

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 4

PENSION FUND COMMITTEE REPORT

16 MARCH 2022

DIRECTOR OF FINANCE – IAN WRIGHT

INVESTMENT ACTIVITY REPORT

1. PURPOSE OF THE REPORT

- 1.1 To inform Members how the Investment Advisors recommendations are being implemented.
- 1.2 To provide a detailed report on transactions undertaken to demonstrate the implementation of the Investment Advice recommendations and the Fund's Valuation.
- 1.3 To report on the treasury management of the Fund's cash balances.
- 1.4 To present to Members the latest Forward Investment Programme.

2. RECOMMENDATION

- 2.1 That Members note the report and pass any comments.

3. FINANCIAL IMPLICATIONS

- 3.1 Decisions taken by Members, in light of information contained within this report, will have an impact on the performance of the Fund.

4. IMPLEMENTATION OF INVESTMENT ADVICE FOR THE PERIOD October – December 2021

- 4.1 The Fund continues to favour growth assets over protection assets. It is considered that in the long run, Bond yields will rise, but at present and while central banks intervene in the Bond markets, through quantitative easing, yields do not meet the actuarial requirements for the Fund and should continue to be avoided at these levels unless they are held as a short term alternative to cash.

The Fund has no investments in Bonds at this time.

- 4.2 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 December 2021 were 11.23%. The Fund will look to use this cash to move away from its overweight position in equities and invest further in Alternatives.

- 4.3 Investment in direct property to continue on an opportunistic basis where the property has a good covenant, yield and lease terms.

No purchases or sales were made in the period.

- 4.4 Investment in Alternatives, such as infrastructure and private equity, offer the Fund diversification from equities and bonds. They come with additional risks of being illiquid, traditionally they have costly management fees and investing capital can be a slow process. However, the Fund is underweight its customised benchmark and, providing suitable investment opportunities are available, the Fund will look to increase its allocation to this asset class up to the customised benchmark level.

An amount of £87.2m was invested in the quarter.

5. TRANSACTION REPORT

- 5.1 It is a requirement that all transactions undertaken are reported to the Investment Panel. Appendix A details transactions for the period 1 October 2021 – 31 December 2021

- 5.2 There were net sales of £60.3m in the period, this compares to net sales of £100.8m in the previous reporting period.

6. TREASURY MANAGEMENT

- 6.1 The Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice (the Code) sets out how cash balances should be managed. The Code states that the objective of treasury management is the management of the Authority's cash flow, its borrowings and investments, in such a way as to control the associated risks and achieve a level of performance or return consistent with those risks. The security of cash balances invested is more important than the interest rate received.
- 6.2 Middlesbrough Council adopted the Code on its inception and further determined that the cash balances held by the Fund should be managed using the same criteria. The policy establishes a list of counterparties (banks, building societies and others to whom the Council will lend) and sets limits as to how much it will lend to each counterparty. The counterparty list and associated limits are kept under constant review by the Strategic Director Finance, Governance and Support.
- 6.3 Although it is accepted that there is no such thing as a risk-free counterparty, the policy has been successful in avoiding any capital loss through default.
- 6.4 As at 30 December 2021, the Fund had £565.2 million invested with approved counterparties. This is an increase of £30.5 million over the last quarter.
- 6.5 The attached graph (Appendix B) shows the maturity profile of cash invested. It also shows the average rate of interest obtained on the investments for each time period.

6.6 Delegated authority was given to the Strategic Director Finance, Governance and Support by the Teesside Pension Fund Committee to authorise/approve any changes made to the Treasury Management Principles (TMPs), with subsequent reporting to this committee.

7. FUND VALUATION

7.1 The Fund Valuation details all the investments of the Fund as at 31 December 2021, and is prepared by the Fund's custodian, Northern Trust. The total value of all investments, including cash, is **£5,040 million**. The detailed valuation attached as Appendix C is also available on the Fund's website www.teespen.org.uk. This compares with the last reported valuation, as at 30 September of **£4,871 million**.

