TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on Wednesday 27 September 2023.

PRESENT: Councillors J Rostron (Chair), J Ewan (Vice-Chair), D Branson, D Coupe, J Kabuye, D McCabe, J Beall, Ms J Flaws and Mr T Watson

PRESENT BY INVITATION: Councillors

ALSO IN ATTENDANCE: P Mudd (XPS Administration), W Bourne (Independent Adviser), S Law (Hymans Robertson), Baillie (Hymans Robertson), A Owen (CBRE), A Peacock (CBRE), Knight (Border to Coast), Kerr (Border to Coast) and Baxter (CBRE)

OFFICERS: S Lightwing, N Orton and W Brown

APOLOGIES FOR ABSENCE: Councillors T Furness, S Hill, T Livingstone, R Creevy, Mr B Foulger and P Moon

22/14 WELCOME, INTRODUCTIONS AND EVACUATION PROCEDURE

The Chair welcomed all present to the meeting and read out the Building Evacuation Procedure.

22/15 DECLARATIONS OF INTEREST

Name of Member	Type of Interest	Item/Nature of Interest
Councillor J Beall	Non pecuniary	Member of Teesside Pension Fund
Councillor D Coupe	Non pecuniary	Member of Teesside Pension Fund
Councillor J Ewan	Non pecuniary	Member of Teesside Pension Fund
Councillor J Rostron	Non pecuniary	Member of Teesside Pension Fund

22/16 SUSPENSION OF COUNCIL PROCEDURE RULE 4.13.2 - ORDER OF BUSINESS

In accordance with Council Procedure Rule No. 4.57, the Committee agreed to vary the order of business to deal with the agenda items in the following order: Agenda Item 16, Agenda Items 4 -15, Agenda Item 17 and 18.

22/17 EXCLUSION OF PRESS AND PUBLIC

ORDERED that the press and public be excluded from the meeting for the following item 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.

22/18 LOCAL INVESTMENT PROPOSAL UPDATE

A report of the Interim Director of Finance was presented to provide an update on a Local Investment Proposal.

ORDERED as follows that the:

1. information provided was received and noted.
2. recommendation as set out at paragraph 2.1 of the submitted report was approved.

22/19 EXCLUSION OF PRESS AND PUBLIC

ORDERED that the resolution to Exclude Press and Public was lifted and the meeting continued in public session.

22/20 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 28 JUNE 2023**

The minutes of the meeting of the Teesside Pension Fund Committee held on 28 June 2023 were taken as read and approved as a correct record.

22/21 **INVESTMENT ACTIVITY REPORT**

A report of the Interim Director of Finance was presented to inform Members of the 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. For the period under discussion, bonds were still not considered value for the Fund and the Fund had no investments in Bonds at this time.

The cash level at the end of June 2023 was 4.34%.

Investment in direct property where the property had a good covenant, yield and lease terms would continue. The Fund had purchased one property in the quarter for £30.5m – St Albans Retail Park.

Investment in Alternatives, such as infrastructure and private equity, offered the Fund diversification from equities and bonds. They came with additional risks of being illiquid, traditionally had costly management fees and investing capital could be a slow process. An amount of £66m was invested in the quarter.

It was a requirement that all transactions undertaken were reported to the Committee. Appendix A to the submitted report detailed transactions for the period 1 April 2023–30 June 2023.

There were net purchases of £174m in the period, compared to net purchases of £84m in the previous reporting period.

As at 30 June 2023, the Fund had £218 million invested with approved counterparties. This was a decrease of £117 million over the last quarter. The graph at Appendix B to the submitted report showed the maturity profile of cash invested. It also showed the average rate of interest obtained on the investments for each time period.

The Fund Valuation detailed all the investments of the Fund as at 30 June 2023, and was prepared by the Fund's custodian, Northern Trust. The total value of all investments, including cash, was £5,051 million. A summary analysis of the valuation showed the Fund’s percentage weightings in the various asset classes as at 30 June 2023 compared with the Fund’s customised benchmark. The detailed valuation was attached at Appendix C to the submitted report and was also available on the Fund’s website www.teespen.org.uk. This compared with the last reported valuation, as at 31 March 2023 of £5,060 million.

As at the 30 June 2023 the Fund’s equity weighting was 62.27% compared to 61.23% at the end of March 2023. As cash levels reduced the team were looking at cashflow projections to determine if and when equity redemptions might be required. A summary of equity returns for the quarter 1 April 2023-30 June 2023 were shown at paragraph 8.4 of the submitted report.

