

TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on Wednesday 28 June 2023.

PRESENT: Councillors J Rostron (Chair), J Ewan (Vice-Chair), D Branson, D Coupe, T Furness, S Hill, J Kabuye, T Livingstone, J Beall, (Stockton On Tees Council), R Creevy, (Hartlepool Council)
T Watson

ALSO IN ATTENDANCE: P Mudd (XPS Administration), W Bourne (Independent Adviser), P Moon (Independent Adviser), A Owen (CBRE), A Peacock (CBRE), W Baxter (CBRE), D Knight (Border to Coast), N Moore (Border to Coast), Kerr (Border to Coast), A Smith (Border to Coast) and M Rutter (External Auditor) (Ernst Young)

OFFICERS: S Lightwing, N Orton and W Brown

APOLOGIES FOR ABSENCE: Councillor D McCabe, Ms J Flaws and Mr B Foulger

23/1 **WELCOME, INTRODUCTIONS AND EVACUATION PROCEDURE**

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

23/2 **DECLARATIONS OF INTEREST**

| Name of Member | Type of Interest | Item/Nature of Interest |
|-----------------------|-------------------------------|--|
| Councillor Beall | Non Pecuniary | Member of Teesside Pension Fund |
| Councillor Ewan | Non Pecuniary | Member of Teesside Pension Fund |
| Councillor Rostron | Non Pecuniary | Member of Teesside Pension Fund |
| Councillor Coupe | Disclosable Personal Interest | Non-Executive Director of Border to Coast Pensions Partnership Limited |

23/3 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 15 MARCH 2023**

The minutes of the meeting of the Teesside Pension Fund Committee held on 15 March 2023 were taken as read and approved as a correct record.

In relation to Minute No 22/56 the Head of Pensions Governance and Investment confirmed that information detailing to the Fund's exposure to tobacco companies in Border to Coast and State Street had been circulated to all Members of the Committee.

NOTED

23/4 **INVESTMENT ACTIVITY REPORT**

A report of the Interim Director of Finance was presented to inform Members of 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. Discussions were held at the last Committee Meeting re investing in bonds. Although there was no directive to invest at this time, the Advisers had since indicated the levels at which they felt investment would be appropriate. Officers were monitoring the situation, when the levels came into range there would be further discussion with the advisers.

Current thinking was that an investment via the Border to Coast Sterling Index Linked Bond Fund would be the most appropriate vehicle.

At the June 2018 Committee it was agreed that a maximum level of 20% of the Fund would be held in cash. The cash level at the end of March 2023 was 6.66%.

Investment in direct property would continue on an opportunistic basis where the property had good covenant, yield and lease terms. There had been no purchases or sales during this period.

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. £83 million was invested during this quarter.

Appendix A to the submitted report detailed transactions for the period 1 January 2023 to 31 March 2023. There were net purchases of £84 million in the period, compared to net purchase of £144 million in the previous reporting period.

As at 31 December 2022, the Fund had £335 million invested with approved counterparties. This was a decrease of £79 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 2023, including cash, was £5,060 million, compared with the last reported valuation as at 31 December 2022, of £4,953 million.

In response to a question from a Member of the Committee, the Head of Pensions Governance and Investments explained that the Actuary had set the return target for the Fund at 4.52%, which equated to around £50 million per quarter. It was emphasised this was a long term target. Since the last valuation the fund had remained fairly static but during the last three years had grown from £4 to £5 billion and exceeded the target massively.

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 31 March 2023 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.

It had been agreed by the Pension Fund Advisers and Fund Officers that there would be no changes to the Strategic Asset Allocation 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 might be times in the short to medium term where the strategic allocation to a particular asset class was 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 of the submitted report.

At the end of 31 December 2022 the Fund's equity weighting was 61.23% compared to 60.2% at the end of December 2022. As cash levels were reducing the team were looking at cashflow projections to determine if, and when, equity redemptions might be required.

A summary of equity returns for the quarter 1 January to 31 March 2023 was shown at paragraph 8.4 of the submitted report.

To date the Fund had agreed three 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.

As at 31 May 2023 total commitments to private equity, infrastructure, other alternatives and other debt were approaching £1,927 million and a breakdown of that figure was included at paragraph 8.8 of the submitted report.

ORDERED that the report was received and noted.

23/5

EXTERNAL MANAGERS' REPORTS WITH BORDER TO COAST ESG REPORTS

A report of the Interim 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 2023 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 £900 million had been made to these sub-funds (£500m to infrastructure and £400m to private equity) with around 28% of this commitment invested so far. In addition, a commitment to invest £80 million over a three year period to the Border to Coast Climate Opportunities Fund had been made. 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 later in the agenda for this meeting.

The Border to Coast report showed the market value of the portfolio as at 31 March 2023 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 2.05% above benchmark over the last year, exceeding its 1% overachievement target. The Overseas Developed Markets Equity Fund had achieved returns of 1.58% above benchmark over the last year, also above its 1% overachievement target. 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 much of the period of the Fund's investment – although performance over the quarter and year to 31 was above benchmark, albeit still below the 1.5% benchmark.

In relation to the Emerging Markets Equity Fund, it was clarified that whilst the Fund had 5% invested, the Fund did not decide how much of this was invested in particular regions.

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 2023.

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.

