

**TEESSIDE PENSION FUND COMMITTEE**

A meeting of the Teesside Pension Fund Committee was held on Wednesday 13 March 2024.

**PRESENT:** Councillors J Rostron (Chair), J Ewan (Vice-Chair), D Branson, T Furness, S Hill, J Kabuye, T Livingstone, D McCabe, R Creevy, M Fairley, Ms J Flaws and Mr T Watson

**PRESENT BY INVITATION:** Councillors

**ALSO IN ATTENDANCE:** G Hall, P Moon (Independent Adviser), W Bourne (Independent Adviser), Baxter (CBRE), A Owen (CBRE), Knight (Border to Coast) and Rutter (CBRE)

**OFFICERS:** S Lightwing, N Orton and W Brown

**APOLOGIES FOR ABSENCE:** Councillors D Coupe, J Beall and Mr B Foulger

23/50 **WELCOME, INTRODUCTIONS AND EVACUATION PROCEDURE**

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

23/51 **DECLARATIONS OF INTEREST**

<b>Name of Member</b>	<b>Type of Interest</b>	<b>Item/Nature of Interest</b>
Councillor R Creevy	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

23/52 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 13 DECEMBER 2023**

The minutes of the meeting of the Teesside Pension Fund Committee held on 13 December 2023 were taken as read and approved as a correct record.

23/53 **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 15, Agenda Item 16, Agenda Items 5 through to 14.

23/54 **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.

23/55 **LOCAL INVESTMENT UPDATE**

The Head of Pensions Governance and Investments presented a report on Local Investment Update.

**ORDERED** as follows that Members agree to an investment, the details of which were set out

at paragraph 2.1 of the submitted report.

23/56 **EXCLUSION OF PRESS AND PUBLIC**

**ORDERED** that the motion to exclude Press and Public was lifted for the remainder of the meeting.

23/57 **INVESTMENT ACTIVITY REPORT**

A report of the Director of Finance was presented to inform Members how the Investment Advisors' recommendations were being implemented and to provide details of 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 December 2023 was 4.27%.

Investment in direct property where the property had a good covenant, yield and lease terms would continue. There were no purchases or sales during the quarter.

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 £49 million was invested in the quarter.

Unfortunately, owing to temporary resourcing issues and conflicting work pressures the team had not been able to provide the usual transaction report for quarter ending 31 December 2023 in time for this Committee meeting. The June 2024 Committee would be provided with a transaction report covering the six months to 31 March 2024.

As at 31 December 2023, the Fund had £221 million invested with approved counterparties. This was an increase of £32 million over the last quarter. The graph at Appendix A 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 Fund Valuation detailed all the investments of the Fund as at 31 December 2023, and was prepared by the Fund's custodian, Northern Trust. The total value of all investments, including cash, was £5,194 million. The detailed valuation was attached at Appendix B to the submitted report and was also available on the Fund's website [www.teespen.org.uk](http://www.teespen.org.uk). This compared with the last reported valuation, as at 30 September 2023 of £5,100 million.

A summary analysis of the valuation showed the Fund's percentage weightings in the various asset classes as at 31 December 2023 compared with the Fund's customised benchmark.

As at 31 December 2023 the Fund's equity weighting was 60.83% compared to 59.95% at the end of September 2023. Redemptions of £75 million in total were made from the Border to Coast UK and Overseas Developed Market Equity Funds.

A summary of equity returns for the quarter 1 October 2023-31 December 2023 were shown at paragraph 8.4 of the submitted report.

The Fund had no investments in bonds at this time. The Committee had discussed investing in bonds. Although there was no directive to invest at this time, the Advisers had since indicated the levels at which they felt investment would be appropriate. Officers were monitoring the situation and further discussion with the advisers would take place when the levels at which investment was felt to be appropriate came into range. Current thinking was that an investment via the Border to Coast Sterling Index Linked Bond Fund would be the most appropriate vehicle.

As at 30 November 2023 total commitments to private equity, infrastructure, other alternatives

and other debt were £1.927 billion and details were provided at paragraph 8.8 of the submitted report.

