



Teesside Pension Fund

Annual Report and Accounts
for the year ended

31 March 2020

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Report of those charged with Governance

Chairman's Introduction

Welcome to the 2019/20 Annual Report and Accounts of the Teesside Pension Fund. During the year most of the Fund's assets continued to be managed externally, with all its UK equities and a small proportion of its overseas equities managed by Border to Coast Pensions Partnership ('Border to Coast'), and the majority of its overseas equities invested passively. During the year significant commitments were made to private equity and infrastructure investments with Border to Coast. However, the nature of the investment process for those types of assets mean it will take a number of years for those commitments to be fully invested.

Border to Coast was set up by, and is wholly owned by, twelve (now eleven, following the planned merger of two of the founders) LGPS administering authorities each responsible for an LGPS fund. It was established to meet central government's requirement that local government pension schemes pool their investment assets to deliver savings and improve governance. Middlesbrough Council (as administering authority for the Teesside Pension Fund) is one of the owners and customers of Border to Coast. By the end of the year **33%** of the Fund's assets were invested through Border to Coast, with this percentage expected to increase significantly over coming years.

In the markets there was significant volatility during 2019/20, with increases towards the start of the year followed by a large drop in global financial markets towards the end of the year as a consequence of the Covid-19 pandemic and concerns about its financial impact. Domestic issues such as the 2019 general election outcome and the UK leaving the European Union on 31 January 2020 were overshadowed by the impact of the pandemic. Similarly, global issues such as US / China trade negotiations and the nature of the eventual trading relationship between the UK and EU were also put to one side as the focus quickly moved to the effect of the pandemic on economies, industries, trade and growth. The Fund is overweight in equities and consequently saw a significant fall in value by the end of the year. As a long-term investor the Fund can accept volatility in its risk assets, and is not in a position where it needs to sell equities when they are at a low level.

The Fund made some small changes to asset allocation over the year increasing allocations to 'alternatives' such as private equity and infrastructure, bring these closer to their strategic target levels.

The overall financial performance of the Fund for the year to 31 March 2020 was negative. The Fund's value fell to £3.705 billion, a decrease over the year of approximately £383 million. This drop in value somewhat overshadowed what was a very positive outcome of the latest triennial valuation of the Fund, details of which are set out below.

The membership of the Fund has increased, with total membership at the year-end now standing at 71,577 an increase of 1,509 over last year. The number of active members has increased by 714 or 3.1% over the year, and increased by 3.5% over the past four years. The number of pensioners increased by 668 or 2.8% over the year, and increased by 13.6% over the past four years. The number of deferred members increased last year by 127 or 0.5%, and increased by 4.6% over the past four years.

Where a member retires early on the grounds of redundancy or business efficiency there is a cost to the Fund arising from the fact that a pension is drawn earlier than the Actuary had

assumed and for these types of retirement the normal early retirement reductions do not apply. It is the policy of the Fund to recharge the actuarial cost of these retirements to the employers. This policy has the advantage that the Fund recovers the cost of an early retirement at the outset. For the employer the advantages are twofold;

- 1 the impact of retirement decisions is transparent; and
- 2 the cost is invoiced separately rather than being recovered in the employer's contribution rate, which was once the case.

In this financial year the Fund received just under £4.0 million from these early retirement recharges, down on last year's figure of £4.1 million, a 2% decrease on last year.

Every three years the Fund actuary, AON Hewitt, carries out a full actuarial valuation of the Fund. The purpose is to calculate how much employers in the scheme need to contribute going forward to ensure that the Fund's liabilities, the pensions due to current and future pensioners, will be covered. Unlike all the other major public sector schemes the Local Government Scheme is a funded scheme. That means there is a pool of investments producing income which meet a significant part of the liabilities.

The latest actuarial valuation of the Fund was as at 31 March 2019, with the final report published at the end of March 2020. The actuary calculates to what extent the Fund's assets meet its liabilities. This is presented as a Funding Level. The aim of the Fund is to be 100% funded, and at the latest valuation the actuary was able to declare a funding level of 115%. This is particularly pleasing since it is the third time in succession that the Fund is able to declare it is fully funded. The next valuation is due to be carried out as at 31 March 2022 with the final report due to be published in March 2023 and any changes required to employer contribution rates due to come into force from April 2023.

Nature of the Scheme

The Teesside Pension Fund (the Fund) is part of the Local Government Pension Scheme is governed by Public Service Pensions Act 2013 and the following 'secondary' legislation (all as amended):

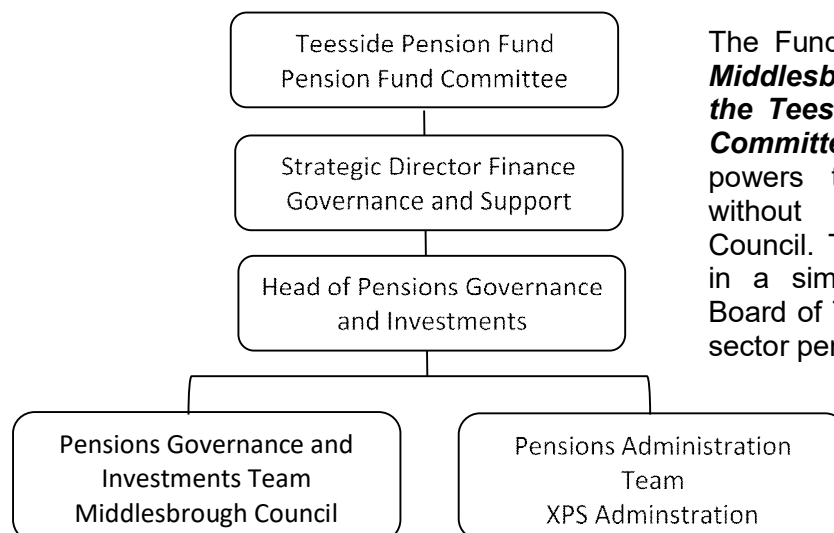
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016;
- The Local Government Pension Scheme Regulations 2013; and
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014.

The regulations have changed over the years as the nature of the scheme has changed – the most significant recent change applied from April 2014 when the scheme moved (for future benefits) to a career average revalued earnings scheme from a final salary scheme. More information about the scheme, including updated scheme guides and details of scheme member benefits and contributions can be found on the national scheme member website www.lgpsmember.org and on our website at: www.teespen.org.uk.

The Regulations specify the pensions and other benefits payable and fix the rates of member contributions. Employer contributions are set every three years by the Fund Actuary. The purpose of the Fund is to provide retirement benefits for local authority employees in the Teesside area and other bodies admitted by agreement. The Fund is administered by Middlesbrough Council on behalf of all participating employers. A full list of participating organisations is given in the Membership section below.

The Fund is financed by way of contributions from employers and employees, based upon a percentage of pensionable pay, and supplemented by earnings from Fund investments. The funds assets, after payment of benefits, are invested as directed by the Pension Fund Committee. The Committee comprises elected members of Middlesbrough Council, representatives of the other unitary authorities, the Trade Unions and the Fund's Investment Advisers.

Management of the Fund



The Fund is administered by **Middlesbrough Council** via the **Teesside Pension Fund Committee** which has plenary powers to make decisions without reference to the Council. This Committee acts in a similar manner to the Board of Trustees of a private sector pension fund.

The day to day running of the Teesside Pension Fund is delegated to the Strategic Director of Finance Governance and Support of Middlesbrough Council who is responsible for implementing the strategies and policies set by the Pension Fund Committee. Supporting the Director is the Head of Pensions Governance and Investments who oversees two groups: The Pensions Administration Team is responsible for the calculation and payment of pension benefits and for looking after employer interests in the Fund. This function is currently outsourced and is delivered by XPS Administration. The Pensions Governance and Investments Team manages the investment of the Fund in conjunction with the advice of the Fund's external Investment Advisers, as well as providing support to the Pension Fund Committee and Teesside Pension Board.

The Teesside Pension Fund Committee

Committee membership and meeting attendance during the year 2019/20

Members	With voting rights	Jun	Sep	Dec	Mar
Middlesbrough Council	Councillor DP Coupe	✓	✓	✓	✓
	Councillor J Rostron	✓	✓	✓	✓
	Councillor Polano	✓	✓	✓	
	Councillor Bell			✓	✓
	Councillor Cooper			✓	✓
	Councillor Dean	✓		✓	
	Councillor Furness	✓	✓	✓	✓

Members	With voting rights	Jun	Sep	Dec	Mar
	Councillor J Rathmell	✓			
	Councillor Sands	✓	✓		✓
	Councillor S Walker	✓			✓
Redcar & Cleveland BC	Councillor Nightingale		✓	✓	✓
Stockton BC	Councillor J Beall				✓
Hartlepool BC	Vacancy				
Independent	Mr P Fleck	✓			
Trades Unions	Tony Watson (UNISON)	✓	✓	✓	✓
	B Foulger (GMB)			✓	✓

Declaration of Interest

Councillor J Rostron, D P Coupe, L Lewis

The committee invites representatives from all the district councils in the former Cleveland County area as well as representatives from the Trade Unions. The committee held four quarterly meetings during the year.

The size and political make-up of the committee is determined annually by Middlesbrough Council, and the Councillors are then nominated by each political party. Representatives of the other district Councils are nominated by them. The 'Other Employers' representative, is chosen by election by the admitted bodies of the Fund.

Terms of Reference – Teesside Pension Fund Committee

Terms of Reference:

The Pension Fund Committee's principal aim is to carry out the functions of Middlesbrough Council as the Scheme Manager and Administering Authority for the Teesside Pension Fund in accordance with Local Government Pension Scheme and any other relevant legislation.

In its role as the administering authority, Middlesbrough Council owes fiduciary duties to the employers and members of the Teesside Pension Fund and must not compromise this with its own particular interests. Consequently this fiduciary duty is a responsibility of the Pension Fund Committee and its members must not compromise this with their own individual interests.

The Pension Fund Committee has the following specific roles and functions, taking account of advice from the Chief Finance Officer (the Strategic Director of Finance Governance and Support) and the Fund's professional advisers:

- a) Ensuring the Teesside Pension Fund is managed and pension payments are made in compliance with the Local Government Pension Scheme Regulations, Her Majesty's Revenue & Customs requirements for UK registered pension schemes and all other relevant statutory provisions.
- b) Ensuring robust risk management arrangements are in place.

- c) Ensuring the Council operates with due regard and in the spirit of all relevant statutory and non-statutory best practice guidance in relation to its management of the Teesside Pension Fund.
- d) Determining the Pension Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including in relation to the following areas:
 - i) Governance – approving the Fund's Governance Policy and Compliance Statement for the Fund within the framework as determined by Middlesbrough Council and making recommendations to Middlesbrough Council about any changes to that framework.
 - ii) Funding Strategy – approving the Fund's Funding Strategy Statement including ongoing monitoring and management of the liabilities, ensuring appropriate funding plans are in place for all employers in the Fund, overseeing the triennial valuation and interim valuations, and working with the actuary in determining the appropriate level of employer contributions for each employer.
 - iii) Investment strategy - approving the Fund's Investment Strategy Statement and Compliance Statement including setting investment targets and ensuring these are aligned with the Fund's specific liability profile and risk appetite.
 - iv) Administration Strategy – approving the Fund's Administration Strategy determining how the Council will administer the Fund including collecting payments due, calculating and paying benefits, gathering information from and providing information to scheme members and employers.
 - v) Communications Strategy – approving the Fund's Communication Strategy, determining the methods of communications with the various stakeholders including scheme members and employers.
 - vi) Discretions – determining how the various administering authority discretions are operated for the Fund.
- e) Monitoring the implementation of these policies and strategies on an ongoing basis.
- f) In relation to the Border to Coast; the asset pooling collaboration arrangements:
 - i) Monitoring the performance of the Border to Coast and recommending actions to the Border to Coast Joint Committee, The Mayor or his Nominee (in his role as the nominated person to exercise Shareholder rights and responsibilities), Officers Groups or Border to Coast, as appropriate.
 - ii) Undertake the role of Authority in relation to the Inter Authority Agreement, including but not limited to:
 - Requesting variations to the Inter Authority Agreement
 - Withdrawing from the Inter Authority Agreement
 - Appointing Middlesbrough Council officers to the Officer Operations Group.
- g) Considering the Fund's financial statements and the Fund's annual report.
- h) Selection, appointment, dismissal and monitoring of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, independent professional advisers and AVC provider.
- i) Liaison with internal and external audit, including providing recommendations in relation to areas to be covered in audit plans, considering audit reports and ensuring appropriate changes are made following receipt of audit findings
- j) Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.
- k) Agreeing the terms and payment of bulk transfers into and out of the Fund.
- l) Agreeing Pension Fund business plans and monitoring progress against them.

- m) Agreeing the Fund's Knowledge and Skills Policy for all Pension Fund Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.
- n) Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
- o) Receiving ongoing reports from the Chief Finance Officer, the Head of Pensions Governance and Investments and other relevant officers in relation to delegated functions.

Teesside Pension Board

The Public Service Pensions Act 2013 introduced a requirement for public service pension schemes to have pension boards. The pension board for the Teesside Pension Fund is the Teesside Pension Board. The Teesside Pension Fund Committee is still the main decision making committee for the Fund, whereas the Teesside Pension Board assists Middlesbrough Borough Council, as the Administering Authority, to:

- a) Secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pension Regulator in relation to the Scheme; and
- b) To ensure the effective and efficient governance and administration of the Scheme.

The Teesside Pension Board is made up of six voting members as follows:-

3 employer representatives; and 3 scheme member representatives.

Fund Administrators and Advisors

Administration

Chief Finance Officer	Ian Wright
Head of Pensions Governance and Investments	Nick Orton
Pensions Administration Manager	Graeme Hall, XPS Administration
Solicitor to the Fund	Charlotte Benjamin

Advisors to the Fund

Actuary	Aon Hewitt Limited
Solicitors	Nabarro LLP & Freeth Cartwright LLP
Auditors	Ernst & Young LLP
Investment Advisors	William Bourne and Peter Moon
Property Managers	CBRE
Custodian	The Northern Trust Company
AVC Providers	Prudential Assurance, Phoenix Life
Bankers	The NatWest Bank Plc

The Pensions Landscape

All of the major public sector schemes changed radically from April 2015, with new public sector schemes established and operated in accordance with the Public Service Pensions Act 2013. However, due in part to its unique ‘funded’ status amongst these schemes, the LGPS changed a year earlier from April 2014, meaning the career-average revalued earnings LGPS has now been in place for five years. More detail on how the current LGPS compares to previous versions of the scheme is contained in the “Summary of LGPS benefits” section.

Government changes to the wider pensions landscape were also introduced from April 2015, promoting “Freedom and choice” granting greater flexibility in how and when they access their pension savings. These changes largely impact upon defined contribution schemes and, due to the nature of the LGPS, do not have major impact upon the scheme or its operation. However, members making Additional Voluntary Contributions can now potentially access monies from these funds from age 55, whilst still contributing to the LGPS, or transfer to another provider.

The limits on tax relief available for pension saving have remained broadly flat over the year, with the standard annual allowance figure remaining at £40,000, but with a lower figure applied for high earners. The lifetime allowance increased to £1.055m from April 2019, and will rise again to £1.0731m for the 2020/21 tax year. The lifetime allowance limit is only breached by a very small proportion of the LGPS membership, but the annual allowance continues to mean that more members could face a potential tax charge in the future.

The introduction of the new Single Tier State Pension from April 2016 also marked the end of “contracting-out” for public sector schemes like the LGPS. Previously, schemes such as the LGPS were allowed to contract-out of the additional element of the State Pension (meaning that members paid reduced National Insurance contributions) in return for providing benefits at least equal to those that the State would have provided if the higher contribution rate had been paid.

A very significant development across all public sector pension schemes has occurred within the last year. When the Government reformed public service pension schemes in 2014 and 2015, they introduced protections for older scheme members. The Court of Appeal ruled that younger members of the Judges and Firefighters Pension schemes were discriminated against because the protections did not apply to them. The Government has confirmed that there will be changes to all public sector schemes to remove this age discrimination.

The Government and the LGPS Scheme Advisory Board (SAB) are having high level discussions about what this means for the LGPS. The SAB is confident that the eventual outcome will provide younger members in scope with protection that is equal to the protection provided to older members.

The protection compares the benefits payable under the current rules with the benefits that would have been paid if the Scheme had not changed in 2014 and pays the higher. This protection will apply automatically.

Scheme specific changes

On 1 April 2014 the new look LGPS came into force, reflecting the changes required to public sector schemes derived from the Public Service Pension Commission recommendations.

From 1 April 2014:

- The LGPS became a Career Average Revalued Earnings (CARE) scheme using price inflation – the Consumer Prices Index (CPI) as the revaluation factor (the previous scheme was a final salary scheme).
- The rate pension builds up 1/49th of pensionable pay each year where the previous scheme rate was 1/60th.
- There is no fixed scheme pension age, instead each member's Normal Pension Age (NPA) is their State Pension Age, with a minimum of 65 (the former scheme had a fixed pension age of 65).
- Member contributions to the scheme are set at one of nine different contribution bands, between 5.5% and 12.5% of pensionable pay, set based on the level of actual pensionable pay the scheme member receives.
- There is a facility for members to choose to pay half contributions for half the pension. This is known as the 50/50 option (earlier schemes had no such option). The intention was to provide a lower cost option for members who were perhaps considering opting-out of the scheme.
- Members' benefits for service prior to 1 April 2014 are protected, including protecting the earliest age a scheme member could receive a pension without early retirement reductions applying. Protected past service continues to be based on final salary and age 65 NPA.

