

TEESSIDE PENSION FUND COMMITTEE

A meeting of the Teesside Pension Fund Committee was held on Wednesday 23 June 2021.

PRESENT: Councillors D Coupe (Chair), E Polano (Vice-Chair), J Beall, (Stockton Council), A Bell, R Creevy, (Hartlepool Council), T Furness, J Hobson, G Nightingale, (Redcar and Cleveland Council), J Rostron, M Storey and A Waters
B Foulger, GMB

ALSO IN ATTENDANCE: W Bourne, Independent Adviser
A Owen, A Peacock, CBRE
S Hayes, GBB
E Simpson, Gresham House

OFFICERS: S Bonner, W Brown, S Lightwing, N Orton, W Brown, I Wright

APOLOGIES FOR ABSENCE: were submitted on behalf of T Watson

21/1 **WELCOME AND EVACUATION PROCEDURE**

The Chair welcomed all present to the meeting and read out the Fire Evacuation Procedure.

21/2 **DECLARATIONS OF INTEREST**

Name of Member	Type of Interest	Item/Nature of Interest
Councillor Beall	Non pecuniary	Member of Teesside Pension Fund
Councillor Creevy	Non pecuniary	Member of Teesside Pension Fund
Councillor Rostron	Non pecuniary	Member of Teesside Pension Fund
Councillor M Storey	Non pecuniary	Member of Teesside Pension Fund
B Foulger	Non pecuniary	Member of Teesside Pension Fund

21/3 **MINUTES - TEESSIDE PENSION FUND COMMITTEE - 10 MARCH 2021**

The minutes of the meeting of the Teesside Pension Fund Committee held on 10 March 2021 were taken as read and approved as a correct record.

21/4 **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 Fund had no investments in Bonds currently.

At the June 2018 Committee it was agreed that a maximum level of 20% of the Fund would be held in cash. Cash levels at the end of March 2021 were 7.5%. 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, £36 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 January 2021 to 31 March 2021. There were net purchases of £10.1 million in the period, this compared to net purchases of £45.4 million in the previous reporting period.

As at 31 December 2020, the Fund had £340.8 million invested with approved counterparties. This was a decrease of £20.7 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 March 2021, including cash, was £4,553 million, compared with the last reported valuation as at 31 December 2020, of £4,385 million.

A summary analysis of the valuation showed the Fund's percentage weightings in the various asset classes as at 31 March 2021 compared with the Fund's customised benchmark. Work continued on the strategic asset allocation with significant commitments into Alternatives.

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. As at 31 March 2021 total commitments to private equity, infrastructure and other alternatives were approaching £931 million.

ORDERED that the report was received and noted.

21/5

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 and the Border to Coast Overseas Developed Markets Equity Fund. For both sub funds the return target was an annual amount, expected to be delivered over rolling three year periods, before calculation of the management fee.

The Fund also had 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 2020/2021, in addition to £100 million commitments to each sub-fund in 2019/2020. Up to 31 March 2021, around 15% of this total had been invested and these investments were not reflected within the Border to Coast report attached at Appendix A to the submitted report.

State Street had a passive global equity portfolio invested across four different region tracking indices appropriate to each region. The State Street report (attached at Appendix B to the submitted report) showed the market value of the State Street passive equity portfolio and the proportions invested in each region as at 31 March 2021.

State Street continued to include additional information with their report this quarter, giving details of how the portfolio compared to the benchmark in terms of environmental, social and governance factors including separate sections on climate and stewardship issues. As the State Street investments were passive and closely tracked the appropriate regional equity indices, the portfolio's rating in these terms closely matched the benchmark indices ratings.

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

ORDERED that the report was received and noted.

21/6

BORDER TO COAST UPDATE

A report was presented which provided an update on the following:

- Border to Coast (BCP) – Progress Update.
- Investment Update
 - UK Listed Equity Fund
 - Overseas Developed
 - Emerging Markets Hybrid
 - Alternatives.
- Real Estate.
- Approach to Responsible Investment.

