

TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on 11 March 2020.

PRESENT: Councillors Coupe, (Chair), Bell, Cooper, S Hill (As Substitute), Furness, Rostron, Sands and S Walker
Other Local Authority Members: Councillor Beall, Stockton on Tees Council, Councillor Nightingale, Redcar and Cleveland Council
B Foulger, GMB Representative

PRESENT BY INVITATION: Councillor C Hobson, Executive Member Finance and Governance

ALSO IN ATTENDANCE: W Bourne and P Moon, Investment Advisors
J Firth, Border to Coast Pensions Partnership
G Hall, XPS Administration
A Owen and D Wood, CBRE
M Rutter, EY

OFFICERS: W Brown, N Orton, S Lightwing

APOLOGIES FOR ABSENCE were submitted on behalf of Councillors Dean, Polano and P Fleck.

DECLARATIONS OF INTERESTS

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Beall	Non pecuniary	Teesside Pension Fund Member
Councillor Cooper	Non pecuniary	Teesside Pension Fund Member
B Foulger	Non pecuniary	Teesside Pension Fund Member
Councillor Nightingale	Non pecuniary	Agenda Item 12 - XPS Administration Report - Middlesbrough College
Councillor Rostron	Non pecuniary	Teesside Pension Fund Member
Councillor Sands	Non pecuniary	Teesside Pension Fund Member

19/38 MINUTES - TEESSIDE PENSION FUND COMMITTEE - 22 JANUARY 2020

The minutes of the meeting of the Teesside Pension Fund Committee held on 22 January 2020 were taken as read and approved as a correct record, subject to the following amendment:

Page 2, end of paragraph 7, insert "B Foulger queried the amount of approximately £50 million that was invested but not accounted for in the valuation. The Head of Pensions Governance and Investments explained the timing issue".

The Head of Pensions Governance and Investments informed the Committee, that further to the query at the last meeting, he had been working with the Fund's Custodian Bank to improve the accuracy and timeliness of the information provided and some progress had been made. The report at Agenda Item 5 detailed the additional elements that were not reflected in the Custodian Bank's report. The Head of Pensions Governance and Investments reassured the Committee that the investment team were acutely aware of what money was invested when making decisions.

In relation to the draft Funding Strategy Statement, the Committee was informed that queries had been received from three Employers, one in relation to extending risk sharing and two in relation to the change of funding strategy approach. The final Funding Strategy Statement would be published on the website, following some minor changes to the wording required to take into account new regulations covering the circumstances in which exit credits could be paid to exiting employers.

19/39 SUSPENSION OF COUNCIL PROCEDURE RULE NO 5 - ORDER OF BUSINESS

ORDERED that, in accordance with Council Procedure Rule No 5, the Committee agreed to vary the order of business to deal with the agenda items in the following order: agenda item 8, 5, 6, 7, 9, 10, 11, 12, 13, 14 and 15.

19/40 **TEESSIDE PENSION FUND - DRAFT AUDIT PLANNING REPORT - YEAR ENDED 31 MARCH 2020**

The External Auditor, EY, presented the final Teesside Pension Fund Audit Planning Report for the year ended 31 March 2020. The purpose of the report was to provide the Teesside Pension Fund Committee with the basis to review the Auditor's proposed audit approach and scope for the 2019/2020 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointment Ltd (PSAA), auditing standards and other professional requirements.

The plan summarised the Auditor's initial assessment of the key risks driving the development of an effective audit for the Fund, and outlined the planned audit strategy in response to those risks.

The Auditor highlighted the main audit risks and areas of focus as:

- Misstatements due to fraud or error.
- Valuation of unquoted pooled investment vehicles.
- Valuation of directly held property.
- IFRS 16 - Leases.

It was highlighted that IFRS 16 - Leases was a new risk this year but was not expected to have a significant impact.

The Auditor also drew the Committee's attention to the planning materiality for the audit which had been set at £40.8m, representing 1% of the Fund's net assets at 31 March 2020. Performance materiality had been set at £30.6m, which represented 75% of materiality. All uncorrected misstatements relating to the primary statements (fund account and net asset statement) greater than £2.0m would be reported to Committee and any other items the Auditor considered should be notified.

Finally, the planned Audit Fee for 2019/2020 would be discussed with the Section 151 Officer and reported to the Committee.

ORDERED that the report was noted.

19/41 **PRESENTATION FROM BORDER TO COAST PARTNERSHIP - EMERGING MARKETS EQUITIES HYBRID SUB-FUND**

The Committee received a progress update from Border to Coast which included information in relation to Emerging Market Equities - Hybrid Fund as well as an Investment Update on UK Listed and Overseas Developed Equities.

In relation to progress, the milestones achieved to date, key statistics and a timetable for the launch of additional funds were listed in the submitted report.

