

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 5

PENSION FUND COMMITTEE REPORT

14 DECEMBER 2022

DIRECTOR OF FINANCE – HELEN SEECHURN

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 2022

- 4.1 The Fund continues to favour growth assets over protection assets. For the period under discussion here, bonds were still not considered value for the Fund, further comment is made under Section 8 of this report re future investments.

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 2022 were 11.51%.

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

The Fund purchased a retail property in London (Zara, Covent Garden) at a purchase price of £32m.

Two further purchases will be reported at the next meeting.

- 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. 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 £110m was invested in the quarter.

5. TRANSACTION REPORT

- 5.1 It is a requirement that all transactions undertaken are reported to the Committee. Appendix A details transactions for the period 1 July 2022 – 30 September 2022.
- 5.2 There were net purchases of £162m in the period, this compares to net purchases of £131m 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 Director of Finance.
- 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 2022, the Fund had £604 million invested with approved counterparties. This is a decrease of £120 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 Director of Finance 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 2022, and is prepared by the Fund's custodian, Northern Trust. The total value of all investments, including cash, is **£4,812 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 2022 of **£4,868 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 30 September 2022 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 | Minimum | Maximum |
|---------------------------|---|------------|------------|
| GROWTH ASSETS | 75% | 55% | 95% |
| UK Equities | 10% | 40% | 80% |
| Overseas Equities | 45% | | |
| Property | 10% | 5% | 15% |
| Private Equity | 5% | 0% | 10% |
| Other Alternatives | 5% | 0% | 10% |
| PROTECTION ASSETS | 25% | 5% | 45% |
| Bonds / Other debt / Cash | 15% | 5% | 45% |
| Infrastructure | 10% | | |

8.3 It has been agreed by the Pension Fund Advisers and Fund Officers that there will be no changes to the Asset Allocation shown above following the Actuarial Valuation. However it was acknowledged that work would continue to ensure the Fund's assets were more closely

aligned to the strategic asset allocation. It was also acknowledged that there may be times in the short to medium term where the strategic allocation to a particular asset class is above the long term target – in any such case it should remain within the maximum level set out in the table at paragraph 8.2.

8.4 EQUITIES

As at the end of September 2022 the Fund’s equity weighting was 58.3% compared to 58.1% at the end of March 2022. There are no plans to purchase or sell equities at this time.

Summary of equity returns for the quarter 1 July 2022 – 30 September 2022:

| Asset | Fund Performance | Benchmark | Excess Return |
|----------------------|------------------|-----------|---------------|
| BCPP UK | -2.96% | -3.45% | 0.49% |
| BCPP Overseas | 0.38% | 0.09% | 0.28% |
| BCPP Emerging Market | -1.26% | -2.39% | 1.14% |
| SSGA Pacific | -3.04% | -3.11% | 0.07% |
| SSGA Japan | 0.97% | 0.82% | 0.15% |
| SSGA Europe | -2.33% | -2.44% | 0.11% |
| SSGA North America | 3.39% | 3.26% | 0.13% |

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

(SSGA – State Street Global Advisers – Passive Management)

8.5 BONDS + CASH

The Fund has no investments in bonds at this time, the level of cash invested is 11.51%. Discussions were held within the Committee Meeting re investing in bonds, although there was no directive to invest at this time the Advisers have since indicated the levels at which they feel investment would be appropriate. Officers are monitoring the situation, when the levels come into range we will have a further discussion with the advisers, current thinking is that an investment via the Border to Coast Sterling Index Linked Bond Fund would be the most appropriate vehicle.

8.6 PROPERTY

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

8.7 LOCAL INVESTMENT

To date the Fund has agreed 3 Local Investments:

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

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

Further payment of £13.5m was made in August as the bank received regulatory approval to exit mobilisation.

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.

At the October Committee Meeting it was agreed that a due diligence exercise would be carried out on a proposed Local Investment from FW Capital. We are in the process of appointing someone to carry out this due diligence, the intention is to bring a report to the March 2023 Committee for a decision.

8.8 ALTERNATIVES

As at 30 November 2022 total commitments to private equity, infrastructure, other alternatives and other debt were approaching £1,655m, as follows:

| | Total committed | Total Invested |
|--------------------------------|-----------------|----------------|
| Border to Coast Infrastructure | £350m | £110m |
| Other Infrastructure Managers | £317m | £225m |
| Border to Coast Private Equity | £300m | £92m |
| Other Private Equity Managers | £364m | £215m |
| Other Alternatives | £224m | £129m |
| Other Debt | £100m | £92m |
| Totals | £1,655m | £863m |

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

TEL NO.: 01642 729040