7.3 A summary analysis of the valuation (attached with the above), shows the Fund's percentage weightings in the various asset classes as at 31 December 2021 compared with the Fund's customised benchmark.

8. FORWARD INVESTMENT PROGRAMME

8.1 The Forward Investment Programme provides commentary on activity in the current quarter and looks ahead for the next three to five years.

8.2 At the March 2021 Pension Fund Committee a revised Strategic Asset Allocation was agreed:

Asset Class	Long Term Target Strategic Asset Allocation	31 March 2022 Target Strategic Asset Allocation
GROWTH ASSETS	75%	78%
UK Equities	10%	12%
Overseas Equities	45%	53%
Property	10%	7%
Private Equity	5%	3%
Other Alternatives	5%	3%
PROTECTION ASSETS	25%	22%
Bonds / Other debt / Cash	15%	14%
Infrastructure	10%	8%

8.3 EQUITIES

As at the end of December 2021 the Fund's equity weighting was 67.1% compared to 70.9% at the end of September 2021.

A schedule is in place to reduce our investment in equities over the period 1 April 2021– 31 March 2022 by £725m, this figure will be under review throughout the year. In the quarter October - December 2021 we sold £185m, further transactions will be reported at future meetings.

The overweight position will also be reduced over time through further investment in Alternative assets, however, as noted in 4.4 above because the investments happen over a period of years this is a slow process.

Summary of equity returns for the quarter 1 October 2021 – 31 December 2021:

Asset	Fund Performance	Benchmark	Excess Return
BCPP UK	3.83%	4.20%	-0.37%
BCPP Overseas	5.59%	5.14%	0.45%
BCPP Emerging Market	-1.00%	-1.47%	0.47%
SSGA Pacific	-0.35%	-0.40%	0.05%
SSGA Japan	-4.87%	-4.91%	0.04%
SSGA Europe	5.07%	5.10%	-0.03%
SSGA North America	9.66%	9.56%	0.10%

(BCPP – Border to Coast Pension Partnership – Active Internal Management)

(SSGA – State Street Global Advisers – Passive Management)

8.4 BONDS + CASH

The Fund has no investments in bonds at this time, the level of cash invested is 11.23%. Until there is clear instruction from the Committee, through its Investment Advisors, to invest in bonds this will remain the short term strategy. It is planned to reduce cash through investment into other asset classes (property, alternatives and equities) in the near term. In addition, cash is being used to supplement the gap in contribution receipts and pension payments.

8.5 PROPERTY

Investment in direct property to continue on an opportunistic basis where the property has a good covenant, yield and lease terms.

8.6 LOCAL INVESTMENT

At the March 2021 Pension Fund Committee there was a request to include details of any Local Investments made by the Pension Fund.

To date the Fund has agreed 3 Local Investments:

GB Bank – Initial agreement of £20m called in full in September 2020.

A further investment was agreed at the June 2021 Committee, dependent on the bank meeting agreed criteria.

An additional £6.5m was paid to the bank in December 2021.

Ethical Housing Company - £5m investment of which £765k has been called.

Waste Knot - £10m investment agreed at the June 2021 Committee, payment was made in full in December 2021.

8.7 ALTERNATIVES

The Border to Coast Series 2 Alternative Funds will be live from 1st April, we have agreed to commit £150m per year for the next 3 years to the Infrastructure Fund and £100m per year for the next 3 years to the Private Equity Fund.

We will also be committing £100m over the 3 year period to a new Border to Coast Climate Opportunities Fund. This amount may be scaled back due to over-commitments.

As at 28 February 2022 total commitments to private equity, infrastructure, other alternatives and other debt were approaching £1,203m, as follows:

	Total committed	Total Invested
Border to Coast Infrastructure	£200m	£70m
Other Infrastructure Managers	£257m	£149m
Border to Coast Private Equity	£200m	£63m
Other Private Equity Managers	£327m	£168m
Other Alternatives	£144m	£97m
Other Debt	£75m	£49m
Totals	£1,203m	£596m

CONTACT OFFICER: Nick Orton – Head of Pensions Governance and Investments

TEL NO.: 01642 729040