

TEESSIDE PENSION BOARD

A meeting of the Teesside Pension Board was held on Monday 8 February 2021.

PRESENT: C Monson (Chair), G Whitehouse (Vice-Chair), Councillor W Ayre, J Cook and Councillor C Hobson

ALSO IN ATTENDANCE: P Mudd (XPS Administration), M Beever (XPS Administration) and A Stone (Border to Coast Pension Partnership)

OFFICERS: S Lightwing, N Orton, D Johnson and J McNally

APOLOGIES FOR ABSENCE: L Littlewood

20/33 **DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item/Nature of Interest
J Cook	Non pecuniary	Member of Teesside Pension Fund
Councillor C Hobson	Non pecuniary	Member of Teesside Pension Fund
C Monson	Non pecuniary	Member of Teesside Pension Fund
G Whitehouse	Non pecuniary	Member of Teesside Pension Fund

20/34 **MINUTES - TEESSIDE PENSION BOARD - 2 NOVEMBER 2020**

The minutes of the meeting of the Teesside Pension Board held on 2 November 2020 were taken as read and approved as a correct record.

The Head of Pensions Governance and Investments confirmed that there was no progress to report on Reforming Local Government Exit Pay.

In relation to the review of Employer Contributions and flexibility on exit payments, statutory guidance was still awaited from the Government.

20/35 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 16 SEPTEMBER 2020**

A copy of the minutes of the Teesside Pension Fund Committee meeting held on 16 September 2020 was submitted for information.

NOTED

20/36 **TEESSIDE PENSION FUND COMMITTEE - 9 DECEMBER 2020 - UPDATE**

The Head of Pensions Governance and Investments provided a verbal update on agenda items considered at a meeting of the Teesside Pension Fund Committee held on 9 December 2020.

The main points highlighted were:

- The Fund's asset value had dropped at the end of September to £4.08 billion but had bounced back by the end of December 2020 to £4.3 billion. Equity markets, particularly in the US had continued to rise.
- The Fund had sold £50 million in US Equities over the quarter in order to reduce the Fund's overweight position in US Equities.

- The Fund's cash holdings had reduced over the quarter to due to investments in Alternatives. At one point the Fund held over £0.5 billion in cash.
- The External Auditors, EY, presented their draft opinion on the Fund, and confirmed that they expected to issue an unqualified audit opinion on the financial statements.
- State Street, the Fund's Passive Manager had changed its benchmark to exclude certain companies such as manufacturers of controversial weapons, and companies in breach of the UN Global Compact. State Street had provided the appropriate notice of their intention to the Fund.
- Border to Coast (BCPP) presented a revised Responsible Investment Policy.
- The External Advisors recommended that the Fund should continue to reduce equity holdings and invest further in Alternatives.
- CBRE, the Fund's property advisers, updated the Committee on the position regarding rent arrears which was improving. At the time of the meeting there was £935K in arrears and a breakdown of the individual amounts owed and the actions being taken to recover the arrears was provided.

AGREED that the information provided was received and noted.

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PRESENTATION FROM BORDER TO COAST HEAD OF CLIENT RELATIONS

The Head of Client Relations, Border to Coast, gave a presentation which covered the following areas:

- Border to Coast Update
- Our Team
- Investment Capabilities
- Responsible Investment

An overview of the Border to Coast Pensions Partnership and its aims was provided.

As at 31 December 2020, 96 people were now employed by Border to Coast, including 12 new investment team members. An organisational chart of the Investment Team was included in the presentation.

A timetable of the funds launched to date and those scheduled for 2021, 2022, and beyond were included in the presentation. Ten funds were now up and running. Details of the Active Equity, Fixed Income and Alternative Fund Ranges were provided as well as performance information up to 31 December 2020.

The Head of Client Relations also detailed Border to Coast's approach to Responsible Investment.

Responding to questions, the Head of Client Relations provided further information in relation to the timescales for investing in Alternatives and Responsible Investment.

AGREED that the presentation was received and noted.

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NATIONAL KNOWLEDGE ASSESSMENT OUTCOME

The Head of Pensions Governance and Investments provided feedback on the outcome of the National Knowledge Assessment recently undertaken by the Pension Fund Board and Committee members.

Ten out of fourteen Pension Fund Committee Members and three out of six Board Members participated in the Assessment. This represented a collective participation rate of 65%, just above average compared with the 22 Funds that had carried out the assessment nationally.

Consultants Hymans Robertson had analysed the outcome, provided each participant with individual scores and feedback, and collated the information into a report. The report also identified a number of areas where the Committee and Board would benefit from additional training. Extracts from the report and a suggested training plan were attached at Appendix A to the submitted report.

The outcome of the Knowledge Assessment would be discussed with the Committee at their March meeting, with a view to developing a training programme in which both Committee and Board members could participate.

Members discussed training options and it was requested that any Member who had not yet completed the Pensions Regulator Training should do so. The Chair urged any Member that had not yet completed the Knowledge Assessment to do so.

