SOUTH YORKSHIRE PENSIONS AUTHORITY

17 MARCH 2022

PRESENT: Councillor J Mounsey (Chair)

Councillors: F Belbin, S Clement-Jones, S Cox, D Fisher, M Havard, D Nevett, C Rosling-Josephs, A Sangar, G Weatherall and N Wright

Trade Unions: N Doolan-Hamer (Unison) and G Warwick (GMB)

Investment Advisors: A Devitt and L Robb

Officers: J Bailey (Head of Pensions Administration), G Graham (Director), M McCarthy (Deputy Clerk), G Richards (Governance Officer), S Smith (Head of Investments Strategy), G Taberner (Head of Finance and Corporate Services) and W Goddard (Financial Services Manager)

M Lyon (Border to Coast Pensions Partnership Ltd)

D Green (Hymans Robertson)

Apologies for absence were received from Councillor M Stowe

1 APOLOGIES

The Chair welcomed everyone to the meeting.

Apologies were noted as above.

2 ANNOUNCEMENTS

The Director announced that this was Martin McCarthy's last Authority meeting as he was leaving BMBC at the end of May.

Martin had worked for the Authority since it was created in 1988 and before that for South Yorkshire County Council. From a personal level the Director commented that Martin had been an enormous support of his role and that the of the Pensions teams. He had provided wise counsel over many years and it was only right that Martin's service to the Authority was properly recognised.

The Chair commented that he had known Martin for 22 years, formerly as a member of the Fire and Rescue Authority, and held him in great respect for all his knowledge and assistance. He was proud to present Martin with a token for all work for the Authority over the years.

M McCarthy thanked Members and officers for the gift, stating that it had been an honour and a privilege to work for the Authority. He wished SYPA all the best for the future.

3 URGENT ITEMS

None.

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

RESOLVED – That item 16, Debt Write-Offs and item 17, Director's Appraisal, be considered in the absence of the public and press.

It was stated that item 17 would only be considered by voting members, the Director and the Deputy Clerk.

5 DECLARATIONS OF INTEREST

None.

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

There were no specific issues from the s41 members but they again thanked the Director for supplying replies to numerous emails that councillors had received regarding climate change and investment issues.

7 MINUTES OF THE MEETING HELD ON 10 FEBRUARY 2022

RESOLVED – That the minutes of the meeting held on 10th February 2022 be agreed as a true record.

8 CORPORATE PERFORMANCE REPORT Q3 2021/22

G Taberner presented the Corporate Performance Report for Quarter 3 2021/22.

Highlights for the Quarter were noted as:

- Reduction in sickness levels.
- Fund value at a record £10.8 billion.
- Improvements in pension administration performance measures.
- Delays occurring on a small number of corporate objectives.
- Underspends forecast against the budget – particularly staffing budgets due to 9% vacancy rate.

Section 3 of the report provided information on the progress being made on delivering the various strategies which formed the corporate planning framework. A table provided updates in respect of developments during the quarter in delivering the programmes of work as well as updates in respect of activity that had taken place to deliver the ICT, HR and Equality strategies.

The key performance indicators for Pensions Administration were presented within the report. It was noted that performance on priority cases had returned to previous levels as long-term sickness absence had reduced. A more detailed report on performance of Pensions Administration was provided for each meeting of the Local Pension Board.

Members noted the quarter 3 financial performance and forecast outturn. The forecast underspend for the year was £182k at quarter 3; the majority of this related to employee

costs. Detailed variances against budget for each of the service areas were contained within the report.

Members were reminded that the Authority had three earmarked reserves, The Corporate Strategy reserve, the ICT reserve and the Capital projects reserve.

A table within the report showed details of planned transfers from the reserves in 2021/22 which resulted in a total of £1,404k being transferred during the current financial year.

As there continued to be a need to ensure the balance of reserves was kept to an adequate level to meet resourcing requirements for specific corporate strategy objectives and for managing risk, it was proposed to transfer the remaining forecast underspend for 2021/22 into the reserves.

The report gave details and the rationale behind the proposal to recruit 1.0 FTE Senior Finance Officer. The cost of adding this post would be £35k per annum. At the budget had already been set for 2022/23, this would be finance in the first year by using some of the carried forward on the 2021/22 salaries budget. From 2023/24 the cost would be included I the budget.