All members of the previous scheme (the 2008 scheme) automatically became members of the 2014 scheme where their employment continued beyond 31 March 2014. A summary of the 2014 scheme provisions and a comparison to the 2008 scheme is highlighted in section Summary of LGPS benefits.

The Local Government Pension Scheme (Amendment) Regulations 2018, which came into force on 14 May 2018, made a number of changes to the rules governing the scheme, the most significant of these were:

- Allowing all individuals who have left the scheme to be able to choose to draw reduced pension benefits from age 55 onwards without their former employer's consent. Previously individual who had left the scheme before April 2014 had to wait until at least age 60 before they could draw reduced pension benefits without their former employer's consent.
- Increasing the maximum Additional Voluntary Contributions (AVCs) an active scheme member can make to up to 100% of pensionable pay. Previously active members who started paying AVCs before April 2014 were only able to pay a maximum of 50% of their pensionable pay in AVCs.
- Allowing some employers who stop participating in the scheme to potentially receive an exit payment if their part of the scheme is in surplus when they leave.

Amendment Regulations since then have made further changes to the rules governing the scheme including:

- Introducing a general power for the Secretary of State to issue statutory guidance.
- Ensuring that survivors of registered civil partners or same sex marriages are provided with benefits that replicate those provided to widows.
- The introduction of pensions for survivors in an opposite sex civil partnership.

Promoting Scheme Membership

The Fund continues to promote Scheme membership and much of this work over the past twelve months has been directed at our newer employers and employees.

Employers have a very important role to play in the operation of the pension scheme, and in giving reassurance to their employees with regards to the scheme's short and long term benefits.

A variety of methods are used here such as workplace posters, presentations and staff briefings and also employer awareness courses that assist the employer to understand and impart general knowledge of the scheme to their staff.

With more people looking towards technology these days, we have continued to promote our Member Self Service (MSS) throughout the year. This facility allows scheme members to view their pension record(s) on-line as well as being able to run their own pension calculations.

Risk management

The Investment Strategy Statement sets out the approach of the Fund in identifying, mitigating and managing risk. The Fund's primary long term risk is that the Fund's assets do not meet its liabilities, that is, the benefits payable to its members. The aim of the Fund's investment management is to achieve the long term target rate of return with an acceptable level of risk.

There are three key forms of risk specific to the investment of assets:

- a) That associated with security of the Fund's assets.
- b) That associated with loss of value relating to those assets.
- c) That associated with the ability of those assets to provide required rates of return.

a) Security of the Fund's Assets

The Fund's Custodian, Northern Trust, holds the majority of the Fund's Assets. An agreement is in place protecting the Fund against fraudulent loss and regular checks are made by independent auditors regarding the integrity of the Custodian's systems. In addition the Fund's Direct Property assets are registered in the name of Middlesbrough Council and the Title Deeds and documents held by the Fund's solicitors, Freeths. Cash balances belonging to the Fund are invested in accordance with agreed criteria, which take into account an appreciation of risk.

b) Asset Risk

The value of all investments can go down as well as up. Even investments in Gilts, securities issued by HM Government, are not without risk. Individual companies can cease to trade, with shareholders well down the list of creditors.

The best way to protect the Fund against asset risk is through diversification into a number of asset classes, a range of countries and a range of companies. The Teesside Pension Fund Committee ensures the Fund has sufficient diversification at their committee meetings.

c) Investment Risk

One of the Pension Fund Committee's most important duties is to make sure that the Fund has enough Assets to pay the benefits already earned by scheme members. On top of that they are looking to achieve sufficient return on those Assets to keep down the cost of building up future benefits. In order to meet these responsibilities the Pension Fund Committee sets a performance benchmark against which they can measure the progress of the Fund's investments. Funds which outperform their benchmark can reduce costs compared with those which underperform.

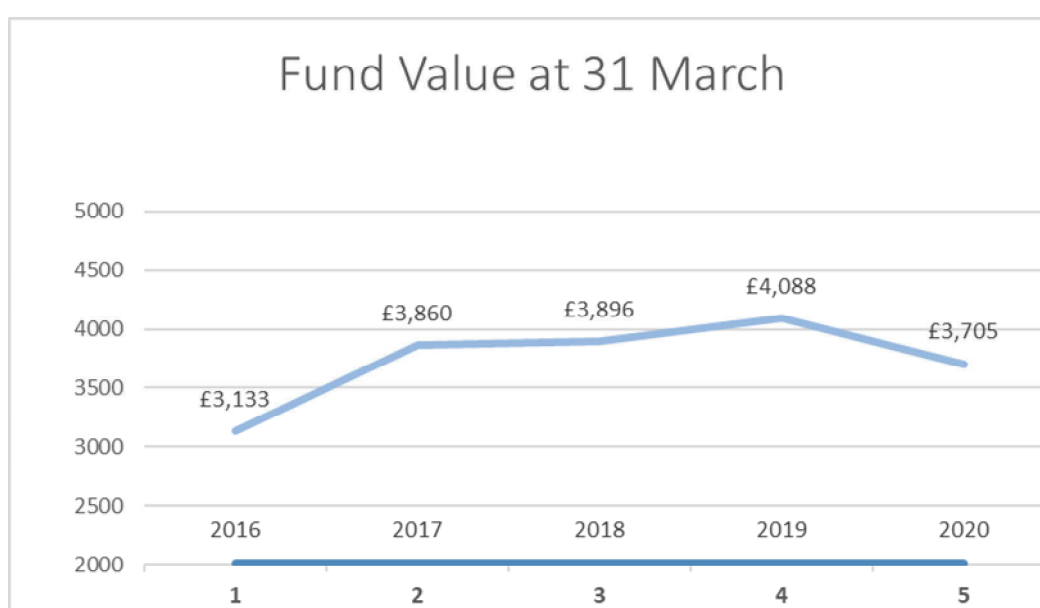
For the Fund to significantly outperform its benchmark it needs to have an asset mix which is different from that of its benchmark. The more outperformance is required the greater the differences will need to be. In other words outperformance cannot be achieved without taking risks. Measurement of risk can identify whether the risk profile is, on one hand, large enough to deliver the required relative returns or alternatively so great as to lead to the possibility of serious underperformance.

The Asset/Liability Study, carried out every three years by the Fund Actuary in conjunction with the Fund's Investment Advisors, assesses the degree of risk which the Fund needs to incorporate into its investment strategy, mainly expressed as the split between bonds and equities, in order to meet its liabilities and in particular to achieve the goal of employer contribution rates which are both low and stable.

Financial Performance Report

Income, Expenditure and Fund value

The Fund's Financial Statements show that the Net Asset Value has decreased by 9% compared to the previous year. Over the last 5 years, from the 2016 value of £3,133 million, the value of Net Assets has increased by 18%



Finance Performance Report

	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000
Fund Value at the start of the year	3,243,794	3,133,118	3,859,589	3,896,452	4,088,095
Income	184,985	199,644	207,829	159,468	152,932
Expenditure	(131,993)	(139,542)	(146,866)	(162,057)	(167,397)
Change in Market Value of Investments	(163,668)	666,369	(24,100)	194,232	(368,157)
Increase/(Decrease) in Fund during the year	(110,676)	726,471	36,863	191,643	(382,622)
Fund Value at the end of the year	3,133,118	3,859,589	3,896,452	4,088,095	3,705,473
Change in Fund Value %	(3%)	23%	1%	5%	(9%)

Financial Highlights

	£000	£000	£000	£000	£000
Pensions Paid	98,348	101,668	105,369	113,219	119,302
Administration Costs	1,558	1,870	1,672	1,692	2,185
Investment Management Costs	3,418	2,596	2,451	5,314	1,480
Oversight and Governance Costs	177	207	684	1,238	3,768

Membership

	2016	2017	2018	2019	2020
	No	No	No	No	No
Active	22,637	23,791	23,295	22,274	23,438
Deferred	22,453	22,861	23,243	23,361	23,488
Pensioner	21,699	22,177	22,757	23,983	24,651
Total	66,789	68,829	69,295	70,068	71,577

Fund Averages

	£	£	£	£	£
Fund value per member	46,910	56,075	56,230	58,345	51,769
Average Pension Paid	4,532	4,584	4,630	4,721	4,840
Total expenses cost per member	77	68	69	118	104
Administration Cost per member	23	27	24	24	31
Investment Management cost per member	51	38	35	76	21
Oversight and Governance costs per member	3	3	10	18	53

Analytical review of the financial year

The financial performance of pension funds can vary significantly year on year - the total fund value can undergo large movements resulting from the change in the market value of investments, and within the fund account the 'net additions (withdrawals) from dealings with members' can vary due to external factors affecting the fund itself or the principal employers within it.

The significant impact of, unforeseeable and unquantifiable, external factors have resulted in the policy of the administering authority not to set a budget for future periods for Teesside Pension Fund. It was felt that any budget would contain too many unknowable variables to be of any practical use and analysis of budget variances would contain inaccurate assumptions.

For this reason, it was felt that a much more meaningful analysis of the financial performance of the Fund could be gained from comparison with the performance in the previous year and the principal variances and movements in the financial performance of the fund in comparison with the previous year were as follows;

Summary of Analytical Review 2019/20

Fund Account	Notes	2018/19 £ ' 000	2019/20 £ ' 000	Change
Contributions and Other Income				
Employers Normal & Deficit	1	67,315	69,495	3%
Employers Additional	2	23	12	(48%)
Employees Normal	3	27,191	29,914	10%
Transfers in	4	4,972	8,546	72%
Capital Costs of Early Retirements	5	4,075	3,982	(2%)
Other Income		581	3	(99%)
Total Income		104,157	111,952	7%
Benefits and Other Expenditure				
Benefits	6	113,219	119,302	5%
Benefits - Basic Lump Sum	7	25,463	24,257	(5%)
Benefits - Lump Sums on Death		2,915	2,700	(7%)
Individual Transfers to other Schemes	8	11,710	13,279	13%
Administrative Expenses	9	1,692	2,185	29%
Investment Management Expenses	10	5,314	1,480	(72%)
Oversight and Governance Costs	11	1,260	3,790	201%
Other Expenditure	12	484	404	(17%)
Total Expenditure		162,057	167,397	3%
Return on Investments				
Dividends	13	35,314	20,764	(41%)
Rents	14	15,414	15,682	2%
Interest	15	4,583	4,534	(1%)
Profit on Sale of Investments		1,131,178	22,069	(98%)
Unrealised gain / (loss) on Revaluation		(936,946)	(390,226)	(58%)
Total Return on Investments		249,543	(327,177)	(231%)
Net Increase in the Fund in the Year		191,643	(382,622)	(300%)

Explanation of variances

	2018/19	2019/20		
1 Employers Normal Contributions & Deficit contributions - £000	67,315	69,495	increase of	3%

Employers normal contributions have increased by £2.2m, and deficit contributions have decreased by £2.1m, which has given an overall increase of £2.2m in the year.

	2018/19	2019/20		
2 Employers Additional Contributions - £000	23	12	decrease of	(48%)

Payments of additional contributions for authorised leave and maternity has decreased during 2019/20.

	2018/19	2019/20		
3 Employees Normal Contributions - £000	27,191	29,914	increase of	10%

Auto enrolment continues to make contributions to the scheme, and the ability for employees to pay 50% contributions continues to have a positive effect for the year.

	2018/19	2019/20		
4 Transfers In - £000	4,972	8,546	increase of	72%

In 2019/20 286 transfers were received into the scheme at an average value of £29.6k, compared to 201 transfers at an average value of £24.7k in 2018/19.

	2018/19	2019/20		
5 Capital Cost of Early Retirements - £000	4,075	3,982	decrease of	(2%)

The number of early retirements has decreased compared to the previous year, and the average cost per retirement has also decreased. The retirements from the Councils processed in the year were as follows;

	Number	Total Cost	Average
Hartlepool Borough Council	15	£404,965	£26,998
Middlesbrough Council	23	£586,276	£25,490
Stockton Borough Council	20	£836,367	£41,818
Redcar & Cleveland Borough Council	22	£508,320	£23,105
Total	80	£2,335,928	£29,199

6	Benefits - £000	2018/19	2019/20	increase of 5%
		113,219	119,302	

At the year-end there were 24,651 Pensioner Members / Dependents receiving pension benefits, at an average of £4,840 per annum. (2018/19 23,983 receiving benefits at an average of £4,721 per annum).

7	Benefits - Basic Lump Sum - £000	2018/19	2019/20	decrease of (5%)
		25,463	24,257	

There has been an decrease of 5% in the value of Lump Sums paid by the Fund during the year, with the number of recipients decreasing to 460 (2018/19 1,529)

8	Individual Transfers to Other Schemes - £000	2018/19	2019/20	increase of 13%
		11,710	13,279	

Transfers out can vary quite markedly year on year depending on both numbers and the type of people transferring. For 2019/20, the individual transfers out was £13,279k (2018/19 £11,710k), an increase from the previous year. In term of numbers, the transfers out for 2019/20 were 200 (2018/19 169)

	Number	Total Cost	Average
2019/20	200	£13,279,500	£66,398
2018/19	169	£11,714,000	£69,314

9	Administrative Expenses - £000	2018/19	2019/20	increase of 29%
		1,692	2,185	

There has been an increase of 29% in Administration costs in 2019/20.

10	Investment Management Expenses - £000	2018/19	2019/20	decrease of (72%)
		5,314	1,480	

A reduction in transaction costs of £1,839k to £120k in 19/20. Border to Coast set up costs and management fees for 19/20, which equated to £1,630k in 18/19 are now in Oversight and Governance.

	2018/19	2019/20	
11 Oversight and Governance Costs - £000	1260	3790	increase of 201%

Border to Coast management fees for 19/20 have been included which equates to £1,599k.

	2018/19	2019/20	
12 Other Expenditure - £000	484	404	decrease of (17%)

An decrease in Other Expenditure reflects the decrease in refunds to leaving members.

	2018/19	2019/20	
13 Dividend Income - £000	35,314	20,764	decrease of (41%)

Overall Dividend Income has decreased by £14.6 million (18/19 decreased by £56.4million) which is due to the sale of fund equities. Equities are now mainly owned by the Fund in pooled vehicles, where dividend income is reinvested instead of being distributed.

	2018/19	2019/20	
14 Rent - £000	15,414	15,682	increase of 2%

Increased rental income from rent increases.

	2018/19	2019/20	
15 Interest - £000	4,583	4,534	decrease of (1%)

A reduction in the base rate in March 20 along with fewer cash investments has led to decrease in interest received.

	2018/19	2019/20	
16 Investments - £000	3,540,968	3,198,000	decrease of 11%

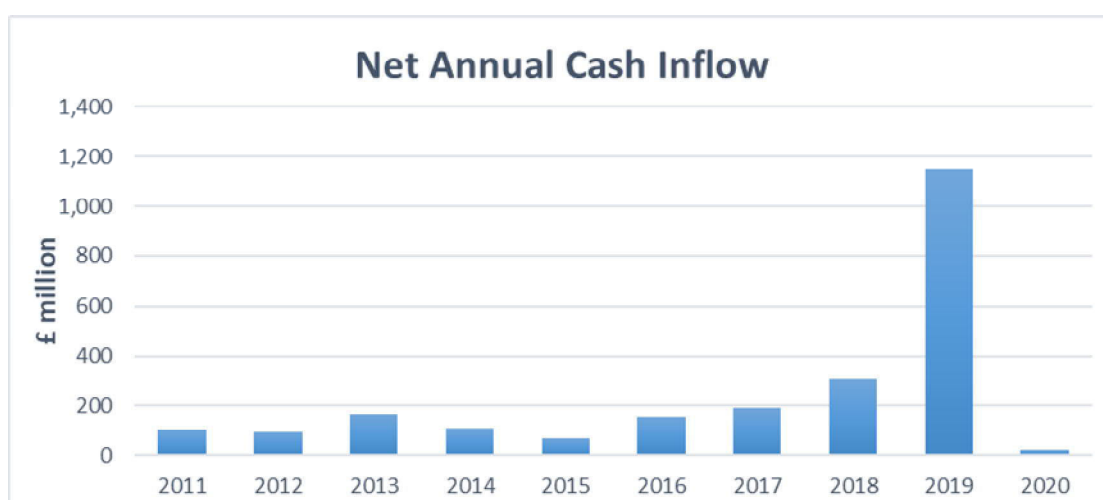
Investment values for the portfolio showed an 11% decrease in value (£343 million) for the year.

	2018/19	2019/20	
17 Cash - £000	542,261	515,228	decrease of 5%

Cash has reduced over the year due to new investments in Private Equity, Infrastructure and Other Alternative funds following divestments from equities, as part of the Fund's transformation to pooling.

Cashflow Statement

	£000 2018/19	£000 2019/20
Cashflow from Operating Activities		
Cash received for Contributions	98,433	100,185
Cash received for Early Retirements	5,011	3,948
Cash Received from Transfers In	4,972	8,546
Cash Received from Investments	71,042	53,900
Cash Received from Sales of Investments	1,131,177	22,069
Cash from Other Income	581	3
Total Cash Received	1,311,216	188,651
Cash paid for Benefits	141,597	146,259
Cash paid for Transfers Out	12,194	13,683
Cash paid for Management Expenses	9,095	7,433
Total Cash Paid	162,886	167,375
Net Cash Inflow from Operating Activities	1,148,330	21,276
Application of Cash		
Net Sales / Purchases of Investments	1,101,160	46,447
Increase in Cash with Custodian	5,946	0
Increase in Cash on Deposit	41,530	(26,159)
Decrease in Cash at Bank	113	(103)
Increase in Other Debtor Balances	(80)	114
Increase in Other Creditor Balances	(339)	977
	1,148,330	21,276



The net annual cash flow of the Fund has, to date, always been positive and the realised profit and losses on the sale of investments can have a very significant impact in any one year.

