TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on Wednesday 12 June 2024.

PRESENT: Councillors Councillor John Kabuye (Chair), J Rostron (Vice-Chair), J Ewan, D Branson, D Coupe, D Jackson, J Young, J Beall, M Fairley and G Wilson (substitute for Councillor S Hill)

ALSO IN ATTENDANCE: W Bourne, Investment Advisor
D Knight, Border to Coast
A Owen, R Quinn, G Rutter, CBRE
L Pelmear, XPS

VIRTUAL ATTENDANCE: P Moon, Investment Advisor
R Tebbs, EY

OFFICERS: S Lightwing, N Orton and W Brown

APOLOGIES FOR ABSENCE: were submitted on behalf of Councillor T Furness, Scarborough, Ms J Flaws and Mr T Watson

24/1 **WELCOME AND EVACUATION PROCEDURE**

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

24/2 **DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Beall	Non Pecuniary	Member of Teesside Pension Fund
Councillor Jackson	Non Pecuniary	Member of Teesside Pension Fund
Councillor Rostron	Non Pecuniary	Member of Teesside Pension Fund

24/3 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 13 MARCH 2024**

The minutes of the meeting of the Teesside Pension Fund Committee held on 13 March 2024 were taken as read and approved as a correct record.

24/4 **INVESTMENT ACTIVITY REPORT**

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 March 2024 was 3.63%. Investment in direct property where the property had a good covenant, yield and lease terms would continue. There were no purchases or sales in 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 £70 million 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 October 2023 – 31 March 2024. This was a six monthly report rather than the usual three monthly report. There were net purchases of £8 million in the period.

As at 31 March 2024, the Fund had £198 million invested with approved counterparties. This was a decrease of £23 million over the last quarter.

The graph at 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 Fund Valuation detailed all the investments of the Fund as at 31 March 2024, and was prepared by the Fund's custodian, Northern Trust. The total value of all investments, including cash, was £5,468 million. 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 December 2023 of £5,194 million.

A summary analysis of the valuation showed the Fund's percentage weightings in the various asset classes as at 31 March 2024 compared with the Fund's customised benchmark.

As at 31 March 2024 the Fund's equity weighting was 60.92% compared to 60.83% at the end of December 2023.

Redemptions of £140 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 January 2024-31 March 2024 were shown at paragraph 8.4 of the submitted report.

The Fund had no investments in bonds at this time and the level of cash invested was 3.63%.

As at 30 November 2023 total commitments to private equity, infrastructure, other alternatives and other debt were £1,963 million and details were provided at paragraph 8.8 of the submitted report.

The Head of Pensions Governance and Investment informed the Committee that he and the Chair had recently attended a launch event for FW Capital. Over one hundred representatives from local businesses and financial institutions had also attended.

ORDERED that the information provided was received and noted.

24/5 **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 March 2024 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 a third 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 31 March 2024 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 Fun's returns were 1.02% below benchmark over the last year, or 2.02% under its overachievement target, whereas the Overseas Developed Markets Equity Fund had achieved returns of 3.56% above benchmark over the last year, comfortably above its 1% overachievement target. Since inception, the UK fund had delivered performance of 0.5% a year above benchmark, slightly below its long-term target, and the overseas fund had delivered performance of 1.64% 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. The recent position had shown a slight improvement, with performance over the quarter and the year to 31 March 2024 above benchmark (but behind target). Since inception the Fund was 1.43% a year behind benchmark, so 2.93% a year behind target.

It was clarified that the benchmarks were agreed with Border To Coast and the other investors when the funds were set up. They were reviewed annually but to date no changes had been made.

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 March 2024.

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 are passive and closely track the appropriate regional equity indices, the portfolio's rating in these terms closely matched the benchmark indices ratings.

The Committee been notified that from 18 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 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 which came into effect on 18 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.

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.

A Member queried what level of scrutiny Border to Coast carried out in relation to the ESG objectives and how might some of the investments be reconsidered. It was clarified that it was a long term approach and the point of a divestment decision had not yet been reached.

ORDERED that the report was received and noted.

