South Tyneside Council

item 11

# Pensions Committee

Date: 12 June 2026

# Analysis of the Fund as at 31st March 2026

(for information and discussion)

**Report Sponsor:** Paul McCann, Assistant Director (Pension Fund) and Senior LGPS Officer.

**Recommendation**

1. The Committee is asked to comment on and note the report.

**Executive Summary**

2. This report summarises the Pension Fund's value, what it is invested in, and how the investment strategy is being put into practice as at 31 March 2026. Key points include:

   - Fund value and change: The Pension Fund was valued at £14.392 billion on 31 March 2026. This is £172 million lower than at 31 December 2025.

   - Cash holdings: The Fund held £157 million in cash. This included £96 million held by the custodian (Northern Trust) to support payments and receipts for the Fund's private market investments, and £61 million held in Sterling and managed by Fund officers.

   - Asset allocation outside target range: At the quarter end, two areas were outside the Fund's target ranges: private equity is at 12.0% compared with a target of 8.5% (reducing to 7.5% under the new strategy); and index-linked gilts were lower than target at 1.2% compared with a benchmark of 2.0%.

   - Quarterly trading activity: During the quarter, the Fund sold £10 million of LGIM European Equities, £10 million of LGIM Asia Pacific Equities, and £60 million of BCPP Global Equities.

   - Pooling progress: Around 82% of the Fund's assets are in pooled arrangements. Of this, £8.851 billion is managed by Border to Coast across several asset classes. Work continues to complete pooling by, or as soon as possible after, 31 March 2026.

## Background

3. The Pension Fund is invested across a broad range of assets, in line with the strategic asset allocation approved by the Pensions Committee.

4. Fund Officers implement the strategic asset allocation, working closely with our asset pool, Border to Coast Pension Partnership.

5. When implementing the strategic asset allocation, Fund Officers consider a range of factors, including market conditions and the Fund's cash flow requirements. This helps ensure the Pension Fund operates effectively and cost efficiently.

6. This report updates the Committee on how the strategic asset allocation is being implemented and highlights the key developments over the last quarter.

## Value and Composition of the Fund

7. The value of the Fund was £14.392 billion at the quarter end. This represents a decrease of £172 million from the previous quarter end value of £14.564 billion.

8. The schedule attached to this report shows the investments across each asset class and mandate and compares these to the Fund's strategic benchmark.

## Schedule – Analysis of the Fund

9. Attached is a schedule showing the composition of the Fund between:

   - Mainstream assets, alternative assets and centrally held cash.
   - Asset classes.
   - Managers.

10. The strategic investment benchmark is shown in the final column of the schedule.

11. The first page of the schedule sets out the holdings in mainstream assets, split over the following investment mandates:

   - UK equities, managed by Border to Coast.
   - Global equities, managed by Border to Coast.
   - Global Multi Factor equities, managed by Border to Coast
   - Overseas Developed equities, managed by Border to Coast.
   - Corporate bonds (Investment Grade Credit), managed by Border to Coast.
   - Multi Asset Credit, managed by Border to Coast.

- Emerging Market equities, managed by Border to Coast.
- The passive mandates managed by Legal and General.
- The Future World Equity Funds managed by Legal and General.

12. The second page of this schedule sets out the holdings in alternative assets, namely:
    - The Private Equity programme.
    - The investments in property, being the UK commercial real estate mandate managed by Border to Coast, three Property Unit Trusts, the investments in UK residential property and the global holdings managed by Partners Group and Border to Coast.
    - The Infrastructure programme.
    - The Private Debt programme.
    - The Climate Opportunities programme.
    - The UK Opportunities programme.
13. The bottom row on the schedule shows the proportion of the Fund invested in each mandate or programme.
14. Values for private equity, infrastructure, global property and private debt can be reported with a delay of at least one quarter. This is because managers take time to produce valuations and, in some cases, valuations are produced less frequently or need audit sign-off.
15. The second page also shows the centrally held cash balance of £157 million. This is close to the strategic weighting for cash of 1% of the total Fund value.
16. The cash balance is split up as follows:
    - The amount of £96 million in the row entitled “With Managers” is the working balance for the alternatives programme. It is held by the Fund’s custodian, Northern Trust, and is comprised of Sterling, US Dollar and Euro balances that flow through the Private Equity, Global Property, Infrastructure and Private Debt programmes.
    - The amount of £61 million is a Sterling working balance, managed by Fund Officers.

**Investment Strategy agreed in November 2025**

17. At the Pensions Committee meeting in November 2025, the Committee agreed a new investment strategy. The revised strategy reduces the allocation to listed equities and UK corporate bonds and increases the allocation to multi-asset credit. It also introduces a new allocation to global sustainable bonds.