With regard to the Fund’s Local Investments, a further payment of £13.5m was made in August to GB Bank as the Bank received regulatory approval to exit mobilisation.

As at 31 August 2023 total commitments to private equity, infrastructure, other alternatives and other debt were £1,927m and details were provided at paragraph 8.8 of the submitted report.

ORDERED that the information provided was received and noted.

22/22 **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). The report also provided Members with details of proposed changes to:

- The method Border to Coast used to apportion its costs between its investors (the Partner Funds).
- The benchmarks State Street used for their passive equity funds.

As at 30 June 2023 the Fund had investments in the Border to Coast UK Listed Equity, Overseas Developed Markets and Emerging Markets Equity Funds. For all three sub funds the return target was expected to be delivered over rolling 3 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. To date, total commitments of £900 million had been made to these sub-funds (£500m to infrastructure and £400m to private equity) with around 33% of this commitment invested so far. In addition, a commitment to invest £80 million over a three year period to the Border to Coast Climate Opportunities Fund had been made.

The Border to Coast report showed the market value of the portfolio at 30 June 2023 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 had achieved returns of 0.80% above benchmark over the last year, just under its 1% overachievement target, whereas the Overseas Developed Markets Equity Fund had achieved returns of 2.35% above benchmark over the last year, comfortably above its 1% overachievement target. Since inception, the UK fund had delivered performance of 0.93% a year above benchmark, slightly below its long-term target, and the overseas fund has delivered performance of 1.49% above benchmark, above its long-term target. The performance of the Emerging Markets Equity Fund had been below benchmark throughout much of the period of the Fund's investment – although performance over the quarter and year to 30 June 2023 was above benchmark, albeit still below the 1.5% over benchmark target.

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 at 30 June 2023. 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.

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. As the State Street investments were passive and closely tracked the appropriate regional equity indices, the portfolio's rating in these terms closely matched the benchmark indices ratings.

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.

State Street had recently advised that it would be making further changes to its passive equity indices and would be excluding additional sectors. The Fund had been notified that from 18th December 2023 the benchmarks of the State Street Sub-Funds the Fund invested in would apply screens to exclude certain securities related to Tobacco and Thermal Coal. Excluded companies would be any involved in production of tobacco or tobacco products and companies that extract thermal coal or have thermal coal power generation and this activity represented 10% or more of revenues. This was in addition to the current screening for UN Global Compact Violations and Controversial Weapons which came into effect on 18th November 2020. Initial indications were that across the four State Street Sub-Funds these changes would cover around 0.36% of the current assets (tobacco) and 0.88% of the current assets (thermal coal) that the Fund invested via State Street.

A Member asked whether, by excluding companies, the Pension Fund could potentially be in breach of new legislation in the Boycotts, Divestment and Sanctions Bill. The Head of Pensions Governance and Investments commented that it would probably not have a significant impact on how the Fund chose to operate or invest, although he had not seen any detailed guidance. Teesside Pension Fund did not normally exclude companies but preferred to work with them.

It was highlighted that the Fund used State Street as its equity manager as it enabled the Fund to have the right regional allocation. If the Fund felt that the advantages were outweighed by the changes to the index, it would need to take a view on that.

Another Member was pleased to note State Street's decision to divest from tobacco and it was calculated that the amount currently invested was approximately £18 million.

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 invests in: UK Listed Equity, Overseas Developed Markets Equity and Emerging Markets Equity. Amongst other information, 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.

When Border to Coast was established over 5 years ago its Partner Funds set out an approach to apportion the costs of setting up and running the different investment propositions (sub-funds) Border to Coast provided. To ensure adequate funding for each of the new propositions, the initial cost-sharing approach included apportioning some ongoing management charges based on the assets Partner Funds had identified as likely to transfer into the pool. Whilst it was acknowledged that over time charging most costs on an 'assets under management' basis would be fairest, at the outset this would cause anomalies and might in some circumstances make it more expensive for those Partner Funds that were committing a greater proportion of their assets to pooling.

