TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on Friday 21 October 2022.

PRESENT: Councillors D Coupe, (Chair), A Bell, R Creevy, (Hartlepool Borough Council), T Furness, S Hill, J Hobson, D McCabe, E Polano (Vice-Chair), J Rostron, and G Wilson
Ms J Flaws and Mr T Watson

ALSO IN ATTENDANCE: W Bourne (Independent Adviser), P Moon (Independent Adviser)
P Mudd (XPS Administration)
S Law (Hymans Robertson)
M Kerr (Border to Coast)
A Owen (CBRE), A Peacock (CBRE)
M Rutter (External Auditor) (Ernst Young)

OFFICERS: S Lightwing, N Orton and W Brown

APOLOGIES FOR ABSENCE: were submitted on behalf of Councillors J Beall (Stockton On Tees Borough Council) and G Nightingale (Redcar and Cleveland Borough Council)

22/20 WELCOME, INTRODUCTIONS AND EVACUATION PROCEDURE

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

22/21 DECLARATIONS OF INTEREST

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

22/22 MINUTES - TEESSIDE PENSION FUND COMMITTEE - A) 29 JUNE 2022 AND B) 27 JULY 2022

The minutes of the meeting of the Teesside Pension Fund Committee held on 29 June and 27 July 2022 were taken as read and approved as a correct record.

The Chair explained that as Members were aware, unfortunately the Teesside Pension Fund Committee meeting held on 27 July 2022 was inquorate and therefore abandoned. The Draft Annual Teesside Pension Fund Report and Accounts 2021/2022 were to be presented to the Committee for noting and a copy of the Draft Accounts were included in the agenda pack for that meeting for Members' information.

The Teesside Pension Fund Accounts were subsequently included in Middlesbrough Council's Draft Statement of Accounts 2021/2022 which were reviewed and noted by the Corporate Affairs and Audit Committee at a meeting held on 29 September 2022. The target date for the Corporate Affairs and Audit Committee's approval of the audited accounts, based on there being no significant delays or issues, was 2 March 2023.

Once EY, the external auditors, had completed their work an audit completion report including their findings would be brought to the next available meeting.

22/23 BORDER TO COAST SHAREHOLDER NON-EXECUTIVE DIRECTOR

The Head of Pensions Governance and Investments informed the Committee that Councillor Coupe had recently been appointed as a Shareholder Non-Executive Director at Border to Coast.

A dispensation had been sought and approved by Middlesbrough Council's Standards

Committee for a period of three years, at a meeting held on 17 October 2022. The dispensation allowed Councillor David to participate in any discussion of any matter concerning Border to Coast at the meetings of the Teesside Pension Fund and/or participate in any vote, or further vote, taken on the matter at the said meeting(s). Under this dispensation, Councillor Coupe should not participate in any discussion or vote where changes to the remuneration of Directors of the Company were discussed.

As it was no longer appropriate for Councillor Couple to continue in his previous role at Border to Coast, Councillor Polano had agreed to represent Teesside Pension Fund Committee on the Border to Coast Joint Committee.

NOTED

22/24 **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. It was suggested that it was timely for the Committee to give consideration as to whether to invest in index linked government bonds, bonds related to companies or high grade corporate bonds.

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 June 2022 were 14.9%. 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 direct property purchases or sales were made in the period, however and additional investment of £15m was made into an existing Property Unit Trust.

Investment in Alternatives, such as infrastructure and private equity, offered the Fund diversification from equities and bonds. They came with additional risks of being illiquid, traditionally had costly management fees and investing capital could be a slow process. 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. £31.6 million was invested in the quarter.

Appendix A to the submitted report detailed transactions for the period 1 April 2022 to 30 June 2022. There were net purchases of £131m in the period, compared to net sales of £252m in the previous reporting period.

As at 30 June 2022, the Fund had £724.5 million invested with approved counterparties. This was a decrease of £92.9 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 June 2022, including cash, was £4,868 million, compared with the last reported valuation as at 31 March 2022, of £5,071 million.

A summary analysis of the valuation, attached at Appendix C to the submitted report, showed the Fund's percentage weightings in the various asset classes as at 30 June 2022 compared with the Fund's customised benchmark.

The Forward Investment Programme provided commentary on activity in the current quarter and looked ahead to the next three to five years. Details of the Strategic Asset Allocation agreed at the March 2021 Pension Fund Committee were shown at paragraph 8.2 of the submitted report.