18. The Fund’s strategic benchmark (its long-term target mix of investments) will be updated over time as these changes are implemented. This is consistent with the Fund’s previous practice and ensures changes are effectively and efficiently delivered. An interim benchmark therefore applies until the final target position is fully in place.

**Maintenance of the Structure against the Strategic Benchmark**

19. The end three columns on the schedule show the Fund’s actual asset allocation against its interim benchmark and the final benchmark.

20. At the end of each month, the market value of each of the Fund’s portfolios is sent to Legal & General. For monitoring purposes, each portfolio is assumed to be invested in line with the manager’s benchmark (rather than the exact holdings on the day). This helps avoid reversing short-term asset allocation decisions when monitoring the Fund’s position.

21. The weighting in each asset class is adjusted weekly for market movements. The asset allocation position is then reviewed by Officers and, where appropriate, rebalancing action taken.

22. At the quarter end, there were two breaches against the interim strategic allocations and ranges, as follows:

    - The allocation to private equity was 12.0% against the long-term benchmark of 8.5% (reducing to 7.5% under the new strategy).

    - The allocation to index linked gilts is 1.2% against the 2.0% benchmark weighting.

23. The private equity allocation has increased significantly in recent years. This reflects a mix of: (a) falls in the value of some other assets; (b) private market valuations holding up better; and (c) more money being drawn down into private equity through capital calls. Reducing the private equity allocation will take time and may require smaller commitments in future years. However, the Fund will still need to make ongoing commitments to keep the programme well diversified across different investment years.

24. The Fund holds index-linked gilts to broadly match a specific set of liabilities (“orphaned liabilities”). The value of index-linked gilts has continued to fall due to market conditions. The value of the Fund’s orphaned liabilities has also fallen and broadly matches the Fund’s holding.  Fund Officers are therefore comfortable with the underweight position, but this will be kept under ongoing review.

**Activity During the Quarter**

25. During the quarter, the following asset trading took place:

    - A sale of £10m Future World European Equities and £10m Asia Pacific Equities.

- Sale for cash of £60m of BCPP Global Equities.

26. The total trading costs for the quarter were £61,389. These costs mainly relate to implementing the Fund's investment strategy (including the planned move into alternative assets over time) and to managing day-to-day cash flow.

27. There were no changes to the interim strategic benchmark during the quarter.

**TWPF progress on Pooling**

28. The Fund is well advanced in moving assets into pooled investment arrangements. As at 31 March 2026, around 62% of the Fund's assets were fully pooled, with a further 20% managed in pooled arrangements through Legal & General. In total, around 82% of the Fund's assets are therefore pooled.

29. A summary of these investments is shown below:

| Fund | Current NAV | Launch Date |
|---|---|---|
| UK Equities | £452m | December 2018 |
| Global Equities | £819m | September 2019 |
| Overseas Developed Equities | £459m | December 2024 |
| Global Multi-Factor Equities | £868m | May 2025 |
| Corporate Bonds | £2,059m | March 2020 |
| Multi Asset Credit | £627m | November 2021 |
| EM Equities | £357m | August 2023 |
| Private Equity | £820m | May 2019 |
| Infrastructure | £616m | May 2019 |
| Private Debt | £644m | May 2019 |
| Climate Opportunities | £298m | March 2022 |
| UK Opportunities | £16m | April 2024 |
| Global Property | £57m | December 2023 |
| UK Real Estate | £759m | October 2024 |
| **Total Border to Coast** | **£8,851m** | |

30. Fund Officers are working with Border to Coast in respect of completing the pooling journey.

**Risks**

31. The key risks on the Fund's asset allocation are:

- Market risk – Continued volatility across markets may adversely affect Fund values and asset allocation positions.
- Private markets exposure – The Fund remains overweight in private equity relative to the strategic benchmark, increasing exposure to illiquidity and valuation risk.
- Liquidity risk – Ongoing capital calls across the private markets programmes may place pressure on short-term liquidity.
- Valuation lag – Delays in private market valuations may temporarily distort reported asset allocations and benchmark comparisons.
- Benchmark transition – The phased implementation of the revised Investment Strategy may result in short-term deviations from interim and final benchmarks.
- Pooling risk – Delays in completing pooling arrangements may impact the achievement of pooling targets, associated efficiencies and may result in Government scrutiny and intervention.

32. These risks are monitored through regular officer review, asset allocation management and ongoing engagement with managers, including Border to Coast.

