

SOUTH YORKSHIRE PENSIONS AUTHORITY

13 JUNE 2019

PRESENT: Councillor M Stowe (Chair)

Councillors: A Atkin, S Cox, D Hurst, A Law, A Murphy,
A Sangar, A Teal, N Wright and T Yasseen

Trade Unions: N Doolan-Hamer (Unison) and D Patterson
(UNITE)

Investment Advisors: T Gardener and L Robb

Officers: J Bailey (Head of Pensions Administration), F Bourne
(Corporate Administrator), N Copley (Treasurer), G Graham
(Fund Director), M McCarthy (Deputy Clerk), G Richards
(Senior Democratic Services Officer), G Taberner (Head of
Finance and Corporate Services) and S Smith (Head of
Investments)

D Booth (BCPP Ltd)

Apologies for absence were received from G Warwick and
A Frosdick

1 **APOLOGIES**

Apologies were noted as above.

2 **ANNOUNCEMENTS**

None.

3 **URGENT ITEMS**

There were no urgent items.

4 **ITEMS TO BE CONSIDERED IN THE ABSENCE OF THE PUBLIC AND PRESS.**

None.

5 **DECLARATIONS OF INTEREST.**

None.

6 **MINUTES OF THE AUTHORITY MEETING HELD ON 14 MARCH 2019**

RESOLVED: That the minutes of the meeting held on 14th March 2019 be agreed and signed by the Chair as a true record.

7 MINUTES OF THE CORPORATE PLANNING & GOVERNANCE BOARD HELD ON 14 FEBRUARY 2019

RESOLVED: That the minutes of the meeting of The Corporate Planning and Governance Board held on 14th February be noted.

8 MINUTES OF THE MEETING OF THE INVESTMENT BOARD HELD ON 7 MARCH 2019

RESOLVED: That the minutes of the meeting of the Investment Board held on 7th March be noted.

9 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

None.

10 CORPORATE PERFORMANCE REPORT QUARTER 4 2018/19

The Authority considered the Corporate Performance Report for Quarter 4 2018/19.

This was a new style report that replaced the Quarterly Snapshot report and would chart progress against the Corporate Plan.

Members noted the headlines in the report which were:

- Estimated funding level above 100%.
- Employer satisfaction rating of 98%.
- Pension Administration performance behind target but improving.
- Increase in sickness absence levels.

The report also gave details of investment performance over the period which showed that the Investment Team had performed very well.

The Fund Director informed the Authority that two new risks had been added to the Risk Register.

The first one was around the unstable membership of the Local Pension Board which had seen several resignations over the last few months, including the Chair. Steps were being taken to remedy the situation including consideration of the appointment of an independent advisor.

Secondly, a risk had been added around climate change to the Authority's investments. Mitigations to this risk were detailed in the Risk Register

Cllr Sangar commented that he was pleased that climate change had been recognised as a risk by the Authority as it was becoming increasingly high profile and members were being lobbied about certain investments.

The Fund Director commented that he would be happy to provide answers to any questions that members may receive on climate change and any other investment matters e.g. tobacco.

The risk around elected members knowledge and understanding meeting statutory requirements had been increased due to the high number of new members of the Authority.

This was being addressed by a Member Learning and Development questionnaire with a strong Learning and Development Programme in place.

Cllr Yasseen commented that it would be helpful if the district councils lengthened appointments to the Authority.

The Chair replied that both he and the previous Chair, Cllr Ellis, had raised this with the Leaders but to no avail.

RESOLVED: That the report be noted.

11 INVESTMENT PERFORMANCE - QUARTERLY REPORT TO 31 MARCH 2019

The Head of Investment Strategy presented the Quarterly Report to 31 March 2019 which also included figures for the year to date.

Members were informed that markets had bounced back since the previous quarter. The key driver was a shift in monetary policy led by the Federal Reserve who had indicated the end to the increase in interest rates which had led to investor confidence

Another positive for the markets had been that it seemed the talks between the US and China looked to be improving, although this had since deteriorated and led to increased volatility.

The valuation at the end of March showed the Fund valued at £8.4bn; by the end of May this had increased to £8.54bn.

For the quarter the Fund return was 4.4% against the benchmark of 6% but that figure included equity protection. If the equity protection was taken out the portfolios as a whole returned 6.1%.

For the benefit of new members, T Gardner explained the concept of equity protection.

L Robb commented that considering the turmoil of the transitioning of assets, the transfer of staff and the residual assets being managed internally, a small positive against the benchmark was a good outcome.

S Smith reminded members that the equity portfolio had transferred to Border to Coast last year, therefore the performance results for the portfolio included a portion when still managed internally, the transition costs and a portion when managed by Border to Coast.

D Booth, CIO of Border to Coast, commented that it was pleasing to outperform the benchmark over 9 months in volatile market conditions. He was happy with progress so far but there was still a lot of work to be done transitioning assets over the coming years. He gave members a summary of current market conditions and what conditions could be like in the future.

RESOLVED: That the report be noted.