At the end of June 2022 the Fund's equity weighting was 58.1% compared to 59.9% at the end of March 2022. There were no plans to purchase or sell equities at this time. A summary of equity returns for the quarter 1 April 2022 to 30 June 2022 was shown at paragraph 8.3 of the submitted report.

There were two property assets that the Fund was currently waiting to exchange contracts on and progress would be reported to the Committee at the next meeting.

To date the Fund had agreed three Local Investments.

The Border to Coast Series 2 Alternative Funds went live on 1 April 2022, and the Fund had agreed to commit £150 million per year for the next 3 years to the Infrastructure Fund, £100 million per year for the next 3 years to the Private Equity Fund and £80 million to the Climate Opportunities Fund.

As at 31 August 2022 total commitments to private equity, infrastructure, other alternatives and other debt were approaching £1,563 million and a breakdown of that figure was included at paragraph 8.7 of the submitted report.

ORDERED that the report was received and noted.

22/25 **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 2022 the Fund had investments in the Border to Coast UK Listed Equity, Overseas Developed Markets and Emerging Markets Equity Funds. For all three sub funds the return target was expected to be delivered over rolling 3 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. To date, total commitments of £650 million had been made to these sub-funds (£350m to infrastructure and £300m to private equity) with around 26% 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 but were referenced in the Border to Coast presentation at Agenda Item 8 of the meeting.

The Border to Coast report showed the market value of the portfolio as at 30 June 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 achieved returns of 0.94% above benchmark over the last year, nearly meeting its 1% overachievement targets. The Overseas Developed Markets Equity Fund had achieved returns of 2.10% above benchmark over the last year, comfortably above its 1% overachievement target, albeit in a falling market. 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 – performance over quarter to 30 June 2022 was slightly above benchmark, but below target, with the internal team delivering better results that quarter than the external China managers due to a mixture of sector and stock selection.

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 June 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.

Border to Coast had been working with its reporting providers to develop reporting which covers the Environmental Social and Governance (ESG) issues and impact of the investments it managed, together with an assessment of the carbon exposure of these investments. This was easier with some asset classes than others, and Border to Coast had initially focussed on reporting on listed equities as this was the asset class where most information was available and this type of reporting was more advanced.

Appendix C to the submitted report contained the latest available ESG and carbon exposure in relation to the three Border to Coast listed equity sub-funds the Fund invested in: UK Listed Equity, Overseas Developed Markets Equity and Emerging Markets Equity. Amongst other information, the reports included information on the highest and lowest ESG-rated companies within those Border to Coast sub funds, together with an analysis of the carbon exposure of the sub funds on a number of metrics. The sub funds' ESG position and carbon exposure was also compared to benchmarks representing the 'average' rating across the investment universe of that particular benchmark.

ORDERED that the report was received and noted.

22/26 **PRESENTATION FROM BORDER TO COAST**

The Committee received a presentation from Border to Coast which included information in relation to the following:

Fixed Income:
- An introduction.
- Border to Coast's Fixed Income Fund Range.

Border to Coast Update:
- Investment Strategy Capabilities.
- Valuation and Commitments.
- Listed Equity Fund Updates.
- Alternatives Updates.

ORDERED that the information provided was received and noted.

22/27 **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.

Following the presentation from Border to Coast, W Bourne recommended that the Committee consider investing in fixed income as the products available looked reasonable. Price and timing would be key considerations. It was highlighted that the Committee should also think about the amount invested in Alternatives and whether to continue investing at the same pace or consider Bonds.

The Committee were reminded that the Fund was well funded and that short term volatility was a slight distraction. P Moon recommended that some of the Fund's cash should be invested in equities in the short term.

A query was raised in relation to Officers' delegations and whether they were sufficient to enable quick decision making if required. The Head of Pensions Governance and

Investments confirmed that the current delegations were wide-ranging and provided good flexibility but could be reviewed.

ORDERED that:
1. the information provided was received and noted.
2. a report on the current Officer delegations would be brought to a future meeting for review by the Committee.

22/28 **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 property market was not immune to the wider issues in the financial markets and there were fewer buyers. Pricing was reducing and there was a price correction across the market. Generally, as at June 2022, there had been a fall of about 5% across funds but only 2.5% on the Teesside Pension Fund's portfolio. This was an indication of the quality of the property held which was lower risk and lower return. On more a positive note, new acquisitions could be purchased for lower prices and CBRE would look to ensure that the Fund continued to buy quality assets.

As requested, the report included at page 5 of the submitted report was a table demonstrating the Fund's Portfolio's return compared to a reference index over the past 1, 3 and 5 years. The CBRE Property Index was provided for illustrative purposes only.

