

TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on 16 September 2020.

PRESENT: Councillors Coupe, (Chair), Bell, Cooper, Dean, Furness, J Hobson, Polano, Rostron and Uddin

A Watson, Unison Representative

Other Local Authority Member:
Councillor Beall, Stockton on Tees Council

ALSO IN ATTENDANCE: W Bourne and P Moon, Investment Advisors
A Stone, Border to Coast Pensions Partnership
G Hall, XPS Administration
C Keegans, The Ethical Housing Company
A Owen and Peacock, CBRE
M Rutter, EY

OFFICERS: S Bonner, W Brown, M Jackland, S Lightwing, N Orton, I Wright

APOLOGIES FOR ABSENCE were submitted on behalf of Councillor Nightingale, P Fleck

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Beall	Non pecuniary	Member of Teesside Pension Fund
Councillor Cooper	Non pecuniary	Member of Teesside Pension Fund
Councillor Rostron	Non pecuniary	Member of Teesside Pension Fund
Councillor Uddin	Non pecuniary	Member of Teesside Pension Fund

1 MINUTES - TEESSIDE PENSION FUND COMMITTEE - 22 JULY 2020

The minutes of the meeting of the Teesside Pension Fund Committee held on 22 July 2020 were taken as read and approved as a correct record, subject to the following amendment:

Councillor Bell to be added to the attendance.

2 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. The cash levels at the end of June 2020 were 11.5%. As previously agreed, the Fund would look to use this 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, £22.8m 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 April 2020 to 30 June 2020. There were net sales of £22.8 million in the period, this compared to net sales of £5.06 million in the previous reporting period.

As at 30 June 2020, the Fund had £472.9 million invested with approved counterparties. This was a decrease of over £28.4 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 June 2020, including cash, was £4,150 million, compared with the last reported valuation as at 31 March 2020, of £3,733 million. In terms of the year-on-year valuation the funding level was broadly flat.

A summary analysis of the valuation showed the Fund's percentage weightings in the various asset classes as at 30 June 2020 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 and alternatives were included in paragraph 8 of the submitted report.

Members' attention was drawn to the variance of £39m between the valuation provided by the Fund's custodian Northern Trust and the internal reconciliation produced. There were a number of assets that were either not recorded or were not showing the correct current valuation. The Head of Pensions Governance and Investments would work with the Custodian to resolve these issues.

ORDERED that the report was received and noted.

3 **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 June 2020 the Fund had investments the Border to Coast UK Listed Equity Fund and the Border to Coast Overseas Developed Markets Equity Fund.

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, although up to 30 June 2020 only a small proportion of this total had been invested. These investments were not reflected within the Border to Coast report attached at Appendix A to the submitted report.

Appendix A detailed the market value of the portfolio as at 30 June 2020 and the investment performance over the preceding quarter, year, and since the Fund's investments began. Border to Coast had also provided information 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. The report also included information about responsible investment and State Street's method of tracking and governance - referred to as the R factor. A Member noted that a further £7 million had been invested in British American Tobacco.

The State Street report, attached to the submitted report at Appendix B, showed the market

value of the State Street passive equity portfolio and the proportions invested in each region as at 30 June 2020.

ORDERED that the report was received and noted.

4 **PRESENTATION FROM BORDER TO COAST HEAD OF CLIENT RELATIONS**

The Head of Client Relations gave a presentation providing updates on Border to Coast, the Market, Equity Funds, Private Equity and Infrastructure.

The following issues were highlighted:

- As at 30 June 2020, the Border to Coast Team had a team of 84 employees. This was an increase of 10 FTEs, seven of whom were at mid-senior levels of experience.
- There had been nine funds launched over the last two years and Teesside Pension Fund had invested in four of these. An Index Linked Bond Fund was due to go live in the next month and a number of Alternatives, Fixed Income and Property Funds were scheduled for 2021.
- Lockdown had caused a significant impact hit to US growth and employment. There had been enormous stimulus packages globally. However, even pre-Covid-19 there had been significant challenges due to ageing populations and near-record debt levels. Liquidity from central banks would only postpone debt problems rather than resolve them.
- Whilst there had been significant volatility in the equity markets throughout the first half of the year, as of 8 June 2020 the market was flat year-to-date.
- Looking forward near-term deflation from ongoing lockdown restrictions and reduced spending was likely with potential inflation in the long-term. Other uncertainties included Brexit, US election income and US/China relations. On a more positive note for financial markets there was the possibility of a Covid-19 vaccine.
- The UK Listed Equity Fund's performance over the last quarter was in line with the benchmark.
- The Overseas Developed Equity Fund's performance had beaten the benchmark by almost 0.4% over the last quarter.

Responding to a question regarding the huge financial stimulus from central banks over the last few months, the External Advisers agreed that it was likely that markets would rise steadily for the next two to four years and thereafter there would be rising inflation.

In relation to a query regarding employee salaries and bonuses it was clarified that BCPP did not have a bonus scheme. All employee costs were detailed in the Company's accounts which were available on the BCPP website.

ORDERED that the report was received and noted.

5 **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.

Both Advisors provided further commentary at the meeting There were two asset classes - equities and alternatives- that looked slightly more attractive relative to others at present. It was suggested that the Fund could consider investing more money into overseas funds and also consider what could be done to mitigate the threat of higher inflation.

ORDERED that the information provided was received and noted.

6 **CBRE PROPERTY REPORT**

In terms of the volumes the market was very weak and probably down to less than 25% of

normal turnover. Demand was for stock in long-let offices, supermarkets and prime logistics. Pricing was remaining stable in those sectors and in some cases improving due to supply and demand.