12 APPROVAL OF BORDER TO COAST INVESTMENT MANDATES

A report was submitted to secure approval for the next round of Border to Coast Investment mandates.

Members were informed that Border to Coast had now reached a stage in developing mandates and investment structures for the next round of products to be launched covering the remaining alternative asset classes and various fixed income products. The report set out the detail of the mandates for endorsement prior to officers undertaking the work necessary to transition assets or make new investments in the new structures.

RESOLVED:

That the Authority:

- i) Approve the investment mandates for the following Border to Coast products as set out in the report:
 - a) Infrastructure
 - b) Private Debt
 - c) Multi-Asset Credit
 - d) Index Linked Gilts
- ii) Agree, in principle, a commitment to the Investment Grade Credit Fund subject to the results of further due diligence following the completion of procurement for this fund.
- ii) Note that the level of commitment to the Fixed Income products will be determined at the time of launch by the Head of Investment Strategy having regard to the Strategic Asset Allocation under existing delegation arrangements.

13 RESPONSIBLE INVESTMENT UPDATE

A report was submitted to update members on responsible investment activity undertaken over the last quarter of the 2018/19 financial year.

Members were reminded that the Authority's approach to responsible investment was delivered through four streams of activity, largely in collaboration with the 11 other funds in the Border to Coast pool. These were:

- Voting;
- Engagement through partnerships;
- Shareholder litigation; and
- Active Investing.

With regard to voting and the figures at 5.2 in the report, members were informed that these figures had greatly increased since the Authority had joined Border to Coast as there was now the ability to vote in every market.

Members were reminded that at the last meeting of the Investment Board, the Fund Director had been asked to write to the Government with regard to arms sales to Saudi Arabia in the context of the war in Yemen and whether the Government were taking into account the various issues that were raised in terms of licensing. A reply had been received from the Minister and this was available in the Reading Room.

It was reported that as a result of the mining disaster in Brazil due to the collapse of a “tailings dam” Border to Coast had worked as part of a global coalition of investors to call for a new independent mine safety system

G Graham reported that Border to Coast had set up a Climate Change Working Party made up of officers from a number of the partner funds. The aim of the group was to develop specific proposals for how the Partnership would address climate change within both its investment offerings and in terms of reporting and accountability.

Members had a lengthy discussion around climate change, fossil fuel investment, the benefits of engagement, fiduciary duty, divestment and the tobacco industry.

Cllr Sangar, although pleased with the report and happy with progress made to date on Responsible Investment, commented that tobacco investment was a problem area especially as councils were responsible for Public Health.

The Fund Director commented that no-one had produced any research that could prove that a Fund could divest from tobacco without a financial impact.

T Gardener reminded members that there was always a cost associated with exclusion which could lead to a need for increased contributions.

The Fund Director remarked that how much the Fund could do would be limited due to Funds having a responsibility to act in the best financial interest of Scheme members.

Cllr Teal requested that the Authority initiate research on the effects of divesting from tobacco.

The Fund Director agreed noting that before making any such decisions members must be in possession of all the relevant evidence.

The research would have to be done by an external source as the Authority did not have the internal capacity.

RESOLVED: That the Authority:

- i) Note the responsible investment activity undertaken during the last quarter of 2018/19.
- ii) Endorse Border to Coast’s decision to participate in the Investor Coalition in relation to Tailings Dams.
- iii) Endorse the proposed addition of climate risk to the corporate risk register.
- iv) Commission research into the effect of divesting from tobacco investments.

14 ASSET/LIABILITY STUDY AND INVESTMENT STRATEGY REVIEW

The Head of Investment strategy presented a report to provide an update on the asset and liability study.

Members were informed that the Authority was commissioning an asset and liability study using data from the 2019 valuation to ensure that the Fund's investment strategy remained in accordance with its underlying liabilities.

The Authority undertook an Invitation to Tender process drawn down from the National LGPS Framework for Investment Management Consultancy Services.

Four firms were invited to tender and three of these responded. The responses were evaluated under the following headings:

• Quality	45%
• Service Fit (interview)	25%
• Value for Money	30%
Total	100%

The consultant appointed was Hymans Robertson.

RESOLVED: That the Authority note the appointment of Hymans Robertson to undertake the asset and liability study for the Fund.

15 REGULATORY REPORT

The Head of Pensions Administration presented a report which aimed to make members aware of current regulatory developments and seek views on a Government consultation impacting the LGPS and also to alert members to the potential impact on the valuation process of an ongoing court case involving public service schemes.

Members were informed that in May 2019 the Government issued a consultation on a proposal to move to a four yearly valuation cycle with more discretion for funds to carry out interim valuations if appropriate. Appendix A to the report provided further detail and recommendations as to the response.

As part of the same consultation, the Government was proposing increase flexibilities around the handling of exit payments; further details were again included in Appendix A along a proposed approach to responding to the consultation.

The consultation also included an invitation on views as to whether certain educational bodies should have the discretion to decide whether to admit employees in the future.

The report also provided an update on the cost cap and the McCloud case, the consultation around a new Fair Deal in the LGPS and restricting exit payments in the public sector.