The Asset Management Update and the Arrears Update were also included in the submitted report. The rent collection across the entire portfolio in the last three quarters was 99%.

As the market became tougher for investors, those investors with debt had drifted away which presented more opportunities for long term investors such as the Teesside Pension Fund looking for sensible pricing.

Details were provided of three acquisitions: in Covent Garden, Swindon and an affluent south-east commuter town. Once completed the value of the Fund's Portfolio would be £416 million.

ORDERED that the information provided was received and noted.

22/29 **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 provided information on the following:

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

Annual Benefits Statements had been produced for active and deferred Members during the summer. Information had been sent to the pensioner cohort regarding increased benefits from April 2022.

Take up on member self service was still low and the team continued to promote it through the employer health checks. XPS was not yet in a position to rely on the online system to be the hub for benefit statement production.

With regard to data scores, XPS was currently mapping all the data to an internal system that would test, validate and give a score on common data to ensure that it was as accurate as possible for the new Pensions Dashboard in 2024.

A new online form had been designed to enable feedback on Customer Service. Questionnaires also continued to be sent out.

There had been an increase in web traffic and the average time people spent on the platform was now 21%, although they were not necessarily new users.

Details of late payments were included in the submitted report and there had been a reduction.

The deadline for the Pensions Regulator Annual Scheme Return was 18 November 2022 and the return had been drafted.

XPS had received enquiries regarding the uplift in pensions in April 2023. HM Treasury would agree the index in April and XPS would apply whatever indices was provided. The CARE accrual and CPI uplift would apply also. Members had also enquired about the Bank of England intervention and what that might mean for them. XPS confirmed that there was no risk to Scheme Members.

ORDERED that the information provided was received and noted.

22/30 **CONSULTATION ON MANAGING AND REPORTING CLIMATE-RELATED RISKS**

A report of the Director of Finance was presented to provide Members of the Pension Fund Committee with details of an ongoing consultation exercise on managing and reporting climate-related risks in the Local Government Pension Scheme (LGPS), and to request Members to agree a consultation response.

On 1 September 2022 the Government issued a long-anticipated consultation document on managing and reporting climate-related risks in the Local Government Pension Scheme (LGPS). The proposals in the consultation were mainly aimed at Administering Authorities (AAs) of LGPS Funds and were summarised in the submitted report.

A copy of the consultation document was attached at Appendix A to the submitted report. The following points were highlighted:

- The proposed requirements were similar to those that already applied to trustees of larger private sector pension schemes – those with ‘relevant assets’ of £5 billion or more had been in scope of similar requirements since 1 October 2021 and those with assets of £1 billion or more since 1 October 2022. There was no proposed phasing in introducing these requirements to the LGPS, they would come in force from the year starting 1 April 2023 with the first report due to be published by 1 December 2024.

- The consultation made explicit reference to not wanting to encourage schemes to divest from energy companies, but instead to encourage a (more gradual) transition to cleaner energy: “The UK Energy Security Strategy was published in April 2022 and emphasises the importance of investment in energy by the private sector to improve energy security and support the transition to clean energy. The LGPS has an important role to play as a major investor with a commitment to stewardship and engagement. These proposals seek to support that approach to addressing high carbon emissions and discourage any pursuit of lower emissions through withdrawing investment from energy companies.” This pragmatic approach was unlikely to placate pressure groups.

- There was acknowledgement in the document that data quality would be an issue, and administering authorities would be required to report on their assessment of the quality of the data available to them. The methods for analysing the data were also less than perfect, and the document acknowledged this, for example stating: “We would expect AAs to aim to do the best scenario analysis that they can, and to aim to improve their scenario analysis over time”.

- The document considers the increasingly important role the LGPS pool companies would play in providing data and analysis in relation to climate risks and recommended close working between funds and pools to ensure consistency: “Pool operators are required to report on climate risks in relation to pooled assets by the Financial Conduct Authority. If AAs' strategies significantly differ it will be resource intensive for their pool to produce analysis for them. We expect to see this issue reduce in importance over time as more assets transition into the pools. AAs could also minimise this issue by aligning their strategies and targets within their pool and ensuring as shareholders that the pool's strategy also aligns with that of the partner AAs. This would enable AAs to commission their pool to conduct analyses for both pooled and non-pooled assets on a consistent basis with the pool's own reporting."

- Administering authorities would be required to take "proper" advice on the issues set out in the consultation. No clear definition was given of this, but it appeared further guidance would be provided in due course: "The scheme manager will need to appoint properly qualified advisers, fully consider their advice, and take appropriate action in order to address these risks. The committee's officers and advisers and the pool, where appropriate, will need to provide advice which is accessible for non-specialists and adequately addresses climate risks to the fund, bringing in additional expertise where needed. We propose to provide statutory guidance to assist AAs".