Asset Allocation Strategy

The Investment Strategy Statement sets out how the Fund plans to invest its assets. This strategy is set for the long term and is reviewed every 3 years as part of the Fund's Asset/Liability study to ensure that it remains appropriate to the Fund's liability profile. As part of the strategy the Administering Authority has adopted a strategic benchmark representing the mix of assets best able to meet the long term liabilities of the Fund. As at 31 March 2020 the actual assets compared to the benchmark as follows;

	Pension Fund at 31/03/2020	Pension Fund Target Strategic Allocation	Investment Strategy Statement Max	Investment Strategy Statement Min
UK Equities	28%	22%	80%	40%
Overseas Equities	44%	28%		
Alternatives	6%	15%	20%	10%
Property and Property Debt	9%	15%	20%	10%
Bonds	0%	18%	40%	2%
Cash	13%	2%		
	100%	100%		

The Fund asset mix % varies slightly from the statutory accounts due to internal classification differences.

Amounts due to the Fund from Employers

	2018/19 £ ' 000	2019/20 £ ' 000
Current Assets		
Contributions in Respect of Employers	5,652	5,127
Contributions in Respect of Members	2,289	2,050
Amounts due in respect of early retirements	5	181
	<u>7,946</u>	<u>7,358</u>

The Contributions due are in respect of March 2020 and were received in April 2020.

Payment of Contributions to the Fund

Employers are required to pay employers and employees contributions to the Fund within 19 days of the end of the month to which they relate. The payment of contributions is monitored for timeliness and accuracy of payment.

Analysis of Contributions received

Total number of Contribution payments received

1,859

Number received late

55

The following table shows the late payment history for 2019/20 :-

Number of days payment was late	Number of late payments	Percentage of late payments
Less than 10	21	38.18%
Between 10 and 19	15	27.27%
Between 20 and 29	7	12.73%
Between 30 and 39	4	7.27%
More than 40	8	14.55%
Total	55	100.0%

Analysis of Contribution rates and amounts received 2019/20

	Employers Rate %	Employees £000	Employers £000
All Saints Academy	17.5%	26	75
Ash Trees Academy	17.5%	56	174
Ayresome Primary School	17.5%	48	144
Badger Hill Academy	17.5%	5	17
Barnard Grove Primary School	17.5%	2	5
Beamish Museum Ltd	15.7%	154	389
Beyond Housing	17.2%	500	1,299
Billingham Town Council	17.3%	7	21
Brougham Primary School	17.5%	20	60
Business and Enterprise Commercial Ltd	12.7%	3	67
Caldicotes Primary Academy	17.5%	7	20
Care and Custody Health Ltd	17.0%	16	41
Care Quality Commission	17.9%	1,085	2,519
Carmel Education Trust	17.5%	4	0
Catcote Academy	17.5%	94	281
Caterlink - Ironstone	15.1%	0	0
Caterlink - RCBC - 00353	15.1%	8	20
Caterlink - St_Oswalds	15.1%	3	8
Churchill's Outwood Grange	17.5%	7	19
Cleveland College of Art and Design	15.2%	140	260
Cleveland Fire Brigade	16.1%	223	600
Cleveland Fire Support Network	16.1%	3	6
Community Integrated Care	23.0%	5	12
Compass Contract Services Ltd	17.0%	41	102

	Employers Rate %	Employees £000	Employers £000
Conyers School	17.5%	130	389
Creative Management Services Ltd	20.7%	3	11
Crooksbar Primary School	17.5%	11	36
Diocese of Middlesbrough Trustee	19.6%	9	17
Dyke House Academy	17.5%	71	208
Easterside Academy	17.5%	29	87
Ecocleen Services (Operations) Ltd	28.9%	0	1
Eden Academy Trust Limited	17.5%	31	91
Egglescliffe Primary School	17.5%	6	20
Emmanuel School Foundation	17.5%	61	182
Endeavour Academies Trust	17.5%	106	306
English Martyrs Educational Trust	17.5%	67	195
Enquire Learning Trust (Central)	17.5%	63	120
Eskdale Academy	17.5%	17	51
Extol Academy Trust (Eldon Grove)	17.5%	40	82
Fabrick Housing Group	16.0%	959	2,248
Fleet Factors RCBC	16.0%	1	2
Forward Swindon Ltd	Nil	0	382
Frederick Nattrass Primary Academy	17.5%	15	46
Freebrough Academy	17.5%	19	57
Future Regeneration of Grangetown	22.2%	2	7
Galileo Multi Academy Trust	17.5%	197	585
Grangefield Academy	17.5%	37	109
Green Lane Primary Academy	17.5%	28	87
Guisborough Town Council	17.3%	6	16
Hardwick Green Primary Academy	17.5%	18	53
Harrow Gate Primary Academy	17.5%	29	88
Hartlepool Borough Council	15.5%	3,259	7,848
Hartlepool Care Services Ltd	22.5%	2	9
Hartlepool College of Further Education	15.2%	156	400
Hartlepool Sixth Form College	15.2%	21	54
Hemlington Hall Academy	17.5%	25	77
Hillsview Academy	17.5%	13	39
Holy Trinity Primary School	17.5%	15	44
Horizons Specialist Academy Trust	17.5%	196	573
Hutchinson's Catering	17.0%	1	4
Ian Ramsey Church of England Academy	17.5%	45	134
Ingleby Barwick Town Council	17.3%	2	4
Ingleby Manor Free School & Sixth Form	17.5%	36	105
James Cook Learning Trust	17.5%	85	252
Jesmond Gardens Primary School	17.5%	26	79
Kader Academy	17.5%	16	50

	Employers Rate %	Employees £000	Employers £000
KGB Cleaning Ltd - LJS	14.8%	1	2
KTS Academy	17.5%	68	210
Legacy Learning Trust	17.5%	194	429
Liberata UK Ltd	Nil	41	0
Lockwood Parish Council	17.3%	1	3
Loftus Town Council	17.3%	2	5
Manor Community Academy	17.5%	53	161
Mellors Catering Services Ltd (Central)	21.2%	1	4
Mellors Catering Ltd - Dormanstown	21.2%	5	19
Mellors Catering Services Ltd (Normanby)	21.2%	3	9
Mellors English Martyrs	14.8%	12	31
Mellors Ironstone	18.0%	8	25
Mellors NPCAT	17.9%	50	159
Middlesbrough College	15.2%	400	990
Middlesbrough Council	15.3%	5,307	9,618
Mitie Cleveland Fire	17.0%	0	1
Nicholas Postgate Catholic Academy Trust	17.5%	507	1,488
NMRN Operations	17.0%	5	16
Normanby Primary School	17.5%	31	98
Northern Lights Learning Trust	17.5%	17	51
North Ormesby Primary Academy	17.5%	42	124
North Shore Academy	17.5%	17	53
Norton Primary Academy	17.5%	24	73
Nunthorpe Academy	17.5%	78	218
Nunthorpe Primary Academy	17.5%	14	42
Oak Tree Academy	17.5%	27	84
One Awards Limited	15.9%	32	77
One IT Services and Solutions Ltd	15.2%	54	108
One IT Services Ltd - Porter	17.0%	2	5
ONsite Building Trust	17.0%	3	9
Orian Solutions Ltd	17.0%	0	1
Ormesby Primary School	17.5%	14	44
Our Children 1st Academy Trust	17.5%	30	93
Our Lady & St Bede Catholic Academy	17.5%	44	132
Our Lady of Most Holy Rosary	17.5%	17	53
Outwood Academy Acklam	17.5%	66	200
Outwood Academy Bishopsgarth	17.5%	41	125
Outwood Academy Bydales	17.5%	31	95
Outwood Academy Normanby	17.5%	18	53
Outwood Academy Ormesby	17.5%	40	122
Outwood Academy Redcar	16.6%	30	89
Overfields Primary School	17.5%	20	60

	Employers Rate %	Employees £000	Employers £000
Pentland Academy	17.5%	23	70
Police & Crime Commissioner for Cleveland	15.6%	86	164
Prince Regent Street trust	17.5%	64	190
Redcar and Cleveland Borough Council	16.0%	3,730	7,074
Riverdale Primary School	17.5%	64	136
River Tees Multi Academy Trust	17.5%	11	33
Robertson FM Ltd	14.9%	1	3
Rose Wood Academy	17.5%	21	63
Rosebrook Primary School	17.5%	42	130
Rye Hills Academy	16.6%	58	162
Saltburn Marske and New Marske Parish Council	17.3%	3	9
Skelton and Brotton Parish Council	17.3%	3	9
Skelton Primary School	17.5%	31	89
SLM Community Leisure Charitable Trust	18.5%	36	96
SLM Fitness & Health Ltd (MBC)	15.3%	4	10
SLM Fitness and Health Ltd	18.5%	2	6
SLM Food & Beverage Ltd (MBC)	15.3%	4	10
SLM Food and Beverage Ltd	18.5%	1	4
Sopra Steria Ltd	15.6%	273	653
South Tees Development Corporation	17.0%	40	77
St Joseph's Catholic Primary School	17.5%	19	60
St_Aidans Primary School	17.5%	16	48
St_Bede's Catholic Academy	17.5%	13	40
St_Francis of Assisi	17.5%	13	39
St_Gregory's RC Academy	17.5%	46	112
St_Gregory's RC Academy	17.5%	19	57
St_John the Evangelist	17.5%	3	10
St_Joseph's R C Primary School	17.5%	4	12
St_Mark's Academy	17.5%	26	81
St_Mary's CE Primary School	17.5%	8	24
St_Michael's Catholic Academy	17.5%	42	92
St_Paul's R C Primary School	17.5%	4	13
St_Thomas of Canterbury MAT	17.5%	24	71
Stagecoach Transit	27.2%	2	173
Steel River Academy Trust	17.5%	59	107
Stockton Borough Council	15.7%	4,953	12,319
Stockton Riverside College	15.2%	332	814
Sunnyside Academy	17.5%	50	152
Tascor Services Ltd - PFI	18.0%	1	4
Tees Active Limited	18.2%	106	291
Tees Valley Collaborative Trust	17.5%	91	264
Tees Valley Combined Authority	15.9%	293	623

	Employers Rate %	Employees £000	Employers £000
Tees Valley Community Asset Preservation Trust	17.0%	2	5
Tees Valley Education Trust	17.5%	85	250
Teesside Learning Trust	17.5%	60	169
Teesside University	14.4%	2,004	4,534
Teesville Primary School	17.5%	22	56
The Chief Constable for Cleveland	15.6%	1,066	2,520
Thornaby C of E Primary	17.5%	16	51
Unity City Academy	17.5%	51	151
Veritau Tees Valley	17.9%	2	5
Viewley Hill Academy Trust	17.5%	16	49
Vision Academy Learning Trust	17.5%	152	438
West Park Primary School	17.5%	14	42
West View Primary School and Sports Academy	17.5%	50	143
Whitecliffe Academy	17.5%	3	11
Wynyard Church of England Primary School	17.5%	14	42
XPS Administration Ltd	15.3%	38	63
Yarm Primary School	17.5%	19	55
YARM TOWN COUNCIL	17.3%	1	4
Zetland Primary School	17.5%	19	57
Total Contributions 2019/20		29,915	69,507

Note: net rate of contribution payable by each employing Organisation for the period 1 April 2019 to 31 March 2020 under the LGPS Regulations.

Performance Monitoring

As part of our commitment to continued service improvements we operate a system of performance monitoring. The Pensions Administration system monitors the key procedures that are performed by the administration unit. Each procedure is measured against its target and monitored on a monthly basis.

Performance

The pension administration unit aim to perform 98.5% of the procedures within each target timescale. The table below highlights the performance of the administration unit against the key procedure targets.

Procedure	Target 2017/18	Achieved within timescale
Processing New Starters	20 days from receipt	100%
Processing Transfer Values (TV's)	10 working days from the date of notification	100%

Refund of Contributions	10 working days from the request date	100%
Estimates of Benefit Entitlements	10 working days from date of request	99.61%
Pension benefits	10 working days from the receipt of all relevant information	99.46%
Deferred Benefits	10 working days from notification of leaving	99.49%

Key procedure volumes

The volumes of the key procedures performed by the Pensions administration unit have increased, compared to the previous year.

Procedure	2017/18	2018/19	2019/20
Processing New Starters	2,992	3,646	4,065
Processing Transfer Values	327	306	333
Refund of Contributions	357	399	440
Estimates of Benefit Entitlements	2,209	2,181	2,297
Pension benefits	2,013	1,533	1,480
Deferred Benefits	1,954	2,083	1,759
Deaths	575	536	499
Divorces	139	139	141
General Enquiries	1,589	1,571	1,348
Total	12,155	12,394	12,362

Actuarial Valuation of the Fund

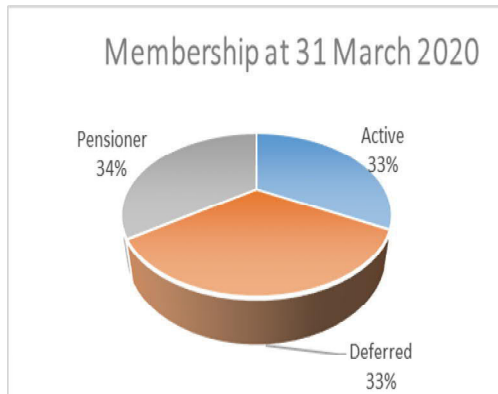
Every three years the Fund is required to appoint a suitably qualified actuary to assess solvency and to measure the level of assets compared to liabilities. This process is known as a valuation and the most recent one, carried out by the actuarial firm Aon Hewitt Ltd valued the Fund as at 31 March 2019. The principal conclusions of this valuation were:

- ◆ The ongoing funding level of the Fund on 31 March 2019 was 115% (2016 – 100%).
- ◆ The surplus of assets compared to the past service liabilities was £527.3 million (2016 – surplus of assets compared to past service liabilities £11.1 m).
- ◆ The average cost of accruing benefits payable by the employers, including administration expenses and lump sum death in service benefits, is 17.2% of pensionable pay (2016 – 15.7%).
- ◆ Employers will pay revised levels of contributions that will take in to account their specific circumstances and having regard to the principles set out in the funding strategy statement. Some employers will pay lower contributions to take into account distribution of some of the surplus in the Fund. The total aggregate Employer contribution rates to the Fund are anticipated to be 14.0% of Pay plus £0.66m (2020/2021), 14.1% of Pay plus £0.70m (2021/2022) and 14.2% of Pay plus £0.75m (2022/2023).

Membership

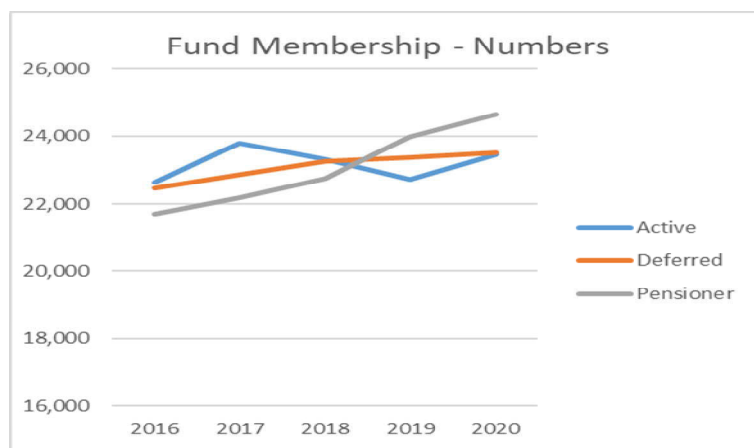
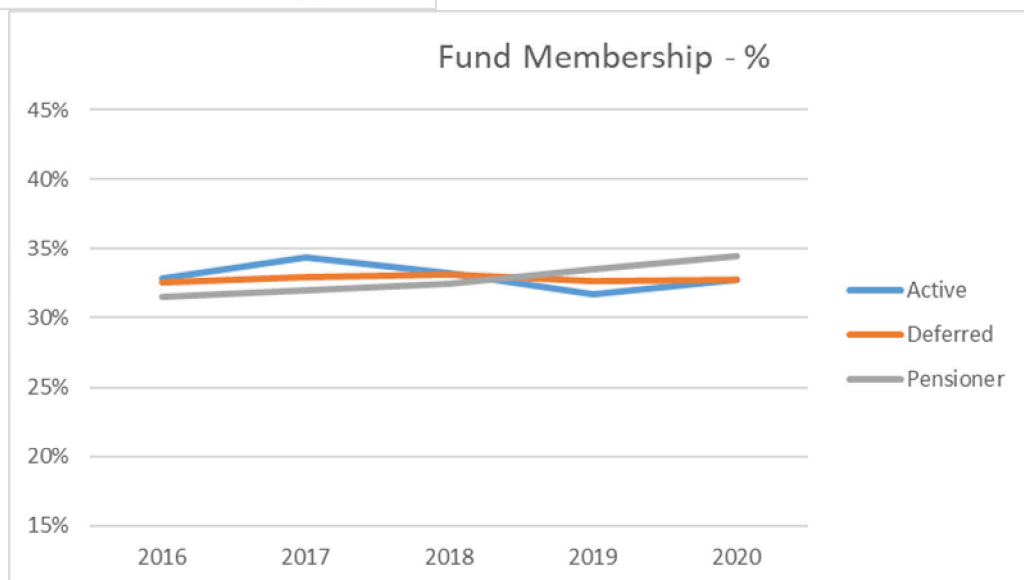
In 2019/20 financial year the total membership of the Fund increased by 1,509 to the current total of 71,577.

