

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 5

PENSION FUND COMMITTEE REPORT

13 MARCH 2024

DIRECTOR OF FINANCE – DEBBIE MIDDLETON

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 OCTOBER - DECEMBER 2023

- 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.

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 level at the end of December 2023 was 4.27%

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

There were no purchases or sales in the 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.

An amount of £49m was invested in the quarter.

5. TRANSACTION REPORT

- 5.1 Unfortunately, owing to temporary resourcing issues and conflicting work pressures the team has not been able to provide the usual transaction report for quarter ending 31 December 2023 in time for this Committee meeting. The June 2024 Committee will be provided with a transaction report covering the six months to 31 March 2024.

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 31 December 2023, the Fund had £221 million invested with approved counterparties. This is an increase of £32 million over the last quarter.
- 6.5 The attached graph (Appendix A) 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 31 December 2023, and is prepared by the Fund's custodian, Northern Trust. The total value of all investments, including cash, is **£5,194 million**. The detailed valuation attached as Appendix B is also available on the Fund's website www.teespen.org.uk. This compares with the last reported valuation, as at 30 September 2023 of **£5,100 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 31 December 2023 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 SAA	Current 31/12/24	Minimum	Maximum
GROWTH ASSETS	75%	84.45%	55%	95%
UK Equities	10%	11.42%	40%	80%
+Overseas Equities	45%	49.41%		
Property	10%	10.55%	5%	15%
Private Equity	5%	9.57%	0%	10%
Other Alternatives	5%	3.50%	0%	10%
PROTECTION ASSETS	25%	15.07%	5%	45%
Bonds / Other debt / Cash	15%	6.03%	5%	45%
Infrastructure	10%	9.04%		

(Local Investments account for the missing 0.5% in the "current" totals - there is no allocation within the SAA for these assets)

- 8.3 It has been agreed by the Pension Fund Advisers and Fund Officers that there will be no changes to the Strategic 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 31 December 2023 the Fund's equity weighting was 60.83% compared to 59.95% at the end of September 2023.

Redemptions of £75m in total, were made from the Border to Coast UK & Overseas Developed Market Equity Funds.

Summary of equity returns for the quarter 1 October 2023 – 31 December 2023:

Asset	Fund Performance	Benchmark	Excess Return
BCPP UK	2.78%	3.23%	-0.45%
BCPP Overseas	7.29%	6.93%	0.35%
BCPP Emerging Market	1.92%	2.03%	-0.11%
SSGA Pacific	7.67%	7.44%	0.23%
SSGA Japan	3.32%	3.27%	0.05%
SSGA Europe	7.78%	7.85%	-0.07%
SSGA North America	7.48%	7.31%	0.17%

(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 4.27%. 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 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.

A further payment of £4m was agreed at the September Committee and paid to GB Bank in October.

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.

FW Capital – At the September Committee agreement was given for an investment of £20m into the Teesside Flexible Investment Fund.

We are currently working with FW Capital to agree the Legal and subscription documentation.

8.8 ALTERNATIVES

As at 30 November 2023 total commitments to private equity, infrastructure, other alternatives and other debt were £1,927m, as follows:

	Total committed	Total Invested
Border to Coast Infrastructure	£500m	£176m
Other Infrastructure Managers	£317m	£252m
Border to Coast Private Equity	£400m	£132m
Other Private Equity Managers	£364m	£232m
Other Alternatives	£226m	£168m
Other Debt	£120m	£103m
Totals	£1,927m	£1,063m

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