The Head of Pensions Governance and Investments highlighted that at the end of March 2021, BCP had eleven partner funds and just under £22 billion of assets under management. There were also commitments of £5 billion to invest in private markets. BCP now had approximately 100 employees which was more than originally anticipated, partly because they had been very successful in getting private market commitments and therefore needed more staff.

In relation to responsible investment, BCP had a Voting Adviser who voted on over 12,000 company votes on a range of issues and actively engaged with 902 companies. This was a general benefit of pooling as the Teesside Pension Fund (TPF) did not have the resources to engage with that many companies.

Information regarding the Funds that had been launched by BCP was contained in the submitted report and also details of the performance of those Funds that the TPF was invested in.

The TPF had recently invested £200 million in the Emerging Markets Fund and a couple of external managers had been employed to do investments in China and other countries managed and invested in by BCP.

BCP had put forward a Real Estate proposition and the Committee would receive further details at the September meeting.

Finally, Members were invited to attend the BCP Annual Conference which would be held on 30 September and 1 October 2021 in Leeds. Further information would be forwarded to all Committee Members.

ORDERED that the report was received and noted.

21/7

REVISED FUNDING STRATEGY STATEMENT/EMPLOYER FLEXIBILITIES

A report of the Director of Finance was presented to advise Members of proposed changes to the Funding Strategy Statement which took into account recently published guidance on flexibilities available to employers in the Fund in relation to contribution rates, including contributions due when an employer exited the Fund.

The Funding Strategy Statement set out how the administering authority attempted to balance the conflicting aims of affordable contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

The Funding Strategy Statement was reviewed at least every three years, as part of the Fund's actuarial valuation, and was subject to review when changes to the regulations or

guidance governing the Local Government Pension Scheme (LGPS) required.

A copy of the revised Funding Strategy Statement was attached at Appendix A to the submitted report. The substantive changes from the previous version were as follows:

- The Statement explained how Deferred Employers and their liabilities would be treated. For example; for most Deferred Employers the expectation was that the funding target for employers with orphan liabilities would be used, as usually no employer would be supporting their liabilities once their deferred debt agreement ended.
- Any employer exits calculated after 23 June 2021 would include an allowance for the cost management process and the proposed remedy for the 'McCloud' discrimination as set out in MHCLG's consultation on draft regulations, as well as an allowance for payment of increases on Guaranteed Minimum Pensions (GMPs) at the full rate of CPI (price inflation) for members with a State Pension Age after 5 April 2016, consistent with the Government's policy intention. This was currently expected to result in an increase in exit liabilities of approximately 0.7%.
- The factors to be considered when considering allowing payment of exit debt in instalments and/or entering into a deferred debt arrangement were set out - such as employer covenant and whether any security or guarantee was available.
- Details of the how the process for reviewing an employer's contribution rate between valuations would operate, including dealing with an employer-generated request in relation to this. This included clarification that an employer request based purely on a change in market conditions affecting the value of assets and or liabilities would not be allowed. Detail of an appeals process – separate and in addition to the existing dispute resolution procedure which the Fund operates – was also included.
- The section on risks and control had been updated, adding risks relating to climate change and Covid-19 and updating the regulatory risks wording.

ORDERED as follows that:

- the revised Funding Strategy Statement was approved.
- the revised Funding Strategy Statement would be circulated to Fund employers for comment. Any substantive changes following the consultation would be reported back to the Committee for approval. At the end of the consultation period, the revised Funding Strategy Statement would be published.

21/8

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 William Bourne, in relation to the current state of the economic and the implications of the recovery from the Covid-19 pandemic and the potential for inflation. It was highlighted that Government legislation in relating to pooling was likely to become stricter. However, it was suggested that the Teesside Pension Fund should also look to invest outside of the pool arrangements and diversify. In relation to the Fund's cash holdings it was stressed that holding cash was a short, rather than a long term strategy.

ORDERED that the information provided was received and noted.

21/9

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.

While the outlook was improving and positive the UK economy was sitting around 8% below its pre-Covid level. Property sectors were behaving differently, with logistics different from online and retail. Demand for warehouses was huge but the high street was still suffering

with too much retail and rents were in decline. Shopping parks and supermarkets were also more positive with improving values. Office accommodation was a wait and see situation as it was not yet fully understood how and when people would return to office working following the pandemic.