Retail warehousing had recovered much more quickly than the high street. Some tenants were in difficulty but the Fund's portfolio seemed reasonably protected. The logistics sector was benefitting from the boom in online retailing, with the knock-on effect being that people needed to move goods around and store them. There was particular demand for the 'last mile' type space, needed to get people's goods delivered in the speed they now expected. The majority of the Fund's assets were in these two sectors which was positive.

At 30 June 2020, the portfolio comprised 28 mixed-use properties located throughout the UK, with a combined value of £269.1m. There had been no sales during the period. The Fund had agreed terms to purchase a highly regarded long-let supermarket.

The total collectible arrears on the portfolio at 20 August 2020 was £2,206,396. The Committee was informed that as at 15 September 2020, that figure had reduced to £1,000,456, thanks to the hard work of the collection team at CBRE. Tenants that were insolvent, had overall credit balances on their accounts or who were negotiation regears or lease renewals, were not included in the collectible arrears total. Completion of new agreements was dependent on arrears being cleared. Updates were provided on the status of tenants with the greatest arrears, which accounted for 35.3% of the total arrears. The overall view was that the Fund was doing better than others. 65.22% of the June quarter rent had been collected and this figure had now increased to 87%.

In relation to asset management activity, three new leases had been agreed as well as a rent increase. CBRE was actively looking at two or three opportunities which might be of interest to the Fund.

In relation to occupancy demand, the Committee was informed that tenants were seeking turnover rents rather than fixed rents, which was an additional risk for landlords. At the moment this was limited to the retail market in most cases and for shorter leases such as for 3 or 5 years. There was uncertainty in the office sector where tenants were looking for more flexibility. It was confirmed that the Teesside Pension Fund portfolio did not have a large weighting in retail or office space.

ORDERED that the information provided was received and noted.

7 **UPDATE ON CURRENT ISSUES**

A report of the Director of Finance was presented to provide Members with an update on current issues affecting the Local Government Pension Scheme (LGPS).

On 16 July 2020, the Government published its consultation on draft regulations in response to the McCloud/Sergeant Court Cases. These proposals were designed to remove the unlawful discrimination caused by the protection of older members when the LGPS was reformed in 2014.

The regulations would have a retrospective effect and all qualifying leavers since 1 April 2014 would have to have their benefits reassessed to check whether the underpin would have provided higher benefits.

The proposals represented a significant challenge for LGPS pensions' administrators. Increasing members' benefits would also result in a cost to employers. XPS Administration was planning how to resource and implement the new underpin and had already communication with employers to advise the additional data would be required in respect of scheme members affected. XPS was also collating a response to the consultation which would be shared and agreed with the Head of Pensions Governance and Investments prior to submission.

Following on from Government proposals highlighted in the 2015 Spending Review,

subsequent consultation and legislation in 2016, and consultation from HM Treasury in 2019, the Government published further consultation on 7 September 2020 entitled 'Reforming local government exit pay - a consultation on the reform of exit payments in local government.'

It was proposed that there should be a £95,000 cap on the total of all forms of compensation, including redundancy payments, pension top ups, compromise agreements and special severance payments.

This was a complex situation to administer as it gave Scheme Members a range of choices and the Pension Fund was unable to provide financial advice to its Members.

The Head of Pensions Governance and Investment, in discussion with the Chair and Vice Chair of the Committee, would submit a response to the consultation, as the administering authority, on behalf of the Teesside Pension Fund.

The Government had confirmed that under new regulations, pension fund administering authorities could review employer contributions between actuarial valuations. The approach to be taken needed to be set out in the Fund's Funding Strategy Statement. There would also be more flexibility when employers left the scheme, allowing them to spread any exit payments over a period of time, rather than asking for an up-front payment. Again, the parameters would need to be set out in the Funding Strategy Statement and a proposal would be brought to the Committee prior to consultation with employers.

Following a Supreme Court ruling (*Walker v Innospec*), the Government had recently decided that surviving male same-sex and female same-sex spouses and civil partners of public service pension scheme members would receive benefits equivalent to those received by widows of opposite sex marriages. A consultation on the required regulatory changes was expected and the Fund would then need to investigate affected members and notify them of changes as required. The Fund Actuary had indicated that any increase in pension liability was likely to be minimal, although this was another administrative burden to be managed.

Finally, in 2014 the Government indicated its intention that the earliest age most individuals would be able to choose to draw a pension would increase from age 55 to age 57 with effect from 2028. This proposal had been mentioned recently again in Parliament. As and when more clarity was provided, suitable information would be provided to scheme members and the Committee.

ORDERED that the information provided was received and noted.

8 **XPS PENSIONS ADMINISTRATION REPORT**

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

Since 20 July 2020, the office had been open five days a week for those staff who wished to return following the Government lockdown due to Covid-19. Approximately 12 to 15 staff were working in the office on most days.

In relation to the McCloud Case, XPS was considering creating a project team to work on the implications, particularly the historic cases, to ensure that the best amount of benefit had been provided.

Information was being compiled for employers in relation to the cost cap to provide them with an overview of what was involved and also encouraging them to respond to the Government consultation.

The online self-service option was currently only be accessed by around 2% of the Fund's members and it was intended to promote this service further.

The Service Level Agreements (SLAs) had been maintained during lockdown, although some development work had not taken place as planned.

Benefit Statements for active and deferred members were issued on 2 September 2020 and XPS were now working on the pensions savings statements which would be issued by 6 October 2020.

ORDERED that the information provided was received and noted.

9 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED**

The External Auditor drew Members' attention to a recent review by Sir Tony Redmond into financial reporting and audit in the local government setting.

ORDERED that Members would receive a website link to a copy of the review, post-meeting.

10 **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.

11 **POTENTIAL LOCAL INVESTMENT**

A local investment opportunity was presented to the Committee for consideration.

ORDERED that the recommendations set out in paragraph 2.1 a) and b) in the submitted report were approved.