

TEESSIDE PENSION FUND

Administered by Middlesbrough Council

AGENDA ITEM 6

PENSION FUND COMMITTEE REPORT

23 JUNE 2021

DIRECTOR OF FINANCE – IAN WRIGHT

EXTERNAL MANAGERS' REPORTS

1. PURPOSE OF THE REPORT

- 1.1 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')

2. RECOMMENDATION

- 2.1 That Members note the report.

3. FINANCIAL IMPLICATIONS

- 3.1 Any decisions taken by Members, in light of information contained within this report, will have an impact on the performance of the Fund.

4. PERFORMANCE

- 4.1 As at 31 March 2021 the Fund had investments in the following two Border to Coast listed equity sub-funds:
 - The Border to Coast UK Listed Equity Fund, which has an active UK equity portfolio aiming to produce long term returns of at least 1% above the FTSE All Share index.
 - The Border to Coast Overseas Developed Markets Equity Fund, which has 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).

For both sub-funds the return target is an annual amount, expected to be delivered over rolling 3 year periods, before calculation of the management fee.

The Fund also has investments in the Border to Coast Private Equity sub-fund and the Border to Coast Infrastructure sub-fund. Total commitments of £50 million were made to each of these sub-funds for 2020/21, in addition to £100 million commitments to each sub-fund in 2019/20. Up to 31 March 2021 only around 15% of this total had been invested. These investments are not reflected within the Border to Coast report (at Appendix A).

- 4.2 The Border to Coast report shows the market value of the portfolio as at 31 March 2021 and the investment performance over the preceding quarter, year, and since the Fund's investments began. Border to Coast has also provided additional information within an appendix to that report 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 related to Border to Coast are also included. Border to Coast's UK Listed Equity performance has dipped slightly over the last year but still remains above target since inception. The performance of the Overseas Developed Markets fund is at or above target across all periods.
- 4.3 State Street has a passive global equity portfolio invested across four different region tracking indices appropriate to each region. The State Street report (at Appendix B) shows the market value of the State Street passive equity portfolio and the proportions invested in each region as at 31 March 2021. Performance figures are also shown in the report over a number of time periods and from inception – the date the Fund started investing passively with State Street in that region: for Japan and Asia Pacific ex Japan the inception date is 1 June 2001, as the Fund has been investing a small proportion of its assets in these regions passively for since then; for North America and Europe ex UK the inception date was in September 2018 so performance figures only cover around two and a half years as this represents a comparatively new investment for the Fund. The nature of passive investment – where an index is closely tracked in an automated or semi-automated way – means deviation from the index should always be low.
- 4.4 State Street continues to include additional information with their report this quarter, giving details of how the portfolio compares to the benchmark in terms of environmental, social and governance factors including separate sections on climate and stewardship issues. As the State Street investments are passive and closely track the appropriate regional equity indices, the portfolio's rating in these terms closely matches the benchmark indices ratings.
- 4.5 Members will be aware that the Fund holds equity investments over the long term, and performance can only realistic be judged over a significantly longer time-frame than a single quarter. However, it is important to monitor investment performance regularly and to understand the reasons behind any under of over performance against benchmarks and targets.

5. **RECENT CHANGES TO STATE STREET'S BENCHMARKS – EXCLUSION OF CERTAIN COMPANIES**

- 5.1 As reported to the 9 December 2020 Pension Fund Committee meeting, State Street advised investors in a number of its passively-invested funds, including the four State Street equity funds the Fund invests in, that is decided to exclude UN Global Compact violators and controversial weapons companies from those funds and the indices they track.
- 5.2 The Ten Principles of the United Nations Global Compact (derived from the Universal Declaration of Human Rights, the International Labour Organisation's Declaration on

Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption) are as follows (shown against four sub-categories):

Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

Labour

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

5.3 As was previously reported, for the four State Street funds the Fund is invested in the combined effect of applying this change to benchmarks excluded around 3.6% by value of the companies / securities across the regions.

5.4 The latest report shows performance of the State Street funds against the revised indices – excluding controversies (UN Global Compact violators) and excluding companies that manufacture controversial weapons. As expected for a passive fund, performance closely matches the performance of the respective indices.

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