Now that Border to Coast had reached a stage where the majority of the sub-funds originally envisaged had been created, it was an appropriate time to revisit the way costs were apportioned. Over the next few months Partner Funds (or their administering authorities) would be asked to agree to make some changes to the agreements that set up Border to Coast to allow cost apportionment from the coming year to be based primarily on an 'assets under management' basis. This would not change the costs that Border to Coast charges, it would just apportion them differently – in a way that more fairly represented how Partner Funds were invested. More information on the proposed change was shown in the briefing note recently shared with the Border to Coast Officer Operations Group (OOG), a copy of which was attached at Appendix D to the submitted report.

ORDERED that the information provided was received and noted.

22/23 **BORDER TO COAST PRESENTATION - INVESTMENTS SUMMARY AND UPDATE**

The Head of Client Relationship Management gave a presentation to provide the Committee with a summary and update of the Fund's investments with Border to Coast.

The presentation included information on the following:

- The Fund's Investments with Border to Coast:
- Listed Investments as at 30 June 2023.
- Commitment to Border to Coast's Private Market Strategies.
- Market Overview – Q2 2023.
- Listed Investments – Performance to Q2 2023.

- Private Markets Update: Capital Deployment (Fund Level).
- Private Markets: New Commitments for Q2 2023.
- Border to Coast Update.
- Private Equity/Infrastructure – Internal Rate of Return (IRR) and Total Value to Paid-in Capital (TVPI) Definitions.

83% of Partner Fund assets were pooled, £40.3bn of which Border to Coast were directly responsible for. £8.3bn of this was now invested in assets supporting the transition to Net Zero. A new programme of engagement on Just Transition, which enabled investors to address systemic threats to long-term stability and support the transition to Net Zero, had just been announced.

A Member commented that whilst inflation was reducing, the price of oil was rising and this could in turn lead to further inflation. The Head of Client Relationship Management commented that there were still a lot of risks around inflation even though it was reducing around the world. Energy prices were a factor of uncertainty going forward. It was difficult to predict the outlook as it depended on local macro-economics and local regulation. However, volatility would begin to affect inflation levels.

The Fund’s Advisor stated that interest rates and volumes had gone up and given that the Fund could get 5% on cash asked whether returns were rising.

The Head of Client Relationship Manager confirmed that return objectives had been increasing reflecting the fact that base rates were higher. When the design of private market solutions had been considered in the past BCP had discussed whether the potential was there to generate higher returns or whether it was preferable to keep a stable return target and achieve that with lower risk. Past preference had been to maintain a regular return but this was still to be discussed for next year.

The Fund’s Advisor also noted that the valuations of long-term assets had been affected by the rise in bond yields and asked whether BCP was confident in the valuations it was being given.

The Head of Client Relationship Manager confirmed that all assets in the private market fund were valued quarterly and there had been a draw down in values this year. As part of due diligence, BCP would dive into their valuation processes look at their previous launches and how accurate investment managers had been on their valuations. BCP also had regular calls with investment managers to test and understand their valuations.

ORDERED that the information provided was received and noted.

22/24 **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.

William Bourne provided further commentary at the meeting and highlighted that inflation was falling and interest rates were peaking. Central banks had raised interest rates to keep inflation down but also been generous in terms of using their balance sheets – quantitative easing. This had hidden some of the stresses in the market. A further stress was about much higher bond yields and the effect on valuations. It was likely they would rise higher as governments would need to issue a lot of debt. UK debt was 99% of GPD. Whilst this was not unprecedented it was usually around 40%. There was also a lack of growth globally and the likelihood of US and UK elections in the next few months.

William advised that at some point in the future the Committee should consider investing more into gilt linked bonds and government debt as these provided the best protection against inflation.

ORDERED that the information provided was received and noted.

22/25 **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.

Q2 and Q3 had been relatively quiet with low volumes of trading in the property market. There had been uncertainty as to when prices would peak and interest rates had an impact on pricing. The situation was becoming more stable as it appeared that interest rates had peaked and there was beginning to be more activity on the market.

There was still a healthy demand for industrial and logistics, although not as much development as previously. Potentially this offered an opportunity to buy in that market at good value. Good quality offices were required for the continued return to office based working following the pandemic. In the retail sector there was still uncertainty about how much space was required. CBRE continued to look for the best quality and locations.

There would be opportunities as the market re-priced and the Fund would be able to invest at the right prices. Once there was more certainty, there would be more competition for property.

Regarding any difference in growth between retail property in town centres and sub regional shopping centres it was a difficult market to assess. It was down to the individual asset as to whether it was good or not. Values for retail were often not a large enough investment for the Teesside Fund..

