

SOUTH YORKSHIRE PENSIONS AUTHORITY

12 SEPTEMBER 2019

PRESENT: Councillor M Stowe (Chair)
Councillor J Mounsey (Vice-Chair)
Councillors: A Atkin, S Cox, C Rosling-Josephs, A Sangar, A Teal,
P Wray and N Wright

Trade Unions: G Warwick (GMB)

Investment Advisors: A Devitt and L Robb

Officers: J Bailey (Head of Pensions Administration), F Bourne (Corporate Administrator), N Copley (Treasurer), G Graham (Fund Director), S Norman (Clerk), A Shirt (Senior Democratic Services Officer), S Smith (Head of Investments), G Taberner (Head of Finance and Corporate Services) and C Tyler (Head of Governance)

R Elwell (Border to Coast Pensions Partnership Ltd)

Apologies for absence were received from Councillor A Law, Councillor A Murphy, Councillor T Yasseen, N Doolan-Hamer and D Patterson

1 APOLOGIES

Apologies were noted as above.

2 ANNOUNCEMENTS

The Chair informed Members that Councillor Diane Hurst had resigned from the Authority to allow her to undertake a new Cabinet portfolio role at Sheffield City Council.

It was agreed that a letter of thanks be sent to Councillor Hurst on behalf of the Authority.

The Chair welcomed Councillor Chris Rosling-Josephs, from Sheffield City Council to his first Authority meeting.

The Chair also welcomed Aoifinn Devitt, the Authority's newly appointed Investment Advisor and Sarah Norman, Clerk to the Authority, to their first Authority meeting.

Rachel Elwell, Chief Executive Officer, of Border to Coast was also welcomed to the meeting.

The Fund Director reminded the Authority that a Members' Seminar on the Actuarial Valuation process would take place on 19th September 2019, commencing at 10:00 am in Meeting Room 1, Town Hall, Barnsley.

The Annual Fund Meeting had been scheduled for 22nd October 2019, at Sheffield Hallam University. Further details would be circulated to Members in due course. It was noted that this would be a "tea time" event.

3 URGENT ITEMS

There were no urgent items.

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

RESOLVED – That Agenda Item 19 ‘Restructuring of Arrangements for Managing the Commercial Property Portfolio’ be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST.

None.

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

Councillor Mounsey reported that he had been appointed as Doncaster MBC’s Section 41 representative with Councillor Wray as substitute Section 41 representative.

7 MINUTES OF THE ANNUAL AUTHORITY MEETING HELD ON 13 JUNE 2019

Councillor Mounsey requested that his apologies be recorded in the minutes.

RESOLVED – That the minutes of the Annual Authority meeting held on 13th June 2019 be agreed and signed by the Chair as a correct record, subject to the above amendment.

8 MINUTES OF THE ORDINARY MEETING HELD ON 13 JUNE 2019

Councillor Mounsey requested that his apologies be recorded in the minutes.

RESOLVED – That the minutes of the Ordinary Authority meeting held on 13th June 2019 be agreed and signed by the Chair as a correct record, subject to the above amendment.

9 QUARTER 1 CORPORATE PERFORMANCE REPORT

The Authority considered the Corporate Performance Report for Quarter 1 2019/20.

Members were informed that the report included a new section setting out details of the progress which the Authority had made during the quarter in relation to the various elements of the Corporate Planning Framework. Additionally, the report set out high level summaries of the performance measures for Investments, Pensions Administration and the forecast budget position for the year.

Members noted the headlines in the report which were:

- Corporate Plan delivery was on target.
- There had been strong investment performance with a return of 3.8% before equity protection against the benchmark of 3.5%.
- Pensions Administration total performance was below target in the quarter. The reasons for this were set out in the report along with the actions that are being taken.

- The first survey of retired members undertaken during the quarter showed a satisfaction level of 92% with the retirement process.
- There had been no requirement to draw down on financial reserves this year.
- The Authority was forecasting a large underspend of around 5.5%. The reasons for the significant variances were set out in the report for Members' information.
- No new risks had been added to the Risk Register during the quarter.

RESOLVED – That the report be noted.

10 INVESTMENT PERFORMANCE

10A MARKET COMMENTARY BY INVESTMENT ADVISOR

Ms Devitt presented the Independent Adviser Market Commentary report to provide Members with additional context to the financial markets over the quarter and the outlook for the remainder of 2019.

Members thanked Ms Devitt for an informative report.

RESOLVED – That the report be noted.

10B SYPA QUARTERLY INVESTMENT REPORT

The Head of Investment Strategy presented the Quarterly Report to 30th June 2019.

For the quarter the Fund return was 3.8%, which outperformed the benchmark return of 3.5%. The Fund ex equity protection showed an outperformance of the benchmark giving a return of 3.8%. The outperformance was due to stock selection as asset allocation was neutral over the period.

The Fund Valuation at the end of March showed the Fund valued at £8.4bn; by the end of June this had increased to £8.7bn.

The most significant transactions this quarter was £39m raised from the index-linked gilt portfolio and £16m raised from the residual overseas portfolios to fund £64m net investment across the alternative portfolios.

