Appendix B

Investment report for Teesside Pension Fund March 2021

Political and economic outlook

Thank goodness for vaccines and the NHS. The UK now has over 20 million people who have had their first dose against the covid virus. At the time of the meeting that number could be nearing 25 million, a truly Impressive result. As we all know coronavirus will only start to be controlled when there is mass immunisation across the globe and that still seems to be a long way off . The performance of the European Union shows just how difficult it is to organise a coordinated response even when the infrastructure is apparently in place. Hopefully those countries such as the UK and the US will be in a position to restart their economies from the middle of the year, or soon after, preventing more substantial Economic and Social damage. All this uncertainty on the timing of the Economic recovery worldwide indicates that fiscal and monetary Policy will remain extremely lax. The expectation for the UK budget is for further largesse with tightening next year or maybe the year after. This is a pattern which I would expect to be followed across International developed economies. The damage done to economies will take a long time to repair so this loose policy stance might persist into the future longer than I currently anticipate. As I have said previously it is difficult to see how some sectors of the economy will ever recover totally. The hope is that new sectors and new ways of doing business will fill in the gaps left by these permanently injured areas of the economy. I suppose generally that is the way of things so there could be reasons to be optimistic!

2021 should have been a year where uncertainty was beginning to decline. We had a different and more stable president entering the White House. Brexit trade negotiations had been formalised and completed. Vaccines were being deployed which would curtail the impact and extent of the

pandemic. However the discovery of 3 new variants of the virus and the realisation that any return to the new normal would take rather longer than expected has heightened uncertainty as we have gone into the new year. Furthermore the Brexit agreement has not delivered quite the seamless free trade area that was suggested which is likely to have an ongoing impact on the UK and the European economies until a workable solution is put in place.
Continued assertiveness of China and policy stances being taken by Russia indicate that high levels of uncertainty are here to stay. No doubt markets will accommodate this state but periods of high market volatility should be expected.

Markets

Given the uncertainties and the pandemic you would rationally expect stock markets to be at a lower level than they are now. Markets are not rational however and market pricing uncertainty can cause them to move to extreme levels by following trends. We could be in that situation now as many markets have recovered to levels which would have been seen as unrealistic after the market falls of the first quarter of 2020. So despite the uncertainty over corporate earnings and the duration of the pandemic there is reason to believe that stock markets could trend higher from these levels. The policy stance of governments would tend to support this as it has done over the past decade and more. I do not rule out significant gains by equities over the medium term.
Government bond markets continue to look expensive despite the recent uptick in yields and this has a knock on effect onto credit and non government bond markets.
The future of property markets remains extremely uncertain. If we have seen a permanent shift in working practices and styles of shopping then

there will be major dislocation within large areas of the property market. However nobody is sure how much of a drift back to the old ways will occur. One thing is certain in that the power of the landlord has been reduced over the medium term.
Pressure for action on climate change will throw up significant opportunities in some areas of alternatives. This pressure is looking irresistible.
Generally the low interest rate environment will spawn many investment opportunities in the alternative investment arena.

Portfolio recommendations

The Fund's high weighting in equities over the long-term has served it well and has left it in a relatively well funded position. It is the intention to bring down this high equity weighting and invest in alternative asset classes over the medium term. This will not be an easy process as the due diligence required will take a long time. Borders to Coast and the internal investment team will carry out this asset shift in tandem to maximize resources devoted to this transfer.
Property backed investments and infrastructure are also likely to be major recipients on the transfer to the alternative sector.
It is likely the cash levels will be higher during the transition which should bring some comfort given the ongoing overweight in equities and our zero position in bonds.

Peter Moon

26 February 2021