

**TEESSIDE PENSION FUND COMMITTEE**

A meeting of the Teesside Pension Fund Committee was held on Wednesday 15 December 2021.

**PRESENT:** Councillors D Coupe (Chair), J Beall, (Stockton On Tees Borough Council), R Creevy, (Hartlepool Borough Council), T Furness, J Hobson, J Rostron, M Storey and S Walker  
J Flaws (Other Employers Representative), B Foulger (GMB Representative) and T Watson (UNISON Representative)

**ALSO IN ATTENDANCE:** W Bourne (Independent Adviser), P Moon (Independent Adviser), P Mudd (XPS Administration)  
A Owen (CBRE), A Peacock (CBRE)  
A Stone (Border to Coast Pension Partnership)

**OFFICERS:** S Bonner, W Brown, S Lightwing, J McNally, N Orton, S Smithyman and I Wright

**APOLOGIES FOR ABSENCE:** were submitted on behalf of Councillors A Bell, E Polano, G Nightingale and G Wilson

21/29 **WELCOME**

The Chair welcomed all present to the meeting.

21/30 **DECLARATIONS OF INTEREST**

<b>Name of Member</b>	<b>Type of Interest</b>	<b>Item/Nature of Interest</b>
Councillor J Beall	Non pecuniary	Member of Teesside Pension Fund
Councillor R Creevy	Non pecuniary	Member of Teesside Pension Fund
B Foulger	Non pecuniary	Member of Teesside Pension Fund
Councillor Rostron	Non pecuniary	Member of Teesside Pension Fund
Councillor M Storey	Non pecuniary	Member of Teesside Pension Fund

21/31 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 8 OCTOBER 2021**

The minutes of the meeting of the Teesside Pension Fund Committee held on 8 October 2021 were taken as read and approved as a correct record.

21/32 **INVESTMENT ACTIVITY REPORT**

A report of the Director of Finance was presented to inform Members of the Teesside Pension Fund Committee how the Investment Advisors' recommendations were being implemented.

A detailed report on the transactions undertaken to demonstrate the implementation of the Investment Advice recommendations and the Fund's valuation was included, as well as a report on the treasury management of the Fund's cash balances and the latest Forward Investment Programme.

The Fund continued to favour growth assets over protection assets and currently had no investments in Bonds. Whilst it was considered that Bond yields would rise in the long run, at present yields did not meet the actuarial requirements for the Fund and should continue to be avoided at these levels unless held as a short term alternative to cash. The Fund had no investments in Bonds currently.

At the June 2018 Committee it was agreed that a maximum level of 20% of the Fund would be held in cash. Cash levels at the end of March 2021 were 11.03%. The Fund would continue to use cash to move away from its overweight position in equities and invest further in

Alternatives.

Investment in direct property would continue on an opportunistic basis where the property had good covenant, yield and lease terms. No property transactions were undertaken in this quarter.

During the quarter, £63.9 million was invested in Alternatives. The Fund was considerably underweight its customised benchmark and, providing suitable investment opportunities were available, would look to increase its allocation to this asset class up to the customised benchmark level.

Appendix A to the submitted report detailed transactions for the period 1 July 2021 to 30 September 2021. There were net sales of £100.8 million in the period, this compared to net sales of £76.6 million in the previous reporting period.

As at 31 December 2020, the Fund had £534.7 million invested with approved counterparties. This was a decrease of £144.9 million over the last quarter. Appendix B to the submitted report showed the maturity profile of cash invested as well as the average rate of interest obtained on the investments for each time period.

The total value of all investments as at 30 September 2021, including cash, was £4,871 million, compared with the last reported valuation as at 30 June 2021, of £4,705 million.

It was noted that the cash currently held amounted to 11% of the Fund total.

A summary analysis of the valuation showed the Fund's percentage weightings in the various asset classes as at 30 September 2021 compared with the Fund's customised benchmark.

The Forward Investment Programme provided commentary on activity in the current quarter as well as looking ahead to the next three to five years.

Details of the current commitments in equities, bonds and cash, property, local investments and alternatives were included in paragraph 8 of the submitted report.