Both bonds and equities gave a positive performance over the quarter.

During the quarter, underperformance had occurred in the emerging market portfolio. The residual emerging market fund was valued at just over £20m. It showed a significant loss due to one of the holdings the Authority has in an African fund currently being in liquidation. The value of the fund was now down to just under £5m.

In response to Members' questions around timescales for recovery, S Smith informed the Authority that it was likely to take a number of years to resolve this issue.

The funding level as at the end of June was around 104% (based on the 2016 valuation assumptions) which was an increase from the previous quarter value of 101.6%.

RESOLVED – That the report be noted.

11 INVESTMENT BELIEFS

A report was submitted to secure approval for a statement of investment beliefs in order to support the process of reviewing the Investment Strategy.

Members noted that defining investment beliefs had formed part of previous strategy reviews but they had not been brought together in a single statement, approved by Members, which summarised how the Authority undertakes investment.

The report set out a proposed initial statement of investment beliefs which had been adapted from the Authority previous work to reflect the reality of pooling.

Members noted that the highlighted words and phrases below indicated key parts of the beliefs:

“SYPA is an **active, global, long term** investor and looks to maintain a **diversified** portfolio of assets managed through the Border to Coast Pensions Partnership in a **responsible** way which gives due regard to **Environmental, Social and Governance** issues aiming to achieve superior **net of fees risk adjusted returns**. The overall approach to risk can be summarised as **moderate**”.

S Smith provided Members with an overview of the beliefs in further detail.

It was noted that, subject to agreement by Members, the Statement of Beliefs would provide a framework within which officers supported by Hymans Robertson would develop proposals to implement the revised strategic asset allocation. It was noted that Members would have a further opportunity to debate the beliefs at the forthcoming Investment Strategy Seminar.

RESOLVED – That Members:

- i) Approved the Statement of Investment Beliefs set out in the report.
- ii) Noted that the process of reviewing the Investment Strategy would provide an opportunity to test and if necessary revise this statement.

12 BORDER TO COAST UPDATE AND PRESENTATION

The Chair provided Members with a verbal update on the results of the elections for the roles of Chair and Vice-Chair of the Border to Coast Joint Committee and for a shareholder nominated Non-Executive Director, following the Border to Coast Joint Committee held on 11th September 2019.

Members were informed that Councillor Doug McMurdo had been elected Chair of the Joint Committee and Councillor Tim Evans elected Vice-Chair of the Joint Committee.

Councillor John Holtby had been elected a Non-Executive Director to the Border to Coast Board.

The Chair reported that, sadly, Councillor Sue Ellis had formally resigned from her role as a Non-Executive Director on the BCPP Board. The BCPP Joint Committee had agreed that there was a strong desire to fill this vacancy for a one year period, as soon as possible and therefore, election would take place by postal ballot.

The Chair welcomed Rachel Elwell, Chief Executive Officer, of Border to Coast Ltd.

Ms Elwell delivered a presentation which included:

- Border to Coast – Progress Update
- Performance on the investment products launched by BCPP to date
- The delivery of planned investment products for 2020 onwards
- Progress on Investment Grade Credit Mandate
- Update on the Multi-Asset Credit (MAC) Mandate
- Update on Private Credit
- The objectives of the Climate Change Working Party
- Equities Performance Update

In relation to responsible investment, Councillor Teal commented that there was no evidence to show that engagement works.

Ms Elwell replied that it was incredibly important to measure the impact of engagement and this was one of the main reasons why BCPP had chosen to work with Robeco. There was also a lot of evidence to suggest that if you invested responsibly in well governed companies you get better investment outcomes.

Ms Devitt commented that Robeco had produced case studies providing examples of where they had engaged and the impact that it had made. She offered to obtain a case study for Members' information.

Councillor Sangar commented that the Authority had adopted a leadership position in terms of Responsible Investment. He requested that this position be maintained moving forward.

The Fund Director provided Members with reassurances that the Authority would continue to maintain its leadership role. He added that there were limitations to what the Authority could do, but it could set an example for other Funds.

The Chair thanked Ms Elwell for an informative presentation.

RESOLVED – That Members:-

- i) Noted the update on the various streams of activity being undertaken in relation to Border to Coast.
- ii) Agreed the Authority's continuing support for the appointment of Shareholder nominated Non-Executive Directors to the Board of the Company.

13 RESPONSIBLE INVESTMENT UPDATE

A report was presented to provide Members with an update on Responsible Investment Activity during the quarter ended June 2019.

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 involved in the Border to Coast pool.

These were:

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

The headlines in relation to voting were summarised in the report for Members' information. During the period, the total number of votes cast and number of meetings voted was materially higher than in previous years due to Border to Coast now being able to vote shares in all markets.

Members noted that the Authority had become an affiliate member of Pensions for Purpose, a platform for the sharing of learning in relation to responsible and impact investing.

RESOLVED – That Members noted the activity undertaken in relation to Responsible Investment matters in the period April to June 2019.