The Risk Register, was attached at Appendix A. Further details and full commentary regarding the review of all the risks in February was provided.

In answer to a question form Cllr Nevett, J Bailey confirmed that a project team had been set up as planned with the aim of clearing backlog cases and he would be able to produce statistics at the next meeting to give assurance that the backlog was decreasing.

Members discussed the risk around adequate member training and development. The results from the recent self-assessment would be used to develop a comprehensive training programme over the next 12 months, including actuarial training during the valuation year. Members were invited to inform officers of any specific training requirements they may have.

Members also discussed the risk around climate change and that the likelihood that it would remain red for the foreseeable future. It was noted that the Authority's goal to reach net Zero by 2030 was extremely challenging. There were ways of making the goal more achievable but these could challenge some of the Authority's long-held beliefs. These would be discussed during the next 12-15 months whilst reviewing the Authority's' Investment Strategy.

RESOLVED – That members:

i) Approve the transfers to and from earmarked reserves as set out in the table in paragraph 4.53; currently forecast to amount to a net total transfer from reserves of £1,185,160.

ii) Approve the addition of 1.0 FTE Senior Finance Officer to the staffing establishment in Finance & Corporate Services.

9 <u>ADVISORS COMMENTARY</u>

A Devitt gave a market commentary on recent events.

- There was sharp stock market volatility early in the year which had not yet subsided.
- There were inflation concerns globally, with levels not seen in decades.
- Interest rates were raised, with two back-to back rises by the Bank of England and up to five rises being forecast in the US during 2022.
- Gilt yields fell sharply in February suggesting that the rise of inflation (and interest rates) may be short-lived.
- Stock markets had been disappointing year to date, with the UK FTSE being a notable exception.
- Markets remained on a geo-political knife-edge with scandal round the Beijing winter Olympics while Russia's invasion of Ukraine in February sparked unprecedented economic sanctions – the situation had worsened sins the report was written.
- Supply chain issues and labour shortages were persisting.

Members discussed geo-political risks, the likelihood of further Covid related lockdowns, local investments as required in the levelling-up agenda, a renewed focus on governance and renewable energy as a way of reducing reliance on Russia.

L Robb introduced a note of caution regarding the situation even when the events in Ukraine were resolved. There was a risk of shortages, wage pressures and there could be a phase of persistent high inflation which could be challenging for markets.

The Chair thanked A Devitt for an interesting and informative update.

10 QUARTERLY REPORT TO 31 DECEMBER 2021

S Smith presented the quarterly Investment Performance report to 31st December 2021.

It was noted that the value of the Fund at 31st December 2021 was £10.8bn.

Since the conflict in the Ukraine which affected all valuations and stock markets, the value at its lowest point was £10.3m and was currently £10.4bn.

During the quarter there had been several significant asset allocation decisions.

As equity markets continued to be strong, £9.9m was raised from the legacy holdings and these were used to fund the drawdowns into the alternative funds.

The largest transaction in the quarter was the transition of high yield and emerging market bonds to the new Border to Coast Multi Asset Credit fund in October. Cash proceeds of £47.5m was also added to take SYPAs weighting towards a neutral weighting.

Within property four sale transaction were completed during the quarter. These were detailed within the report and had been reported earlier in the 2021 Strategic Plan.

As reported last quarter, there was a significant drawdown of £105m into infrastructure funds which had taken the weighting within the permitted ranges for the asset class. There was only one category outside of its tactical range which was private equity.

It was noted that for the quarter to the end of December 2021, the Fund returned 4.1% against the expected benchmark return of 3.7% and for the year to date the Fund had now returned 10.7% against an expected return of 9.3%.

The report contained details of the performance of Border to Coast funds and a chart showed quarterly returns and also the longer term position of each of the Border to Coast Funds held by SYPA.

Regarding the Net Zero target, SYPA would consider a range of alternative investments approaches to enable the management of risks and opportunities related to climate change.

SYPA already had exposure to a range of low carbon investments through its existing strategy in areas such as infrastructure and private equity, and would look at increasing these further in the forthcoming strategy review.

