

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 4

PENSION FUND COMMITTEE REPORT

9 DECEMBER 2020

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 July - September 2020

- 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 September 2020 were 10.9% . 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 property transactions were undertaken in this quarter.

- 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 considerably 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 £83.5m 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 July 2020 – 30 September 2020
- 5.2 There were net purchases of £33.2m in the period, this compares to net purchases of £22.8m 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 September 2020, the Fund had £429.8 million invested with approved counterparties. This is a decrease of £43.1 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 30 September 2020, and is prepared by the Fund's custodian, Northern Trust. The total value of all investments, including cash, is **£4,084 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 June 2020 of **£4,150 million**.
- 7.2 Please note the variance of £42.5m between the valuation provided by the Fund's custodian Northern Trust and the internal reconciliation produced, at this time, there are a number of assets that are either not recorded or are not showing the correct current valuation. The Head of Pensions Governance and Investments is working with the Custodian to resolve these issues. The amount primarily relates to three separate investments which have now been included by the custodian in the next monthly valuation (as at 31 October 2020).
- 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 30 September 2020 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 EQUITIES

The Fund is currently above its target asset allocation of 50% equities, as at the end of September 2020 the Fund's equity weighting was 74.50%.

The overweight position should 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, as long as suitable alternative investments are available then we will look to a reduction in the overweight position of 5% per year.

Summary of equity returns for the quarter 1 July 2020 – 30 September 2020:

Asset	Fund Performance	Benchmark	Excess Return
BCPP UK	-2.78%	-2.92%	0.14%
BCPP Overseas	2.94%	2.42%	0.52%
SSGA Pacific	0.80%	0.80%	0.00%
SSGA Japan	2.44%	2.32%	-0.12%
SSGA Europe	1.52%	1.42%	-0.10%

SSGA North America	4.54%	4.49%	-0.05%
--------------------	-------	-------	--------

(BCPP – Border to Coast Pension Partnership – Active Internal Management)
(SSGA – State Street Global Advisers – Passive Management)

At the September 2018 Committee meeting, it was agreed to aim for a ratio of 50:50 active to passive equity investments. The ratio at the end of September 2020 was 44:56 active to passive.

8.3 BONDS + CASH

The Fund has a current benchmark allocation of 15%, and although it is proposed to increase the allocation to 20%, the Fund has no investments in bonds at this time, the level of cash invested is 10.9% of the Fund. 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.

8.4 PROPERTY

The current strategy for property is to increase direct property investments by £50 million on an opportunistic basis. The Fund purchases and sales are reported at the Committee by CBRE.

8.5 ALTERNATIVES

In the medium to long term, it is proposed that commitments will be made through Border to Coast. These commitments will be reviewed on an annual basis.

For both private equity and Infrastructure, it was agreed that a commitment of £100 million would be made to the Border to Coast Private Equity sub-fund in year 1 followed by £50 million commitments per year for the subsequent 4 years, subject to review.

The Fund's internal team have considered a number of investment opportunities in infrastructure and private equity funds, as at 30 September 2020 the following commitments (excluding those noted above to BCPP) have been made:

Private Equity - £305m / Infrastructure - £198m. / Other Alternatives - £75m

These committed amounts will be "called" over the investment period of the individual funds, usually 3 / 4 years.

Further investments will be considered in the near term by the internal team providing they meet the due diligence checks and investment requirements of the Fund.

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

TEL NO.: 01642 729040