accessed at a time of their choosing.

Consultation responses were required by 13 March 2022. The Local Government Association (LGA) had prepared a response to the consultation and would share this with LGPS Funds prior to the response deadline. The Head of Pensions Governance and Investments would consider whether a separate response was required from the Fund and, if so, would submit this after consultation with the Chair and Vice Chair of the Pension Fund Committee.

Public Service Pensions and Judicial Offices Bill – Amendment

The Government was progressing a bill through parliament: the Public Service Pensions and Judicial Offices Bill, designed primarily to remove unlawful discrimination in the protections introduced when public sector schemes were changed in 2014 and 2015. Robert Jenrick MP, proposed an amendment to the Bill which, supported by the government, was subsequently accepted which will add an additional unconnected provision that directly affects the LGPS.

The amendment changed the Public Service Pensions Act 2013 to give the Secretary of State the explicit power to issue guidance or directions to administering authorities on investment decisions which it was not proper for the scheme manager to make in light of UK foreign and defence policy.

It was disappointing that the amendment to this Bill allowed the Secretary of State to gain potentially significant additional power to direct how LGPS funds could invest without allowing appropriate consultation with the LGPS itself. Also, without sight of the guidance, it was not clear how this new power would work.

Further information on this issue would be presented to the Committee as and when it became available.

ORDERED as follows that the:

1. information provided was received and noted.
2. Head of Pensions Governance and Investments would submit a response to the Draft Pensions Dashboards Regulations 2022 consultation, if required, in consultation with the Chair and Vice Chair of the Pension Fund Committee.

21/52 **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 by both Advisors at the meeting in relation to the current conflict in the Ukraine and the potential impact on the economy and markets, inflation and rising energy costs.

The Advisors recommended that the Fund continued with its current asset allocation strategy.

ORDERED that the information provided was received and noted.

21/53 **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.

The market remained strong for primary assets in all sectors leading to limited stock availability. Although this was positive in terms of the Fund's existing assets it made buying new assets very challenging.

There were no sales or acquisitions during the last quarter.

The Fund had agreed terms for a lease renewal at Bromford Central to Harrow Green Ltd. This leasing transaction maintained a fully let estate and increased the rent on Unit 4 by 23% (+£31,455 p.a). This was part of the wider estate asset management plan, whereby a number of leasing negotiations would take place in 2022. It was confirmed that existing arrears would be cleared by the company prior to the lease agreement being signed off.

The Fund had also agreed terms with Pure Gym for a new 15-year lease at Unit H, Congleton.

CBRE continued to seek long-let institutional stock in a range of sectors, primarily industrial, retail warehousing and supermarket sectors to deliver the secure index linked income streams identified within the Fund's strategy. Whilst many of these have not progressed quickly CBRE was optimistic that they may gain traction over the next few weeks as investors began to consider their post pandemic strategies.

The report was written prior to the invasion in Ukraine and it was suggested that this might discourage investment in eastern Europe which could have a knock-on effect on property in London, which was in high demand. This could force investors into the regional markets where the Teesside Pension Fund operated.

CBRE continued to work on reducing tenants' rent arrears through continued dialogue. The protection scheme put in place for tenants during the Covid-19 remained in place until the end of March.

ORDERED that the information provided was received and noted.

21/54 **XPS PENSIONS ADMINISTRATION REPORT**

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

The following items were highlighted:

- Headlines.
- Membership Movement.
- Member Self Service.
- Additional Work.
- Complaints
- Common Data.
- Conditional Data.
- Customer Service.
- Service Development.
- Performance.
- Employer Liaison.
- Annual Benefit Statements.
- Performance Charts.

In relation to performance it had been a really strong quarter with only two instances of failure within the KPIs that did not impact pension payment or experience. There were no new complaints.

XPS had been working on closing off 2021/2022 and opening 2022/2023 and had sent templates to all Employers to capture the year end data. This data would inform annual benefit statement production, the actuarial valuation and the pension saving exercise.

All Employers had received a reminder about their contribution rates effective from 1 April 2022.

An error was noted in the Membership Movement figures and the officer undertook to ensure this was amended for the next report.

ORDERED that the information provided was received and noted.

21/55 **BREACHES LOG**

A report of the Director of Finance was reported to provide Members of the Pension Fund Committee (the Committee) with an update on a regulatory breach that had been added to the Breaches Log.

Under the Pensions Act 2004 certain categories of people involved with a pension scheme had a duty to make a report to the Pensions Regulator where they had reasonable cause to believe that:

a) a legal duty relating to the administration of the scheme had not been or was not being complied with; and
b) the failure to comply was likely to be of material significance to the Pensions Regulator.

The Fund had a policy on reporting breaches, which was reviewed and approved by the 15 December 2021 Pension Fund Committee, a copy of which was attached at Appendix A to the submitted report. The policy included information on how to report a suspected breach of regulations and how a reported breach was evaluated to assess how it should be dealt with, and whether it should be reported to the Pensions Regulator.

The procedure, and the requirement to report breaches has been in place since 2015. The current Breaches Log was attached as Appendix B to the submitted report. This contained one new addition relating to the provision of benefit statements to deferred members.

Deferred members were members of the pension scheme who had left active employment and no longer contributed to the scheme, but had not yet drawn their pension benefits, normally because they were not old enough yet. Depending on the age of the individual, it could be many years between their leaving the scheme and drawing their pension, and it was not unusual for the individual to move house and not inform the pension scheme during that time. This resulted in mail being returned from that address and that individual being categorised as a ‘gone-away’. This in turn makes it impossible to provide that individual with an annual benefit statement (which, according to the LGPS regulations, needs to be provided to all active and deferred members by 31 August each year).

The entry in the Breaches Log outlined the position, and explained that a decision had been taken to record but not report this breach, as it had a straightforward explanation, did not result in a loss to the individual and steps were being taken to look to improve the situation. These steps involved XPS working with the Head of Pensions Governance and Investments to consider cost-effective ways to trace the ‘gone-aways’ with a view to substantially reducing their number for the 2022 annual benefit statements.

ORDERED that the information provided was received and noted.

21/56 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, CAN BE CONSIDERED**

None.

21/57 **EXCLUSION OF PRESS AND PUBLIC**

ORDERED that the press and public be excluded from the meeting for the following items on the grounds that, if present, there would be disclosure to them of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 and that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

21/58 **PRESENTATION FROM BORDER TO COAST'S CEO**

The Chief Executive Officer from Board to Coast Pensions Partnership provided an update.

ORDERED that the information provided was received and noted.

21/59 **BORDER TO COAST ESG REPORTS**

A report of the Director of Finance was presented to provide Members of the Committee with Border to Coast's Environmental Social and Governance (ESG) reports for the quarter ending 31 December 2021 in relation to the three listed equity sub-funds the Pension Fund invested in.

ORDERED that the information provided was received and noted.

21/60 **LOCAL INVESTMENTS UPDATE**

ORDERED that the report was **DEFERRED** for consideration at a future meeting.