

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 12

PENSION FUND COMMITTEE REPORT

25 SEPTEMBER 2024

DIRECTOR OF FINANCE – DEBBIE MIDDLETON

Strategic Asset Allocation Update

1. PURPOSE OF THE REPORT

- 1.1 To ask Members to agree to a revision to the Pension Fund's strategic asset allocation and that a short consultation should be carried out with employers in the Fund to explain the proposed changes.

2. RECOMMENDATION

- 2.1 That Members note this report, agree to the revised asset allocation set out in paragraph 6.1 and agree that a revised Investment Strategy Statement (ISS) including the updated asset allocation should be circulated to Pension Fund employers for comment. Any substantive changes agreed to the revised ISS following the consultation will be brought to the next Committee meeting, but if there are no such changes the ISS will be published in due course.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no specific financial implications arising from this report.

4. BACKGROUND

- 4.1 The Pension Fund's target strategic asset allocation is set out in its Investment Strategy Statement which was last changed in April 2021. The following table shows the strategic asset allocation alongside the actual allocation of the Pension Fund at the end of the last financial year (as at 31 March 2024):

Asset Class	Target Strategic Allocation	Maximum	Minimum	Actual (31/03/2024)
<u>GROWTH ASSETS</u>	<u>75%</u>	<u>95%</u>	<u>55%</u>	<u>84.56%</u>
UK Equities	10%	80%	40%	11.24%
Overseas Equities	45%			49.68%
Property	10%	15%	5%	9.90%
Private Equity	5%	10%	0%	10.20%
Other Alternatives	5%	10%	0%	3.54%
<u>PROTECTION ASSETS</u>	<u>25%</u>	<u>40%</u>	<u>5%</u>	<u>15.44%</u>
Bonds /	15%	45%	5%	0.00%
Other debt /				2.12%
Cash				3.63%
Infrastructure	10%			9.69%

5. REVIEW OF STRATEGIC ASSET ALLOCATION

5.1 The Head of Pensions Governance and Investments met with the Fund's two independent investment advisors in July to discuss the Fund's strategic asset allocation approach and a number of other investment issues. Points considered in relation to the current asset allocation included the following:

- The current allocation to growth assets is significantly higher than the target, with the converse being true for the allocation to protection assets.
- The "Other Alternatives" category is not particularly helpful, particularly as the Fund is being asked to report on private equity allocations and commitments, some of which will currently be covered under this "Other Alternatives" category.
- There was a question over whether Property is correctly allocated as a Growth rather than a Protection asset.
- Is it correct to continue with such a flexible approach to the allocation to "Bonds / Other debt / Cash" or should each element be allocated a separate target?

5.2 Following discussion the following revisions were agreed as appropriate:

- Assets currently classified as "Other Alternatives" would be reclassified as appropriate to either private equity, infrastructure, property or other debt as set out in the following table:

	At 31 March 2024		Proposed category	Rationale
	Market Value	% of Fund		
OTHER ALTERNATIVES				
Border To Coast Climate Opportunities Series 2a	23,000,259.77	0.42%	Infrastructure	Mix of Infra and PE but majority expected to be Infra
Capital Dynamics Clean Energy Infrastructure UK	170,000.00	0.00%	Infrastructure	
Darwin Bereavement Services Fund Class B Accumulation	19,040,781.16	0.35%	Infrastructure	Part of society's infrastructure. Financial attributes (stable income, some inflation correlation) are much closer to infra than to PE.
Darwin Bereavement Services Fund, Income Units	30,682,686.00	0.56%	Infrastructure	
Darwin Leisure Pro Units Cls 'C'	16,446,914.60	0.30%	Private Equity	Own part of private company providing UK leisure parks
Darwin Leisure Development Fund Accumulation Units - D Class	16,600,500.00	0.30%	Private Equity	
Darwin Leisure Property Fund, K Income Units	24,369,464.36	0.45%	Private Equity	
Darwin Leisure Property Fund, T Income Units	5,000,000.00	0.09%	Private Equity	
Hearthstone Residential Fund 1 Limited Partnership	9,767,110.81	0.18%	Property	Residential property funds
Hearthstone Residential Fund 2	15,789,433.30	0.29%	Property	
Gresham House Bsi Housing Lp	22,550,525.60	0.41%	Property	Property fund
La Salle Real Estate Debt Strategies Iv	9,413,495.75	0.17%	Other Debt	Property debt (classed as 'Other debt')
Bridges Evergreen Tpf Housing Co-Investment Lp	770,055.01	0.01%	Property (Local investment)	Property-backed investment
Total Other Alternatives	193,601,226.36	3.53%		

- Property should be reclassified as a Protection asset not a Growth asset. Almost all of the Fund's property assets are the directly-held property portfolio managed for us by CBRE. The approach CBRE take concentrates primarily on quality property assets with secure tenants that deliver most of their return through a steady income stream, with much less of a focus on growth / capital appreciation. This has been evidenced by the comparative resilience of valuations during the market turbulence seen in recent years.
- The flexible approach to "Bonds / Other debt / Cash" should be retained.
- Some target allocations, maxima and minima should be adjusted to take into account the reallocation of "Other Alternatives" and to reflect the advisors' views of how the Fund's investments should be positioned.

6. REVISED STRATEGIC ASSET ALLOCATION

6.1 This is the proposed revised strategic asset allocation, showing how the Fund was actually invested against this strategy as at 31 March 2024:

Asset Class	Target Strategic Allocation	Maximum	Minimum	Actual (31/03/2024) *
<u>GROWTH ASSETS</u>	<u>70%</u>	<u>90%</u>	<u>50%</u>	<u>72.26%</u>
UK Equities	10%	20%	5%	11.24%
Overseas Equities	45%	60%	30%	49.68%
Private Equity	15%	20%	0%	11.34%
<u>PROTECTION ASSETS</u>	<u>30%</u>	<u>50%</u>	<u>10%</u>	<u>27.74%</u>
Bonds /				0.00%
Other debt /	10%	20%	0%	2.29%
Cash				3.63%
Infrastructure	10%	20%	0%	11.02%
Property	10%	20%	0%	10.80%

* This does not take into account valuation changes since 31 March 2024, or the imminent sale of State Street passive equities and roughly equal allocation of the proceeds to Border to Coast equities and cash.

6.2 One outcome of the proposed revised strategic asset allocation is a closer match between the strategic and actual asset allocation than under the existing strategic asset allocation, at least at the top level (i.e. growth v protection assets). In practice the actual investment of assets has not changed, however the proposed revised categorisation provides a more accurate reflection of the level of risk being taken (at a top level) in the Fund's investments.

7. NEXT STEPS

7.1 If Members agree to the proposed revised strategic asset allocation:

- The table in paragraph 6.1 will be incorporated into an updated ISS and circulated to Pension Fund employers for comment. Any substantive changes agreed to the revised ISS following the consultation will be brought to the next Committee meeting, but if there are no such changes the ISS will be published in due course.
- Officers will continue to work to implement the revised strategic asset allocation and will report back to future Committee meetings on progress.

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