The number of pensioners continues to increase but proportionately the Fund membership remains broadly split between the three categories of member.



Membership Numbers

	2016	2017	2018	2019	2020
Active	22,637	23,791	23,295	22,724	23,438
Deferred	22,453	22,861	23,243	23,361	23,488
Pensioner	21,699	22,177	22,757	23,983	24,651
Total	66,789	68,829	69,295	70,068	71,577



Summary of Membership Changes

	Active Members	Deferred Members	Pensioners		Total
			Members	Dependants	
At 1 April 2019	22,724	23,361	20,943	3,040	70,068
Adjustments	(51)	139	(148)	15	(45)
New Members	4,013	1,154	1,415	246	6,828
Change in Status	(1,017)	(932)	(160)	0	(2,109)
Leavers	(2,231)	(234)	(512)	(188)	(3,165)
At 31 March 2020	23,438	23,488	21,538	3,113	71,577
% of Total at 1 April 2019	32.4%	33.4%	29.9%	4.3%	100.0%
% of Total at 31 March 2020	32.7%	32.8%	30.1%	4.4%	100.0%

During the year we had 19 new employers and 4 left the fund which means as at year end there were 169 employers in the Fund. The new employers were as follows: 11 were scheduled employers and 8 were admitted bodies. Details of the employers and their contribution rates are set out in the Actuary's Statement at the end of this Section.

A full list of participating employers and their membership numbers is as follows:

Current Employers	Active Members	Deferred Members	Pensioners (Members)	Pensioners (Dependants)	Total
All Saints Academy	32	14	3	1	50
Ash Trees Academy	83	25	8	0	116
Ayresome Primary School	42	2	0	0	44
Badger Hill Academy	16	0	0	0	16
Barnard Grove Primary	37	0	0	0	37
Beamish Museum Limited	104	44	23	2	173
Beyond Housing	260	243	233	25	761
Billingham Town Council	5	3	0	0	8
Brougham Primary School	24	5	6	0	35
Bulloughs Cleaning Ser	1	0	0	0	1
Business And Enterprise Ltd	1	25	21	2	49
Caldicotes Primary Academy	15	6	2	0	23
Care And Custody Health	3	1	0	0	4
Care Quality Commission	319	138	361	9	827
Carmel Education Trust	1	0	0	0	1
Catcote Academy	115	44	12	0	171
Caterlink – RCBC	14	2	1	0	17
Caterlink - St Oswald's	6	0	0	0	6
Chief Constable For Cleveland	580	84	38	0	702

Current Employers	Active Members	Deferred Members	Pensioners (Members)	Pensioners (Dependants)	Total
Churchill's Collaborative	3	0	1	0	4
CIC Elderly Persons Homes	3	21	62	1	87
Cleveland Fire Authority	128	88	85	7	308
Cleveland Fire Support Network	1	0	0	0	1
Compass Contract Services Ltd	26	0	0	4	30
Creative Management Serv Ltd	11	9	7	0	27
Crime Commissioner Cleveland	30	24	27	4	85
Crooksbar Primary School	23	2	0	0	25
Diocese Of Middlesbrough	1	0	0	0	1
Dormanstown Primary	3	6	2	0	11
Dyke House Academy	76	34	11	0	121
Easterside Academy	61	5	0	0	66
Ecocleen Services Limited	1	0	0	0	1
Eden Academy Trust Lim	42	12	2	1	57
Egglescliffe Primary School	15	5	0	0	20
Emmanuel Schools Foundation	83	55	35	1	174
Endeavour Academies Trust	128	10	4	0	142
English Martyrs Ed Trust	72	55	21	0	148
Enquire Learning Trust Central	13	2	1	0	16
Erimus Housing	92	74	224	12	402
Eskdale Academy	18	6	3	0	27
Extol Ac Trust (Eldon Grove)	38	10	0	0	48
Fleet Factors (RCBC)	1	0	1	0	2
Fredrick Natrass Primary Acad	20	13	4	-	37
Freebrough Academy	7	16	8	0	31
Freebrough Academy	37	16	3	0	56
Future Regenarn Of Gra	1	2	3	0	6
Galileo Multi Academy Trust	374	41	9	0	424
Grangefield Academy	42	24	8	-	74
Green Lane Primary Academy	50	13	7	0	70
Guisborough Town Council	6	3	4	0	13
Hardwick Green Primary	22	5	1	0	28
Harrow Gate Primary Academy	34	9	4	0	47
Hartlepool 6th Form College	28	32	17	3	80
Hartlepool BC	2,622	2,980	1,904	225	7,731
Hartlepool Care Services Ltd	4	0	0	0	4
Hartlepool College of FE	186	205	121	11	523
Hemlington Hall Academy	45	6	2	0	53
Hillsview Academy	2	20	7	0	29
Holy Trinity Primary School	21	2	0	0	23
Horizons Specialist Academy	227	59	13	5	304

Current Employers	Active Members	Deferred Members	Pensioners (Members)	Pensioners (Dependants)	Total
Housing Hartlepool	131	97	122	10	360
Hutchinsons Catering	6	1	0	0	7
Ian Ramsey COE Academy	59	13	13	0	85
Ingleby Barwick Town Council	2	0	0	0	2
Ingleby Manor Free School	38	7	0	0	45
James Cook Learning Trust	80	6	2	0	88
Jesmond Gardens Primary	34	10	0	0	44
Kader Academy	23	4	0	0	27
KGB Cleaning & Supp Servs Ltd	3	1	0	0	4
KGB Cleaning Ltd - LJS	3	0	0	0	3
KTS Academy	111	15	8	1	135
Legacy Learning Trust	164	4	0	0	168
Liberata UK Ltd	19	37	64	10	130
Lockwood Parish Council	1	0	0	0	1
Loftus Town Council	2	0	1	0	3
Longlands College Of FE	1	2	2	-	5
Macmillan Academy	12	61	29	4	106
Manor Community Academy	58	26	24	1	109
Mellors Catering - Central	5	0	0	1	6
Mellors Catering Dormanstown	2	0	0	0	2
Mellors Catering Services Ltd	6	2	5	2	15
Mellors Ironstone	8	0	0	0	8
Mellors Npcat	37	1	3	0	41
Middlesbrough BC	3,298	4,370	3,094	317	11,079
Middlesbrough College	471	362	150	12	995
Mitie Cleveland Fire	1	0	0	0	1
Nicholas Postgate Academy	846	52	19	0	917
NMRN Operations	5	0	1	0	6
Normanby Primary School	56	17	2	8	83
North Ormesby Primary	25	5	2	0	32
North Shore Academy	55	68	12	1	136
Northern Lights Learning	14	0	0	0	14
Norton Primary Academy	30	27	8	0	65
Nunthorpe Academy Limited	66	26	13	0	105
Nunthorpe Primary Academy	29	14	0	0	43
Oak Tree Primary Academy	45	16	13	9	83
One Awards Ltd (Formerly	13	18	15	2	48
One It Services Ltd - Porter	1	0	0	0	1
One IT Solutions Ltd	16	2	1	0	19
Onsite Building Trust	3	0	0	0	3
Ormesby Primary School	27	8	2	0	37

Current Employers	Active Members	Deferred Members	Pensioners (Members)	Pensioners (Dependants)	Total
Ormesby School	1	12	9	-	22
Our Children 1st Academy Trust	53	7	2	0	62
Our Lady - St Patrick	3	3	6	2	14
Our Lady & St Bede Aca	54	16	13	1	84
Our Lady Of Most Holy	31	3	1	0	35
Outwood Academy – Ormesby	57	17	5	0	79
Outwood Academy Acklam	72	8	12	0	92
Outwood Academy	57	11	2	0	70
Outwood Academy Bydales	38	8	3	0	49
Outwood Academy Normanby	25	0	0	0	25
Outwood Academy Redcar	42	3	1	0	46
Overfields Primary School	24	2	0	0	26
Pennyman Primary Academy	35	16	1	0	52
Prince Regent Street Trust	74	2	2	0	78
Redcar & Cleveland BC	2,364	3,733	2,759	268	9,124
Redcar and Cleveland C	25	116	63	4	208
River Tees Multi Academy Trust	37	1	2	0	40
Riverdale Primary School	18	5	2	0	25
Rose Wood Academy	38	13	3	0	54
Rosebrook Primary School	58	12	0	0	70
Rye Hills Academy	55	15	7	0	77
Sacred Heart Scv Acade	2	6	5	0	13
Saltburn And Marske PC	3	2	1	0	6
Skelton & Brotton Parish	3	0	1	0	4
Skelton Primary School	47	9	5	0	61
SLM Charitable Trust (MBC)	58	21	4	0	83
SLM Community Leis Char Trust	42	11	13	0	66
SLM Fitness & Health Limited	7	5	0	0	12
SLM Fitness And Health (MBC)	5	3	0	0	8
SLM Food & Beverage Ltd	1	1	0	0	2
SLM Food And Beverage Ltd	4	4	0	0	8
South Tees Development Corp	14	1	0	0	15
St Aidan's Primary School	7	0	1	0	8
St Bede's Catholic Academy	24	21	2	4	51
St Francis Of Assisi	24	0	0	0	24
St Gregory's Catholic Academy	25	20	5	6	56
St Hilda's Catholic Ac	3	42	26	0	71
St John The Evangelist	19	1	0	0	20
St Joseph's R C Primar	28	0	0	0	28
St Joseph's Catholic Primary	32	3	4	0	39
St Margaret Clitherowæ	3	4	1	0	8

Current Employers	Active Members	Deferred Members	Pensioners (Members)	Pensioners (Dependants)	Total
St Mark's Academy	50	6	2	0	58
St Mary's Ce Primary School	12	1	0	0	13
St Michael's Catholic Academy	42	15	8	0	65
St Paulinus P C V Acad	1	9	5	0	15
St Pauls R C Primary	20	0	0	0	20
St Peter's Academy M A	1	10	4	0	15
St Thomas Of Canterbury MAT	3	16	4	1	24
Steel River Academy Trust	130	0	2	0	132
Steria	149	71	135	5	360
Stockton BC	4,089	5,250	3,687	410	13,436
Stockton Riverside College	345	165	67	1	578
Sunnyside Academy	65	38	7	1	111
Tascor Services Ltd PFI	2	0	1	0	3
Tees Active Ltd	87	84	42	4	217
Tees Valley CAPT	1	0	0	0	1
Tees Valley Combined	100	16	8	0	124
Tees Valley Education Trust	114	12	3	0	129
Teesside Learning Trust	30	14	4	0	48
TeesValley Collaborative Trust	117	28	2	0	147
Teesville Primary School	39	0	0	0	39
The 1590 Trust	220	49	18	2	289
The Northern School of Art	102	83	55	8	248
Thirteen Group (Fabrick Hsg)	72	25	45	5	147
Thornaby C Of E Primary	36	3	0	0	39
Transit Stagecoach	2	4	140	21	167
Tristar Homes	171	135	137	17	460
Unity City Academy	60	84	25	3	172
University of Teesside	1,252	851	529	79	2,711
Veritau Tees Valley	4	0	0	0	4
Viewley Hill Academy Trust	23	8	2	0	33
Vision Academy Learning Trust	308	42	9	0	359
West Park Primary School	31	11	4	0	46
West View Academy	49	14	1	0	64
Whitecliffe Academy	19	0	1	0	20
Wynyard COE Primary School	24	2	0	0	26
XPS Administration Ltd	13	0	0	0	13
Yarm Primary School	41	10	3	0	54
Yarm Town Council	1	0	2	0	3
Zetland Primary School	40	0	1	0	41
Employers with no active	-	2,503	6,710	1,580	10,793
Total	23,438	23,488	21,538	3,133	71,577

Internal Dispute Resolution Procedure

In the first instance the member should contact the Teesside Pension Fund at the address shown at the end of the Annual Report. We will send a detailed guide explaining the Internal Dispute Resolution Procedure (IDRP) and how the appeal process will be handled. Any appeal must, ordinarily, be made within six months of receipt of the notification of the decision which is being disputed.

The initial review (stage 1) of each case is conducted by a person nominated by the body who made the decision (the 'adjudicator'). Where an appeal concerns the employer's decision, the adjudicator is an individual nominated by that employer, if the appeal is about the calculation of benefits, it will be reviewed by the adjudicator for the Teesside Pension Fund.

If, after the initial review, the member is still dissatisfied with the decision, they can apply via the second stage of the process to have decision reconsidered. This application must be made within six months of the receiving the decision of the initial review. At the second stage, if the appeal concerns an employer decision, it is reviewed by the Teesside Pension Fund. If the appeal concerns the administrator, then an independent third party pension specialist is appointed.

If the member is still not satisfied following the second stage decision, an appeal can be made to the Pensions Ombudsman.

Details of IDRP cases processed in the year

The vast majority of cases that reach the appeal stage continue to be where members have approached employers and former employers for the early release of benefits – often on grounds of ill health.

Cases started in year	10
Cases resolved in year	7 Cases Dismissed
Cases resolved in year	1 Cases Upheld

Head of Pensions Governance and Investments' Report

For most of the year the investment climate was relatively stable, with a continuation of broadly positive returns in equity markets meaning the record long 'bull' market that started in 2009 continued (technically) almost to the end of the financial year.

Despite this relatively benign start to the year, there were concerns about how markets could continue to prosper. For example some commentators felt the continuation of low interest rates, low inflation and low economic growth in the major markets could potentially lead to the type of economic stagnation that had blighted Japan for many years. Also, bond yields continued to stay at historically low levels and even decline, which for many pension schemes (although not our own) leads automatically to an increase in the value of liabilities.

For the first three quarters of the year the Fund's advisers and investment managers were to varying degrees raising awareness of the possibility of a global economic downturn. Concerns were expressed about the limited range of tools available to governments to tackle any such downturn effectively. The key concern was that there was insufficient room for central banks to use monetary policy to stimulate economies in the event of a recession, as interest rates were not high enough to enable cuts to have an impact. Additionally, using quantitative easing (an approach used after the 2008 global financial crisis where central banks buy bonds and other assets from the open market to increase the money supply to encourage lending and investment) would risk merely boosting asset prices, rather than improving real economies. The remaining tool to stimulate economies was fiscal policy (adjusting levels of government spending and taxation) which could be problematic given already high levels of government debt.

Reductions in bond yields continued during the year, to the extent that half way through the year a third of the global bond market would generate negative returns to investors who held them until maturity.

Within the UK the general election result removed any lingering uncertainty about whether the UK would exit the EU, which it formally did with effect from the end of January 2020. Globally, tensions and uncertainty over the shape of future trading relations between the two biggest economies, the US and China, were also a focus for markets during the year. However, the biggest market-moving event was undoubtedly the emergence and global spread of a new coronavirus, subsequently named Covid-19.

During February and March 2020 markets reacted extremely negatively to the growing awareness that Covid-19 was spreading globally, and was resulting in dramatic reduction in economic activity as governments implemented vary degrees of 'lockdowns' in order to suppress its spread. Covid-19 has become the most significant global disease outbreak since the 1918 flu pandemic and, as well as being a significant humanitarian catastrophe – causing over half a million deaths worldwide by July 2020 – it has also caused significant economic turbulence. The pandemic has resulted in dramatic downward revisions of economic growth, with almost all regions forecasting negative growth (recession) for the coming year (2020/21). Markets attempts to price this in to valuations were initially somewhat unsophisticated and stocks in almost all sectors and regions were initially negatively impacted. In the final quarter of the year the Fund's global equity benchmark showed a drop in value of over 20%, with the benchmark for the year as a whole falling by around 13%.

During the year the Fund's UK equities, along with a small proportion of its overseas equities, continued to be managed by Border to Coast. Although the value of these equities

was significantly adversely affected by the overall reduction in the value of equity markets over the year, Border to Coast has so far managed to achieve its long-term objective of outperforming the benchmarks in its equity funds by 1% a year.

Most of the Fund's overseas assets remained invested passively during the year and consequently their value closely tracked the value of global markets.

During the year the Fund carried out a number of transactions including:

- The Fund completed the sale of a small number of equity assets that could not be transferred to Border to Coast or its passive equity manager. These were primarily Taiwanese equities together with a relatively small investment in a fund holding equities in a number of African countries.
- As part of a process to move the Fund's equity holdings closer to the strategic benchmark, and in acknowledgement of the strong rise in US equity values in the first three quarters of the year, a total of £75 million of US equities were sold during the year, with the proceeds held as cash.
- A number of investments were made throughout the year into private equity, infrastructure and other alternatives. These payments were made as the investment managers we had previously committed to invest with identified and purchased suitable assets. This included private equity and infrastructure investments through Border to Coast.
- Although no property transactions were carried out during the year, the Fund continues to look to increase its allocation to property as and when suitable assets become available.