Reasons for pursuing a Hybrid Fund were outlined along with background, key facts, fund design, benchmark and an indicative timetable.

An overview of UK and Overseas Equity Funds in Q4 2019 and details of the performance and portfolio positioning was also included.

The funds were performing in line with expectation although it was noted that these investments would be more accurately measured over the longer term. The higher cost of the pooled fund was also queried and it was explained that these costs were split between the 12

partner funds and would reduce over time and Border to Coast also provided benefits of scale.

In relation to the appointment of Shareholder Non Executive Directors, the Head of Pensions Governance and Investments explained that the purpose of such appointments was to provide a better link between the Company and the shareholders.

ORDERED that the information provided was received and noted.

19/42

INVESTMENT ACTIVITY REPORT

A report of the Strategic Director Finance, Governance and Support was presented to inform Members of the Teesside Pension Fund Committee how the investment advice and 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.

The cash levels at the end of December were 11.6%. The Fund would look to use this 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 property transactions were undertaken in this quarter.

During the quarter, £38.4m was invested in Alternatives. The Fund was currently above its target asset allocation of 50% equities, as at the end of December, the weight of the Fund's equity investments was 75.8%.

A summary of equity returns for the quarter 1 October 2019 to 31 December 2019 was included in the submitted report at paragraph 4.5.

Appendix A to the submitted report detailed transactions for the period 1 October 2019 to 31 December 2019. There were net sales of £25.9 million in the period, this compared to net purchases of £38.7 million in the previous reporting period.

As at 31 December 2019, the Fund had £503 million invested with approved counterparties. This was an increase of over £35 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, including cash, was £4,288 million, compared with the last reported valuation as at 30 September 2019, of £4,265 million. It was highlighted that since there was a delay in the Fund's Custodian, Northern Trust, receiving valuation statements and transaction information directly from the Investment Funds, there was an amount of approximately £82 million invested not accounted for in the above valuation. This timing issue occurred each quarter and Members would be informed of the over/under stated amount at the end of each valuation period. The detailed valuation was attached at Appendix C to the submitted report and was also available on the Fund's website.

A summary analysis valuation showed the Fund's percentage weightings in the various asset classes as at 31 December 2019 compared with the Fund's customised benchmark.

The Forward Investment Programme provided commentary on activity in the current quarter as well as looking ahead to the next three to five years. Details of the current commitments in equities, bonds and cash, property and alternatives were included in paragraph 8 of the submitted report.

It was highlighted that because the Teesside Pension Fund was invested in units with Border to Coast, there was no information as to which companies it was investing in. The Head of Pensions Governance and Investment agreed to investigate whether Border to Coast could provide a report which would list all the underlying shares that the Fund held.

The Head of Pensions Governance and Investment drew Members' attention to paragraph 2 of the submitted report which recommended that the majority of the Fund's passively managed equities held with State Street Global Advisers (SSGA) were transitioned to the actively managed equity sub-funds held with Border to Coast Pension Partnership. The Committee had previously taken a decision to invest in passive investment and had two year price deal with SSGA. The two year deal was now coming to an end and there was the opportunity to move from passive to active managed which was a more natural position for the Teesside Pension Fund to be invested in.

ORDERED as follows that:

1. the report was received and noted.
2. the majority of the Fund's passively managed equities held with State Street Global Advisers should be transitioned to the actively managed equity sub-funds held with Border to Coast Pension Partnership.
3. Authority to determine the most appropriate and cost effective method of transition was delegated to the Head of Pensions Governance and Investments.
4. the Fund would make an investment of no more than 5% of its assets in Border to Coast Emerging Markets Hybrid Equity sub-fund, subject to satisfactory due diligence.
5. The Head of Pensions Governance and Investment would investigate whether Border to Coast could provide a report which would list all the underlying shares that the Teesside Pension Fund held.

19/43

PRESENTATION FROM BORDER TO COAST PARTNERSHIP - RESPONSIBLE INVESTMENT

Jane Firth, Head of Responsible Investment at Border to Coast Pensions Partnership provided an overview of responsible investment funding.

The presentation covered the following areas:

- Responsible Investment Myths.
- Environmental, Social and Governance (ESG) and Sustainability Issues.
- How Border to Coast managed Responsible Investing.
- Responsible Investment Strategy.
- Strategic Development.
- Responsible Investment Workshop.
- Investor Mining and Tailings Safety Initiative.
- Climate Action 100+.
- Key Takeaways.

In summary, responsible investment was not about ethical investment. It was identifying potential risks from ESG issues and incorporating these into investment decision-making processes. It was not about why, but about how it was done, and not being a passive owner. Border to Coast had a 3 year strategy for responsible investment focusing on the key issues of ESG, integration and collaboration reporting. Border to Coast would work together with Teesside and other partner funds and support them in what was a key area going forward.