**Next Steps**

33. Officers will:

- Continue to monitor asset allocation against interim and final strategic benchmarks and undertake rebalancing where appropriate.
- Manage the pace of future private equity commitments to support a gradual reduction in the current overweight position.
- Review the index-linked gilt allocation following completion of the 2025 actuarial valuation.
- Maintain oversight of cash balances to ensure sufficient liquidity to meet Fund obligations.
- Continue progressive implementation of the revised Investment Strategy agreed in November 2025.

- Work with Border to Coast to complete pooling of remaining assets as soon as reasonably practicable.
- Report further updates to the Committee through the regular monitoring cycle.

**Recommendation**

34. The Committee is recommended to note the report.

**Reason for Recommendation**

35. To ensure the Pension Fund is appropriately invested in accordance with the regulatory and strategic framework.

Report Author: Renee Lindsay, Finance Manager (Pension Fund).

# ANALYSIS AS AT 31st MARCH 2026

| | Global Equities | UK Equities | Overseas Developed Equities | Emerging Markets Equities | Investment Grade Credit | Multi Asset Credit (MAC) | Global Multi Factor | Passive | Passive Future Worlds | Sub-Total Mainstream Assets |
|---|---|---|---|---|---|---|---|---|---|---|
| | Border to Coast | Border to Coast | Border to Coast | Border to Coast | Border to Coast | Border to Coast | Border to Coast | L & G | L & G | |
| | £'m | £'m | £'m | £'m | £'m | | | £'m | | £'m |
| | | | | | | | | | | |
| **UK Equities** | **78.40** | **452.30** | **0.00** | | | | | **195.80** | **273.20** | **999.70** |
| Active | 78.40 | 452.30 | | | | | | | | 530.70 |
| Passive | | | | | | | | 195.80 | 273.20 | 469.00 |
| | | | | | | | | | | |
| **Overseas Equities** | **740.10** | **0.00** | **459.10** | **357.10** | | | | **988.40** | **779.80** | **3,324.50** |
| North America | 428.30 | | 177.50 | | | | | 248.30 | 264.70 | 1,118.80 |
| Europe | 185.80 | | 134.80 | | | | | 247.80 | 269.80 | 838.20 |
| Japan | 8.80 | | 44.20 | | | | | 268.70 | 84.90 | 406.60 |
| Asia Pac. ex Japan | 80.00 | | 102.60 | | | | | 173.60 | 80.10 | 436.30 |
| Emerging Markets | 37.20 | | | 357.10 | | | | 50.00 | 80.30 | 524.60 |
| | | | | | | | | | | |
| **Global Equities - Factors** | | | | | | | **868.20** | | | **868.20** |
| | | | | | | | | | | |
| **Total Equities** | **818.50** | **452.30** | **459.10** | **357.10** | | | **868.20** | **1,184.20** | **1,053.00** | **5,192.40** |
| | | | | | | | | | | |
| **Fixed Interest** | | | | | **2,059.40** | **627.00** | | **710.20** | | **3,396.60** |
| UK Gilts | | | | | | | | | | 0.00 |
| UK Index-Linked | | | | | | | | 176.70 | | 176.70 |
| Sterling Non-Govt. | | | | | 2,059.40 | | | 533.50 | | 2,592.90 |
| Multi Asset Credit | | | | | | 627.00 | | | | 627.00 |
| | | | | | | | | | | |
| **Private Equity** | | | | | | | | | | |
| | | | | | | | | | | |
| **UK Opportunities** | | | | | | | | | | |
| | | | | | | | | | | |
| **Property** | | | | | | | | | | |
| UK Real Estate - BCPP | | | | | | | | | | |
| Property Unit Trusts | | | | | | | | | | |
| UK Residential | | | | | | | | | | |
| Global | | | | | | | | | | |
| | | | | | | | | | | |
| **Infrastructure** | | | | | | | | | | |
| | | | | | | | | | | |
| **Private Debt** | | | | | | | | | | |
| | | | | | | | | | | |
| **Climate Opportunities** | | | | | | | | | | |
| | | | | | | | | | | |
| **Cash** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** |
| With Managers | | | | | | | | | | 0.00 |
| Held Centrally | | | | | | | | | | 0.00 |
| | | | | | | | | | | |
| **TOTAL** | **818.50** | **452.30** | **459.10** | **357.10** | **2,059.40** | **627.00** | **868.20** | **1,894.40** | **1,053.00** | **8,589.00** |
| **TOTAL % OF FUND** | **5.69** | **3.14** | **3.19** | **2.48** | **14.31** | **4.36** | **6.03** | **13.16** | **7.32** | **59.68** |