The actuary calculates to what extent the Fund's assets meet its liabilities. This is presented as a Funding Level with the aim of the Fund to be 100% funded. The results of the latest valuation of the Fund, as at 31 March 2019, were published in March 2020 and these showed the funding level at 115%. This is a significant increase in the previous funding level of 100% and was largely due to increases in the value of the assets since the last valuation. Revised contribution rates were put in place for the scheme employers to take effect from April 2020 and many employers saw a reduction to their contribution rate to allow for some distribution of surplus.

The eventual impact on markets of the expected recession following the Covid-19 pandemic is likely to affect future valuations of the Fund – the next valuation is due as at 31 March 2022 with results affecting employer contribution rates from April 2023.

The value of the Teesside Fund at 31 March 2020 was £3.705 billion, a decrease of approximately £383 million on the year. The Fund is invested in a wide range of assets. This meets the requirement to have diversification of investments in a fund, so that too great a concentration of investments in one asset class does not expose the Fund to risk of underperformance should that particular asset class perform badly.

The percentage amount invested in each asset class is shown below:

	Teesside Pension Fund at 31/03/2019	Teesside Pension Fund at 31/03/2020	Teesside Pension Fund Benchmark	Investment Strategy Statement Max	Investment Strategy Statement Min
UK Equities	30.17%	27.67%	22%	80%	40%
Overseas Equities	45.38%	43.99%	28%		

Alternatives	2.56%	5.87%	15%	20%	10%
Property	8.59%	8.91%	15%	20%	10%
Bonds	0.00%	0.00%	18%	40%	2%
Cash	13.30%	13.56%	2%		
	100.00%	100.00%	100%		

The largest 10 holdings (excluding property and cash), which make up 73.87% of the value of the portfolio as at 31 March 2020 are:

Security Description	% of Total Investments	Market value £'000
BORDER TO COAST UK L E-AAGBP	27.67%	1,023,645
SSGA NORTH AMR EQUITY INDEX SUB FUND	15.09%	558,226
SSGA EUR EX UK EQUITY INDEX SUB FUND	9.31%	344,340
SSGA MPF PAC BASIN EX-JAPAN INDEX	8.16%	302,041
SSGA MPF JAPAN EQUITY INDEX	6.18%	228,691
BORDER TO COAST OS DEV M-AA GBP	5.25%	194,064
STANDARD LIFE INVESTMENTS EUROPEAN PROPERTY GROWTH	0.61%	22,459
DARWIN LEISURE PROPERTY FDS CLS C	0.60%	22,108
JP MORGAN IIF UK LP	0.54%	20,162
CROWN CO INVESTMENT OPPORTUNITIES II	0.46%	17,081
	73.87%	2,732,817

INVESTMENT MANAGERS / INVESTMENTS

As at 31 March 2020 the market value of the fund was allocated to the following investment managers / investments:

Manager / Investment	Asset class	Market Value £'000	% of Fund
State Street Global Advisors	Overseas Equities	£1,433,321	38.74%
Border to Coast Pensions Partnership	UK Equities	£1,023,645	27.67%
	Overseas Equities	£194,064	5.25%
	Alternatives	£21,642	0.58%
Internal Team	Cash	£501,860	13.56%
	Overseas Equities	£8	0.00%
	UK Equities	£82	0.00%
CBRE - Direct Property Portfolio	Property and Property Debt	£278,450	7.53%
Darwin Leisure	Alternatives	£54,058	1.46%
Standard Life Aberdeen	Property and Property Debt	£22,459	0.60%
Gresham House	Alternatives	£20,258	0.55%
Innisfree	Alternatives	£18,422	0.50%

Manager / Investment	Asset class	Market Value £'000	% of Fund
Legal & General	Property and Property Debt	£5,787	0.16%
Royal London	Property and Property Debt	£10,684	0.29%
Access Capital Partners	Alternatives	£13,665	0.37%
JP Morgan Asset Management	Alternatives	£20,162	0.54%
Hermes	Property and Property Debt	£4,452	0.12%
CCLA Investment Management Limited	Property and Property Debt	£4,151	0.11%
Threadneedle	Property and Property Debt	£3,602	0.10%
Hearthstone	Alternatives	£7,704	0.21%
LGT Capital Partners	Alternatives	£26,001	0.70%
Unigestion SA	Alternatives	£1,341	0.04%
Pantheon Ventures (UK)	Alternatives	£12,581	0.34%
Blackrock Fund Managers Ltd	Alternatives	£3,637	0.10%
Capital Dynamics	Alternatives	£7,835	0.21%
Ancala	Alternatives	£6,082	0.16%
Nimrod Capital PLC	Alternatives	£3,907	0.11%
Total		£3,699,860	100.00%

PERFORMANCE

Fund performance is measured by Portfolio Evaluation Limited, a leading provider of performance measuring services to the public and private sector. The return the Fund achieves is one of the factors which the Fund Actuary takes into account when fixing the employer's contribution rate. Any increase in the contribution rate would mean less money to pay for other services. The benefits of scheme members of the Local Government Pension Scheme are related to their salary and length of service, not the value of the Fund.

As Pension Fund investment is a long-term business, it is appropriate that longer-term measures of performance are viewed as more important than short-term measures. It has become standard practice to report the performance of the Fund over 1, 3, 5 and 10 years and to compare performance with the Fund's benchmark – the return that would be expected based on the mix of assets the Fund is invested in.

In the year 2019/2020 the Fund achieved a return of -7.9% compared to our benchmark return of -7.8%.

In the three-year period to 2019/2020 the Fund achieved a return of 0.5% per annum compared to our benchmark return of 0.5%.

In the five-year period to 2019/2020 the Fund achieved a return of 4.3% per annum compared to our benchmark return of 4.4%.

In the ten-year period to 2019/2020 the Fund achieved a return of 5.8% per annum compared to our benchmark of 6.6%.

Further detail of the performance of each asset class the Fund holds is shown below:

Asset class	Performance measurement period					
	One Year			Three Years		
	Fund return	Benchmark return	Excess	Fund return	Benchmark return	Excess
UK Equities	-16.5%	-18.5%	2.0%	5.5%	-4.2%	9.7%
Overseas Equities	-6.1%	-8.4%	2.2%	1.6%	0.7%	0.9%
Property	-1.7%	0.1%	-1.9%	4.0%	5.6%	-1.6%
Alternatives	4.6%	4.7%	-0.1%	4.2%	5.0%	-0.8%
Cash	0.0%	0.5%	-0.5%	0.2%	0.4%	-0.2%
Total Fund	-7.6%	-7.8%	0.2%	0.6%	0.5%	0.1%

Asset class	Performance measurement period					
	Five Years			Ten Years		
	Fund return	Benchmark return	Excess	Fund return	Benchmark return	Excess
UK Equities	6.9%	0.6%	6.3%	7.4%	4.4%	3.1%
Overseas Equities	18.1%	21.5%	-3.6%	17.6%	18.8%	-1.2%
Property	5.9%	6.4%	-0.5%	6.6%	8.3%	-1.8%
Alternatives	3.6%	5.1%	-1.6%	2.4%	6.2%	-3.8%
Cash	0.3%	0.4%	-0.1%	0.5%	0.4%	0.1%
Total Fund	4.4%	4.4%	0.1%	5.8%	6.6%	-0.8%

The benchmarks used for each asset class and for the total Fund are as follows:

Asset Class	Benchmark
UK Equities	FTSE All Share Index
Overseas Equities	30% S&P 500 Index 30% FTSE Dev Asia Pacific Ex Japan Index 27.5% EuroStoxx 600 Ex UK Index 12.5% Topix 500 Index
Property	IPD Property Index (GBP)
Alternatives	Actuary rate of return: +4.7%
Cash	LIBID 7 day

Asset Class	Benchmark
Total Fund Benchmark	30% FTSE All Share Index 12% S%P 500 Index 11% EuroStoxx 600 Ex UK Index 12% FTSE Dev Asia Pacific Ex Japan Index 5% Topix 500 Index 7% FTSE All Stock Gilt Index 4% FTSE Index Linked > 5 Years Index 2% UK RPI Index 10% IPD Property Index 2% LIBID 7 Day 5% Actuary rate of return +4.7%

Ordinarily, the key to good performance is to get the big asset allocation decisions right. The weightings between equities and bonds, in particular, will go a long way to determining performance. The Teesside Fund continues to be under-represented in bonds when compared to our customised benchmark and other Funds. Central Bank policies and their programmes of quantitative easing have helped bonds performance over past years, continuing a “bull-run” in bond prices lasting over two decades.

The Teesside Fund continues to invest for long term returns in order to remain fully funded and continue to meet its future liabilities. The Fund continues to promote the view that the best way for the Fund to achieve the level of returns required to meet the liabilities of the Fund is to invest in growth assets over protection assets.

The Fund’s position regarding risk monitoring and risk control is set out in the Investment Strategy Statement, which can be viewed on-line at www.teespen.org.uk. This is principally concerned with the three forms of risk:

- that associated with security of the Fund’s assets,
- that associated with loss of value relating to those assets, and
- that associated with the ability of those assets to provide the required rates of return.

As the Fund is largely managed on an in-house basis, appropriate measures are in place to manage investment risk and the Strategic Director Finance, Governance and Support determines the limits on delegation to individual managers.

INVESTMENT POOLING

In the July 2015 Budget the Chancellor announced the Government’s intention to work with the LGPS administering authorities to ensure that investments were pooled while maintaining overall investment performance. The criteria for developing proposals were set in November 2015:

- Asset pools achieve the benefits of scale (£25 billion as a minimum).
- Strong governance and decision making.
- Reduced cost and excellent value for money, with savings made across the LGPS.
- Improved capacity to invest in infrastructure.

The Teesside Pension Fund made the decision to work with eleven other administering authorities as part of the Border to Coast Pensions Partnership ("Border to Coast"). All of the administering authorities in BCPP formally approved arrangements for setting up BCPP before the end of the 2016/17 financial year. It represents a major collaboration between the funds with the aim of giving access to new investments and providing resilience. The twelve LGPS funds that initially formed Border to Coast were: Bedfordshire, Cumbria, Durham, East Riding, Lincolnshire, North Yorkshire, Northumberland, South Yorkshire, Surrey, Teesside, Tyne & Wear and Warwickshire. The Northumberland fund is no longer a separate entity following its (long-planned) merger with the Tyne & Wear fund which took effect from April 2020.

During 2017/18 Border to Coast Pension Partnership Limited was established and registered as a company limited by shares, with each of the twelve administering authorities as equal shareholders. Border to Coast formed a new Board, recruited several key management and operational staff, acquired office space in Leeds and developed many of the other arrangements required to operate as an investment management company.

During 2018/19 the transfer of investment assets to Border to Coast began – all the Fund's UK equities were transferred to Border to Coast to manage and further investments during the year were made to Border to Coast's overseas equity fund.

During 2019/20 work was completed to allow Border to Coast to provide access to private markets investments (such as private equity and infrastructure) and the Fund has begun making investments through Border to Coast in these areas and has made significant commitments to make similar investments in coming years. Over time it is expected that investing in private markets via Border to Coast will, through the advantages of economies of scale, be possible at a significant saving to the costs the Fund incurs investing in these areas as an individual entity.

Although savings are expected over the medium to long term, there are costs associated with setting up and running Border to Coast and transferring assets to be managed by the new company. During 2019/20, the Fund incurred costs of £1.6 million setting up, transferring assets to, and funding the ongoing management of assets by Border to Coast. By the end of 2019/20 Border to Coast had 77 employees and was managing £14.2 billion of assets within six different sub-funds, and in addition had commitments of £1.76 billion to its alternative assets programme. The expectation is that Border to Coast will have over £30 billion of assets under management by the end of 2021/22.

As part of the governance arrangements for Border to Coast and its partner funds, a Joint Committee comprising of the Chairs of each Pension Committee has an oversight role over the arrangements of Border to Coast.

SHAREHOLDER GOVERNANCE

Since the 1980s the policies of the Fund have promoted the view that it is not sufficient to simply hold shares in companies in which it invests. As a responsible shareholder the Fund has sought to influence those companies on a range of issues through dialogue and by voting at AGMs in order to promote shareholder value.

All Local Authority Pension Funds are required to produce an Investment Strategy Statement (ISS) setting out the Fund's position on a range of issues, including the need to state to what extent, if any, environmental, social and governance (ESG) considerations are taken into account in the fund's investment policy and the formulation of a policy on the exercise of voting rights attached to share ownership.

The Fund's ISS can be viewed on the Fund's website www.teespen.org.uk. The ISS has been amended to take into account the recommendations of the Myners Report on Institutional Investment.

The Fund's Investment Strategy Statement states that:

“As a responsible investor, the Teesside Pension Fund wishes to promote corporate social responsibility, good practice and improved company performance amongst all companies in which it invests. The Fund monitors investee companies to ensure they meet standards of best practice in relation to their key stakeholders. The Fund considers that the pursuit of such standards aligns the interests of Fund members and beneficiaries with those of society as a whole. In furtherance of this policy, the Fund will support standards of best practice on disclosure and management of corporate social responsibility issues by companies and will pursue constructive shareholder engagement with companies on these issues, consistent with the Fund’s fiduciary responsibilities.

Responsible investment aims to incorporate ESG factors into investment decisions to better manage risks and generate long term returns, as part of the Fund’s fiduciary duty. As a result, ESG factors are incorporated into the investment process and the Fund takes non-financial considerations, including climate change risks and opportunities, into account when making investments, and engages with companies in which we invest to ensure that they are minimising the risks and maximising the opportunities presented by non-financial considerations, including climate change and climate policy. The Fund has not excluded any investments on purely non-financial considerations and will continue to invest in accordance with the Regulations in this regard. However, the overriding consideration for any investment is whether it generates an acceptable risk-adjusted return for the Fund, meeting the Fund’s fiduciary duty.

It is considered that the Pensions Committee represents the views of the Fund membership and that the views of the Local Pension Board will be taken into account as part of their review of this document.

The Fund has adopted the Institutional Shareholders’ Committee Statement of Principles and members will agree and periodically review its implementation.

In accordance with this policy, the Fund will seek where necessary through its own efforts and in alliances with other investors to pursue these goals. To this end the Fund is an active member of the Local Authority Pension Fund Forum.”

In order to pursue a policy of positive engagement, the Fund is an active member of the Local Authority Pension Fund Forum, (whose website is www.lapfforum.org) which has 80 Local Authority funds as members. Five of the eight LGPS asset pools including Border to Coast are also members of the Forum.

The Forum works by concentrating on a number of key long-term campaigns, covering corporate governance and corporate responsibility issues, as well as being able to mobilise support for campaigns relating to individual companies. The Forum produces a quarterly Research and Engagement report which highlights latest engagement news.

Going forward, much of this engagement work will be carried out on the Fund’s behalf by Border to Coast. Border to Coast has worked with its partner funds to develop jointly agreed Corporate Governance & Voting Guidelines and a Responsible Investment Policy. These can be found on Border to Coast’s website: <https://www.bordertocoast.org.uk/sustainability/>

Financial Statements

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Statement of Responsibilities for the Financial Statements – Teesside Pension Fund

Statement of Responsibilities

Middlesbrough Council Responsibilities

The Council is required to:

- Make arrangements for the proper administration of the financial affairs of the Teesside Pension Fund (the Fund) through a Pension Fund Committee;
- Secure that one of its officers has the responsibility for the administration of those affairs, namely the Chief Finance Officer of the Council (Director of Finance); and
- Manage the Fund to secure economic, efficient and effective use of resources and to safeguard its assets, and approve the Fund's Statement of Accounts.

The Chief Finance Officer's Responsibilities

The Director of Finance is responsible for the preparation of the Fund's Statement of Accounts in accordance with proper practices set out in the Accounts and Audit Regulations (England) 2015.

In preparing the Statement of Accounts, the Director of Finance has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that were reasonably prudent;
- Complied with the Code;
- Kept proper accounting records which were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Confirmation of the Statement of Accounts

I confirm that the Teesside Pension Fund Statement of Accounts gives a true and fair view of the financial position of the Fund at 31 March 2020 and of its income and expenditure for that year.



Ian Wright
Director of Finance
Middlesbrough Council
2 March 2021

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF MIDDLESBROUGH COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS

Opinion

We have examined the pension fund financial statements for the year ended 31 March 2020, which comprise the Fund Account, the Net Assets Statement and the related notes.

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Middlesbrough Council for the year ended 31 March 2020 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

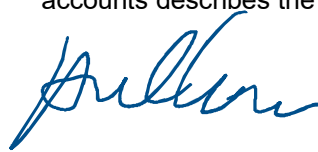

Respective responsibilities of the Director of Finance and the auditor

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Middlesbrough Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only of the Teesside Pension Fund Annual Report and Accounts for the year ended 31 March 2020.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinions on those financial statements.