To date the Fund had agreed 3 Local Investments:

- GB Bank – Initial agreement of a £20m investment, this has been called in full. A further investment was agreed at the June 2021 Committee, dependent on the bank meeting agreed criteria.
- Ethical Housing Company - £5m investment of which £361k had been called.
- Waste Knot - £10m investment agreed at the June 2021 Committee.

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

21/33

## **EXTERNAL MANAGERS' REPORTS**

A report of the Director of Finance was presented to provide Members with quarterly investment reports in respect of funds invested externally with Border to Coast Pensions Partnership Limited (Border to Coast) and with State Street Global Advisers (State Street).

As at 30 September 2020 the Fund had investments in the Border to Coast UK Listed Equity Fund and the Border to Coast Overseas Developed Markets Equity Fund. For both sub funds the return target was an annual amount, expected to be delivered over rolling three year periods, before calculation of the management fee.

The Fund also had investments in the Border to Coast Private Equity sub-fund and the Border to Coast Infrastructure sub-fund. Total commitments of £50 million were made to each of these sub-funds for 2020/2021, in addition to £100 million commitments to each sub-fund in 2019/2020. These investments were not reflected within the Border to Coast report attached at Appendix A to the submitted report.

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 30 September 2021.

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 the performance of the State Street funds against 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.

The Head of Pensions Governance and Investments commented that he had no concerns in relation to current the Fund's investments.

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

21/34

#### **BORDER TO COAST UPDATE**

A report was presented which provided an update on the following:

- Progress at Border to Coast.
- Existing Investments:
  - UK Listed Equity Fund.
  - Overseas Developed Markets Equity Fund.
  - Emerging Markets Equity Fund.
  - Alternatives.
- Responsible Investment Policies.

In relation to emerging markets, it was suggested that China would be a huge growth story and become its own region in terms of separate investment.

In relation to the cautious approach to the developed market funds, it was queried why the UK Fund was under performing but the Overseas Fund was out performing. At a high level the UK Fund was one Fund run by a couple of Fund Managers. This particular approach had been taken partly in light of Brexit. The Overseas Fund was four individual regional sleeves run by different Managers that were run with a slightly more aggressive approach and not all low risk. BCP Funds had a similar approach for internal management which was quality driven and focused on companies that had robust balance sheets.

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

21/35

#### **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. It was highlighted that economic growth was slowing down quickly with the US and Europe below trend growth, China almost zero growth in the last quarter and Japan falling by 3% in the last twelve months. Inflation was up 7% in the US and 5% in the UK. The Fund still had quite a high weighting in Equities and continuing to diversify was the most appropriate action for the Fund, although it was acknowledged this would take time.

There were not a lot of opportunities at the current time to invest the Fund's cash and one Adviser commented that he hoped the investments in infrastructure, private equity markets and alternatives, would be drawn down at a faster rate than they had been to date.

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

**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.

Since the last Committee meeting, buyers were still keen to acquire property in logistics, retail and offices. Logistics were at an all-time high in terms of what people were prepared to pay and yields were down about three and a quarter percent, which was unheard of. Offices remained in a state of dormancy because of the covid-19 pandemic and people being asked to work from home again.

The retail market had fractured into different parts with supermarkets are going very strongly in terms of demand because of their characteristics: good covenants, long leases, and often with inflation linked kickers along the way. Investors liked that income stream so they were trading very well. Retail warehousing had also come back into favour and values had come in by about 150 bases points over the last six months. This had overcorrected in the downturn and had bounced back.

The High St remained out of favour with the exception of the very best properties, for example in market towns. Unfortunately the lot sizes were very small and could not be justified in terms of investing for the Fund. Overall, investors were only buying the best assets and because they were relatively hard to come by, prices were rising.

The Advisor commented that the prime logistics market was unsustainable in terms of the deals being made now because investors would be relying on high rental growth in the future. It was very uncertain and rents would need to double to justify the yields. Tenants would start to have the ability to hold back rents which would impact the overall return.

There were no purchases or sales during the latest quarter due to the current economic climate. However, CBRE continued to seek opportunities.

