

## TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on Wednesday 25 September 2024.

**PRESENT:** Councillors , J Rostron (Vice-Chair), J Ewan, D Branson, D Coupe, T Furness, D Jackson, J Young, J Beall, M Fairley, Scarborough and Ms J Flaws

**PRESENT BY INVITATION:** Councillors

**ALSO IN ATTENDANCE:** W Brown, Knight (Border to Coast), A Owen (CBRE), Quinn (CBRE), Rutter (CBRE), P Moon (Independent Adviser), T Backhouse (Mazars), S Durrant (XPS) and Pelmeur (XPS)

**OFFICERS:** Claire Jones, Debbie Middleton and Nick Orton

**APOLOGIES FOR ABSENCE:** J Kabuye, S Hill and Mr T Watson

### 24/21 WELCOME AND FIRE EVACUATION PROCEDURE

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

### 24/22 DECLARATIONS OF INTEREST

Name of Member	Type of Interest	Item / Nature of Business
Councillor Beall	Non-Pecuniary	Member of Teesside Pension Fund
Councillor Coupe	Disclosable personal interest	Non-Executive Director of Border to Coast Pensions Partnership LTD.
Councillor Ewan	Non-Pecuniary	Member of Teesside Pension Fund
Councillor Rostron	Non-Pecuniary	Member of Teesside Pension Fund

### 24/23 MINUTES - TEESSIDE PENSION FUND COMMITTEE - 17 JULY 2024

The minutes of the meeting of the Teesside Pension Fund Committee held on 17 July 2024 were taken as read and approved as a correct record.

### 24/24 INVESTMENT ACTIVITY REPORT

A report of the Director of Finance was presented to inform Members 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. The Fund had no investments in Bonds at this time.

At the June 2018 Committee it was agreed that, a maximum level of 20% of the Fund would be held in cash. The cash level at the end of June 2024 was 3.44%.

Investment in direct property continued where the property had a good covenant, yield and lease terms. 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. An amount of £67m was invested in the quarter.

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It is a requirement that all transactions undertaken are reported to the Committee. Appendix A detailed transactions for the period 1 April 2024 – 30 June 2024. There were net purchases of £66m in the period.

The Fund Valuation detailed all the investments of the Fund as at 30 June 2024, and was prepared by the Fund's custodian, Northern Trust. The total value of all investments, including cash, was £5,524 million. The detailed valuation was attached as Appendix C 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 31 March 2024 of £5,468 million.

A summary analysis of the valuation showed the Fund's percentage weightings in the various asset classes as at 30 June 2024 compared with the Fund's customised benchmark.

As at the 30 June 2024 the Fund's equity weighting was 60.26% compared to 60.92% at the end of March 2024. Redemptions of £75m in total, were made from the Border to Coast Overseas Developed Market and UK Listed Equity Funds. It was agreed between the Investment Advisers and the Head of Pensions Governance & Investments that the Fund will disinvest from our State Street (SSGA) Passive Equity Funds.

The redemptions from SSGA had started with the proceeds coming back to the fund, (approximately £340m would be returned as cash), they would be completed over the coming quarter and reported to the Committee. The transfer of £330m to the Border to Coast Overseas Equity Fund was complete in September.

To date the Fund had agreed 4 Local Investments:

- GB Bank – £20m initial investment called in full in September 2020. £6.5m was paid to the bank in December 2021. £13.5m paid August 2022 as the bank received regulatory approval to exit mobilisation. £4m was agreed at the September 2023 Committee and paid to GB Bank in October. £5m agreed at March 2024 Committee and paid May 2024.
- Ethical Housing Company - £5m investment of which £765k had been called.
- Waste Knot - £10m investment agreed at the June 2021 Committee, payment made in full December 2021.
- FW Capital – At the September Committee agreement was given for an investment of £20m into the Teesside Flexible Investment Fund. The money would be called down as and when investments were made.

As at 30 August 2024 total commitments to private equity, infrastructure, other alternatives and other debt were £1,963m

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

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## **EXTERNAL MANAGERS' REPORTS**

The Head of Pensions, Governance and Investments presented a report which provided 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').

At 30 June 2024 the Fund had investments in the following three Border to Coast listed equity sub-funds:

- The Border to Coast UK Listed Equity Fund, which had an active UK equity portfolio aiming to produce long term returns of at least 1% above the FTSE All Share index.
- The Border to Coast Overseas Developed Markets Equity Fund, which had an active overseas equity portfolio aiming to produce total returns of at least 1% above the total return of the benchmark (40% S&P 500, 30% FTSE Developed Europe ex UK, 20% FTSE Developed Asia Pacific ex Japan, 10% FTSE Japan).
- The Border to Coast Emerging Markets Equity Fund, which had an active emerging markets equity portfolio aiming to produce long term returns at least 1.5% above the FTSE Emerging markets indices. Part of the Fund was managed externally (for Chinese equities) by FountainCap and UBS, and part managed internally (for all emerging markets equities excluding China) by the team at Border to Coast.