In relation to the Portfolio, the current void rate was less than 1%.

The Fund had purchased a retail park in St Alban's for £30.5 m which was currently let to B & Q, Aldi and Costa. The purchase of a 346,465 sq ft industrial unit in Washington had also now completed and would be let to BAE.

In relation to asset management it was highlighted that a lease renewal had been completed with Costa in Ipswich and further discussions were taking place with B&M, Congleton to agree a lease renewal.

The total Collectable Arrears on the entire portfolio was £229,492 as at 8 September 2023.

All existing loans were performing in line with their loan agreements. All were covenant compliant and all interest and amortisation payments had been made on time.

In respect of Responsible Investments it was confirmed that Teesside Pension Fund's property Portfolio currently complied with MEES regulation. The Fund had undertaken a strategic review of the Portfolio to ensure continued compliance with incoming regulation in 2025.

ORDERED that the information provided was received and noted.

22/26 **LGPS 'NEXT STEPS ON INVESTMENT' CONSULTATION**

A report of the Interim Director of Finance was submitted, the purpose of which was to:

- Advise the Members of the Pension Fund Committee (the Committee) of an ongoing government consultation: "Local Government Pension Scheme (England and Wales): Next steps on investments" which set out a proposed direction of travel in relation to investment pooling on the Local Government Pension Scheme (LGPS).

- Explain the process being followed in relation to the Pension Fund and Border to Coast Pensions Partnership ('Border to Coast') responding to the consultation.

- Ask the Committee to agree and provide any comments on a draft response to the consultation on behalf of the Fund.

The Teesside Pension Fund was one of twelve (now eleven following a fund merger) founder members of the Border to Coast Pensions Partnership ('Border to Coast'). Border to Coast was acknowledged as one of the most successful of the eight pools, both in terms of the amount of assets that have been pooled and the strong positive relationships that existed between the pool members and with the pool company. Border to Coast and its Partner Funds had also largely delivered the original pooling objectives the government set out in 2015.

The government had issued a consultation on next steps for LGPS investments in England and Wales which looked to build and accelerate progress towards greater LGPS pooling. The stated objective was to achieve pools in the £50-75 billion and possible £100 billion range and to do this by initially encouraging/requiring all LGPS funds to complete the pooling process with their current pool and then reducing the number of pools from eight to an unspecified lower number. The full text of the consultation document was attached at Appendix A to the submitted report.

Other aspects, as well as accelerating the pace and scale of pooling were also covered in the consultation which addressed the following five areas:

• “First, the government sets out proposals to accelerate and expand pooling, with administering authorities confirming how they are investing their funds and why. While pooling has delivered substantial benefits so far, we believe that the pace of transition should accelerate to deliver further benefits which include improved net returns, more effective governance, increased savings and access to more asset classes. We propose a deadline for asset transition by March 2025, noting we will consider action if progress is not seen, including making use of existing powers to direct funds. Going forward, we want to see a transition towards fewer pools to maximise benefits of scale.

• Second, the government proposes to require funds to have a plan to invest up to 5% of assets to support levelling up in the UK, as announced in the Levelling Up White Paper (LUWP). This consultation sets out in more detail how the Government proposes to implement this requirement and seeks views on its plans.

• Third, the government is proposing an ambition to increase investment into high growth companies via unlisted equity, including venture capital and growth equity. The government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.

• Fourth, the government is seeking views about proposed amendments to the LGPS’s regulations to implement requirements on pension funds that use investment consultants. These amendments are needed to implement the requirements of an order made by the Competition and Markets Authority (CMA) in respect of the LGPS.

• Finally, the government is proposing to make a technical change to the definition of investments within LGPS regulations.”

Border to Coast, together with its Partner Funds, had been working to develop a joint response to the consultation. The response was due to be approved by Border to Coast’s Joint Committee on 28th September 2023. Alongside this joint response, which all Partner Funds would be signing up to, each Partner Fund would also be submitting a response to government. These individual responses may emphasise particular aspects or cover areas of special concern to each Fund but were not expected to contradict the general collective approach being developed by all the pool participants. A draft response from the Teesside Fund was attached at Appendix B to the submitted report for the Committee’s comments and approval. A table at paragraph 5.3 of the submitted report set out the questions from the consultation together with some summary comments on the collective response that would be given from Border to Coast and its Partner Funds, also consistent with the draft response from the Teesside Pension Fund.