Hassan Rohimun (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Manchester
3 March 2021

Fund Accounts and Net Asset Statements

Fund Accounts for the year ended 31st March 2019

2018/19 £000			2019/20 £000
	Contributions and Benefits		
	Dealings with members, employers and others directly involved in the Fund		
(94,529)	Contributions	6	(99,421)
(4,972)	Transfers in from other pension funds	8	(8,546)
(4,656)	Other income	9	(3,985)
(104,157)	Total Income from Members		(111,952)
141,597	Benefits payable	7	146,259
12,194	Payments to and on account of leavers	10	13,683
153,791	Total Expenditure to Members		159,942
49,634	Net (additions) / withdrawals from dealings with members		47,990
8,266	Management expenses	11,20	7,455
57,900	Net (additions) / withdrawals from dealings with members, employers and others directly involved in the Fund		55,445
	Returns on investment		
(55,311)	Investment income	12	(40,980)
(194,232)	Profits and losses on disposal of investments and changes in market value of investments	13	368,157
(249,543)	Net returns on investments		327,177
(191,643)	Net (increase) / decrease in the net assets available for benefits during the year		382,622
3,896,452	Net assets of the scheme as at 1st April		4,088,095
4,088,095	Net assets of the scheme as at 31st March		3,705,473
2018/19	Net Assets Statement as at 31st March		2019/20
4,083,229	Investments Assets	13	3,713,228
10,013	Current Assets	16	9,294
(5,147)	Current liabilities	17	(17,049)
4,088,095	Net assets of the scheme at 31st March		3,705,473

The notes on the following pages form part of the Financial Statements.

Notes to the Pension Fund Accounts

1. Basis of Preparation

The accounts are prepared on a going concern basis; that is, on the assumption that the Council will continue to operate as the administering authority for the Pension Fund and the Pension Fund will continue to meet its financial obligations for the foreseeable future from the date that the audited accounts are issued, this period being at least twelve months from the approval of these financial statements.

The financial statements are prepared in line with the requirements of the CIPFA Code of Practice on Local Authority Accounting, which states that as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. The Council is established under the Local Government Regulations 2013 as an Administering Authority of the Local Government Pensions Scheme and is therefore a statutory body expected to be a going concern until notification is given that the body will be dissolved, and its functions transferred.

The Pension Fund has carried out an assessment on its financial position and performance during 2020/21 and beyond as part of its going concern assessment. This included consideration of the following:

- The Fund had assets of c. £3.7 billion as at 31 March 2020. £3.15 billion (85%) of this is held in assets which are considered to be liquid and which could be converted to cash if required (including £0.5 billion actually held as cash).
- The Fund has estimated that in 2020/21 it will pay out approximately £175 million in benefits and other outgoings in the coming twelve months and is forecasting contribution income in the region of £85 million. This shortfall in contribution income verses benefits and other expenditure of £90 million will be met partly from other regular investment income, which is estimated to be £20 million in 2020/21 with the remaining £70 million being taken from the Fund's cash balance, which was £501 million at the 31 March 2020.

On this basis, management believes it is appropriate to continue to prepare the financial statements on a going concern basis, and that there are no material uncertainties in relation to this basis of preparation.

The statement of accounts summarises the Fund's transactions for the 2019/20 financial year and its position as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits, which fall due after the end of the financial year.

2. Summary of Significant Accounting Policies

Accruals

The accounts have been prepared on an accruals basis. The exception to this accruals basis, is individual transfer values which are recognised on a cash transfer basis.

Fund Account – Revenue Recognition

Contributions income

Normal contributions, from both the members and the employers, are accounted for on an accruals basis in the payroll period to which they relate. The employers' percentage rate is set by the Actuary, whilst the employees' rate is determined by the Local Government Pension Scheme (LGPS) Regulations.

Employer deficit funding contributions are accounted for on the due dates set by the actuary, or on receipt if earlier.

Employer strain on the fund and any augmentation contributions are accounted for in the period in which the liability arises. Amounts due in the year but still outstanding at the year-end are accrued, according to the accruals threshold.

Transfer values

Transfer values represent the capital sums receivable in respect of members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations.

Individual transfers either in or out have been accounted for in the period in which they were paid or received.

Transfers in from members wishing to use the proceeds from their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis within transfers in. Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Investment income

Investment income has been recognised as due on the ex-dividend date and is credited to the Fund on the date of the dividend, if received. The investment income is not grossed up for tax, as it is reported as net cash received.

Interest Income

Interest income is recognised in the Fund Account when it is received and is accrued at year end, using the effective interest rate of the financial instrument as at the date of acquisition.

Dividend Income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received at the year-end is disclosed in the Net Assets Statement as a current financial asset.

Distributions from Pooled Funds

Distributions from pooled funds are recognised on the date of issue. Any amount not received at the year-end is disclosed in the Net Assets Statement as a current financial asset.

Property Related Income

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by the Fund is recognised on a cash collection basis.

Movement in the Net Market Value of Investments

Changes in the net market value of investments (including investment properties) are recognised as income or expense and comprise all realised and unrealised profits/losses during the year.

Fund Account – Expense items

Benefits payable

Pensions and lump sums benefits payable include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Taxation

The Fund is a registered public service scheme under section 1 (1) of schedule 36 of the Finance Act 2004 and, as such, is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Any withholding tax recovered is credited on receipt. We account for dividends and recoverable tax on a cash basis but do not account for non-recoverable tax.

Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its Pension fund management expenses in accordance with CIPFA's guidance, *"Accounting for Local Government Pension Scheme Management Expenses (2016)"*.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. Expenses for Actuarial, Audit and Legal fees are paid directly by the Fund.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Investment Management Expenses

All investment management expenses are accounted for on an accruals basis.

Fees of external investment managers and the Fund's custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

The costs of the council's in-house fund management team are charged direct to the Fund and a proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

Property expenses

Property expenses have been recorded gross and shown as a deduction from the gross rental income received in determining net rents from properties..

Net Assets Statement**Financial Assets**

Financial assets are included in the net assets statement on a fair value basis as at 31 March 2020. A financial asset is recognised in the Net Assets statement on the date the Fund becomes party to the contractual acquisition of an asset. From this date, any gains

and losses arising from changes in the fair value of assets are recognised in the Fund account.

The value of investments as shown in the Net Assets Statement have been determined as follows:

Market Quoted Investments

Investments are valued at market value as at 31 March 2020 as provided by the Fund's custodian. Quoted UK securities are valued at the bid price based on quotations in the Stock Exchange Daily Official List. Overseas quoted securities are, similarly, valued at the bid price from overseas stock exchanges, translated at closing rates of exchange.

Pooled Investment Vehicles

Pooled investment vehicles are valued at closing bid prices if both bid and offer prices are published, otherwise at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

Fixed Interest Securities

The value of fixed income investments excludes interest earned but not paid over at the year end. The interest earned has been accrued within investment income receivable.

Unquoted Investments

Unlisted securities, including partnerships, are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers or those controlling the partnerships.

Freehold and Leasehold properties

Properties are shown as valued at 31 March 2020. Properties are valued annually by an independent external valuer on a fair value basis, and in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th Edition).

Custody and Security of Investments

Most investments are held in nominee name by the Fund's Global Custodian, the BNP Paribas Securities Services. Exceptions to this are directly owned properties, money markets cash deposits and specified unquoted investments, which would be registered in the name of the administering authority.

Where the Custodian does not provide a custody service in their own right, they utilise third party Sub Custodians, who are appointed by the Custodian.

The agreement between the Fund and the Custodian provides for certain indemnities where there has been loss as a result or action or inaction by the Custodian or its Sub Custodians. This is supported by limited insurance cover procured by the Custodian.

Financial Instruments

A Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities and includes financial assets and liabilities such as trade receivables and trade payables.

IFRS 13 Fair value measurement

This standard provides a consistent definition of fair value and enhanced disclosure requirements. It is designed to apply to assets and liabilities covered by those IFRS

standards that currently permit or require measurement at fair value (with some exceptions). The fund complies currently complies with this standard.

Foreign Currency Transactions

Foreign income and sales and purchases of investments in foreign currencies received during the year have been converted into Sterling at the exchange rate at the date of transaction. Amounts outstanding at the year-end have been valued at the closing exchange rates on 31 March 2020.

Outstanding Commitments

The Fund has made commitments to investments which are not included in the accounts of the Fund until the monies have been drawn down by the relative manager. These are shown in Note 13.

Cash and Cash Equivalents

Cash comprises of cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Disposal of Investments

Profits and losses on the disposal of investments are realised when the transactions are legally complete.

Interest on Cash Balances

All surplus cash balances of the Fund are invested externally, interest being credited to the Fund.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards. As permitted under the Code, the Fund has adopted to disclose the actuarial present value of promised retirement benefits by way of a note, refer to Note 15.

Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed the Prudential Assurance Co Ltd as the current provider. AVCs are paid to the AVC providers by the employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the value of their account and any movements in the year.

The AVCs are not reflected in the Fund's accounts in accordance with regulation 4(1) b of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, but are disclosed as a Note only (Note 18).

Value Added Tax

Expenses and property purchase costs are charged net to the Pension fund. The VAT is reclaimed via Middlesbrough Council's VAT regime.

3. Accounting standards that have been issued but not yet been adopted.

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted:

- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is no recognition for low-value and short-term leases). CIPFA/LASAAC have however deferred implementation of IFRS16 for local government to 1 April 2021 due to the impact of Covid-19.
- IFRS 17 requires entities to identify portfolios of insurance contracts, which comprise contracts that are subject to similar risks and are managed together.
- IAS 19 Employee Benefits will require the remeasurement of the net pension asset/liability following plan amendments, curtailments or settlements to be used to determine current service cost and net interest for the remainder of the year after the change to the plan. The updating of these assumptions only applies to changes from 1st April 2020 and, since this could result in positive, negative or no movement in the net pension liability, no prediction can be made of the possible accounting impact

4. Critical Judgements, Sensitivities and Accounting Estimates

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using the International Private and Venture Capital Association guidelines or European Venture Capital Association definition of conservative value. The value of unquoted private equities at 31 March 2020 was £33,836,477 (£9,920,795 at 31st March 2019).

Pension Fund Liabilities

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 15. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions made about the Future and other Major Sources of Estimation Uncertainty

The Statement of the Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other several factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting	The effects on the net pension liability of changes in individual assumptions can be measured for example, a 0.1% per annum increase in the discount factor assumption could decrease liability by around £103.658 million.

	actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	
Pooled Investment Vehicles	Infrastructure and global property investments are valued at fair value in accordance with the International Private and Venture Capital Association guidelines or European Venture Capital Association definition of conservative value. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Unobservable market values amount to £3,198 billion and are relating to infrastructure, real estate, and pooled equity vehicles
Freehold and leasehold property	Independent external valuers, Cushman & Wakefield use techniques to determine the fair value of directly held freehold and leasehold property in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards (9th edition).	
Freehold and leasehold property: COVID 19 - material valuation uncertainty	Cushman & Wakefield has stated that their valuations as at 31 March 2020 have been reported on the basis of 'material valuation uncertainty' and consequently, less certainty and a higher degree of caution should be attached to their valuations that would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, they have recommend that the valuation of the directly held properties is kept under frequent review, as it is each quarter. For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. The statement is a disclosure, not a disclaimer. It is used in order to be clear and transparent with all parties that – in the extraordinary circumstances that applied at the valuation date – less certainty can be attached to the valuation than would otherwise be the case.	The effect of variations in the factors supporting the valuation would be an increase or decrease (8.01%) in the value of directly held property £22.3 million, on a fair basis of £278.5 million.

6. Contributions Receivable

		2018/19	2019/20
		£000	£000
Employers	Normal	(66,290)	(68,491)
	Additional Contributions	(23)	(12)
	Deficit Recovery Contributions	(1,025)	(1,004)
Members	Normal	(27,191)	(29,914)
	Total	(94,529)	(99,421)
	Analysis of Total Contributions	2018/19	2019/20
		£000	£000
	Administering Authority – Middlesbrough Council	(14,583)	(14,925)
	Scheduled Bodies	(64,709)	(71,009)
	Admitted Bodies	(15,237)	(13,487)
	Total	(94,529)	(99,421)

7. Benefits Payable

		2018/19	2019/20
		£000	£000
	Pensions	113,219	119,302
	Commutations and lump sum retirement benefits	25,463	24,257
	Lump sum death benefits	2,915	2,700
	Total	141,597	146,259
	Analysis of Total Benefits		
	Administering Authority – Middlesbrough Council	23,482	24,275
	Scheduled Bodies	86,096	87,288
	Admitted Bodies	32,019	34,696
	Total	141,597	146,259

8. Transfers in from Other Pension Funds

		2018/19	2019/20
		£000	£000
	Individual transfers in from other schemes	(4,972)	(8,546)
	Total	(4,972)	(8,546)

9. Other Income

		2018/19	2019/20
		£000	£000
	Capital Costs of Early Retirements	(4,075)	(3,982)
	Other Income	(581)	(3)
	Total	(4,656)	(3,985)

10. Payment to and on Account of Leavers

		2018/19	2019/20
		£000	£000
	Refunds to members leaving service	284	309
	Payments for members joining state scheme	200	95
	Individual transfers to other schemes	11,710	13,279
	Total	12,194	13,683

11. Management Expenses

		2018/19	2019/20
		£000	£000
	Administrative costs	1,692	2,185
	Investment management expenses	5,314	1,480
	Oversight and governance costs	1,238	3,768
	Total	8,244	7,433

Investment Management Expenses

		2018/19	2019/20
		£000	£000
	Management fees	2,563	840
	Custody fees	21	14
	Transaction costs	1,959	120
	Loans & Investment support service charges	771	506
	Total	5,314	1,480

12. Investment Income

		2018/19	2019/20
		£000	£000
	Income from equities	(31,642)	(1,511)
	Income from pooled investment vehicles	(3,595)	(19,253)
	Other Investment Income	(77)	0
	Net rents from properties (see note below)	(15,414)	(15,682)
	Interest on cash deposits	(4,583)	(4,534)
	Total	(55,311)	(40,980)
		2018/19	2019/20
		£000	£000
	Rental Income and Property Expenses		
	Gross Rental income	(15,270)	(15,870)
	Property Expenses / (Income)	(144)	188
	Net Rents from Properties	(15,414)	(15,682)

13. Investment Assets

2019/20	Value at 1 April 2019	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2020
			£000	£000	£000
Equities	31,495	0	(32,613)	1,207	89

Pooled Investment Vehicles	3,158,652	166,206	(115,303)	(341,228)	2,868,327
Pooled Property Investments	50,121	13,344	(6,445)	(5,886)	51,134
Properties	300,700	0	0	(22,250)	278,450
	3,540,968	179,550	(154,361)	(368,157)	3,198,000
Cash Deposits	527,454				501,295
Other Investment Balances	14,807				13,933
Net Investment assets	4,083,229				3,713,228

2018/19	Value at 1 April 2018	Purchases at Cost	Sale Proceeds	Change in Market Value	Value at 31 March 2019
	£000	£000	£000	£000	£000
Equities	2,232,575	18,925	(2,405,369)	185,364	31,495
Pooled Investment Vehicles	839,927	3,561,141	(1,250,275)	7,859	3,158,652
Pooled Property Investments	44,999	4,407	(413)	1,128	50,121
Properties	262,690	40,532	(2,403)	(119)	300,700
	3,380,191	3,625,005	(3,658,460)	194,232	3,540,968
Cash Deposits	485,924				527,454
Other Investment Balances	24,896				14,807
Net Investment assets	3,891,011				4,083,229

Change in Market Value

The change in the market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year. Realised profit was £22,068,647 and unrealised loss was £390,225,586. Prior year realised profit was £1,131,177,145 and unrealised loss was £936,945,685.

Transaction Costs

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £119,666 (2018/19 £1,959,054). In addition to the transaction costs disclosed here, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund. For accounting purposes the transaction costs have been re-allocated to expenses.

Investments Analysed by Fund Manager

The Fund has moved during the course of the year from being mainly managed in-house to being mainly managed externally. UK equities are managed through Border to Coast,

overseas equities are predominantly managed passively through State Street Global Advisers and the direct property portfolio continues to be managed by CBRE Limited.

- For 2019/20 the value at 31 March 2020 of the direct property portfolio was : £278,450,000
- For 2018/19 the value at 31 March 2019 of the direct property portfolio was : £300,700,000

The remainder of the Fund is all managed in-house.

The following investments represent more than 5% of the net assets of the scheme.

Security	Market Value 31 March 2019 £'000	% of net assets of the scheme	Market Value 31 March 2020 £'000	% of net assets of the scheme
Border to Coast PE Overseas Dev Mkts	206,925	5.07%	194,064	5.23%
Border to Coast PE UK Listed Equity	1,225,311	30.0%	1,023,645	27.60%
SSGA MPF Pacific Basin Ex-Japan Index	366,254	8.97%	302,041	8.14%
SSGA MPF Japan Equity Index	233,612	5.72%	228,691	6.17%
SSGA MPF North America Equity Index Sub Fund	640,191	15.68%	558,226	15.05%
SSGA MPF Euro Ex UK Equity Index Sub Fund	373,959	9.16%	344,340	9.29%

In addition, the following investments represent more than 5% of any class or type of security. The asset classes used for this note are not the CIPFA classifications, but those represented in the Fund's valuation by its Custodian and reported to the Teesside Pension Fund Committee.