AGREED as follows:

1. The information provided was received and noted.
2. The Head of Pensions Governance and Investment would report back to the Board following discussion with Committee Members.

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ASSET ALLOCATION UPDATE

A report of the Director of Finance was presented to update the Board with information on how the Pension Fund was progressing towards its long term strategic asset allocation.

The Pension Fund's target strategic asset allocation was set out in its Investment Strategy Statement which was last updated in February 2019. The table at 4.1 of the submitted report showed the strategic asset allocation alongside the actual allocation of the fund at the end of the quarter the allocation was published (31 March 2019), and at the latest date reported to the Pension Fund Committee (30 September 2020).

The asset allocation to equities had remained steady at 75% for the last two years, despite the fact that the strategic allocation to equities was 50%. The Fund had moved its allocation to the 50% target two years ago and during that time the Fund's Advisors had consistently cautioned against investing in Bonds.

Whilst the Fund was relatively well-funded, reducing the equity allocation would take some of the volatility out of the portfolio. The most attractive investment currently was alternatives, private equity and infrastructure and other market investments. An issue with those investments was that it could take a number of years to get money invested in them.

The volatility of equity markets over the last year had also deterred the Fund from selling. Over time, the Fund had tried to reduce its allocation through selling equity. Over the quarter to the end of last year, the Fund sold £50 million of US equity and over the previous 18 months had sold about £150 million in US equity in total, in an attempt to release some cash for other investments and rebalance. At the same time, the value of US equity had gone up.

The Fund had also been working on increasing its allocation to the illiquid alternative investments. Investments in alternatives had increased from 2.6% to 6.8% of the Fund over the past 18 month period which represented considerably progress given the necessarily slow pace of investment into this asset class. The target allocation was 15%.

The investment team continued to work with the Fund's advisors and managers to ensure the required allocation to alternatives was built and maintained in an effective and efficient manner.

The Fund's allocation to property and property debt had reduced over the 18 month period due to the following factors:

- The value of the Fund's indirect and direct property portfolio had been adversely affected by the impact of the global pandemic and subsequent market conditions.
- The Fund had not been able to source and acquire additional property assets for its portfolio, although work continued with the property manager to locate suitable additional property assets for the Fund. The Fund currently had 28 properties in the

portfolio.

- Initial investigations into possible property debt investments were put on hold in March last year while the market was turbulent and unclear. This work would recommence and the investment team would continue to consider potential property debt investment options.

Officers had been working with the Fund's investment advisors to review the strategic asset allocation and a report would be presented to the next Committee meeting in March 2021. It was suggested that the new strategy would include interim targets as well as a long term target, making it easier to measure and track against.

It was noted that Border to Coast were currently developing a Direct Property Fund and discussions had taken place as to whether the Teesside Pension Fund should move its property portfolio to Border to Coast although no decision had been reached.

A query was raised in relation to the potential for the Fund to invest in government backed bonds and it was noted that the current returns on such bonds were lower than the 4.5% annual return required by Fund to meet its liabilities.

AGREED that the information provided was received and noted.

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BOARD WORK PLAN REVIEW

The Head of Pensions Governance and Investments presented a report on the Board's current Work Plan which was agreed at the 10 February 2020 meeting.

Board members were invited to submit any suggestions for areas to cover in meetings from July 2021. It was highlighted that some topics might be identified from the National Knowledge Assessment recently undertaken by Board members.

The Head of Pensions Governance and Investments highlighted that the three yearly Actuarial Valuation of the Fund was due next year and this could be a topic that Members would like to receive further training on.

AGREED that the information provided was received and noted.

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XPS ADMINISTRATION REPORT INCLUDING WEBSITE PRESENTATION

A report was presented to provide an overview of administration services provided to the Teesside Pension Fund by XPS Administration.

Updates were provided on the following items:

- Headlines - McCloud judgement.
- Regulations and guidance:
 - The Restriction of Public Sector Exit Payments Regulations 2020.
 - The LGPS (Amendment) (No2) Regulations 2020 - exit credits.
- Covid-19 - XPS update.
- Membership Movement.
- Member Self Service - new website.
- Complaints.
- Internal Dispute Resolution Process.
- Annual Benefit Statements.
- Common Data.
- Conditional Data.
- Customer Service.
- Recruitment.
- Employer Liaison.
- Performance Charts.

In relation to the Restriction of Public Sector Exit Payments Regulations 2020, it was highlighted that a communication was expected from the Government to administering authorities regarding the apparent discrepancy between the new regulations and existing Local Government Pension Scheme (LGPS) regulations. Two judicial reviews were due to be

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heard in March. The Government did not intend to amend the LGPS regulations until the outcome of those reviews were known.

Members received an online demonstration of the proposed new Teesside Pension website. It was suggested that the website was tested and sense-checked by a sample of Fund Members before going live.

AGREED that the information provided was received and noted.

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ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, MAY BE CONSIDERED

None.