The latest report showed performance of the State Street funds against the revised indices – excluding controversies (UN Global Compact violators) and excluding companies that manufacture controversial weapons. As expected for a passive fund, performance closely matched the performance of the respective indices.

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. Amongst other information, the report 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.

23/6

BORDER TO COAST PRESENTATION (1) INVESTMENTS SUMMARY AND UPDATE

The Committee received a summary and update on the Fund's investments with Border to Coast.

The presentation covered the following areas:

- Investments Summary
 - Teesside - Valuation and Commitments.
 - Market Movements to 31 March 2023.
 - UK Listed Equity Fund – Performance to 31 March 2023.
 - Overseas Developed Equity Fund – Performance to 31 March 2023.
 - Emerging Markets Equity Fund – Performance to 31 March 2023.
 - Emerging Markets Equity Fund – Post Restructure – Performance to 31 March 2023.
- Alternatives Update
 - Private Equity – Capital Development.
 - Private Equity – Performance.
 - Infrastructure – Capital Development.
 - Infrastructure – Performance.
 - Climate Opportunities – Capital Development.
- Investment Strategy: Capability Launch Timeline.
- Private Equity/Infrastructure – IRR and TVPI Definitions.

In response to a query, it was confirmed that around 50% of the Emerging Markets Equity Fund was invested in China and it would be difficult to invest in emerging markets without including China. Border to Coast had specialist advisers in this area with a strong focus on ESG aspects. It was a Committee decision as to whether to continue to invest in this Fund.

ORDERED that the information provided was received and noted.

23/7

BORDER TO COAST PRESENTATION (2) UK REAL ESTATE PROPOSITION UPDATE

The Committee received a UK Real Estate Proposition Update from Border to Coast.

The presentation included information about:

- Team, Vision and Journey.
- Recap of Propositions.
- Benefits of Pooling.
- UK Real Estate Portfolio – Teesside and Main Fund.
- Principles and Characteristics for new acquisitions.

Members asked questions in relation to the size and type of assets that would be included in the portfolio, benefits of moving Teesside Pension Fund's property portfolio to Border to Coast in terms of the returns and how soon they would be realised, and whether consideration would be given to investing in housing. The Investment Advisers asked questions in relation to the Manager of the new Fund, what assurances could be provided that other assets in the portfolio were of similar quality to Teesside's, and whether there would be any transitional costs.

BCP were currently preparing a business case which would be presented to the Committee for a decision in the Autumn.

ORDERED that the information provided was received and noted.

23/8

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.

Peter Moon stated that it was hard to make progress as interest rates rose, all asset classes would be under pressure and lose value, and therefore the Fund should continue with its current investment strategy.

Willam Bourne agreed that interest rates would stay high and suggested that investing in index linked bonds, would provide the best mitigation against the risk of rising inflation.

ORDERED that the information provided was received and noted.

23/9

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.

Since the report was written there had been further movement in interest rates which was causing concern in the markets and more pressure on valuations. Potentially this provided opportunities to purchase good quality assets at reduced rates. The Fund's existing portfolio was low risk.

As at 31st March 2023, the portfolio comprised 31 mixed-use properties located throughout the UK, with a combined value of £378.9m. A key statistic to note was the void rate which had dropped below 1%. The portfolio had a current gross passing rent of £22,522,679 per annum against a gross market rent of £22,257,625 per annum.

There had been no sales or acquisitions during the quarter but the Fund had agreed terms to purchase a Retail Park in St Albans, in the south-east of England.

The Portfolio currently had 86 different demises let to 66 tenants and details of the top tenants by contract income were shown on page 3 of the submitted report, with the property portfolio returns on page 4.

An update was also provided on asset management and rent arrears.

Environmental, Social and Governance (ESG) criteria had an increasingly prominent role in investment decision making and would influence the attractiveness of investments going forward. CBRE would ensure that responsible investment was put at the forefront of the strategy and that ESG factors were considered within each investment and asset management initiative. This would help ensure that the investment portfolio remained resilient over the long term.

Teesside Pension Fund's property Portfolio currently complied with Minimum Energy Efficiency Standards (MEES) regulation. The Fund had undertaken a strategic review of the Portfolio to ensure continued compliance with incoming regulation in 2025.

ORDERED that the report was received and noted.

23/10

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 provided information on the following:

- Overview

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

The report was taken as read with some key issues highlighted as follows:

McCloud – Legislation was not in place as yet to allow the remedy to be implemented. The impact on the Local Government Pension Scheme Members was not predicted to be as significant as for other schemes, although it would be a lot of work for XPS.

Pensions Dashboard – Introduction of the Pensions Dashboard had been delayed until October 2026.

Membership Movement – There had been increases in membership in all categories.

I-Connect – The system simplified data interactions between employers and the Teesside Pension Fund within a highly secure environment. All employers were contacted in early January to offer our I-Connect service. The response had been positive with over 15 payroll providers responding covering multiple employers including Middlesbrough and Redcar and Cleveland Councils. XPS was currently arranging an onboarding schedule and should have our first payrolls live by early March.

The next priority for XPS would be the production of the Annual Benefit Statements in August.

ORDERED that the report and information provided was received and noted.

23/11 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, CAN BE CONSIDERED**

None.

23/12 **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.

23/13 **LOCAL INVESTMENT UPDATE**

The Head of Pensions Governance and Investments provided an update on the Fund's local investments.

ORDERED that the information provided was received and noted.