

TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on Wednesday 29 June 2022.

PRESENT: Councillors D Coupe (Chair), A Bell, R Creevy, Ms J Flaws, Mr B Foulger, J Hobson, D McCabe, E Polano (Vice-Chair), J Rostron, G Wilson and Mr T Watson (UNISON Representative)

ALSO IN ATTENDANCE: W Bourne (Independent Adviser), P Moon (Independent Advisor)
P Mudd (XPS Administration), Baillie (Hymans Robertson), D Green (Hymans Robertson), Baxter (CBRE), A Peacock (CBRE) and Lyons (Border to Coast)

OFFICERS: W Brown, S Lightwing and N Orton

APOLOGIES FOR ABSENCE: were submitted on behalf of Councillors J Beall, T Furness, S Hill and G Nightingale

22/1 **WELCOME AND EVACUATION PROCEDURE**

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

22/2 **DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item/Nature of Interest
Councillor J Rostron	Non Pecuniary	Member of Teesside Pension Fund
Councillor R Creevy	Non Pecuniary	Member of Teesside Pension Fund

22/3 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 16 MARCH 2022**

The minutes of the meeting of the Teesside Pension Fund Committee held on 16 March 2022 were taken as read and approved as a correct record.

22/4 **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 2022 were 16.13%. 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, £26.7 million was invested in Alternatives. The Fund was 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 January 2022 to 31 March 2022. There were net sales of £252 million in the period, this compared to net sales of £60.3 million in the previous reporting period.

As at 31 March 2022, the Fund had £817.4 million invested with approved counterparties. This was an increase of £252.2 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 31 March 2022, including cash, was £5,071 million, compared with the last reported valuation as at 31 December 2021, of £5,040 million.

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.

In line with the agreed strategy, the Fund had reduced its equity allocation from 70% to 60% by selling units in BCP equity funds.

A pie chart showing the current asset allocation in visual form was provided on page 41 of the submitted report.

The Border to Coast Series 2 Alternative Funds went live on 1 April 2022 and the Teesside Pension Fund had 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.

The Fund had also subscribed to an investment of £100m over the 3 year period to a new Border to Coast Climate Opportunities Fund, however due to over-commitments this was scaled back to £80m.

As at 31 May 2022 total commitments to private equity, infrastructure, other alternatives and other debt were approaching £1,533m.

ORDERED that the report was received and noted.

22/5

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 31 March 2022 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. As at 31 May 2022 total commitments of £750 million had been made to these sub-funds (£350m to infrastructure and £300m to private equity) with around 20% of this commitment invested so far. These investments were not reflected within the Border to Coast report attached at Appendix A to the submitted report.

The Border to Coast report showed the market value of the portfolio as at 31 March 2022 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 had underperformed over the last year, whereas the Overseas Developed Markets Equity Fund had over performed. Since inception, both Funds had delivered performance roughly in line with their targets. The performance of the Emerging Markets Equity Fund had been below

benchmark throughout most of the period of the Fund's investment – recent performance had been adversely affected by an overweight position in Russia prior to the invasion of Ukraine. It was confirmed that the Fund had approximately £5 million in Russian investments through Border to Coast which equated to about 0.1% of the Fund's assets.

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 2022.

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.

ORDERED that the report was received and noted.

22/6

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 all pools were struggling to recruit staff on the investment side and whilst Border to Coast had been set up well there was a concern that another pool that was not doing so well might be forced to join it.

Although inflation might be persistent there would still be economic growth due to the fact that people had kept savings during the pandemic.

It was also noted that even if the funding level came down the fund was well placed to pay pensions in the future.

ORDERED that the information provided was received and noted.

22/7

PRESENTATION FROM BORDER TO COAST

Members received a presentation from Border to Coast in respect of the following items:

- Border to Coast Update
- Investment Valuation and Commitments
- Listed Equity Fund Updates
- UK Listed Equity Fund
- Overseas Developed Markets
- Emerging Markets Equity
- Alternatives Update
- Private Equity
- Infrastructure

ORDERED that the information provided was received and noted.

22/8

CURRENT ISSUES

A report was presented to provide Members of the Pension Fund Committee (the Committee) with an update on current issues affecting the Pension Fund locally or the Local Government

Pension Scheme (LGPS) in general.

LGPS and Levelling Up

Further to the information provided at the March meeting of the Committee, as yet, nothing was confirmed, but the current expectation was that the Government would not be expecting LGPS Funds to report on investments made within their specific local area, but was instead looking to leverage LGPS assets to invest further in projects across the UK (or possibly across England and Wales) – primarily infrastructure but possibly private equity investments as well. Further updates would be provided when available.

Scheme Advisory Board Annual Report 2021/2022

Earlier this month the Scheme Advisory Board (SAB) published its ninth Annual Report for the Local Government Pension Scheme (LGPS) in England and Wales. The report was available on the SAB website at the following link: <https://lgpsboard.org/index.php/foreword-2021>

The report emphasised that the LGPS was one of the largest defined benefit (DB) schemes in the world and the largest DB scheme in England and Wales, with 14,448 active employers, 6.2 million members and assets of £342 billion.