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

23/58

## **EXTERNAL MANAGERS' REPORTS**

A report of the Interim 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 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 34% 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. These investments were not reflected within the Border to Coast report attached at Appendix A to the submitted report but were referenced in the Border to Coast presentation later in the agenda for this meeting.

The Border to Coast report showed the market value of the portfolio as at 30 September 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's returns were 0.68% below benchmark over the last year, or 1.68% under its overachievement target, whereas the Overseas Developed Markets Equity Fund had achieved returns of 2.07% above benchmark over the last year, comfortably above its 1% overachievement target. Since inception, the UK fund had delivered performance of 0.7% a year above benchmark, slightly below its long-term target, and the overseas fund had 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 Teesside Pension Fund's investment – including over the quarter and year to 31 December 2023. Since inception the Fund was 1.62% a year behind benchmark, so 3.12% a year behind 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 as at 31 December 2023.

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.

As reported to the 13 December 2023 Committee, State Street has advised that it had made further changes to its passive equity indices and was excluding additional sectors. The Fund was notified that from 18 December 2023 the benchmarks of the State Street Sub-Funds the Fund invested in were applying 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 extracted thermal coal or had 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. Initial

indications were across the four State Street Sub-Funds these changes covered around 0.36% of the assets (tobacco) and 0.88% of the assets (thermal coal) that the Fund invested via State Street.

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: 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.

The Fund's exposure to investment in fossil fuels and tobacco was questioned. The Head of Pension Governance and Investment explained that through Border to Coast, the Fund tried to engage with companies on ESG issues. It was better to try and influence and encourage investment in alternatives as a shareholder. BCP would occasionally divest where engagement was unsuccessful.

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

23/59

## **PENSIONS REGULATOR GENERAL CODE OF PRACTICE**

A report of the Director of Finance was presented, the purpose of which was to provide Members of the Pension Fund Committee (the Committee) with details of the Pensions Regulator's (TPR) recently published General Code of Practice, expected come into force from 27 March 2024.

TPR had been through an exercise to merge its existing codes of practice into a single new code, the General Code of Practice. Consultation on the creation of the general code took place on 2021 and the new General Code of Practice was laid in Parliament on 10 January 2024, expected to come into force after 40 days on 27 March 2024. The General Code of Practice was a 171-page document that could be found on TPR's website at the following link:

<https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/general-code-laid-january-2024.ashx>

The following ten codes had been consolidated into the General Code of Practice:

- Reporting breaches of the law.
- Early leavers.
- Late payment of contributions (occupational pension schemes).
- Late payment of contributions (personal pension schemes).
- Trustee knowledge and understanding.
- Member nominated trustees/member-nominated directors putting arrangements in place.
- Internal controls.
- Dispute resolution reasonable periods.
- DC code.
- Public service code.

The General Code of Practice was divided into five sections and some new modules would be included. Some of these would not directly apply to the LGPS, but where that was the case, compliance would be viewed as best practice by TPR.

The Local Government Association (LGA) and LGPS Scheme Advisory Board (SAB) had provided some initial comments in relation to the General Code of Practice which were included at paragraph 5.3 of the submitted report.

Although the General Code of Practice was expected to take effect before the end of March, TPR has indicated that it did not expect schemes to be able to demonstrate full compliance with all the provisions of the Code from that date. However, what was expected was that schemes would have an awareness of where there were potential gaps in compliance and, ideally, a plan setting out how and when these gaps would be filled.

The Fund already had a good level of compliance with TPR's governance and administration requirements set out in the existing code of practice. An exercise was underway to consider to what degree the Fund complied with the new elements of the code, including those deemed best practice for the LGPS. Updates, including a plan for achieving full compliance with all relevant elements of the General Code of Practice would be shared with future Committee meetings.

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

23/60

### **PENSION FUND BUSINESS PLAN 2023-26**

The Pension Fund Business Plan 2024/27, including the 2024/25 Pension Fund Budget was presented to the Committee for approval.