Much of what the Government was proposing was in line with the approach to pooling that had already been adopted by Border to Coast and its Partner Funds. For example, on the requirement to pool all listed assets by 31 March 2025, the Fund had to a large degree already achieved this – all the Fund’s actively managed equities were invested by Border to Coast (over £2.5 billion as at 30 June 2023) with only the Fund’s passive equities managed elsewhere (by State Street Global Advisors – around £0.6 billion as at 30 June 2023).

The areas the Fund emphasised in its response to the consultation included the following:

• Re-iterating resistance to the Government's continuing attempts to direct Funds as to how to allocate their assets. The 2015 consultation started with a drive to use LGPS Funds to pay for UK infrastructure projects, the latest iteration looks to leverage LGPS assets to help pay for the Government's 'levelling-up' agenda.

• Caution around the drive to invest in private assets – although private market performance has been very good over recent years, past performance is no guarantee of future outcomes, and with an era of 'cheap money' seemingly coming to an end there is a risk Funds could be directed inappropriately into illiquid investments that may not deliver expected outcomes.

• The consultation blithely suggests the 'deadline' for the transfer of non-listed assets into Funds could easily be 31 March 2025 as well. In fact, there are significant barriers associated with transferring these assets. One in particular the Government could alleviate would be to allow the transfer of property assets from a Fund to a Pool without incurring stamp duty.

The consultation period would close on 2 October 2023. The Fund's response would finalised following this meeting and submitted by the deadline. The expectation was that the Government may either announce the outcome of the consultation or give a strong steer as to its likely announcement in the Autumn Statement (expected to be in November). The Committee would be kept up to date with future developments on the guidance and/or regulations relating to LGPS investment pooling.

ORDERED as follows that the:
1. the information provided was received and noted.
2. Fund's response to the consultation was approved.

22/27 **FUNDING LEVEL UPDATE**

The Head of Pensions Governance and Investments provided an update on the funding level. The Fund's funding objectives were to keep employer contributions as low and stable as possible, for as long as possible with a comfortable level of prudence. To achieve these objectives, the Fund took a long-term view (20 years) when setting contribution rates for tax-payer backed employers but required at least a 75% likelihood they would be at least fully funded at the end of this period. It was noted that the Fund invested in assets that could change in value considerably day-to-day. As a result, the funding level and any surplus or deficit could change significantly from one day to the next. Taking a long-term view on risk was core to fulfilling the Fund's objective of keeping rates as stable as possible.

Over the period from 2016 to 2022, the observed improvements in funding levels had been driven by higher than anticipated investment returns. Over this period, the Fund's investments returned nearly 80%, however, this was damped by low interest rates which depressed market expectations for future returns. Since the 2022 valuation, returns on the Fund's investments had been slightly less than anticipated. In essence, the Fund was holding approximately the same amount of assets today as it did on 31 March 2022 for every £ of pension it expected to pay out. However, increasing interest rates had increased market expectations for long term future returns which had reduced the estimated value placed on the benefits (liabilities). Therefore, a shift had occurred where increases in funding level were previously being driven by actual returns, whereas recent increases were being driven by the promise of greater future returns.

As at the end of July 2023, the Funding Level had risen to 154%. The main risks to the Funding Level were inflation and regulatory changes.

Members asked whether there were any implications in terms of contributions to the scheme from employers, especially given the current economic climate. It was clarified that the figures presented were a snapshot part way through the valuation cycle and the next contribution rate review was not due to take place with Employers until April 2026.

ORDERED that the information provided was received and noted.

22/28 **PENSION FUND DRAFT ANNUAL REPORT AND ACCOUNTS**

A report of the Interim Director of Finance was presented to provide Members with the 2022/23 draft Annual Report and Accounts for the Teesside Pension Fund.

The terms of reference for the Teesside Pension Fund Committee required the Annual Report and Accounts to be considered by Members. A copy of the draft unaudited Report and Accounts for the year ended 31 March 2023 was attached to the submitted report.

The overall financial performance of the Fund for the year to 31 March 2023 was broadly neutral. The Fund's value rose slightly to £5.064 billion, an increase over the year of approximately £27 million. Performance was muted but positive overall across equities, but property assets were negative, showing a -9% return over the year, largely because of revaluations following challenging economic conditions in some sectors.