CBRE had acted as Adviser on a real estate loan for the Fund. Although this would not sit in the portfolio it provided an opportunity to diversify and spend some cash. The loan was £20 million on a four year term to the existing owner of a high quality, fully-let retail park and replaced an existing debt facility.

Steady progress was being made on asset management and the tenant at Harrow Green had now indicated their willingness to renew their lease, subject to some alterations included the installation of a security fence around the premises.

At the time the report was written, the collectable arrears were just under £1.9 million. That figure had reduced by 30% as at today to £1.349 million as of today. This was the lowest it had been for the last three or four reports to Committee.

A summary of the top eight tenants with the greatest arrears was included in the submitted report and several of those had now paid in full.

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

**RISK REGISTER REVIEW**

The Head of Pensions Governance and Investments presented a report to advise the Committee of an additional risk that had been added to the Pension Fund Risk Register and also to provide Members with an opportunity to review the Risk Register

The Pension Fund's Risk Register was an attempt to document the various investment, funding, governance, administration, demographic, economic and other risks there were that could prevent or make it harder for the Fund to achieve its long term objectives. The Pension Fund Committee was presented with a copy of the Risk Register at its March meeting each year as part of the Pension Fund's Business Plan and the Board reviewed this each year as part of its April meeting.

When the Fund's Funding Strategy Statement was updated in June this year, an additional risk was added in relation to climate change and the impact that could have on the Fund's

assets and liabilities. This risk had now been formally included within the Fund's Risk Register, an updated copy of which was attached at Appendix A to the submitted report.

Climate change had the potential to have wide-ranging impacts on all aspects of human society, including economies, trade, the value of companies and all classes of financial assets. As such, it was sensible to include it as a separate stand-alone risk instead of allowing it to be covered by existing risks like "Global Financial Instability" or "Investment Class Failure".

The full description of the climate change risk was as follows:

"The systemic risk posed by climate change and the policies implemented to tackle them will fundamentally change economic, political and social systems and the global financial system. They will impact every asset class, sector, industry and market in varying ways and at different times, creating both risks and opportunities to investors."

The Fund's policy in relation to how it took climate change into account in relation to its investments was set out in its Investment Strategy Statement and Responsible Investment Policy. In relation to the funding implications, the administering authority kept the effect of climate change on future returns and demographic experience, for example longevity, under review and would commission modelling or advice from the Fund's Actuary on the potential effect on funding as required.

Likely sources and risk triggers were: Global climate change, the financial impact of both the change, and the policies implemented to tackle the change.

Potential impacts and consequences of this risk were: Significant changes to valuations of assets and asset classes. Potential for some assets owned by companies to become effectively worthless 'stranded assets', significantly impacting company valuations. Opportunities would also arise, for example in respect of sectors seen as positively contributing to the transition to a low carbon economy.

The Risk Register would continue to be presented to the Committee and Board at least on an annual basis. In relation to climate change risk, the Fund will continue to work with its advisers and investment managers (including Border to Coast) in order to better understand its exposure to this risk, how this could be mitigated and how to take advantage of any opportunities that might arise as global markets increasingly took account of this risk.

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

21/38

## **BORDER TO COAST RESPONSIBLE INVESTMENTS AND VOTING POLICIES**

A report of the Director of Finance was presented to advise the Committee of recent changes made by Border to Coast Pensions Partnership Limited to its Responsible Investment Policy and Corporate Governance and Voting Guidelines.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended) required the Fund to have a policies on:

- Environmental, social and governance (ESG) considerations. The policy was required to take into account the selection, non-selection, retention and realisation of assets.
- The exercise of rights, including voting rights attached to investments.

To allow a practical and consistent approach to pooled investments, Border to Coast developed a Responsible Investment Policy and a Corporate Governance and Voting Guidelines document for all its Partner Funds to approve, that applied across all the investments it held on their behalf. These documents were subject to annual review.

A copy of a stand-alone Climate Change Policy was attached at Appendix A to the submitted report, as previously agreed. One significant aspect of the Climate Change Policy was that it included specific exclusions eg companies that Border to Coast would not invest in.

Copies of the Responsible Investment Policy and Corporate Governance and Voting Guidelines were attached at Appendices B and C to the submitted report.