ORDERED that the information provided was received and noted.

19/44

EXTERNAL MANAGERS' REPORTS

A report of the Strategic Director Finance, Governance and Support 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 December 2019 the Fund had investments the Border to Coast UK Listed Equity Fund and the Border to Coast Overseas Developed Markets Equity Fund.

The Fund also had investments in the Border to Coast Private Equity sub-fund and the Border to Coast Infrastructure sub-fund. By 31 December 2019 approximately £4.4 million was invested in the Private Equity sub-fund and £4.5 million was invested in the Infrastructure sub-fund out of total commitments for 2019/2020 to these sub-funds of £100 million each.

However, these investments were not reflected within the Border to Coast report attached at Appendix A to the submitted report.

Appendix A detailed the market value of the portfolio as at 31 December 2019 and the investment performance over the preceding quarter, year, and since the Fund's investments began. Border to Coast had also provided information 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.

The State Street report, attached to the submitted report at Appendix B, showed the market value of the State Street passive equity portfolio and the proportions invested in each region as at 31 December 2019.

ORDERED that the report was received and noted.

19/45

TEESSIDE PENSION FUND BUSINESS PLAN 2020/2023

A report of the Strategic Director of Finance, Governance and Support was presented to request the Committee's approval of the annual Business Plan 2020-2023 for the Fund.

The Plan was designed to set out how the Pension Fund Committee operated, what powers were delegated and to provide information on key issues. The Plan also contained financial estimates for the Fund, including budgeted costs for investment and management expenses. A copy of the Business Plan was attached at Appendix 1 to the submitted report and included:

- The purpose of the Fund, including the Teesside Pension Fund Service Promise (Appendix A).
- The current governance arrangements for the Fund.
- The performance targets for the Fund for 2020/21, and a summary of the performance for 2019/20(Appendix B).
- The arrangements in place for managing risk and the most up to date risk register for the Fund (Appendix C).
- Membership, investment and funding details for the Fund.
- An outturn for 2019/20 and an estimate for income and expenditure for 2020/21 (Appendix D and page 21 of Appendix 1).
- An annual plan for key decisions and a forward work programme for 2020/21 and an outline work plan for 2021-2023.

The Head of Pensions Governance and Investments highlighted that the Fund was increasingly cash flow negative and a plan was required to ensure cash flow needs could be met. Currently share dividends that had previously been taken as income were re-invested in the pooled funds. Discussions were taking place with Border to Coast as to how funds could be drawn down if needed. The Fund currently held approximately £500 million in cash and other assets such as property and infrastructure investments could potentially deliver the required income.

ORDERED that the annual Business Plan 2020-2023 was approved.

19/46

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.

Since the reports had been written the Covid-19 pandemic had introduced more uncertainty and both Advisors provided a verbal commentary in relation to the latest economic impacts. It was suggested that the Fund could consider purchasing more equities.

ORDERED that the information provided was received and noted.

19/47

TEESSIDE PENSION FUND - QUARTERLY PORTFOLIO STRATEGY REPORT - CBRE

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.

Currently there was very little investment activity in the UK Property market and there had been no sales or acquisitions during the quarter.

The CBRE Advisor provided a verbal update at the meeting in relation to the market and potential impact of Covid-19. If regional or UK restrictions were put in place it would be difficult to correctly forecast where the market might be in the coming year. Some sectors might prove more resilient than others.

Rents had fallen further back due to the state of the retail market and tenants were seeking to renegotiate, tending to wait until lease expiry and making a point that rents should be lower.

ORDERED that the report was received and noted.

19/48

TEESSIDE PENSION FUND COMMITTEE - ADMINISTRATION REPORT - XPS

A report of the Strategic Director, Finance Governance and Support was presented to provide an overview of administration services provided to the Teesside Pension Fund by XPS Administration.

Updates included:

- Headlines.
- Regulations and guidance.
- Membership Movement.
- Additional Work.
- Complaints.
- Internal Dispute Resolution Process.
- Pensions Ombudsman.
- High Court Ruling.
- Common Data.
- Conditional Data.
- Customer Service.
- Recruitment.
- Performance.
- Employer Liaison.

The Communications role had been filled and the Pension Board had received a presentation on plans to launch a new Teesside Pension Fund website. The Board had provided some feedback to improve the website further.

Late payments in relation to contributions received from Employers had been updated in January 2020 and these would be followed up.

ORDERED that the report was received and noted.

19/49 **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.

19/50 **LOCAL INVESTMENTS UPDATE**

The Head of Pensions Governance and Investments presented a report to advise Members of two local investment proposals and to request that due diligence on both proposals was commissioned.

ORDERED that the recommendations, as set out in the report, were approved.