Key highlights for the LGPS were listed as follows:

- Total membership of the LGPS grew by 66,624 (1.08%) to 6.226 million members in 2021 from 6.160 million in 2020.
- The total assets of the LGPS increased to £342 billion (a change of 23.4%). These assets were invested in pooled investment vehicles (66.2%), public equities (13.4%) bonds (4.6%), direct property (2.3%), as well as other asset classes (8.7%).
- The Local Authority net return on investment over 2020/21 was 20.56%. This was reflective of the market conditions during the year and set against the UK equities return of 30%.
- The scheme maintained a positive cash-flow position overall, including investment income.
- Over 1.8 million pensioners were paid over the year.
- Covid-19 significantly impacted life expectancy - with a drop of 0.9 years and 0.5 years for males and females respectively (2019 figures v 2020).
- Total management charges increased by £196 million (+12.9%) from £1,517 million. This was primarily driven by a £193 million (14.9%) rise in investment management charges, while administration and oversight and governance costs remained broadly stable.

The main activity for the SAB during the year ending 31 March 2021 was listed as dealing with issues relating to the McCloud discrimination case, the Good Governance Project, the government's introduction of the £95k Exit Payment Cap (subsequently removed) and Responsible Investment guidance. In addition, the SAB directed a large part of its resources to responding to the Covid-19 crisis and supporting the sector through that and the ensuing changes in ways of working.

LGPS Online Learning Academy

The Fund had recently purchased Hymans Robertson's LGPS On-Line Learning Academy and had ensured that every Pension Fund Committee and Local Pension Board member had access to it. The Learning Academy allowed Members to access a suite of short training videos explaining different aspects of the pension scheme, covering administration, governance and investments as well as current pension issues such as measuring the carbon exposure of the Fund's investments and other responsible investment issues. It was intended to cover all of the 'knowledge and understanding' requirements that Pension Board members were legally required to obtain (and Pension Committee members were strongly encouraged to obtain).

It was suggested that Members worked through the training at their own pace and provide feedback to the Head of Pensions Governance and Investment.

ORDERED that the information provided was received and noted.

22/9

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.

The market in real estate had slowed as investors paused due to higher inflation and debt rates. There was strong competition for the best assets and fewer buyers. The available stock was not related to any particular sectors although there was still some nervousness around the retail and office sectors. There was still a healthy amount of capital available for the markets.

It was confirmed that the Fund was underweight in office accommodation and was less exposed to the lower demand in this sector following the pandemic.

The portfolio valuation had shown an increase of 3.4% in June 2022 which was above the 2% expected. There are had been no sales or acquisitions during the period and the void rate for properties remained low.

One of the Fund's largest debtors - Nuffield Health - had cleared their arrears and overall arrears were now back to pre-pandemic levels. Shoe Zone Retail Ltd currently had the highest amount of arrears (16.7% of the collectable arrears) and the Accounts Team were in regular dialogue with this tenant.

The Fund has completed a lease renewal with Harrow Green for a 10-year term with a 23% rental uplift on the previous passing rent.

In 2021, the Fund completed the purchase of an income strip to forward fund the development of a 210,000 sq ft industrial unit. A year on, the development was coming to fruition with ground works being complete and the recent assembly of the steel frame.

ORDERED that the information provided was received and noted.

22/10

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 was presented in a new format and Members were invited to provide feedback on it.

The report provided information into the following sections:

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

XPS was currently working on closing the 2021/2022 financial year and opening the new one. A newsletter had been sent to active members and pensioners in May as well as pension increase statements. The team had also been working through the Annual Benefit Statement programme to ensure that the Statements would be issued on time. Work was also ongoing on the Pensions Savings Statements which need to be issued in early October.

In relation to the Key Performance Indicators (KPIs) there had only been three failures which were on non-payment or retirement estimates. Over one thousand pieces of work had been carried out and none of the three failures had a time critical impact. The KPIs themselves related to around one fifth of the total work carried out by the team during the reporting period.

New staff had been recruited into the Payroll Team and Employer Liaison Systems Unit. as well. A new admin tool called I-Connect was being introduced and some testing would take

place with Employers. I-Connect would help ensure that pensions information would be more accurate and up to date and should provide a more efficient service for Members.

There had been no new Complaints during the last quarter.

Analytics on website usage were provided on page 12 of the submitted report. XPS continued to develop the website and seek feedback from Employers during their health checks.

Details of late payments from Employers were included in the submitted report. It was confirmed that some of these were from the same Employers but there might be genuine reasons for this, such as if the Employer had changed finance systems.

ORDERED that the information provided was received and noted.

22/11 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, CAN BE CONSIDERED**

None.

22/12 **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.

22/13 **FUND ACTUARY - ADVICE ON 31 MARCH 2022 VALUATION ASSUMPTIONS**

A report from the Fund Actuary was provided giving recommendations on the main financial and demographic assumptions to be used in the ongoing triennial valuation of the Fund.

ORDERED that the information provided was received and noted.

22/14 **LOCAL INVESTMENTS UPDATE**

A report of the Director of Finance was presented to provide Members of the Pension Fund Committee with an update on the three local investments the Fund had made.

ORDERED that the information provided was received and noted.