24/6 **PENSIONS REGULATOR GENERAL CODE OF PRACTICE - COMPLIANCE ASSESSMENT**

A report of the Director of Finance was presented to provide Members with an assessment of the Fund's current level of compliance with the Pensions Regulator's (TPR) recently published General Code of Practice, together with a plan for addressing any gaps identified.

Although the General Code of Practice took effect from 27 March 2024, TPR had 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, it was expected 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.

Hymans Robertson (the Fund’s actuary) had developed a spreadsheet-based assessment tool designed to assist LGPS Funds with determining where they complied with the General Code of Practice and where there were gaps. Hymans Robertson had analysed the General Code of Practice and legislation referred to in that document to categorise the requirements into regulatory requirements, TPR expectations and best practice. The assessment tool allowed users to keep a history of assessments and track progress over time, and also facilitated the development of action plans and assisted in prioritisation of actions.

After assessing other available options the assessment tool was purchased from Hymans Robertson for a one-off fee. Appendix A to the submitted report contained the initial assessment report together with a list of actions to allow the Fund to gain full compliance with the General Code of Practice.

Overall, from the 14 chapters of the General Code of Practice that were analysed in the report, 5 showed full compliance, with the remaining 9 showing levels of compliance between around 57% and 93%.

Also included within Appendix A to the submitted report, was a set of actions required to gain full compliance. These were set out at paragraph 6.1 of the submitted report, together with a suggested timescale for completion.

Updates would be provided to future Committee meetings to track progress on completion of these tasks and the Fund’s compliance with the General Code of Practice.

ORDERED that the report was received and noted.

24/7 **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:

- Investments with Border to Coast
- Global Market Outlook – Q1 2024.
- Listed investments – Performance to Q1 2024.
- Private Equity: Summary.
- Infrastructure: Summary.
- Climate Opportunities: Summary.
- Private Markets: New Commitments for Q1 2024.
- Border to Coast Update:
  - Supporting the Transition to Net Zero.
  - Industry Recognition.
  - Strategic Plan 2024-2027.

An Investment Advisor commented that investments and drawn downs were ahead of modelling and asked where the Fund was in terms of getting its money back. It was clarified that on a semi-annual basis BCP carried out forecasting and projecting of what the cash flow would look like for a partner fund journey. The BCP representative commented that he had not had sight of anything on the distribution rate of return but would obtain that information and feed it back to the Head of Pensions Governance and Investment.

In relation to the performance of the funds it was queried and whether the returns are in line with the expectations when the investments were made. It was confirmed that the investment was still at an early stage and performance was in line with the target, however it was still a waiting game.

A Member asked whether there was any investment in the Dogger Bank Wind Farm and the BCP representative agreed to check and report back.

ORDERED that the information provided was received and noted.

24/8 **BORDER TO COAST 2030 STRATEGY**

A report of the Director of Finance was presented to provide Members with an update on the development strategy the pooling company, Border to Coast, had been collectively developing with the Teesside Pension Fund and the other ten Partner Funds within the pensions partnership.

As a public sector pension fund the Teesside Pension Fund was committed to operating in a sustainable and cost-effective manner. The complex system in which the Local Government Pension Scheme (LGPS) currently operated was evolving. External factors, such as changes to the wider pensions and investment industry, changing ways of working, political and regulatory change and continued uncertainty across investment markets, were likely to be significant over the coming period and in many instances beyond the control of LGPS. Recognising this and building greater resilience into the system would be important for the Fund’s long-term success.

There was an opportunity to build upon the partnership established with Border to Coast Pensions Partnership. Working with the other ten LGPS Partners, there was the opportunity to strengthen capacity and resilience through the further development of common solutions through Border to Coast.

Based on joint needs, Teesside Pension Fund had worked with Border to Coast to help them to develop a strategy to 2030. This considered how Border to Coast would evolve as a centre of investment expertise to help deliver the propositions and services needed to support Partner Funds to pay pensions in a cost effective and sustainable manner.

The strategy was in the final stages of refinement and would be subject to formal shareholder review and approval later in the summer. The implementation of the strategy would be covered through the annual business planning process, which was reviewed and approved by the Partner Funds as shareholders on an annual basis.

