

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 12

PENSION FUND COMMITTEE REPORT

3 FEBRUARY 2026

DIRECTOR OF FINANCE AND TRANSFORMATION – Andrew Humble

POOLING UPDATE

1. PURPOSE OF THE REPORT

1.1 To advise Members of developments made and planned by Border to Coast Pension Partnership in response to the Government's Fit for the Future consultation.

2. RECOMMENDATION

2.1 That the Pensions Committee notes this paper.

3. FINANCIAL IMPLICATIONS

3.1 There are no financial implications resulting from this report.

4. BACKGROUND

4.1 Teesside Pension Fund are one of eleven members of Border to Coast Pension Partnership which was formed in 2017 following the government requirement for LGPS Pension Funds to form pooled structure manage Pension Fund assets.

4.2 As members are aware, the Government is taking forward a series of changes to the way investment pooling in the LGPS works through its "Fit for the Future" consultation. Changes include Administration Authorities delegating implementation of investment strategy to the pool and taking their principal investment advice from them. Management of all assets is also to be transferred to the pool.

4.3 The "Fit for the Future" consultation has introduced a further change in the relationship between Partner Funds and the pooling companies. Pooling companies are to become the principal source of strategic investment advice to Partner Funds. Pools will determine most of the investments made by the Fund based on the Strategic Asset Allocation set by the Partner Funds.

4.4 The changes to the LGPS are being brought in through the Pensions Schemes Bill currently making its way through parliament with many of the detailed measures being subject to regulation and guidance which MHCLG have been consulting upon.

- 4.5 The Fund will have to be clear in its Investment Strategy Statement incorporating its Strategic Asset Allocation and including Investment Belief's and its approach to local investments. The Investment Strategy Statement will inform Border to Coast of the preferred investments of the Fund. Border to Coast will then implement the Investment Strategy deciding the investments to make.
- 4.6 It is not expected that all of the developments will be in place for 1st April 2026 but Border to Coast are building up their capabilities to be able to meet the new requirements. Many of the changes will be implemented in an incremental way building upon existing arrangements.

5. INTEGRATION OF ADDITIONAL PARTNER FUNDS TO BORDER TO COAST

- 5.1 The process to integrate the seven candidate Partner Funds from Access into the Border to Coast pool are well underway. Officers from the candidate Partner Funds have been included in meetings to develop the culture and relationships between Border to Coast and its Partner Funds. Senior Officers from Partner Funds attended the November Senior Officer Group meeting to discuss Border to Coast strategic plans and shareholder issues.
- 5.2 Border to Coast have developed a workstream to integrate incoming partner funds into the pool. Initial mapping suggests around 85% of liquid assets of the incoming Partner Funds are pooled. Legacy Private Markets and Legacy Indirect Real Estate will be integrated into the Border to Coast solutions shortly after existing Partner Funds.

6. DEVELOPMENT OF ADDITIONAL CAPABILITIES

- 6.1 To meet “Fit for the Future” requirements Border to Coast will have to develop Advisory Services to provide the principal investment advice to Pension Committees. This is a new service that Border to Coast has to build.
- 6.2 The design principles for an advisory offering have been agreed, recruitment of personnel is progressing, and an initial projection of likely costs will be included in future years’ estimates. Border to Coast target is to have the capability built for end March 2026 to enable the pool to be the principal investment advisor to Partner Funds, with an interim approach in place to support Partner Funds with 2025 strategic asset allocation reviews alongside existing advisors.
- 6.3 Investment Management Services (including Legacy Investment Management) are required to allow Border to Coast to control and manage all the assets of Partner Funds. Much of this capability set is in the scoping and design phase. The first capabilities earmarked for development have been under review for some time (to support the development of the private markets capability for Lincolnshire) and will underpin future requirements and services of the partnership. Delivery of these investment capabilities is dependent on having visibility of Partner Fund holdings not held within a pool proposition, which links to ongoing deliverables through the data strategy and discussions on the future of Partner Fund custodial provision. Additional capabilities will be prioritised to meet the “LGPS: Fit for the Future” consultation target for all Partner Fund assets (including legacy private market investments) to transfer to pool management. Additional analysis will inform the legacy management

service, taking advantage of Border to Coast's experienced investment team and leveraging existing oversight, administration and reporting operating models. The focus will be on illiquid assets where it is not cost effective to transition investments.

6.4 Border to Coast's 2030 Strategy includes an objective to support training and ongoing education for both Pensions Committees and Officers. Several Partner Funds will see local elections during 2025 which may involve a degree of turnover. It is proposed to agree an initial "training programme" to support the induction of new members in 2025, and to add further structure to the process of onboarding new officers into the partnership. A broader process for ongoing training will be considered for future years. Training plans will remain responsive to emerging Government policy.

7. LOCAL INVESTMENT PILOT

7.1 The Government will require Administering Authorities ("AAs") and Pools to work with local authorities, regional mayors and their strategic authorities to ensure collaboration on local growth plans. It will be for pools and their Partner Funds' AAs to decide whether AAs will approach strategic authorities directly or work through their pool.

