

TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on Wednesday 10 March 2021.

PRESENT: Councillors D Coupe (Chair), J Beall, A Bell, B Cooper, S Dean, P Fleck, B Foulger, T Furness, J Hobson, J Rostron, Z Uddin, T Watson and G Nightingale

PRESENT BY INVITATION: Councillors

ALSO IN ATTENDANCE: G Hall, W Bourne (Independent Adviser), P Moon (Independent Adviser), A Owen (CBRE), A Peacock (CBRE), J Roberts (Border to Coast) and M Rutter (External Auditor) (Ernst Young)

OFFICERS: S Lightwing, N Orton, W Brown, I Wright, D Johnson and J McNally

APOLOGIES FOR ABSENCE: Councillors E Polano

20/38 **DECLARATIONS OF INTEREST**

| Name of Member | Type of Interest | Item/Nature of Interest |
|--------------------|------------------|---------------------------------|
| Councillor Beall | Non pecuniary | Member of Teesside Pension Fund |
| Councillor Cooper | Non pecuniary | Member of Teesside Pension Fund |
| Councillor Rostron | Non pecuniary | Member of Teesside Pension Fund |
| Councillor Uddin | Non pecuniary | Member of Teesside Pension Fund |
| B Foulger | Non pecuniary | Member of Teesside Pension Fund |

20/39 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 9 DECEMBER 2020**

The minutes of the meeting of the Teesside Pension Fund Committee held on 9 December 2020 were taken as read and approved as a correct record.

20/40 **AUDIT COMPLETION REPORT**

The Auditor presented the final Audit Results Report for the Teesside Pension Fund for 2019/2020.

Section one of the report provided an update on the matters noted as outstanding when the provisional audit results report was presented to the Committee in December 2020.

The Auditor confirmed that, as indicated in the provisional audit results report, EY would be issuing an unqualified audit opinion on the financial statements.

The final opinion did not include additional narrative to highlight financial statement disclosures that the valuations of directly held property had been prepared on the basis of a 'material valuation uncertainty', as EY had subsequently concluded this narrative was not required.

ORDERED that the report was received and noted.

20/41 **INVESTMENT ACTIVITY REPORT**

A report of the Director of Finance was presented to inform Members of the Teesside Pension Fund Committee how the Investment Advisors' 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. Whilst it was considered that Bond yields would rise in the long run, at present yields did not meet the actuarial requirements for the Fund and should continue to be avoided at these levels unless held as a short term alternative to cash.

The cash levels at the end of December 2020 were 8.26%. The Fund would continue to use 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, £45.3 million was invested in Alternatives. The Fund was considerably underweight its customised benchmark and, providing suitable investment opportunities were available, would look to increase its allocation to this asset class up to the customised benchmark level.

Appendix A to the submitted report detailed transactions for the period 1 October 2020 to 31 December 2020 September 2020. There were net purchases of £45.4m million in the period, this compared to net purchases of £33.2 million in the previous reporting period.

As at 31 December 2020, the Fund had £361.5 million invested with approved counterparties. This was a decrease of £68.3 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 as at 31 December 2020, including cash, was £4,385 million, compared with the last reported valuation as at 30 June 2020, of £4,084 million.

A summary analysis of the valuation showed the Fund's percentage weightings in the various asset classes as at 31 December 2020 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.

The Fund was currently above its target asset allocation of 50% equities. As at the end of December 2020 the Fund's equity weighting was 77.04%. The overweight position should be reduced over time through further investment in Alternative assets, however, this was a slow process. As long as suitable alternative investments were available the Fund would look to a reduction in the overweight position of 5% per year.

ORDERED that the report was received and noted.

20/42

EXTERNAL MANAGERS' REPORTS

A report of the Director of Finance 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 30 September 2020 the Fund had investments in:

- the Border to Coast UK Listed Equity Fund, which had an active UK equity portfolio aiming to produce long term returns of at least 1% above the FTSE All Share index;
- and
- the Border to Coast Overseas Developed Markets Equity Fund, which had an active overseas equity portfolio aiming to produce total returns of at least 1% above the total return of the benchmark (40% S&P 500, 30% FTSE Developed Europe ex UK, 20%

FTSE Developed Asia Pacific ex Japan, 10% FTSE Japan).

The Border to Coast UK Equity Fund was currently performing on target although it was highlighted that the Fund had not yet been invested for three years. There had been a slight dip in performance over the last quarter but overall, since inception, the expected returns had been delivered. The Border to Coast report was attached at Appendix A to the submitted report.

The Head of Pensions Governance and Investments confirmed that he was not alarmed by the slight dip in performance as there had been a significant change in UK market values over the last quarter.

State Street had a passive global equity portfolio invested across four different region tracking indices appropriate to each region. 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 2020.

It was highlighted that companies that breached UN Global Compact or sold controversial weapons had recently been excluded from State Street's funds and the indices they tracked and this had made a difference to the number of companies they could invest in of about 3.6% of the market. However, the expected returns had been delivered to date.

Over the course of the next few months, the Fund would continue to transfer money from State Street to Border to Coast in order to move away from passive investments. Details of the transfers would be reported to the Committee.