# ANALYSIS AS AT 31st MARCH 2026

| | Private Equity | UK Opps. | Property | Infrastructure | Private Debt | Climate Opps. | Sub-Total Alternative Assets | Central Cash | Total | Total | Interim Benchmark | Final Benchmark |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £'m | | £'m | £'m | £'m | | £'m | £'m | £'m | % | % | % |
| **UK Equities** | | | | **0.00** | | | **0.00** | **0.00** | **999.70** | **6.95** | **6.50** | **6.00** |
| Active | | | | | | | 0.00 | | 530.70 | 3.69 | | |
| Passive | | | | | | | 0.00 | | 469.00 | 3.26 | | |
| **Overseas Equities** | | | | **0.00** | | | **0.00** | **0.00** | **3,324.50** | **23.10** | **24.50** | **23.00** |
| North America | | | | | | | 0.00 | | 1,118.80 | 7.77 | 7.50 | 6.80 |
| Europe | | | | | | | 0.00 | | 838.20 | 5.82 | 7.00 | 6.40 |
| Japan | | | | | | | 0.00 | | 406.60 | 2.83 | 3.50 | 3.40 |
| Asia Pac. ex Japan | | | | | | | 0.00 | | 436.30 | 3.03 | 3.50 | 3.40 |
| Emerging Markets | | | | | | | 0.00 | | 524.60 | 3.65 | 3.00 | 3.00 |
| **Global Equities - Factors** | | | | **0.00** | | | **0.00** | **0.00** | **868.20** | **6.03** | **6.00** | **5.50** |
| **Total Equities** | | | | **0.00** | | | **0.00** | **0.00** | **5,192.40** | **36.08** | **37.00** | **34.50** |
| **Fixed Interest** | | | | | | | **0.00** | **0.00** | **3,396.60** | **23.60** | **27.00** | **27.00** |
| UK Gilts | | | | | | | 0.00 | | 0.00 | 0.00 | 0.00 | 0.00 |
| UK Index-Linked | | | | | | | 0.00 | | 176.70 | 1.23 | 2.00 | 2.00 |
| Sterling Non-Govt. | | | | | | | 0.00 | | 2,592.90 | 18.02 | 20.00 | 20.00 |
| Multi Asset Credit | | | | | | | 0.00 | | 627.00 | 4.36 | 5.00 | 5.00 |
| **Private Equity** | **1,717.70** | | | | | | **1,717.70** | | **1,717.70** | **11.94** | **9.00** | **8.50** |
| **UK Opportunities** | | **16.00** | | | | | **16.00** | | **16.00** | **0.11** | **0.00** | **0.00** |
| **Property** | | | **1,655.45** | | | | **1,655.45** | | **1,655.45** | **11.50** | **11.50** | **13.00** |
| UK Real Estate - BCPP | | | 759.25 | | | | 759.25 | | 759.25 | 5.28 | 5.50 | 7.00 |
| Property Unit Trusts | | | 45.90 | | | | 45.90 | | 45.90 | 0.32 | 0.00 | 0.00 |
| UK Residential | | | 237.40 | | | | 237.40 | | 237.40 | 1.65 | 2.00 | 2.00 |
| Global | | | 612.90 | | | | 612.90 | | 612.90 | 4.26 | 4.00 | 4.00 |
| **Infrastructure** | | | | **924.10** | | | **924.10** | | **924.10** | **6.42** | **6.50** | **6.50** |
| **Private Debt** | | | | | **1,033.40** | | **1,033.40** | | **1,033.40** | **7.18** | **6.50** | **6.50** |
| **Climate Opportunities** | | | | | | **298.80** | **298.80** | | **298.80** | **2.08** | **1.50** | **3.00** |
| **Cash** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **157.23** | **157.23** | **1.09** | **1.00** | **1.00** |
| With Managers | | | | | | | 0.00 | 96.10 | 96.10 | 0.67 | | |
| Held Centrally | | | | | | | 0.00 | 61.13 | 61.13 | 0.42 | | |
| **TOTAL** | **1,717.70** | **16.00** | **1,655.45** | **924.10** | **1,033.40** | **298.80** | **5,645.45** | **157.23** | **14,391.68** | **100.00** | **100.00** | **100.00** |
| **TOTAL % OF FUND** | **11.94** | **0.11** | **11.50** | **6.42** | **7.18** | **2.08** | **39.23** | **1.09** | **100.00** | | | |

# Analysis of the Fund at 31 March 2026

**The following is a list of the background papers (excluding exempt papers) relied upon in the preparation of the above report:**

| Background Paper | File Ref: | File Location |
|---|---|---|
| Rebalancing of the Strategic Benchmark File | N/A | Investments Office, South Shields Town Hall |
| Shareholder Portfolios | N/A | Investments Office, South Shields Town Hall |

Contact Officer: Paul McCann, Assistant Director (Pensions)