Asset Class / Security	Market Value 31 March 2019 £'000	% of asset class	Market Value 31 March 2020 £'000	% of asset class
UK Equities				
Border to Coast UK L E-AA GBP	1,225,311	99.45%	1,023,645	99.99%
Oversea Equities				
Border to Coast OS DEV M-AA GBP	206,925	0.00%	194,064	11.92%
SSGA MPF Pacific Basin ex-Japan Index	366,254	22.25%	302,041	18.56%
SSGA MPF Japan Equity Index	233,612	14.19%	228,691	14.05%
SSGA MPF North America Equity Index Sub Fund	640,191	38.89%	558,226	34.30%

Asset Class / Security	Market Value 31 March 2019	% of asset class	Market Value 31 March 2020	% of asset class
SSGA MPF Euro Ex UK Equity Index Sub Fund	373,959	22.71%	344,340	21.16%
Alternatives – Private Equities				
Crown Co Investment Opp II PLC	9,921	9.47%	17,081	33.55%
Pantheon Global Co-Investment Opportunities IV	0	0.00%	12,581	24.71%
Border to Coast Private Equity Series 1A	0	0.00%	9,192	18.05%
Crown Growth Global Opportunities III	0	0.00%	7,275	14.29%
Alternatives – Infrastructure				
ACIF Infrastructure	10,483	10.01%	13,665	14.62%
Innisfree PFI Continuation Fund	9,644	9.21%	9,949	10.64%
Innisfree PFI Secondary Fund 2	7,710	7.36%	8,473	9.06%
Border to Coast Infrastructure Series 1A	0	0.00%	12,450	13.32%
Capital Dynamics Clean Energy & Infrastructure VIII	0	0.00%	5,223	5.59%
JP Morgan IIF UK I LP	0	0.00%	20,162	21.57%
Ancala Infrastructure Fund II	0	0.00%	6,082	6.51%
Gresham House BSI Infrastructure LP	0	0.00%	13,036	13.94%
Alternatives – Other Alternatives				
Amedeo Air Four Plus Ltd	9,000	8.59%	3,900	5.35%
Darwin Leisure Development Fund – Class D	0	0.00%	16,787	23.03%
Darwin Leisure Prop Units - Class C	20,577	19.64%	22,108	30.33%
Darwin Bereavement Services Fund - Class B	0	0.00%	15,164	20.80%
Hearthstone Residential Fund 1	0	0.00%	7,704	10.57%
Gresham House BSI Housing Fund LP	0	0.00%	7,221	9.91%
Direct Property				
Doncaster (Omega Boulevard)	23,850	6.80%	24,350	8.74%
Exeter (The Meridian Centre)	22,100	6.30%	18,000	6.46%
Birmingham (Bromford Central)	17,100	4.87%	17,350	6.23%
Gateshead (Team Valley Trading Estate)	16,850	4.80%	16,950	6.09%
Rugby (Valley Park)	15,500	4.42%	15,500	5.57%
Cheltenham (Fosse Way)	0	0.00%	14,250	5.12%
Property Unit Trusts				
Standard Life Investments European Property Growth Fund	21,243	6.06%	22,459	43.92%
Royal London Property Investment	0	0.00%	10,684	20.89%
LAMIT - Local Authorities Property Fund	0	0.00%	4,151	8.12%
Hermes Property	0	0.00%	4,452	8.71%
Threadneedle Property	0	0.00%	3,602	7.04%
Legal and General Managed Property Fund	0	0.00%	5,787	11.32%

Geographical Analysis of Investments

	31/03/2019		31/03/2020	
	£000	%	£000	%

United Kingdom	1,645,949	46%	1,443,038	45%
United States	732,996	21%	721,216	22%
Asia Pacific Ex Japan	459,809	13%	360,260	11%
Europe	447,090	13%	425,381	14%
Japan	254,305	7%	248,097	8%
Others	819	0%	8	0%
Total	3,540,968	100.00%	3,198,000	100.00%

Equities

		31/03/2019	31/03/2020
		£000	£000
	UK quoted	17	81
	Overseas quoted	31,478	8
	Total	31,495	89

Pooled Investment Vehicles and Properties

	31/03/2019	31/03/2020
	£000	£000
UK Equity	1,232,124	1,023,638
Pooled Property investment Vehicle	50,121	51,134
Private Equity	0	50,918
Infrastructure	49,973	93,487
Other Alternatives	44,855	72,891
UK Unit and Investment Trusts Total	1,377,073	1,292,068
Overseas Equities	1,831,700	1,627,393
Overseas Unit and Investment Trusts Total	1,831,700	1,627,393
Total	3,208,773	2,919,461

UK Properties

	31/03/2019	31/03/2020
	£000	£000
Freehold	232,625	215,275
Leasehold	68,075	63,175
Total	300,700	278,450

The properties were valued on the basis of Market Value as at 31 March 2020 by Cushman and Wakefield LLP acting as an External Valuer, in accordance with the RICS Valuation - Professional Standards. The valuer's opinion of the Market Value of the Fund's interests in the properties was primarily derived from analysis of recent market transactions concluded at arm's-length.

Cash Deposits

	As at 31/03/19	As at 31/03/20
	£000	£000
Sterling Cash deposits	527,454	501,295

Other investment balances

	As at 31/03/19	As at 31/03/20
	£000	£000
Cash deposits with custodian	13,147	13,147
Outstanding dividend entitlements	42	41
Interest due on cash deposits	1,618	745
Total	14,807	13,933

Outstanding Commitments

As at 31 March 2020, the Fund had the following outstanding commitments.

	Initial Commitment	Capital Payments made	Outstanding commitments at 31 March 2020
Infrastructure			
	GBP	GBP	GBP
Border to Coast Infrastructure Series 1A	100,000,000	12,644,428	87,355,572
Capital Dynamics Clean Energy Infrastructure Fund VIII	20,000,000	8,064,270	11,935,730
Capital Dynamics Clean Energy Infrastructure Fund VIII - Co Investment	10,000,000	4,032,135	5,967,865
Gresham House	20,000,000	13,036,170	6,963,830
Innisfree PFI Continuation Fund	10,000,000	9,708,498	291,502
Innisfree PFI Secondary Fund 2	10,000,000	7,981,330	2,018,670
Total GBP	170,000,000	55,466,831	114,533,169
	EUR	EUR	EUR
Access Capital Infrastructure Fund	23,000,000	15,164,083	7,835,917
Ancala Infrastructure Fund II	23,000,000	6,683,272	16,316,728
Foresight Energy Infrastructure	17,000,000	1,079,167	15,920,833
Total EUR	63,000,000	22,926,522	40,073,478
	USD	USD	USD
Blackrock Global Energy & Power Infrastructure Fund III	25,000,000	5,556,533	19,443,467
Blackrock Global Renewable Power III	25,000,000	0	25,000,000
JP Morgan Infrastructure Investments Fund (IIF)	50,000,000	25,000,000	25,000,000
Total USD	100,000,000	30,556,533	69,443,467
Other Alternatives			
	GBP	GBP	GBP
Gresham House Housing Fund	20,000,000	7,221,369	12,778,631
Hearthstone Residential Fund 1	10,000,000	8,148,529	1,851,471
Total GBP	30,000,000	15,369,898	14,630,102

Private Equity			
	GBP	GBP	GBP
Border to Coast Private Equity Series 1A	100,000,000	9,559,837	90,440,163
Capital Dynamics LGPS Collective for Pools	10,000,000	0	10,000,000
Total GBP	110,000,000	9,559,837	100,440,163
	EUR	EUR	EUR
Access Capital Fund VIII Growth Buy-Out Europe	30,000,000	2,850,000	27,150,000
Crown Growth Global Opportunities III	30,000,000	8,100,000	21,900,000
Unigestion Direct II	25,000,000	0	25,000,000
Unigestion Secondary V	50,000,000	6,000,000	44,000,000
Total EUR	135,000,000	16,950,000	118,050,000
	USD	USD	USD
Blackrock Private Opportunities Fund IV	25,000,000	2,163,410	22,836,590
Crown Co-Investment Opportunities II	30,000,000	20,025,000	9,975,000
Crown Global Opportunities VII	40,000,000	6,080,000	33,920,000
Crown Secondaries Special Opportunities II	25,000,000	0	25,000,000
Pantheon Global Co Investment Opportunities IV	30,000,000	13,450,000	16,550,000
Total USD	150,000,000	41,718,410	108,281,590

14. Financial Instruments

Net Gains and Losses on Financial Instruments

	2018/19	2019/20
Financial Assets	£000	£000
Fair Value through profit and loss account	(194,232)	368,157

Fair Value of Financial Instruments

	Fair Value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair Value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
	As at 31/3/19			As at 31/3/20		
Financial Assets	£000	£000	£000	£000	£000	£000
Equities	31,495			89		
Pooled Investments	3,158,652			2,868,327		
Pooled Property	50,121			51,134		
Cash		527,454			501,295	
Other investment balances		14,807			13,933	
Sundry debtors and prepayments		10,013			9,294	
Total	3,240,268	552,274	0	2,919,550	524,522	0
Financial Liabilities						
Loans and receivables						
Creditors			(5,147)			(17,049)
			(5,147)			(17,049)
Net Financial Assets of the Fund	3,240,268	552,274	(5,147)	2,919,550	524,522	(17,049)

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where fair values are derived from unadjusted **quoted prices in active markets** for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on **observable market data**.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Teesside Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken as at 31st March annually. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

Teesside Pension Fund has no investments in hedge funds.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Valuation of Financial Instruments Carried at Fair Value

	Level 1	Level 2	Level 3	Total
Value as at 31 March 2020	£000	£000	£000	£000
Financial assets at fair value through profit and loss account	89	1,357,271	1,562,190	2,919,550
Non-financial assets through profit and loss account	0	0	278,450	278,450
Loans and receivables	524,522	0	0	524,522
Financial Liabilities at amortised cost	(17,049)	0	0	(17,049)
Total Financial Assets	507,562	1,357,271	1,840,640	3705,473
Value as at 31 March 2019	£000	£000	£000	£000
Financial assets at fair value through profit and loss account	31,567	1,511,023	1,697,678	3,240,268
Non-financial assets through profit and loss account	0	0	300,700	300,700
Loans and receivables	552,274	0	0	552,274
Financial Liabilities at amortised cost	(5,147)	0	0	(5,147)
Total Financial Assets	578,694	1,511,023	1,998,378	4,088,095

Sensitivity of assets at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation classifications described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

Valuation of Financial Instrument Carried at Fair Value – 31 March 2020

	Assessed valuation range (+/-)	Value at 31 March 2020	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investments - Overseas Equity	11.03%	1,433,322	1,591,418	1,275,227
Pooled Investments – Private Equity	6.92%	33,836	36,178	31,495
Pooled Investments - Infrastructure	6.92%	59,565	63,687	55,443
Pooled Investments – Other Alternatives	6.92%	7,221	7,721	6,721
Pooled Investments – Property	8.01%	28,246	30,509	25,984
Total		1,562,190	1,729,513	1,394,870

Valuation of Financial Instrument Carried at Fair Value – 31 March 2019

	Assessed valuation range (+/-)	Value at 31 March 2019	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investments – UK Equity	9.47%	6,740	7,378	6,102
Pooled Investments – Overseas Equity	9.91%	1,614,037	1,773,988	1,454,086
Property Pooled Investments	9.44%	26,927	29,469	24,385
Pooled Infrastructure	7.30%	49,974	53,622	46,326
Total		1,697,678	1,864,457	1,530,899

Reconciliation of Fair Value Measurements within level 3 during 2019/20

Period 2019/20	Market Value 1 April 2019	Transfer between levels	Purchases	Sales	Unrealised Gains/ Losses	Realised Gains/ Losses	Market Value 31 March 2020
	£000	£000	£000	£000	£000	£000	£000
Pooled Investments – UK Equity	6,740	0	0	(6,870)	0	130	0
Pooled Investments – Overseas Equity	1,614,037	0	0	(75,000)	(105,175)	0	1,433,862
Pooled Investments – Private Equity	0	0	41,853	(5,871)	(2,146)	0	33,836

Pooled Investments – Infrastructure	42,753	0	63,654	(11,399)	(35,443)	0	59,565
Pooled Investments – Other Alternatives	7,221	0	0	0	0	0	7,221
Pooled Investments -	26,927	0	0	(533)	1,852	0	28,246
Total	1,697,678	0	105,507	(99,673)	(140,912)	130	1,562,730

Reconciliation of Fair Value Measurements within level 3 during 2018/19

Period 2018/19	Market Value 1 April 2017	Transfer between levels	Purchases	Sales	Unrealised Gains/ Losses	Realised Gains/ Losses	Market Value 31 March 2018
	£000	£000	£000	£000	£000	£000	£000
Pooled Investment Vehicles - Unit & Investment Trusts UK	6,714	0	0	0	26	0	6,740
Pooled Investment Vehicles - Unit & Investment Trusts UK (Infrastructure)	22,785	0	55,090	(14,391)	(13,510)	0	49,974
Pooled Investment Vehicles - Unit & Investment Trusts UK (Overseas)	579,931	0	2,071,221	(1,038,579)	1,464	0	1,614,037
Pooled Property Investment - Unit & Investment Trusts UK	22,146	0	4,407	(413)	787	0	26,927
Total	631,576	0	2,130,718	(1,053,383)	(11,233)	0	1,697,678

Nature and extent of exposure to risk arising from financial instruments

Risk and risk Management

The fund's primary long term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows.

Responsibility for the fund's risk management strategy rests with the Teesside Pension Fund Committee. The Funding Strategy Statement and the Investment Strategy Statement identify and analyse the risks faced by the pensions operations. These policies are reviewed regularly to reflect changes in activity and market conditions.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The Fund identifies, manages and controls market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis. The fund manages these risks in three ways:

1. The actuarial valuation of the Fund which is carried out every three years and resets the employer contribution rates
2. The asset liability study which is carried out every three years or more frequently if required considers alternative asset allocations for the Fund and the long term impact on employer contribution rates.
3. Quarterly monitoring of the performance of the Fund against selected benchmarks, and annual performance reports to the Pension Fund Committee.

Other Price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in the market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the council to ensure it is within limits specified in the Fund Strategy Statement and the Investment Strategy Statement.

Other Price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for the 2018/2019 reporting period.

2019/20 Price Risk Asset Type		Value at 31/03/2020	Change	Value on Increase	Value on Decrease
	Region	£000	%	£000	£000
Equities	UK	81	15.71%	94	68
	Non UK	8	11.03%	9	7

	Total	89		103	75
Managed and Unitised Funds	UK	1,164,506	15.71%	1,347,450	981,562
	Non UK	1,754,955	11.03%	1,948,527	1,561,383
	Total	2,919,461		3,295,977	2,542,945
Total		2,919,550		3,296,080	2,543,020

2018/19 Price Risk Asset Type		Value at 31/03/2019	Change	Value on Increase	Value on Decrease
	Region	£000	%	£000	£000
Equities	UK	17	9.47%	19	15
	Non UK	31,478	9.91%	34,597	28,359
	Total	31,495		34,616	28,374
Managed and Unitised Funds	UK	1,377,073	9.47%	1,507,482	1,246,664
	Non UK	1,831,700	9.91%	2,013,221	1,650,179
	Total	3,208,773		3,520,703	2,896,843
Total		3,240,268		3,555,319	2,925,217

Interest Rate risk

Interest rate risk is the risk to which the Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. The Fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2020 is set out below:

Asset Type at 31 March	2019	2020
	£000	£000
Cash and cash equivalents	527,454	501,295
Cash balances	14,807	13,933
Total	542,261	515,228

Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 25 basis points (BPS) change in interest rates.

Asset Type		+25 BPS	-25 BPS
Carrying value at 31 March 2020	£000	£000	£000
Cash and cash equivalents	501,295	1,253	(1,253)
Cash balances	13,933	35	(35)
Total	515,228	1,288	(1,288)

Carrying value at 31 March 2019			
Cash and cash equivalents	527,454	1,319	(1,319)
Cash balances	14,807	37	(37)
Total	542,261	1,356	(1,356)

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund's currency rate risk is considered by the Fund's Investment Advisors and Investment Managers. The Pension Fund Investment Panel is informed quarterly of the Fund's currency exposure.

The following tables summarise the fund's currency exposure as at 31 March 2018 and as at 31 March 2020, showing the sensitivity analysis of foreign exchange movements.

Currency Risk 31 March 2020	Value £000	Change %	Value on Increase £000	Value on Decrease £000
Australian Dollar	8	10.90%	9	7
Euro	425,381	7.75%	458,348	392,414
Japanese Yen	248,097	12.25%	278,489	217,705
US Dollar	721,216	10.08%	793,915	648,517
Asia Pacific ex Japan basket	360,260	10.90%	399,528	320,992
Total	1,754,962		1,930,289	1,579,635

Currency Risk at 31 March 2019	Value £000	Change %	Value on Increase £000	Value on Decrease £000
Australian Dollar	8	12.53%	9	7
Euro	51,868	9.51%	56,801	46,935
Japanese Yen	254,305	11.73%	284,135	224,475
Taiwan Dollar	31,469	12.53%	35,412	27,526
US Dollar	732,996	10.62%	810,840	655,152
Asia Pacific ex Japan basket	428,232	11.73%	478,575	378,089
Emerging Basket	819	8.10%	885	753
Europe ex UK Basket	395,222	9.51%	432,808	357,636
Total	1,894,919		2,099,465	1,690,573

Following analysis of historical data in consultation with Portfolio Evaluation Ltd, the Fund considers the likely volatility associated with foreign exchange rate movements to be as shown above. A strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as highlighted above.

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The Fund is exposed to credit risk on its investment portfolio, including its cash deposits, and on the contributions receivable from the Fund's participating employers. The market values on investments usually reflect an assessment of credit risk in their pricing and as a result the risk of the loss is implicitly provided for in the fair value of the Fund's investments. Credit risk on cash deposits is managed by Middlesbrough Council's in-house Treasury Management Team, following the Council's Treasury Management Policy.