The 2030 Strategy would be recommended by the Border to Coast Board to shareholders for approval over the Summer of 2024. It would also be discussed at the Border to Coast Annual Conference in mid-July 2024.

ORDERED that the information provided was received and noted.

24/9 **INVESTMENT ADVISORS' REPORTS**

The Independent Investment Advisors had provided reports on current capital market conditions to inform decision-making on short-term and longer-term asset allocation, which were attached as Appendices A and B to the submitted report.

Further commentary was provided at the meeting.

Peter Moon commented that there was no significant growth in the economy. Bonds still had little value and inflation would remain higher than central banks’ targets and therefore they would not be quite as generous on interest rates as previously. Real returns on bonds would remain low. Index linked and gilts performed a valuable function in a portfolio but the entry point was key as investing too early could be costly. Equities and properties continued to perform as expected. The Fund’s cash deficit had been created by the type of units purchased with Border to Coast and money could not be released without selling those units.

William Bourne agreed with the comments already made and added that interest rates had normalised at 4 to 5% and were unlikely to go lower. Growth was concentrated in USA. It was quite a benign market for equities and other assets due to relatively loose fiscal policies. In the longer term William expressed concern regarding the cost of debt service since the US and UK governments had issued quite a lot of inflation linked gilts. Bonds were looking to be a better investment than previously.

ORDERED that the information provided was received and noted.

24/10 **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.

UK transaction volumes were confirmed at circa £10 billion in Quarter 1 2024, which was very similar to the preceding three quarters. Although the volumes were relatively low there had been positive capital flows from overseas investors and private individuals, but declines from institutional investors (assumed reflecting the sell down from corporate defined benefit pension schemes).

Annual transaction volumes were back at circa 2012 levels, with pricing uncertainty (measured by pricing expectation gap between buyers and sellers) highest in the office and retail sectors.

In terms of occupational markets, the industrial sector was still seeing positive rental growth, but at the lowest level in two years. Positive rental growth in the West End of London office market, but rental growth was flat or declining in most other office markets.

There had been a steady increase in vacancy levels in the office sector from 11% in 2020 to closer to 16% today (impacted by flexible working/working from home, post the COVID pandemic). Industrial vacancy was marginally up at circa 7% from 6% in 2020 - in part due to speculative development and letting voids.

Future prospects for UK real estate looked reasonably positive compared to other regions, according to data from CBRE Investment Management. Five-year return forecasts (2024-2028) for UK 7.9% pa, the same as the USA, stronger than Asia 6.6% pa and rest of Europe 6.3% pa.

There had been no sales or acquisitions since the last report to Committee.

The Fund had agreed terms to create a Reversionary lease with BAE systems at Washington, which would extend the term to December 2042. It was anticipated that this would complete by September.

Negotiations were ongoing with B & M Retail Limited at Ipswich to agree terms for a Lease renewal on a further 10-year term.

In relation to arrears, the position had improved since the report was written: St Albans, Pizza Hut and Pets at Home had cleared their balances and Stark had made a partial payment.

Active discussion was taking place on some new loans at the current time and CBRE would report on those to the next Committee meeting.

ORDERED that the information provided was received and noted.

24/11 **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:

Service Level Agreements were tracking positively. The Membership of the Fund continued to increase. The latest uplift for pensioners was 6.7% which contributed to a 20% uplift in total over the last 3 years.

The Annual Benefits and Pensions Savings Statements would be issued in August and October and work was ongoing to produce those.

A new system had been put in place to help XPS collect and focus on data in relation to the introduction of Pensions Dashboards in October 2026.

With regard to customer service the Contact Centre now had a system in place to capture more feedback from clients.

ORDERED that the report was received and noted.

24/12 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, CAN BE CONSIDERED**

None.

24/13 **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.

24/14 **LOCAL INVESTMENT UPDATE**

A report of the Director of Finance was presented to provide Members of the Pension Fund Committee (the Committee) with an update on a Local Investment and requested delegated authority to make potential further investment into the company.

On a vote being taken it was **ORDERED** that the recommendation set out at paragraph 2.1 of the report was approved.