7.2 The Government will also require AAs to set a target range for local investment but will not restrict the ability of AAs to set a target of their choice. The Fund will have to be clear in its Investment Strategy Statement incorporating its Strategic Asset Allocation and including Investment Beliefs and its approach to local investments. The Investment Strategy Statement will inform Border to Coast of the preferred investments of the Fund. Border to Coast will then implement the Investment Strategy deciding the investments to make.

7.3 Teesside Pension Fund will need to consider its own approach to local investment after consultation with local authorities and Tees Valley Combined Authority on their local Growth Plans. Teesside Pension Fund will need to consider our own definition of "local", and consider whether we want to work with other Partner Funds on a regional approach to investment

7.4 Border to Coast launched UK Opportunities in April 2024 to provide a dedicated Alternatives programme for investment in assets or companies in the UK, with a focus on the development of new assets and the provision of capital to support corporate growth. The working assumption is that the Local investment capability, including the Pilot, will utilise the existing legal and operating model structure used by the existing Alternatives propositions. Tax and Legal advisors have raised no challenges to the use of the existing legal structure.

7.5 There is desire from some Partner Funds for Border to Coast to have a capability to invest additional capital on a more local basis, either aligned to their own fund area, or regionally, in combination with other funds. This led to the proposal to develop a broader Local Investment proposition.

7.6 Concurrent with establishing a Local capability, Partner Funds agreed that Border to Coast would work with a single Partner Fund, or single Partner Fund region (i.e. multiple Partner Funds working collectively in a single geographic region), on a Local Investment Pilot, with the

intention of agreeing an investment strategy and initiating market mapping, ahead of a launch of the Pilot in April 2026.

- 7.7 The Local Pilot Project is viewed as an important aspect in establishing a Local Investment capability. The Pilot will involve Border to Coast working with the selected Partner Fund(s) through an iterative process to define investment objectives and local investment requirements ahead of the launch of their local investment strategy in April 2026. This iterative process will also play an important role in enabling the Alternatives team to refine the frameworks and processes necessary to roll out a Local Investment capability to all Partner Funds.
- 7.8 The Pilot proposition will only raise capital subscriptions from the Pilot participant Partner Funds. Future commitments to local strategies will be considered once the capability is established.
- 7.9 It is expected that future Local investment strategies for Partner Funds will be similar in nature to underlying investment strategies considered in the UK Opportunities proposition, e.g. Real Estate, Infrastructure, Private Equity, and Direct Lending.
- 7.10 The current proposal for the pilot project is for a regional investment covering the Tyne and Wear, Durham and potentially the Teesside Pension Fund area. It has been identified that real estate is the most likely asset class to achieve a quick deployment of capital to test Border to Coast's frameworks and capabilities.
- 7.11 Border to Coast are in the process of conducting soft market testing with potential investment managers to help shape the final proposal. These discussions will identify what opportunities are available and the parameters in terms of level of commitment, length of investment period, balance between growth and income characteristics likely to be successfully delivered at the levels of risk and return appropriate for the asset class.
- 7.12 Local Investments may include additional targets for non-financial metrics which will be reported on. There may also be an aspirational target for investment in each Local Authority area in the pilot.
- 7.13 It is recognised that Teesside Pension Fund has not yet adopted a Local Investment Plan and has not established its definition of "local" investment. As such any commitment to the pilot may not fall into the local asset class but rather will be classified by the nature of the underlying investment e.g. real estate. Teesside Pension Fund is likely to be required to align its Local Investment Plan to the Tees Valley Combined Authority Local Growth Plan to meet the requirements of legislation and guidance currently making progress through the parliamentary processes.
- 7.14 Teesside Pension Fund has previously expressed concerns that any regional approach to local investment will not benefit the Teesside area as much as other parts of the region which may have more investible opportunities. There is the further complication that part of the Tees Valley Combined Authority, i.e. Darlington, falls outside the geographic area of the Teesside Pension Fund.

7.15 The benefits of the pilot are as much in the development of Border to Coast's capability to meet the demands of Partner Funds to meet their aspirations for local investment by whatever definition. Any commitment would be on the basis that it meets the Funds targets for investments of that class in its own right in terms of risk-based returns.

7.16 The target launch date for the Pilot is 1st April 2026.

8. ANNUAL CONFERENCE

8.1 Border to Coast Annual Conference was an opportunity to review progress, explore the key issues affecting pension investments, and discuss collective priorities for the future. It was an opportunity to meet with other Pension Committee members and Local Pension Board members, including from the candidate Partner Funds, hear from industry experts along with members of the Border to Coast investment team.

8.2 This year's sessions included a wide-ranging discussion of Responsible Investment priorities for the pool, economic market conditions, UK Real Estate investing, building Investment Capabilities and Advisory Services to meet Fit for the Future requirements.

9. NEXT STEPS

9.1 Officers will make any decision to make a commitment to the Local Investment Pilot in the same way as other investments, following consultation with the Funds independent investment advisors and based upon the proposal's characteristics meeting the Funds requirements for that asset class and any Strategic Asset Allocation constraints.

9.2 Committee will continue to be updated on changes in pooling arrangements.

CONTACT OFFICER: Andrew Lister – Head of Pensions Governance and Investments

TEL NO.: 01642 726328

This document was classified as: OFFICIAL