RESOLVED: That the Authority:

- i) Approve the proposed response to the consultation on changes to the valuation cycle and management of employer risk.

- ii) Approve the suggested approach to the valuation process to account for the uncertainties concerning the cost cap.
- iii) Note the content of the consultation on changes to Fair Deal and the restriction of exit payments in the public sector.

16 ANNUAL GOVERNANCE STATEMENT 2018/19

A report was submitted to secure approval of the Authority's Annual Governance Statement as part of the process of preparing the Annual Report and accounts.

Members were reminded that the Annual Governance Statement was an integral part of the Authority's governance framework as it sought to provide a high degree of assurance to stakeholders that its decision making procedures had integrity.

An action plan had been prepared to capture issues raised through the review process. The document would form the basis for the monitoring of progress by the Audit Committee over the coming year.

RESOLVED: That the Authority approve the Annual Governance Statement for 2018/19 and authorise the Chair to sign it on behalf of the Authority.

17 REVIEW OF THE GOVERNANCE COMPLIANCE STATEMENT

A report was submitted seeking approval for a revised Governance Compliance Statement following the changes to the Authority's governance arrangements as required by s55(1) of the Local Government Regulations 2013.

Members were informed that following changes to the Authority's governance arrangements brought into effect by the adoption of the revised constitution, it was necessary to bring the Governance Compliance Statement up to date to reflect these and other changes which had taken place since the last update.

The revised statement was set out for approval in the Appendix and this would be reviewed annually by officers and re-presented for approval when necessary.

RESOLVED: That the Authority approve the Governance Compliance Statement as set out in the Appendix.

18 AUDIT COMMITTEE FUNCTIONS ANNUAL REPORT

The Authority considered the Corporate Planning and Governance Board's Audit Committee Function Annual Report 2018/19.

The report covered the Board's work during the financial year 2018/19 in relation to its audit committee function; it outlined the Board's:

- Role and responsibilities;
- Membership and attendance; and
- Achievements.

RESOLVED – That the report be noted.

19 MEMBER LEARNING AND DEVELOPMENT STRATEGY

A report was submitted which provided a forward look at learning and development arrangements for 2019/20.

Members were informed that the Pensions Regulator issued a Code of Practice relating to the governance and administration of public service pension schemes. The Code set out the standards expected by the Regulator together with the principles, examples and benchmarks to use to assess whether Pensions Authority members had sufficient knowledge and understanding for them to effectively carry out their role.

To comply with this the authority had in place:

- **Induction Training**
New members of the Authority would be required to complete their initial training on the role of the Authority, how it was organised, the basics of the Local Government Pension Scheme and the mechanics of how the Fund managed its investments.
- **Fundamentals Training**
All new members would be expected to complete the Fundamentals training provided by the LGA and the Pensions Regulator's online Public Service Toolkit.
- **Investment Principles**
All members were required to undergo further specialised training on the principles of investment management.

Several in-house seminars had been arranged throughout the year on subjects such as the valuation and investment strategy.

In addition to this, members would also have the opportunity to attend various events and conferences, including the Border to Coast conference in October.

Members would be required to complete a Learning and Development Questionnaire to help identify any gaps in knowledge and understanding. This would be circulated after the meeting; any member requiring assistance with completing this should contact Gill Richards in the Joint Authorities Governance Unit.

RESOLVED: That members:

- i) Note the report.
- ii) Individually commit to undertake a personal development review before the September meeting of the Authority.
- iii) Agree an individual training plan which could be developed further over the year as required.

20 COMPLIANCE WITH THE PRINCIPLES FOR INVESTMENT GOVERNANCE - SELF-ASSESSMENT

A report was considered which informed members of the outcome of the self-assessment against the Principles for Investment Governance.

Members had received self-assessment forms that covered the Authority, the Chair of the Corporate Planning and Governance Board, the Chair of the Investment Board and the Investment Advisors.

Results in all categories ranged from satisfactory to excellent and members felt that there were no development needs arising from the results.

RESOLVED: That the report be noted.

21 SOUTH YORKSHIRE LOCAL PENSION BOARD ANNUAL REPORT 2018/19

The Authority considered the South Yorkshire Pension Board's Annual report for 2018/19.

The report detailed the membership of the Local Pension Board, the work covered during 2018 and the Board's future plans.

RESOLVED: That the report be noted.

22 WEBCASTING

A report was submitted which sought approval to renew the contract to webcast meetings of the Authority.

Members were informed that the Authority had webcast its meetings since 2006.

The webcasting of the Authority supported the corporate objective to uphold effective governance. By webcasting its meetings the Authority maximised the opportunity for scheme members and other stakeholders to engage with its work and decision making processes.

REOLVED: That the Authority:

- i) Agree to continue webcasting of South Yorkshire Pensions Authority meetings for a further 3 years at a cost of £2,379 p.a. ex. VAT.
- ii) Note the price economies under consideration which arise from entering into a joint webcasting contract with Barnsley MBC and multi-year agreement.

CHAIR