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 latest report showed performance of the State Street funds against the revised indices – excluding controversies (UN Global Compact violators) and excluding companies that manufacture 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 had advised that it had made further changes to its passive equity indices and is excluding additional sectors. The Fund was notified that from 18th December 2023 the benchmarks of the State Street Sub-Funds the Fund invested in have applied screens to exclude certain securities related to Tobacco and Thermal Coal. Excluded companies were 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 screening for UN Global Compact Violations and Controversial Weapons which came into effect on 18th November 2020. Initial indications are 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 invests via State Street.

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

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### **LGPS NATIONAL KNOWLEDGE ASSESSMENT**

The Head of Pensions, Governance and Investments presented a report which provided Members with information about the Local Government Pension Scheme (LGPS) National Knowledge Assessment facilitated by consultants Hymans Robertson and asked Members to agree that they and Members of the Teesside Pension Board ('the Board') would undertake this assessment.

In January 2019 the LGPS Scheme Advisory Board ("SAB") had commissioned Hymans Robertson to assist in delivering a review of governance across the LGPS. This review was termed the 'Good Governance' project. This review recognised the Pension Regulator's ("TPR") push to increase governance and administration standards in pension schemes, including public service pension schemes, for which it had oversight responsibility.

#### **ORDERED:**

- That members would participate in the Local Government Pension Scheme (LGPS) National Knowledge Assessment facilitated by consultants Hymans Robertson, to help assess the Committee's collective relevant LGPS knowledge with a view to facilitating targeted training to meet any training needs identified.
- that the members of the Teesside Pension Board would be included in the assessment process.

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### **PRESENTATION FROM THE ACTUARY - 2022 VALUATION SECTION 13 RESULTS**

A representative from Hymans attended the meeting to present the 2022 Valuation Section 13 Results.

Under Section 13 of the Public Service Pensions Act the Ministry of Housing, Communities and Local Government ("MHCLG") appointed the Government Actuary's Department (GAD) to carry out a review of the LGPS local funding valuations. GAD published their report on the 2022 valuations on 14 August 2024.

GAD recognised the improved presentational consistency in the 2022 valuations, and that the continued use of the section 13 dashboard (first introduced for the 2019 valuations) greatly aids stakeholders' understanding. GAD noted concern around the continued lack of evidential consistency since the previous review at 2019. Whilst GAD appreciate that specific fund circumstances may merit the use of different actuarial assumptions, they believe that these differences may lead to different outcomes, for example different contribution rates. Wherever possible, GAD believe in the importance of information being presented in a way that

facilitates comparisons. GAD made two formal recommendations in this area for the Scheme Advisory Board to consider:

- Whether greater consistency could and should be achieved to allow easier comparison between funds and better understanding of risks, and
- whether guidance would be helpful to support greater consistency on emerging issues.

GAD recognised the significant progress made by funds and actuarial advisers in the presentation of climate risk analysis as part of the 2022 fund valuations. They recommended that work continues to refine their Climate Change Principles Document in advance of the 2025 fund valuations.

On solvency GAD reported:

- In aggregate, the funding position of the LGPS had improved since 31 March 2019; and the scheme appeared to be in a strong financial position.
- Total assets had grown in market value from £290bn to £366bn
- Total liabilities disclosed in the 2022 local valuation reports amounted to £344bn.
- The aggregate funding level of the LGPS on prudent local bases had improved from 98% (in 2019) to 106% (at 2022) due in large part to strong asset returns over the 3-year period to 31 March 2022.
- The size of funds had grown significantly over the three years to 31 March 2022 relative to the size of the underlying authorities. This meant that funds in deficit were more likely to trigger GAD's asset shock measure, where there is a risk of a large changes in contribution rates following a sustained reduction in the value of return-seeking assets. GAD raised white flags against impacted funds. Given the strong position, no red or amber flags were raised in the LGPS for solvency concerns.

Despite having Teesside Pension Fund having one of the lowest contribution rate levels at 14.8% of pay, no flags were raised against the Fund for long-term cost efficiency concerns.

A discussion took place whereby Members queried the Fund's low level of contributions and whether this would have an impact on solvency. It was noted that there was no overall cause for concern or immediate pressures. The Director of Finance highlighted that the Medium Term Financial Plan (MTFP) and the financial pressures of employing authorities needed to be further understood by the Committee; the Pension Fund is in a stable state with no cause for concern, however, there would be cause for concern for the MTFP, should there be a significant need to increase contributions.

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

#### 24/28 **DRAFT PENSION FUND ANNUAL REPORT 2023/24 - VERBAL UPDATE**

The Head of Pensions, Governance and Investments gave a verbal update on the Draft Pension Fund Annual Report 2023/24.

It was noted that the report required further completion due to the Government's new format. The report would be circulated to the committee for comment and to the Teesside Pension Fund Board in November, prior to submission on 1<sup>st</sup> December.