The Teesside Pension Fund Business Plan was designed to set out how the Pension Fund Committee operated, what powers were delegated and to provide information on key issues. The Business Plan existed alongside the Fund's other governance documents, which set out the delegated powers and responsibilities of officers charged with the investment management function.

The 2024/25 forecast income and expenditure was set out in the Business Plan, and summarised at paragraph 3.1 of the submitted report.

The Business Plan for 2024/27 was attached at Appendix 1 to the submitted report and included:

- The purpose of the Fund, including the Teesside Pension Fund Service Promise (attached at Appendix A);
- The current governance arrangements for the Fund;
- The performance targets for the Fund for 2024/25, and a summary of the performance for 2023/24 (latest available) (attached at Appendix B);
- The arrangements in place for managing risk and the most up to date risk register for the Fund (attached at Appendix C);
- Membership, investment and funding details for the Fund;
- An estimated outturn for 2023/24 and an estimate for income and expenditure for 2024/25 (attached at Appendix D and page 21 of Appendix 1); and
- An annual plan for key decisions and a forward work programme for 2024/27 and an outline work plan for 2024–2027.

**ORDERED** as follows that the:

1. information provided was received and noted.
2. Pension Fund Business Plan 2024/27 including the 2024/2025 Pension Fund Budget was approved.

23/61

### **BORDER TO COAST PRESENTATION**

The Committee received a summary and update on the Fund's investments with Border to Coast.

The presentation provided information on the following:

- Fund Investments with Border to Coast.
- Market Overview – Quarter 4 2023:

Growth disappointment

- Economic demand to soften in 2024 against a backdrop of declining consumer strength and increased credit stress.

Equities defying gravity

- Valuations were stretched and profit margins might come under pressure given the continued liquidity tightening and the consumer's decreasing propensity to spend moving forward.

Selective credit opportunities offered high quality carry

- Vulnerabilities in lower-rated credit were likely to be exposed if consumer spending fell. Refinancing might be challenging for some issuers given tighter bank lending standards.
- Preference for higher quality credit (ie investment grade credit).

- Border to Coast Update:

Approach to Responsible Investment

- BCP had published the 2024 RI Policy, Climate Change Policy and Voting Guidelines. These supported BCP's management of climate change risk, with updates including increased scrutiny of corporate net zero strategies, voting for shareholder proposals that align with the 2015 Paris Agreement on Climate Change, and introducing new exclusion thresholds relating to thermal coal and oil sand production.

Global Investor

- In December BCP formally launched two Real Estate funds: Global Core, and Global Value-Add. These new funds were the result of detailed collaboration with Partner Funds and it was exciting to be able to offer new investment opportunities and a new asset class.

Barnsley 2.0 – Maintaining A Great Partnership

- Last year Partner Fund officers met in Barnsley to discuss, among other things, the principles of BCP's common partnership as it continue to evolve. Kindly hosted by SYPA, the group convened again in January to discuss how to work together – and ensure that BCP had the right approach to reporting and oversight.

Setting The Strategic Plan for 2024-2027

- BCP was finalising the 2024-27 Strategic Plan, which built on progress so far and outlined the proposed approach to finishing the original strategy (to complete the investment capability build required to enable Partner Funds to pool assets and the creation of a long-term resilient organisation).

Staff Update

- Jane Firth, Head of RI would retire later this year and the recruitment process for Jane's successor was underway. Andrew Glessing, Interim Chief Risk Officer (CRO) joined in January following Richard Charlton's departure. Andrew was supporting whilst a permanent CRO was recruited.

- Private Equity/Infrastructure – IRR and TVPI Definitions.

- Definitions of Internal Rate of Return (IRR) and Total Value to Paid-in Capital (TVPI) were included in the report.

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

23/62

## **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.

In the longer term, higher inflation would have an adverse impact on the Fund's future service costs. It was recommended that the strategic focus should remain on building up allocations to assets which provided some mitigation to the long-term inflation risk. In the medium term the Fund should give consideration to investing in index linked gilts.