ORDERED that the report was received and noted.

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PRESENTATION FROM BORDER TO COAST CLIENT RELATIONSHIP MANAGER

The Border to Coast Client Relationship Manager gave a presentation which covered the following issues:

- Border to Coast Update
- Equity Investments Update
- UK Listed Equity Fund
- Overseas Developed Markets Equity Fund
- Alternatives Investments Update
- Private Equity
- Infrastructure

Progress during 2020 included:

- Border to Coast's first co-investment, in its infrastructure fund.
- The launch of two fixed income funds – the £2.5 bn Sterling Investment Grade Credit Fund and the £1.5 bn Sterling Index-Linked Bond Fund.
- Won the Pool of the Year and Collaboration Awards at the LAPF (Local Authority Provident Fund) Investment Awards.
- Over 130 delegates attended Border to Coast's first virtual conference.
- 58 partner Fund workshops were held.
- Continued recruiting, with over 20% of colleagues joining BCPP during lockdown.
- Completed the first "crossing deal" leading to a saving of £3.4 m for the partner funds involved. A "crossing deal" with Teesside had also made a saving of £20,000 for the Fund.

The presentation included the Investment Proposition Launch Timetable with details of the Funds that would be launched in 2022 and 2023 highlighted at the meeting.

Overall there was general confidence with the performance of the UK albeit there was a slight dip over the short term. However, over the three year rolling basis the Fund was in a strong position.

ORDERED that the report was received and noted.

20/44

STRATEGIC ASSET ALLOCATION UPDATE

A report of the Director of Finance was presented to ask Members to agree to a revision to the Pension Fund's strategic asset allocation and for a short consultation to be carried out with employers in the Fund to explain the purpose of the proposed changes.

The Pension Fund's target strategic asset allocation was set out in its Investment Strategy Statement (ISS) 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 Pension Fund at the end of the quarter the allocation was published (31 March 2019), and at the end of the last quarter (31 December 2020).

The ISS highlighted that the target allocation was a long term goal, and that while bonds continue to be viewed as expensive, the allocation to equities was likely to be towards the high end of the range.

While the Pension Fund remained heavily invested in equities its assets were subject to significant volatility. While this could be tolerated to a certain extent given the Pension Fund's long investment time horizon, this volatility could cause issues for the Pension Fund's employers if the triennial valuation coincided with a low point in valuations.

Officers had been working with the Pension Fund's investment advisors to review the strategic asset allocation, with a view to setting a long-term and a short/ medium term target for asset allocation. The latter target would allow the Committee to judge more quickly whether appropriate progress was being made in reallocating the Pension Fund's assets.

Details of the proposed revised strategic asset allocation was detailed at paragraph 6.4 of the submitted report. The overall split between growth and protection assets would be 75% to 25% in the long term, with UK Equities 10%, Overseas Equities 45%, Property 10%, Private Equity 5%, Other Alternatives 5%. Protection assets – bonds, other debt, and cash - would be combined together. Infrastructure would be reclassified as a protection asset to properly reflect the features of that asset and the fact that it would provide a protection asset in investment terms.

Any substantive changes agreed to the revised ISS following the consultation would be brought to the next Committee meeting. If there were no such changes the ISS would be published in due course.

It was noted that some of the targets were challenging, however the Head of Pensions Governance and Investment confirmed that he felt that they were reasonable. In relation to local investments, it was explained that the Committee had agreed to invest up to 5%, it was not a separate line on the strategic asset allocation. Any local investment would be slotted into the relevant category. However, the Committee would be kept informed of the percentage of investment actually allocated to local investments.

ORDERED as follows:

1. The information provided was received and noted.
2. The table in paragraph 6.4 of the submitted report would be incorporated into an updated ISS and circulated to Pension Fund employers for comment.
3. Any substantive changes agreed to the revised ISS following the consultation would be brought to the next Committee meeting.
4. If there were no substantive changes to report back, the revised ISS would be published.
5. Officers would work to implement the revised strategic asset allocation and would report back to future Committee meetings on progress.

20/45

NATIONAL KNOWLEDGE ASSESSMENT OUTCOME

A report of the Director of Finance was presented to inform Members of the outcome of the National Knowledge Assessment recently undertaken by Teesside Pension Board and Pension Fund Committee members, and to discuss a potential training plan to address gaps in knowledge identified by the assessment.

The outcome of the Knowledge Assessment was discussed with the Board at its February 2021 meeting. The Board agreed that a training programme should be discussed and approved by the Committee which Board members could also participate in.

The report identified a number of areas where the Committee and Board would benefit from additional training. A suggested training plan was attached at Appendix A to the submitted report.

The provision of a specific training budget would allow flexibility on how training could be delivered. An initial budget of £40,000 representing £2,000 per Committee and Board member was suggested, with any expenditure subject to discussion and agreement with Chair and Vice Chair, as well as appropriate use of procurement processes and procedures.

Concern was raised in relation to the amount of the suggested budget and it was confirmed that this was a maximum amount and value for money would be sought when arranging any external training.