The consultation period would end on 24 November 2022. With the Committee's approval, the Head of Pensions Governance and Investments would provide a response to the consultation taking into account views and information from Border to Coast and the other Partner Funds, where available. Further information on the final regulations and guidance would be provided to the Committee as it became available.

ORDERED as follows:
1. that the information provided was received and noted.
2. the Head of Pension Governance and Investments, in consultation
with the Chair and Vice Chair, would provide a response to the consultation by 24 November 2022.

22/31 **FUND ACTUARY - 31 MARCH 2022 VALUATION - FUNDING STRATEGY STATEMENT UPDATE**

The Funding Strategy Statement (FSS) was prepared in collaboration with the Fund Actuary and formed an integral part of the triennial valuation. The FSS also outlined how the funding strategy fitted in with the Investment Strategy.

The current FSS was last presented to the Teesside Pension Fund Committee on 23 June 2021, to reflect updates required for the administering authority to be able to exercise powers in relation to "employer flexibilities", for exiting employers and for contribution reviews between triennial valuations.

The 2022 review has focussed on adapting the FSS to the changing regulations and environment within which the Fund operated. The 2022 review also reflected the updated approach to funding, working with the new Fund Actuary - Hymans Robertson.

The evolving challenges, increasing diversity of employers, and growing complexity and regulation in the LGPS over the last few years meant that many LGPS Funds had found themselves with an FSS that had become understandably, but increasingly, long and complex. While the purpose of the FSS was to act as a compliant and robust reference document, it was acknowledged that a more streamlined document and modular approach to policies would improve accessibility and useability - ultimately making it more practical for all stakeholders, and particular employers.

The revised structure would be a streamlined core FSS document which was complemented by a number of satellite policies. This would replace the current approach of having a single FSS covering all circumstances.

Alongside the restructure there were regulatory and other updates required since the current FSS was prepared. The most significant changes included:

- Review of funding assumptions and approach

  The actuary has reviewed the funding approach and assumptions as part of the

2022 valuation. These had been updated to reflect Hymans Robertson's actuarial methodology, and emerging experience and market conditions as at 31 March 2022. The Committee considered and noted these at its 29 June 2022 meeting.

- Climate risk

The Fund recognised that climate change was a key risk due to the open-ended time horizons of the liabilities. As part of the modelling analysis for reviewing the Council's contribution strategy, the Actuary would stress-test the results under additional climate scenarios. The Fund's draft FSS would clarify this ongoing work.

- Risk-based exit valuation approach

The Fund was reviewing the approach to cessation valuations that were carried out when an employer left the Fund. The current approach was closely tied to gilt yields on a particular day, an approach which introduced much volatility into cessation valuations over time. The new approach under consideration would instead be linked to the expected investment return of the assets held by the Fund, with a prudent level of risk incorporated for the protection of the Fund. Details of this proposed approach would be made available by the Fund Actuary for discussion with Officers.

A draft version of the FSS and policies was being prepared by Officers and Hymans Robertson working in collaboration. LGPS Regulations required the FSS to be subject to formal consultation with employers. This would most likely take place during December 2022 and January 2023. Following the end of the consultation period, any comments received might lead to amendments to the document. The Committee would be requested to approve the final version of the FSS at its 15 March 2023 meeting, which would enable the Actuary to sign off the final valuation documents in time for the statutory deadline of 31 March 2023.

ORDERED that the report was received and noted.

22/32 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, CAN BE CONSIDERED**

None.

22/33 **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.

22/34 **FUND ACTUARY - 31 MARCH 2022 VALUATION - INITIAL WHOLE OF FUND RESULTS**

A report from the Fund Actuary was presented on the 31 March 2022 Valuation – Initial Whole of Fund Results.

ORDERED that the information provided was received and noted.

22/35 **FUND ACTUARY - MARKETS VOLATILITY, FUNDING ISSUES**

A report from the Fund Actuary was presented on Markets Volatility and Funding Issues.

ORDERED that the report was received and noted.

22/36 **LOCAL INVESTMENT PROPOSAL**

A report of the Director of Finance was presented to provide Members of the Pension Fund Committee with Local Investment Proposal.

ORDERED that:

1. the report was received and noted.
2. due diligience would be undertaken on the proposal and the outcome of that analysis would be brought back to a subsequent Committee meeting together with a recommendation in relation to investment.