Members were informed that Border to Coast were currently exploring the possibility of launching a Climate Opportunities which SYPA was supportive of. All of this portfolio would be climate and carbon aware supporting SYPA's commitment to decarbonise and would help meet the net zero target. Full details were contained within the report – SYPA's commitment would be £245m.

S Smith commented that the outlook was positive at the moment due to the diversity of asset allocation within the Fund. The Fund at its worst point only fell by 4½%, another positive was that the Fund held assets that benefitted from inflation.

The Federal Bank had raised interest rates and announced six further rises but also stated that they did not think that this would impinge the growth of the US economy. China had also stated that they would ensure that there was stability in their capital markets.

The Chair thanked S Smith for the update.

M Lyon gave a presentation on the performance of SYPA's assets and future opportunities within Border to Coast Pensions Partnership.

Areas covered included:

- Valuation and Commitment
- UK Listed Equity Fund
- Overseas Developed Markets Fund
- Emerging Markets Equity
- Multi-Asset Credit
- Sterling Investment Grade Credit
- Sterling Index Linked Bonds
- Climate Opportunities

M Lyon explained the positioning of and logic behind Border to Coast's Russian investments where they were underweight credit and overweight equities, although overall they were slightly underweight.

The current position was that the assets had zero value and couldn't be traded. The situation would be continually monitored and a decision on future exposure to Russia would be made in the future when there was more clarity and taking into account Partner Funds' views.

Regarding the proposed Climate Opportunities fund:

- Deliver 8% target investment return through income and capital growth.
- Invest in opportunities focused on reducing carbon emissions and support the transition to a low carbon economy.
- Managers must clearly demonstrate and report carbon/transition impact.
- Avoid "greenwashing" through assessment of manager and funds alignment with net zero and a lower carbon economy.

Members discussed the improvement of the levels of disclosure, greenwashing, divestment and engagement and the understanding of the pathway to net zero.

The Chair thanked M Lyon for a very informative presentation.

11 SYPA RESPONSIBLE INVESTMENT POLICIES - ANNUAL REVIEW

A report was presented for members' approval of the annual review of the Authority's own policies in relation to responsible investment.

The Responsible Investment Policy, at Appendix A to the report, generally remained unchanged but there had been some development of its presentation to include the Authority's responsible Investment beliefs which had been agreed last year and also amendments to ensure that some of the emphasis from the Stewardship Code on priority setting and focus was properly reflected within the policy.

The proposed revised Climate Change Policy (at Appendix B) was focused on bringing the policy in line with the Net Zero Goal and Action Plan. The Policy also reflected the intention of the government to make regulations to mandate reporting in line with the requirements of the Task Force on Climate Related Financial Disclosure.

RESOLVED – That Members approve the following update policy documents:

i) The Authority's Responsible Investment Policy (Appendix A).

ii) The Authority's Climate Change Policy (Appendix B).

12 NET ZERO ACTION PLAN UPDATE

A report was submitted which sought to secure agreement to the first annual update to the Net Zero Action Plan.

Members were reminded that the Authority had approved its first Net Zero Action Plan in March 2021 following the agreement in 2020 of a goal to make the investment portfolios Net Zero in terms of carbon emissions by 2030,

The updated Net Zero Action Plan set out in the Appendix reflected the progress that had been made in the last 12 months and set out the further steps required in this stage of the Authority's journey.

Members were informed that, while the last 12 months had seen significant progress on climate issues in a number of areas, including the setting of a Net Zero target by Border to Coast, the 2030 goal remained extremely challenging and there was a high risk that it would not be achieved.

The Fund Director commented that it was clear that the reduction of emissions from some of the core portfolios would have to be speeded up and there needed to be a discussion of what that meant in terms of the Authority's investment beliefs alongside the Investment Strategy review. There would be an informal session later in the year to develop policy and thinking in this area.

There were clear resource implications in terms of a significant input of officer time and the need for an external resource to meet the additional more prescriptive reporting requirements. Border to Coast had already secured a contract for data provision and it was hoped the Authority could piggyback on that.

The Action Plan also identified key risks; it was noted that additional risks had been identified since the report was written due to the situation in Ukraine and some countries plans to reduce their reliance on Russian fossil fuels which could prove unhelpful

Cllr Cox commented that it was important to remember that SYPA's main responsibility was to pay Scheme members' pensions.