The membership of the Fund continued to increase, with total membership at the year-end now standing at 80,338 an increase of 2,443 over last year. The number of active members had increased by 764 or 3.0% over the year and increased by 15.3% over the past four years. The number of pensioners increased by 703 or 2.7% over the year and increased by 12.2% over the past four years. The number of deferred members had increased by 976 or 3.7% over the year and increased by 16.5% over the past four years.

The actuary carried out the Fund's latest triennial valuation, which looked at the Fund's assets and liabilities as at 31 March 2022, during the year and the final report was published at the end of March 2023. Headlines from the valuation were an increase of around £1 billion in assets from around £4 billion at the 31 March 2019 valuation to around £5 billion. However, this was accompanied by an increase in the value of the Fund's liabilities – primarily because the actuary increased their long-term inflation assumption and also became more pessimistic about the outlook for future investment returns. Overall, the Fund's funding level increased slightly from 115% to 116% but the estimated cost of providing future benefits increased as well, leading to contribution rate increases for some employers taking effect during the three year period starting 1 April 2023.

The Annual Report and Accounts presented were in draft form and, whilst the main numbers and outcomes were not expected to change in any significant way, changes might be needed as further review takes place. Some highlighted text from the previous year existed in the draft where further input was required. In addition, the audit process for the Council's accounts (which included the Pension Fund accounts) was not yet complete, and further changes might be required as a consequence.

Once finalised the Annual Report and Accounts would be published on the Pension Fund's website.

Responding to a query regarding an exit payment to an Employer, the Head of the Pensions Governance and Investment explained that the Employer had exited the scheme as it no longer had any active members. The Employer had been in the scheme for many years and had a surplus and that was the reason for the expenditure.

Members' attention was drawn to the shortfall between the net spending of £68 million and the investment income of £58 million. This shortfall was currently being met from the cash deposits held by the Fund. The fund also sold equities to top up the cash balance. The Fund Advisor confirmed that since the Fund was overweighted in equities it was acceptable to sell equities in order to get back to the weighting.

ORDERED that the information provided was received and noted.

22/29 **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 report provided information on the following:

- Overview
- Member Movement
- Member Self Service

- Pension Regulator Data Scores
- Customer Service
- Completed Cases Overview
- Completed Cases by Month
- Complaints

The following issues were highlighted:

XPS was currently putting together a proposal to complete the necessary additional work arising from the McCloud judgement.

In relation to the Pensions Dashboards a revised staging timetable would be set out in guidance and all schemes in scope would now need to connect by 31 October 2026.

XPS was promoting a digital first approach in respect of Member Self Service. The Middlesbrough based Contact Centre had been live for twelve months and as part of any contact with Members they would be taken through the process of joining the online portal.

Pensions regulator scores showed that 95.91% of all the data around the common items were validated as present and correct. Scheme specific data review had been temporarily paused because of work required for McCloud. XPS would work with the actuaries using a data valuation tool to check for any gaps in data and thus enable more accurate calculations.

The next newsletter would be issued in October month and there would be a new system for people to provide feedback at any time rather than when they retired.

“Opting out” was currently the top search term on the website and this was potentially due to the cost of living crises and members seeking to make their money go further. This was of concern as members could opt out at any time. XPS was not able to provide financial advice but tried to tailor communications to advise against opting out.

Employer liaison work was ongoing and unfortunately XPS had not been informed about a significant number of leavers from the Fund. Each Employer would be contacted and information requested to ensure the database was correct and up to date. This lack of information had impacted the issue of Annual Benefit Statements which were due by 31 August 2023 and equated to around 2657 members. Pension statements would be sent out next week.

ORDERED that the information provided was received and noted.

22/30 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, CAN BE CONSIDERED**

None.

22/31 **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.

22/32 **LOCAL INVESTMENT UPDATE**

A report of the Interim Director of Finance was presented to request further investment in a local scheme.

ORDERED as follows that the:
1. information provided was received and noted.
2. recommendation as set out in the report at paragraph 2.1 of the submitted report was approved.

22/33 **SELECTION CRITERIA**

Representatives from Border to Coast and CBRE left the meeting at this point.

At this point in the meeting Councillor Coupe declared a disclosable personal interest as a Non-Executive Director of Border to Coast Pensions Partnership Limited.

A report on Selection Criteria was presented for the Committee's information.

ORDERED that the information provided was received and noted.