This policy is described in detail in Middlesbrough Council's Annual Report. Credit risk on contributions receivable from employers is minimised by regular monitoring of monthly receipt of payments from employees. There is no provision for doubtful debts against the amounts due from employers as at 31st March 2020. The LGPS Regulations require that a risk assessment of any new transferee admitted body is carried out, and that a bond or guarantee is obtained where necessary. The Pension Fund Committee must approve the admission of any new body. Bonds or guarantees have been obtained for the Fund's admitted employers, where possible. The Fund is potentially exposed to credit risk from certain scheduled employers that have neither tax-raising powers nor a guarantee from central government.

Collateral and other credit enhancement

The pension fund does not use collateral and other credit enhancement.

Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund holds in-house cash resources to meet the day to day needs and to pay pensions. If there is insufficient cash available to meet immediate needs, there are sufficient other assets available which can be realised at short notice and at minimal cost. With the exception of investments in private equity, infrastructure partnerships and other alternatives there are no commitments to contribute further capital to any of the existing fund investments. When private equity, infrastructure partnership and other alternatives capital calls are received, payments are made from cash or, if there are insufficient cash funds available, other assets are realised.

15. Actuarial Valuation

Contributions are paid to the Fund by the employers to provide for the benefits which will become payable to Scheme members when they fall due. The funding objectives are to meet the cost of Scheme members' benefits whilst they are working and to build up assets to provide adequate security for the benefits as they accrue.

In order to check that the funding objectives are being met the Fund is required to carry out an Actuarial Valuation every 3 years, The Triennial Valuation. An Actuarial Valuation was carried out as at 31st March 2019 using the 'Projected Unit Method' which produced the following results;

	31/03/2016	31/03/2019
	£million	£million
Net Liabilities	3,122	3,561
Assets	3,133	4,088
Surplus	11	527
Funding Level	100%	115%

The actuarial assumptions used to calculate the promised value of benefits at 31 March 2020 were:

Funding Assumptions

CPI increases	2.0% per annum
Salary increases	3.0% per annum
Pension increases	2.0% per annum
Discount rate	2.3% per annum

Life expectancy from age of 65 (years) assumptions

Mortality Assumptions:	
Longevity at 65 for current pensioners:	Years
Men	21.80
Women	23.50
Longevity at 65 for future pensioners :	
Men	23.20
Women	25.30

16. Current Assets

Receivables		31/03/2019	31/03/2020
		£000	£000
Other receivables		1,360	1,218
Sundry debtors		501	615
Contributions due in respect of	Employers	5,651	5,127
	Members	2,289	2,050
Capital cost of Early Retirements		5	181
Cash balances		206	103
Total		10,013	9,294
Analysed by:			
Other local authorities		4,364	4,501
Other entities and individuals		5,443	4,690
Add cash balances		206	103
Total		10,013	9,294

Scheduled Bodies have the option to pay the capital cost of Early Retirements over five years.

17. Current liabilities

Amounts due within one year		31/03/2019	31/03/2020
		£000	£000
Rents received in advance		(3,203)	(1,291)
Accrued expenses		0	(14,791)
Other payables		(1,944)	(967)
Total		(5,147)	(17,049)
Analysed by:			
Other local authorities		(454)	(380)
Public Corp & Trading Funds			(14,488)
Other entities and individuals		(4,693)	(2,181)
Total		(5,147)	(17,049)

18. Additional Voluntary Contributions (AVC's)

Scheme members may make Additional Voluntary Contributions that are invested with the Fund's nominated AVC providers, the Prudential Assurance Co Ltd. These contributions are not part of the Pension Fund and are not reflected in the Fund's accounts in accordance with regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The value of AVC investments are as follows:

Prudential AVC balances

	31/03/2019	31/03/2020
	£000	£000
With Profits and Deposit Accounts	4,610	4,626
Unit Linked Accounts	3,083	3,268
Total	7,693	7,894

The total value of AVC contributions paid to Prudential during the year was £1,572,649 (2018/19 £1,512,925).

19. Related Party Transactions

The Fund is administered by Middlesbrough Council. During the reporting period, the council incurred costs of £1,016,000 (2018/19: £1,202,000) in relation to the administration and management of the fund and was reimbursed by the fund for these expenses. Middlesbrough Council is one of the largest members of the pension fund and made employer contribution payments of £11.0 million over the period (2018/19 - £13.8 million).

The Strategic Director of Finance Governance and Support is a director of Horizons Special Academy Trust which made the following contributions to the Pension Fund in 2018/19:

Employee's contributions of £195,598

Employer's contributions of £572,975

20. External Audit Costs

	2018/19	2019/20
	£000	£000
Payable in respect of external audit	22	22

21. Senior Employees' Remuneration

	2018/19	2019/20
Key Management Personnel	£000	£000
Short Term Benefits	68	64
Post Employments Benefits	10	10
Total	78	74

22. Events after the Balance Sheet Date

The asset valuation of the Pension Fund reduced by just over £0.5bn (14%) in late February and during March 2020 as the extent and challenge of the coronavirus pandemic became evident and its impact was translated into financial losses through global stock markets and other holdings held by the Fund. The value of £3.7bn at 31st March 2020 being significantly lower than last year's end position. As countries around the world went into national lockdowns to suppress the transmission of the virus, the financial markets began to recover, particularly in the United States, and by the end of the 1st quarter the vast majority of the value of assets lost had been regained

Teesside Pension Fund

Statement of the Actuary for the year ended 31 March 2020

Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Teesside Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2019 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

1. The valuation as at 31 March 2019 showed that the funding level of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2019 (of £4,088.1M) covering 115% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.
 2. The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2020 was:
 - 17.2% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date (the primary rate),
- Plus**
- an allowance of 0.9% of pay for McCloud and cost management – see paragraph 9 below,
- Less**
- 4.3% of pensionable pay to remove surplus in excess of a funding level of 105% over a recovery period of 22 years from 1 April 2020 (which together with the allowance above comprises the secondary rate).
3. In practice, each individual employer's or group of employers' position is assessed separately and contributions are set out in Aon's report dated 31 March 2020 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

Total contributions payable by all employers over the three years to 31 March 2023 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£M)
2020	14.0%	0.66
2021	14.1%	0.70
2022	14.2%	0.75

4. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution increases and individual employers' recovery periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances.

5. The valuation was carried out using the projected unit actuarial method for most employers and the main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service	
Ongoing (scheduled body/subsumption) funding target *	4.45% p.a.
Ongoing (orphan body) funding target	4.45% p.a.
Discount rate for periods after leaving service	
Ongoing (scheduled body/subsumption) funding target *	4.45% p.a.
Ongoing (orphan body) funding target	3.00% p.a.
Rate of pay increases	3.10% p.a.
Rate of increase to pension accounts	2.10% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.10% p.a.

** The scheduled body discount rate was also used for employers whose liabilities will be subsumed after exit by a scheduled body.*

In addition, the discount rate for already orphaned liabilities (i.e. where there is no scheme employer responsible for funding those liabilities and employer has exited the Fund) was 1.3% p.a.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation, including the demographic assumptions, are set out in the actuarial valuation report.

6. The key demographic assumption was the allowance made for longevity. The post retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S2P mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic Horizons™ longevity model, and included an allowance for improvements based on the 2018 Continuous Mortality Investigation (CMI) Projections Model (CMI2018), with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	21.8	23.4
Current active members aged 45 at the valuation date	23.1	25.2

7. The valuation results summarised in paragraphs 1 and 2 above are based on the financial position and market levels at the valuation date, 31 March 2019. As such the results do not make allowance for changes which have occurred subsequent to the valuation date, although we comment on changes in market conditions to 31 March 2020 in paragraph 10 below.
8. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2020 to 31 March 2023 were signed on 31 March 2020. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2022 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
9. There are a number of uncertainties regarding the Scheme benefits and hence liabilities:
- **Increases to GMPs:**
The 2019 valuation allows for the extension of the 'interim solution' for public service schemes to pay full inflationary increases on GMPs for those reaching State Pension Age (SPA) between 6 April 2016 and 5 April 2021. However, the Government is still exploring various options, including conversion of GMPs to Scheme benefits, in order to

achieve equalisation for GMPs as required by the High Court judgement in the Lloyds Bank case.

The results of the 2019 valuation do not allow for the impact of potentially extending this interim solution indefinitely, providing full pension increases on GMPs for members reaching State Pension Age after 5 April 2021 nor for conversion of GMPs to Scheme benefits. Based on approximate calculations, at a whole of fund level, the impact of providing full pension increases on GMPs for those members reaching State Pension Age after 5 April 2021 is an increase in past service liabilities of between 0.1% to 0.2% across the Fund as a whole.

▪ **Cost Management Process and McCloud judgement:**

Initial results from the Scheme Advisory Board cost management process indicated that benefit improvements / member contribution reductions equivalent to 0.9% of pay would be required. However, the cost management process was paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) constituted illegal age discrimination. Government confirmed that the judgement would be treated as applying to all public service schemes including the LGPS (where the transitional arrangements were in the form of a final salary underpin) and a consultation on changes to the LGPS was published on 16th July 2020.

The employer contributions certified from 1 April 2020 as part of the 2019 valuation include an allowance of 0.9% of pay in relation to the potential additional costs following the McCloud judgement / cost management process. This was a simplified approach which didn't take account of different employer membership profiles or funding targets and may be more or less than the assessed cost once the LGPS changes have been agreed depending upon the precise nature of the new final salary underpin, the members in scope, and how this affects the cost management process.

10. Since the valuation date, Fund asset returns have fallen short of the assumed return of 4.45% over the year to 31 March 2020, on its own leading to a reduction in the funding level. In addition, reduced expectations of future asset returns and falls in gilt yields have led to a decrease in the discount rates, further reducing funding levels and increasing the primary rate. The Actuary, in conjunction with the Administering Authority, will monitor the position on a regular basis and the Administering Authority will take action if it believes necessary.

11. This Statement has been prepared by the Actuary to the Fund, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2019. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon does not accept any responsibility or liability to any party other than our client, Middlesbrough Borough Council, the Administering Authority of the Fund, in respect of this Statement.

12. The report on the actuarial valuation as at 31 March 2019 is available on the Fund's website at the following address:

<https://www.teespen.org.uk/documents/content/pdf/Valuation/TeessidePensionFund-2019ValuationReport.pdf>

Aon Hewitt Limited

May 2020

The Compliance Statement

Local Government Pension Scheme Regulations

Middlesbrough Council administers the Teesside Pension Fund in accordance with:

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);

The Local Government Pension Scheme Regulations 2013 (as amended); and

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)

Full details of the Governance Policy and Compliance Statement can be seen at

http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE_2

Full details of the changes to the scheme, along with updated scheme guides, are on our website at www.teespen.org.uk

Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require that Local Government Pension Scheme's administering authorities prepare, publish and maintain an Investment Strategy Statement (ISS). The current version of the Teesside Pension Fund ISS was approved by the Pension Fund Committee and published in February 2019 and contains statements on:

- Investment responsibilities, setting out the key responsibilities of the Teesside Pension Fund Committee, key officers of the Fund, the Fund's Custodian and the Independent Investment Advisors.
- The investment strategy and the type of investments held, e.g. equities, bonds, property etc.
- The maximum and minimum amount allowable in each asset class and any discretion by the administering authority to increase the limits on various types of investment.
- Risk, including the ways in which risks are to be measured and managed.
- The existing investment management arrangements, including details of the Fund's commitment to investment pooling through its jointly owned pooling company Border to Coast.
 - The Fund's position as a responsible investor and its promotion of ethical, social and corporate governance best practice.
- The exercise of the rights (including voting rights) attaching to investments, and the Fund's statement of commitment to the Stewardship Code.
- The Fund's commitment to measure and report investment performance.
- The level of compliance with the Myners Principles.

The statement is maintained and published by Middlesbrough Council, copies of which are available on application, or it can be seen at the Fund's website:

<http://www.teespen.org.uk/documents/index.php?name=ISS>

The Funding Strategy Statement

The Local Government Pension Scheme (Amendment) Regulations 2013, require each Administering Authority to produce a Funding Strategy Statement, setting out a long term view on funding liabilities. The main areas covered by the statement are:

- The purpose of the statement:
 - Establishes a clear and transparent strategy which identifies how employers' pension liabilities are best met going forward;
 - Supports the regulatory framework to maintain as nearly constant employer contribution rates as possible; and

- Take a prudent longer term view of funding liabilities.
- The purpose of the Fund, i.e. receive contributions and make pensioner payments.
- The solvency and target funding levels of the Fund, i.e. 100% of the liabilities of the Fund can be met over the long term.
- The identification of key risks to the Fund, and the control mechanisms in place to mitigate these risks.
- Links to the Fund's investment strategy.
- The key responsibilities of the administering authority, scheme employers and the Fund's Actuary are also set out.

The latest Funding Strategy Statement was approved by the Pension Fund Committee and was effective from March 2020, and can be seen at

<http://www.teespen.org.uk/documents/index.php?name=FSS>

Governance Policy

Under the Local Government Pension Scheme Regulations 2013 Middlesbrough Council, the Administering Authority to the Teesside Pension Fund, is required to draw up a Governance Policy which sets out the procedures for the governance of the Fund. In summary, the policy sets out that the administering authority delegates its functions under the above Regulations to the XPS group (previously Kier Business Services Ltd) as administrator and the Pension Fund Committee to act in a similar manner to a Board of Trustees

The Policy also sets out the:

- Terms of reference of the Pension Fund Committee;
- Structure of meetings;
- Membership; and
- Principles of governance.

The latest policy document can be viewed at:

http://www.teespen.org.uk/documents/index.php?name=GOVERNANCE_2

Communications Policy

Under the Local Government Pension Scheme Regulations 2013 Middlesbrough Council, the Administering Authority to the Teesside Pension Fund, is required to draw up a statement(s) of policy concerning communications with members and Scheme employers.

The Teesside Pension Fund actively communicates with all of its stakeholders, including the members, the employers and other external organisations. For example we have been providing every active member of the scheme with a statement of accrued benefits since 2001, well before it became compulsory to do so. The statement of accrued benefits also includes the member's State Pension Forecast to aid in their financial planning.

We also provide newsletters twice a year to all of our active and pensioner members, this allows us to inform participants of any scheme changes which may be made.

A Communications Policy Statement has been drawn up in order to ensure that the Fund offers clear communication to stakeholders of the Local Government Pension Scheme. The latest policy statement can be seen at:

http://www.teespen.org.uk/documents/index.php?name=COMMUNICATION_FORM

Summary of LGPS benefits

and comparison to previous versions of the scheme

	LGPS 2014	LGPS 2008	LGPS pre-2008
Basis of pension	Career Average Revalued Earnings (CARE)	Final salary	
Accrual rate	1/49 th	1/60 th	1/80 th pension with separate 3/80 th lump sum
Revaluation rate (active members)	Consumer Price Index (CPI)	Based on final salary	
Pensionable pay	Pay including non-contractual overtime and additional hours for part time staff	Pay excluding non-contractual overtime and non-pensionable additional hours	
Scheme member contributions	9 bands between 5.5% and 12.5%: rate paid is based on actual pensionable pay	7 bands between 5.5% and 7.5%: rate paid based on whole-time equivalent pensionable pay	6% of pensionable pay 5% pensionable pay for some former manual workers
Contribution flexibility	Members can pay 50% for 50% of the benefits	None	
Normal pension age	Individual member's state pension age (min 65)	65	65 but benefits can be paid without reductions from age 60 with enough service (25 years)
Lump sum option	Yes, £12 for each £1 of pension		
Death benefits	Yes, lump sum of 3 x pensionable pay and survivor pension based on 1/160 th accrual		
Indexation of pension in payment	Consumer Prices Index (CPI)	CPI (Retail Prices Index (RPI) for pre 2011 increases)	RPI
Qualifying period for benefits	2 years	3 months	3 months (2 years before 2004)

Pension increases

Public service pensions are increased under the provisions of the Pensions (Increase) Act 1971 and Section 59 of the Social Security Pensions Act 1975. With effect from April 2011 increases are based on the Consumer Price Index for September each year and are paid the following year from the first Monday in the new financial year.

Pensions awarded after the date of the last increase receive an apportioned increase related to the date the pension began. Those Pensions payable under age 55 on ill health grounds may have increases applied subject to meeting certain additional criteria. Other pensions are subject to the increase (including backdating) from the member's 55th birthday.

The following table shows the rate of pension increases that have applied during the last 10 years.

From April	Increase %
2010	0.0%
2011	3.1%
2012	5.2%
2013	2.2%
2014	2.7%
2015	1.2%
2016	0.0%
2017	1.0%
2018	3.0%
2019	2.4%

Contacts and further information

Contacts	
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Pensions Manager	Graeme Hall Telephone: (01642) 727344 E Mail: graeme.hall@xpsgroup.com
Head of Pensions Governance and Investments	Nick Orton Telephone: (01642) 729040 E Mail: Nick_Orton@middlesbrough.gov.uk
Teesside Pension Fund Website	www.teespen.org.uk
Employers Website	www.employers.teespen.org.uk
Border to Coast Website	www.bordertocoast.org.uk
Further Information	
For more information on this report please contact:	Claire Wilson Senior Accounting Officer – Central Services & Pensions Telephone: (01642) 728587 E Mail: Claire_Wilson@Middlesbrough.gov.uk
Further copies of this report can be obtained from:	XPS Pensions Unit Teesside Pension Fund PO Box 340 Middlesbrough TS1 2XP Telephone: (01642) 727777 E Mail: penemp@xpsgroup.com
A copy of this report, and those for previous years, is available on our web site at www.teespen.org.uk	