ORDERED as follows:

- The proposed training plan in Appendix A would be delivered to Committee and Board members.
- A training budget initially set at £40,000 was set aside to allow external companies and individuals to be commissioned to assist with this training where appropriate.
- Expenditure on external training would be determined by the Head of Pensions Governance and Investments in consultation with the Chair and Vice Chair.

20/46

PENSION FUND BUSINESS PLAN 2021-2024

A report of the Director of Finance was presented to Committee Members to request approval of the annual Business Plan including the 2021/22 Pension Fund budget.

The 2021/22 forecast income and expenditure was set out in the Business Plan, and summarised at paragraph 3.1 of the submitted report.

The Business Plan for 2021/24 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 2021/22, and a summary of the performance for 2020/21 (Appendix B).
- The arrangements in place for managing risk and the most up to date risk register for the Fund (see Appendix C).
- Membership, investment and funding details for the Fund.
- An estimated outturn for 2020/21 and an estimate for income and expenditure for 2021/22 (Appendix D and page 21 of Appendix 1).
- An annual plan for key decisions and a forward work programme for 2021/22 and an outline work plan for 2022–2024.

ORDERED as follows that:

1. The information provided was received and noted.
2. Teesside Pension Fund's Annual Business Plan including the 2021/22 Pension Fund budget was approved.

20/47

CURRENT ISSUES

A report of the Director of Finance was presented to update Members on current issues affecting the Pension Fund locally or the Local Government Pension Scheme (LGPS) in general.

The following issues were highlighted:

- Regulations imposing a £95,000 Exit Cap Revoked.
- Scheme Advisory Board - Good Governance Review Final Report.
- Increasing the Normal Minimum Pension Age: Consultation on Implementation.

The Head of Pensions Governance and Investments provided a detail explanation on each item, the details of which were contained in the submitted report.

ORDERED that the information provided was received and noted.

20/48 **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.

Further commentary was provided at the meeting by both Advisers in relation to the economic recovery from the pandemic, the increase in bond yields, and the potential for inflation.

ORDERED that the information provided was received and noted.

20/49 **CBRE PROPERTY REPORT**

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.

The investment market was currently subdued. Shopping centres were under pressure although industrials continued to grow in favour. There was demand in the office sector for the best quality assets. Although there was an expectation of more liquidity in the markets once lockdown eased, it was not yet clear whether there would be more or less demand for offices or whether the move to online shopping would continue at the same pace.

Confirm that we have no shopping centres in the portfolio and no plans to put one forward as a recommendation. Have a number of retail parks which have been resilient and keeping the team busy in terms of new lettings quite pleasingly and lease renewals. Report refers to a couple of deals at the moment involved in.

The current arrears, as stated in the report, had fallen by £50K to currently £1.69 million. Quarterly collection statistics for this quarter had improved from the 81% as stated, to 85% and that compared quite favourably with most of CBRE's portfolios. It was highlighted that under Government legislation passed due to the covid-19 pandemic, no enforcement action could be taken against tenants who were in arrears. CBRE were working with tenants to recover arrears and agree payment plans.

In relation to vacant properties, the void rate was low: 2.45% against an industry benchmark of 11.9%. Completion of several lettings would further reduce that void rate.

CBRE continued to look for new investments for the Fund but there was a chronic shortage of suitable stock available on the current market. Hopefully the situation would improve lockdown eased and people would look at stock they might want to sell later in the year. It was noted that when suitable assets for the Fund did come to market, bidding could be fierce, particularly in logistics and industrials.

ORDERED that the information provided was received and noted.

ORDERED that the report was received and noted.

20/50 **XPS PENSIONS ADMINISTRATION REPORT**

A report was presented to provide an overview of administration services provided to the

Teesside Pension Fund by XPS Administration.

The following items were highlighted:

- Headlines – 95K Exit Cap and McCloud judgement.
- Membership Movement.
- Member Self Service - new website.
- Additional Work - Guaranteed Minimum Pension reconciliation exercise.
- Common Data.
- Conditional Data.
- Employer Liaison.
- Performance Charts.

In relation to the McCloud judgement, the expected remedy was that everybody who was in the scheme prior to 2012 and from 2014 onwards would now receive the same protections as those who were close to retirement. XPS was in the process of data collection, contacting each employer to ensure both sets of benefits could be calculated for everybody. Pensioners would receive the better of either the CARE benefit or the previous final salary benefits. This could affect a number of people for a number of decades. There could also be other impacts in relation to benefits statements, as potentially both sets of figures would need to be included from 2022, or once the legislation was in place.

It was reported that usage of the Pension Fund website was low and XPS were trying to encourage more people to sign up to it and use it. The website had the facility for members to do their own estimates and work out their benefits.

In relation to the Guaranteed Minimum Pension reconciliation exercise, the next stage would be a final check against HMRC records and then the calculation of any over or underpayments.

During the Covid-19 pandemic the Employer liaison team had been carrying out health checks with Employers virtually rather than in person. Service Level Agreements had been maintained throughout lockdown.

ORDERED that the information provided was received and noted.

20/51

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

None.