In relation to a query regarding local investments, CBRE confirmed that they did not focus on a region when looking for acquisitions. The investment market had generally been very quiet with much less demand. Buyers had been unable to view properties during the pandemic and sellers were nervous about bringing assets to the market and selling too low. When CBRE recommended an asset to the Fund it was to improve the portfolio and consideration was also given as to whether the asset had an alternative use.

There were no sales during the last quarter, however leases on six properties had been negotiated. The Asset Management Update in the submitted report provided further details.

The rent collection across the entire portfolio in the previous three quarters was as follows:

March 2021 – 90.1%
December 2020 – 88.4%
September 2020- 95.1%

The total Collectable Arrears on the entire portfolio was £1,531,781 as at 28 May 2021. Details of the top six tenants with the greatest arrears, accounting for 76.5% of the total arrears were provided in the report. The remaining £560,621 (23.5% of the collectable arrears) of arrears was spread across 56 tenants.

The Committee was informed that the Government had extended the protection in relation to evictions until March 2022. On a positive note, the majority of the Fund's property tenants were acting responsibly and working with CBRE to ensure rents were paid.

ORDERED that the report was received and noted.

21/10

XPS PENSION 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:

- 2020 LGPS Scheme Annual Report.
- DWP Consultation on pension scams.
- Direction on GMP indexation.
- Prudential.
- Covid-19 – XPS update.
- Membership Movement.
- Member Self-Service.
- Complaints.
- Common Data.
- Conditional Data.
- Customer Service.
- Service Development
- Performance.
- Employer Liaison.

There had been an increase in active memberships which was good for cash flow coming into the Fund. There was also a sixth consecutive increase in pensions, with people over 55, some who had been made redundant, or people making life choices to retire.

Activation tokens had been developed to assist scheme members to get online on the website to check how their benefits were tracking and learn more about their pensions.

Work on the Guaranteed Minimum Pension continued. Work was beginning on calculations and then XPS would write to scheme members to advise them of the impact and how their benefits might be affected.

There were three complaints under investigation currently: 1 Stage One, 1 Stage Two and the third with the Ombudsman. With 71K scheme members, 3 complaints was a small number and there was no trend in the issues complained about. XPS endeavoured to learn from any mistakes and make sure they were not repeated.

From 2023 a pension dashboard programme would be introduced and the public sector would have to submit data. Logging onto an app would enable users to view all pension details in one place.

XPS continued to improve testing Conditional Data to ensure that it was a high standard.

The new Teesside Pension Fund website was launched in April 2021 for members and scheme employees. XPS was developing a feedback form and would use newsletters as a way of getting as much feedback from users as possible.

XPS were currently working on the year end exercise to ensure that the Annual Benefits Statements would be sent by 31 August 2021.

Finally, XPS had achieved 100 percent on the KPIs and details were attached at Appendix A to the submitted report.

Responding to a question regarding members who might not have access to the internet, it was confirmed that traditional methods of communication would continue and members would not be mandated to go online.

A request was made for information in relation to the demographics of active and deferred members.

ORDERED that:

1. the information provided was received and noted.
2. XPS would establish whether information in relation to the demographics of active and deferred members could be provided to the Committee.

21/11 **ANY OTHER URGENT ITEMS WHICH IN THE OPINION OF THE CHAIR, CAN BE CONSIDERED**

None.

21/12 **EXCLUSION OF PRESS AND PUBLIC**

ORDERED that the press and public be excluded from the meeting for the following items on the grounds that, if present, there would be disclosure to them of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 and that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

21/13 **LOCAL INVESTMENT PROPOSAL - FOLLOW-ON INVESTMENT**

The Head of Pensions Governance and Investments presented a report to advise Members of a proposal for a follow-on local investment and to request approval to proceed.

ORDERED that the recommendations, as set out in the submitted report, were approved.

21/14 **LOCAL INVESTMENT PROPOSAL - CO-INVESTMENT**

The Head of Pensions Governance and Investments presented a report to advise Members of a proposal for a Local Investment and to request approval to proceed.

ORDERED that the recommendation, as set out in the submitted report, was approved.