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

#### 24/29 **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
- Listed Investments
- Private Equity Summary
- Climate Opportunities
- Infrastructure Selected Fund Updates

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

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### **GOVERNMENT CALL FOR EVIDENCE**

The Head of Pensions, Governance and Investments presented a report which advised Members of a recent 'Call for Evidence' issued by the government which asked for views on the Local Government Pension Scheme (LGPS), including on asset pooling and investments in the UK.

The previous government carried out a 12-week consultation which ended on 2 October 2023 entitled "Local Government Pension Scheme (England and Wales): Next steps on investments". This consultation looked to build on and accelerate progress towards greater LGPS pooling. The stated objective of the consultation 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 reduced the number of pools from eight to an unspecified lower number. The outcome of this consultation was reported to the 13 December 2023 Pension Fund Committee.

The new government confirmed on 4 September 2024 that it was carrying out a pensions review which it described as follows: "The Chancellor has launched a landmark pensions review to boost investment, increase saver returns and tackle waste in the pensions system. The Chancellor has appointed the Minister for Pensions to lead the review. The review will focus on defined contribution workplace schemes and the Local Government Pension Scheme."

The government issued a 'call for evidence'. The following three topics were covered in the call for evidence, some questions under these topics related to defined contribution schemes others purely relate to the LGPS and some potentially cover both:

- Scale and consolidation
- Costs vs Value
- Investing in the UK

The deadline for response, 25 September 2024, was 3 weeks after the document was published. The Head of Pensions Governance and Investments has worked with colleagues in Border to Coast and its Partner Funds to produce a coherent and consistent response designed to emphasise:

- The benefits of scale provided by the Fund's participation in Border to Coast.
- The extent to which the Fund already invests in the UK.
- Consideration to whether potential pool or fund consolidation would of itself lead to greater investment in UK assets, as the call for evidence seems to imply.

A draft response was shared with Members of the Teesside Pension Fund Committee for agreement.

**ORDERED**, as follows that:

- The draft response was approved.
- Final approval would be sought from the Chair / Vice Chair before submission to Government.

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### **STRATEGIC ASSET ALLOCATION UPDATE**

The Head of Pensions, Governance and Investments presented a report which asked Members to agree to a revision to the Pension Fund's strategic asset allocation and that a short consultation should be carried out with employers in the Fund to explain the proposed changes.

The Head of Pensions Governance and Investments met with the Fund's two independent investment advisors in July to discuss the Fund's strategic asset allocation approach and a number of other investment issues. Points considered in relation to the current asset allocation included the following:

- The current allocation to growth assets is significantly higher than the target, with the converse being true for the allocation to protection assets.

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- The “Other Alternatives” category is not particularly helpful, particularly as the Fund is being asked to report on private equity allocations and commitments, some of which will currently be covered under this “Other Alternatives” category.
- There was a question over whether Property is correctly allocated as a Growth rather than a Protection asset.
- Is it correct to continue with such a flexible approach to the allocation to “Bonds / Other debt / Cash” or should each element be allocated a separate target?

Following discussion it was agreed that assets currently classified as “Other Alternatives” would be reclassified as appropriate to either private equity, infrastructure, property or other debt

**ORDERED:**

- That Members agreed to the proposed revised strategic asset allocation.
- That the table in paragraph 6.1 would be incorporated into an updated ISS and circulated to Pension Fund employers for comment. Any substantive changes agreed to the revised ISS following the consultation would be brought to the next Committee meeting, but if there were no such changes the ISS would be published in due course.
- Officers would continue to work to implement the revised strategic asset allocation and would report back to future Committee meetings on progress.

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**INVESTMENT ADVISORS' REPORTS**

The Independent Investment Advisors 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.

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

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**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.

As of 30th June 2024, the portfolio comprised 34 properties located throughout the UK, with a combined value of £484.2m. This reflected an overall Net Initial Yield of 4.47%, and an Equivalent Yield of 5.61%. The portfolio comprised of principally prime and good secondary assets. High Street retail, retail warehouse and industrial comprise 94% of the Portfolio by capital value. There were 91 demises and a total net lettable area of 2,751,651 sq. ft. The portfolio had a gross passing rent of £27,284,260 per annum against a gross market rental value of £27,570,187 per annum. The weighted average unexpired lease term was 9.7 years to the earlier of the first break or expiry and 10.2 years to expiry, ignoring break dates.

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

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**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:

- Highlights
- Headlines
- Errors and Complaints
- Member Engagement
- Membership Data
- Quality Regulations and Guidance

The following was noted:

- Membership continued to steadily increase over Q1 for active members.

- Newsletters were issued the week of 17th September.
- Active and Deferred Benefit statements were issued by the legislative deadline.

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

24/35 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, CAN BE CONSIDERED**

None.

24/36 **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.

24/37 **LOCAL INVESTMENT UPDATE - GB BANK**

A report was presented which provided Members of the Teesside Pension Fund Committee (the Committee) with an update on local investment.

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

24/38 **LOCAL INVESTMENT UPDATE - ETHICAL HOUSING COMPANY**

A report was presented which provided Members of the Pension Fund Committee (the Committee) with an update on local investment.

**ORDERED** that the recommendation at paragraph 2.1 of the report was approved.