14 LGPS GOOD GOVERNANCE REVIEW

A report was submitted on the conclusions of the Good Governance Review carried out on behalf of the Scheme Advisory Board. Members were asked to consider whether there were any specific actions required in light of the conclusions of the review.

Members were provided with an overview of the proposals set out in the review and their implications for SYPA.

The Fund Director highlighted that the report set out a number of areas where the proposed framework was unlikely to fit for SYPA. It was noted that these would be raised with the Scheme Advisory Board to ensure that the final guidance when produced accommodated not just the "standard" administering authority, but the various other arrangements that are in place across the scheme.

In addition, it was proposed that the Fund Director would take steps to put four areas in place (as set out in paragraph 5.8 in the report) to demonstrate best practice and also in preparation for the eventual introduction of the proposed framework.

In relation to the proposal to include a knowledge and skills requirement for Authority Members in the regulations, Members agreed that this should be raised with the District Councils in their consideration of appointments to the Authority.

RESOLVED – That Members:-

- i) Noted the contents of the Good Governance Review.

- ii) Approved the limited initial actions proposed pending the Scheme Advisory Board's final proposals; and
- iii) Agreed that the implications highlighted in relation to knowledge and skills for Members of the Authority should be raised with the District Councils in their consideration of appointments to the Authority.

15 VALUATION 2019 - UPDATE

The Fund Director submitted a report to update Members on the process of delivering the Fund's 2019 valuation and to seek agreement to the key next steps in the process.

Members were reminded that the Authority was required to undertake an actuarial valuation of the Pension Fund every three years in order to establish employer contribution rates for the next three years. The valuation is undertaken by the Fund Actuary (Mercer) and contributes towards a Funding Strategy setting out how the liabilities of the Fund will be met over the long term.

The Head of Pensions Administration provided Members with an overview of the range of issues relating to the Valuation process which needed to be considered prior to the results becoming available.

Members noted that further detail on how the process would be undertaken and the implications of the major policy decisions would be provided to Members at the forthcoming Valuation Seminar on 19th September 2019.

RESOLVED – That Members:-

- i) Endorsed the employer engagement process and timetable set out in the report.
- ii) Approved the adoption of a primary objective in relation to this and future valuations of maintaining stability in contribution rates as defined in the body of the report, while noting the potential difficulties caused by the McCloud case and other external factors.
- iii) Approved the proposed policy position that Multi-Academy Trusts are automatically treated as a single employer.
- iv) Confirmed that for employers remaining in deficit the maximum allowable deficit recovery period should be 16 years and the default position on deficit recovery should be as set out in paragraph 5.8.
- v) Approved the inclusion of the employers set out in paragraph 5.11 within the ill health captive arrangement.
- vi) Endorsed the approach set out from paragraph 5.14 to employer risk management.

16 LOCAL CODE OF CORPORATE GOVERNANCE

A report was submitted to secure approval for a revised Local Code of Corporate Governance which had been updated to reflect changes in the Authority's governance structure and more recent guidance from CIPFA and SOLACE.

Members noted that the Authority's current local code had not been formally updated since 2014 and following the adoption of the new governance arrangements and the revised Corporate Strategy and the issuing of more recent guidance by CIPFA and SOLACE it was important this was brought up to date.

Appendix A to the report set out SYPA's revised Local Code of Corporate Governance for Members' approval.

RESOLVED – That Members approved the revised Local Code of Corporate Governance at Appendix A to the report.

17 GENDER PAY GAP

The Authority considered a report which provided details of the organisation's Gender Pay Gap.

It was proposed that future reports were published automatically with headline data and any key issues reflected in the regular performance monitoring reports presented to the Authority.

RESOLVED – That Members:-

- i) Considered and commented on the 2019 Gender Pay Gap Report.
- ii) Agreed that future reports should be published automatically and any key data reflected in the Corporate Performance Report.

18 SUPPORT SERVICES SERVICE LEVEL AGREEMENT 2019/20

A report of the Head of Finance and Corporate Services was submitted to set out details of a review undertaken of the Service Level Agreement (SLA) with Barnsley MBC for support services to be provided to the Authority and to seek approval of the draft revised SLA for 2019/20.

Members were asked to authorise the Fund Director and Treasurer to agree the final version incorporating additional service provision for Health and Safety.

RESOLVED – That Members:-

- i) Approved the draft, revised Service Level Agreement with Barnsley MBC for 2019/20; and
- ii) Authorised the Fund Director and Treasurer to agree the final version incorporating additional service provision for Health and Safety.

19 EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED – That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act and the public interest not to disclose information outweighs the public interest in disclosing it.

20 RESTRUCTURING OF ARRANGEMENTS FOR MANAGING THE COMMERCIAL PROPERTY PORTFOLIO

A report was submitted to seek approval for the restructuring of the arrangements for managing the Authority's commercial property portfolio in order to bring the arrangements closer to industry norms and to create a situation which would be easier to transfer to the Pool when required.

RESOLVED – That Members approved the recommendations as set out in the confidential report.

CHAIR