Cllr Sangar welcomed the report and commended the progress made. He also expressed frustration that there was still a lack of data whilst acknowledging that travel was in the right direction.

RESOLVED – That Members approve the updated Net Zero Action Plan.

13 <u>UNDERSTANDING THE IMPACT OF OUR INVESTMENTS</u>

A report was submitted which allowed members to consider the Authority's first attempt to assess the impact of its investments and the Authority's review of its adoption of the Impacting Investment Principles of Pension Funds.

Members were reminded that they had agreed to undertake work to gain a more complete understanding of the impact of all of its investments on people and the planet using the UN Sustainable Development Goals as a framework for analysis.

This was a very significant piece of work and Minerva were commissioned using the LGPS National Framework for Stewardship to undertake it. The contract awarded was to produce reports over three years with an increasing amount of activity being undertaken in house each year.

Minerva's first report was attached as an Appendix to the report. A summary of the conclusions was noted as:

- Impact – The Authority's investments were impacting the achievement of Sustainable Development Goals (SDGs).
- Contributors – Some investments already positively helped towards the delivery of SDGs.
- Alignment – The potential existed to build SDG delivery actions into existing RI approach
- Data Gaps – Some managers (particularly for unlisted assets) did not provide data.
- Focused – Five sectors accounted for 2/3rds of the Authority's exposure to the SDGs.
- Detractors - Some investments also had the potential to negatively impact the SDGs.

It was noted that one of the member learning sessions in the next municipal year would be dedicated to the report and what could be learned from it as part of shaping future policy.

Members were reminded that in March 2021, the Authority agreed to adopt the Impact Investing Principles for Pension Funds. Appendix B set out a review of what had been done in complying with the principles and intentions for the future in relation to each of the principles.

RESOLVED – That Members:

i) Note the Authority's first Impact report.

ii) Note the review of the Authority's first year of adoption of the Impact Investing Principles for Pension Funds.

14 RESPONSIBLE INVESTMENT QUARTERLY UPDATE Q3 2021/22

Members considered the Responsible Investment Update for Quarter 3.

Highlights included:

- A continued high level of engagement activity.
- The agreement of the annual update to Border to Coast's voting guidelines.
- Equity portfolios continued to demonstrate strong ESG performance relative to benchmark.
- Progress towards Net Zero of the equity portfolios.
- A continued high level of collaborative and policy development activity.

RESOLVED – That the report be noted.

15 VALUATION 2022 - INITIAL ASSUMPTIONS AND DELIVERY PLAN

A report was submitted which sought to gain agreement to the initial assumptions to be used in the valuation process and to provide an update on the planned process for the valuation.

Members were reminded that the triennial valuation of the pension fund which would set employer contributions would take place this year and was based on the value of the fund's assets and liabilities as at 31st March 2022.

The Director informed members that, whilst there remained significant uncertainty in financial markets, the valuation would be conducted from a more favourable starting point than in previous years. Therefore, it was appropriate to consider the Authority's overall objective in the valuation process. Given the risk environment the Fund faced and the pressure on employers it was suggested that the overall objective should he framed as follows:

The objective of the Authority is to achieve medium to longer term stability in employer contribution rates taking into account the different starting points and membership profiles of individual employers.

G Graham introduced Douglas Green from Hymans Robertson who would be undertaking the valuation for the first time as the Fund's actuary.

D Green gave a presentation which explained how the assumptions used worked when applied to members benefits, investment returns and employer contributions.

The Chair thanked D Green for an interesting and informative presentation.

RESOLVED – That members:

i) Approve the valuation assumptions set out in the body of the report.

ii) Note the plan for the valuation process.

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 paragraphs 1 and 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.

16 DEBT WRITE-OFFS

A report was submitted which requested the Authority's approval to write off irrecoverable debts relating to the Pension Fund's commercial property portfolio and Pension Member overpayments.

RESOLVED – That Members approve the writing off of the debts detailed within the report.

17 DIRECTOR'S APPRAISAL

A report was submitted which allowed members to consider the annual appraisal of the Director's performance.

RESOLVED: That members:

i) Note the review of the Director's performance over the year.

ii) Approve the objectives for the coming year set out in the body of the report.

CHAIR