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

23/63

### **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.

There was more optimism in the property market despite a technical recession in the third quarter of 2023. Interest rates had now peaked. Transactions volumes in 2023 were down about £40 billion. There were more sellers than buyers in the market and some buyer hesitancy due to pricing, investors close to target weights, interest rates and political uncertainty.

In the corporate defined pension world there were concerns around tighter environmental standards and typically higher costs to let and sell. There were a number of motivated sellers and redemptions on a number of property funds. Investment opportunity was good and there was less competition in the market. There were still some challenges in office market and strong growth in the retail sector and supermarkets.

Members' attention was drawn to the photograph of the Old Brompton Road property on page 1 of the submitted report which was currently being refurbished. The refurbishment work was 75% completed and on target.

CBRE had changed its approach to analysing the top tenants and was now using INCANS rather than Experian. INCANS provided a more up to date and accurate picture of the tenants and risk. On the INCANS category rating system – 7 out of 10 were rated as medium to low risk.

The low rating for the Royal Mail property in Gateshead was queried. It was explained that the property was on the principle industrial estate in Gateshead and the largest single asset, serving the whole region from Berwick to York and Carlisle. The property had its own railway station at the which was in daily use and critical to the region. If the property did fall vacant it was a very significant site of up to 15 acres of land on team valley and its freehold on the land.

At Swadlincote, the Fund had agreed terms to extend the Lease with Brunel Healthcare for a term of 20 years, increasing the term certain by 16 years, at a re-based rent of £818,000 p.a. The rent was reviewed in-line with RPI collared and capped at 2% and 5%. The tenant benefitted from an initial 6 months' rent free on completion of the Lease. The new Lease was close to completion.

The Fund had completed a full refurbishment of the car park at Congleton Retail Park. The project was well received by the occupiers and had led to an improved customer experience. Following completion in December, the Fund had received renewed occupier interest in the three vacant units.

In relation to the arrears detailed in the report, outstanding debts currently totalled £307K.

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

23/64

### **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
- Membership Movement
- Member Self Service
- Pension Regulator Data Scores
- Customer Service
- Completed Cases Overview
- Completed Cases by Month

The report was taken as read with some key issues highlighted as follows:

Confirmation had been received from HM Treasury that public service pensions and career average benefits within the LGPS would increase from 1 April 2024 by 6.7% alongside the Consumer Price Index from the prior September.

Membership overall had increased and the number of deferred members had slightly reduced.

Scheme specific data would be included in the next report to Committee.

With regard to late payments, these were chased on a monthly basis and an email had been sent to regular offenders asking them to explain why contributions were being paid across late. Health Checks had been initiated with these employers.

The number of cases being processed had increased significantly and only one had been completed outside of the timescale in the Service Level Agreement.

There had been one IDRP Stage 1 Case complaint in relation to disinvestment of AVCs. This had taken longer than expected due to the request not being received by AVC provider. XPS and Prudential agreed to pay the compensation suggested by the IDRP1 adjudicator.

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

23/65 **WASTEKNOT ENERGY VISIT**

The Head of Pensions Governance and Investments gave a verbal update on a recent visit to WasteKnot, to which all Members of the Committee had been invited.

Members were shown photographs of the energy to waste plant.

It was anticipated that once the plan was running at full capacity, the Fund would receive the promised return on its investment.

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

23/66 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, CAN BE CONSIDERED**

Teesside Pension Fund Audits 2021/2022 and 2022/2023

The External Auditor provided an update on the status of the Teesside Pension Fund Audit and the reset of local government audit timelines.

It was anticipated that the 2021/2022 audit would be finalised within the next month but could not be signed off until the Council's accounts were complete. Completion of the Council's accounts was impacted by the Government reset. All the requisite information had been handed to the new External Auditor, Mazars.

The majority of work on 2022/2023 was completed. There was some outstanding work around property valuations and this work would be subject to review. There were a number of other issues with the audit that EY was working through with management. These were of a smaller magnitude than previously and mainly due to volatility around markets. Audit procedures should be completed by the end of the month.

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