Amendments to the Responsible Investment Policy included: wording on diversity and diversity of thought and on climate change since there was now a separate policy, the inclusion of Real Estate as an asset class, and information about four new engagement themes.

A request was made that Border to Coast give due consideration to the exclusion of companies producing tobacco in future annual reviews of their Responsible Investment Policy.

**ORDERED** that the revised Border to Coast Responsible Investment Policy and Corporate Governance and Voting Guidelines were approved.

21/39

## **GOVERNANCE POLICIES REVIEW**

A report of the Director of Finance was presented to provide Members with updated versions of a number of governance policies for comment and/or noting as appropriate. Some policy updates would be circulated to Pension Fund Employers for further comment.

Most of the Pension Fund's governance policies were required to be formally updated every three years. This review was overdue for some policies, mainly as an overarching review of Local Government Pension Scheme (LGPS) governance had been expected for over a year now, as a follow-on from work carried out on behalf of the Scheme Advisory Board. Since there was still no certainty of when the expected revised regulations or guidance on LGPS governance would appear, and as internal audit had recommended the Fund should update the existing governance documents, the following documents had been reviewed and updated based on the existing regulations and guidance:

- Governance Policy and Compliance Statement
- Training Policy
- Conflict of Interest Policy
- Risk Management Policy
- Procedures for Reporting Breaches of Law
- Communication Policy
- Pension Administration Strategy and Charging Policy
- Fund Officers' Scheme of Delegation

Copies of the documents were attached at Appendices A to H of the submitted report. Most of the changes made were minor and cosmetic, with the exception of the Pensions Administration Strategy which had been substantially rewritten to make it a shorter, more usable document. Significantly, the Pensions Administration Strategy now also included a Charging Policy, setting out a range of possible charges that employers could incur if they failed to comply with requirements in the Pensions Administration Strategy and Charging Policy. The Charging Policy had been introduced following an internal audit recommendation. The intention was only to levy these charges as a last resort - the Fund and its administrator would always seek to work with employers to help them fulfil data exchange and other requirements.

The Head of Pensions Governance and Investments confirmed that the Pensions Administration Strategy and Charging Policy would be sent to employers for consultation and brought back to the Committee for approval, should substantive changes be made following that consultation. The other governance policies would take immediate effect, subject to any comments from the Committee.

**ORDERED** as follows that:

1. The following policies were approved and adopted: Governance Policy and Compliance Statement, Training Policy, Conflict of Interest Policy, Risk Management Policy, Procedures for Reporting Breaches of Law, Communication Policy, Fund Officers' Scheme of Delegation.
2. The Pension Administration Strategy and Charging Policy was approved and adopted, subject to there being no substantive changes following consultation on the policy with employers.

21/40 **XPS PENSIONS ADMINISTRATION REPORT**

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

The following items were highlighted:

- Headlines:
  - Potential increase to normal minimum retirement age from 55 to 57.
  - Pensions Guidance Consultation.
  - Scheme Return.
- Membership Movement.
- Member Self-Service.
- Complaints.
- Common Data.
- Conditional Data.
- Customer Service.
- Service Development
- Performance.
- Employer Liaison.

In relation to the Annual Benefits Statements, it was noted that the statutory deadline was not met for issue of 1536 statements and this was a breach of regulations. The Head of Pensions Governance and Investments confirmed that he was awaiting a formal update from XPS and would ensure that the policy for reporting breaches would be followed once all the relevant information was made available.

It was highlighted that the numbers for quarter two on the Membership Movement Chart were the same as for quarter one, which seemed unlikely. It was confirmed that this would be checked.

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

21/41 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, CAN BE CONSIDERED**

None.

21/42 **EXCLUSION OF PRESS AND PUBLIC**

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

21/43 **BORDER TO COAST ESG REPORTS**

A report was presented to provide Members of the Committee with Border to Coast's Environmental Social and Governance (ESG) reports for the quarter ending 30 September 2021 in relation to the three listed equity sub-funds the Pension Fund invested in.

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

21/44 **PROCUREMENT OUTCOME**

A report was presented to advise Members of the outcome of a procurement process to appoint the Pension Fund Actuary.

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

