

SOUTH YORKSHIRE PENSIONS AUTHORITY

19 MARCH 2020

PRESENT: Councillor M Stowe (Chair)

Councillors: A Atkin, A Sangar, A Teal, N Wright and T Yasseen

Investment Advisors: A Devitt and L Robb

Officers: G Graham (Fund Director), M McCarthy (Deputy Clerk), G Richards (Senior Democratic Services Officer) and S Smith (Head of Investments)

Apologies for absence were received from Councillor S Cox, Councillor A Law, Councillor A Murphy, Councillor J Mounsey, Councillor C Rosling-Josephs, Councillor P Wray, N Doolan-Hamer, D Patterson, G Warwick, J Bailey, A Frosdick, A Stone and G Taberner

1 APOLOGIES

The Chair welcomed everyone to the meeting.

It was noted that, although some Members had been unable to attend, including both Members from Doncaster, the meeting was quorate.

Apologies were noted as above.

2 ANNOUNCEMENTS

G Graham informed Members that this would have been Andrew Frosdick's, the Authority's Monitoring Officer, last meeting before his retirement in May.

The Monitoring Officer wanted to convey his thanks to the Authority for all their support in his role over the years.

The Chair conveyed the Authority's thanks to the Monitoring officer and wished him well in his retirement.

3 URGENT ITEMS

None.

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

RESOLVED – That Item 21 'Property Debt Write-Offs' and Item 22 'Fund Directors Appraisal' be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST.

None.

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

None.

7 MINUTES OF THE AUTHORITY MEETING HELD ON 23RD JANUARY 2020

RESOLVED – That the minutes of the Authority meeting held on 23rd January 2020 be agreed as a true record.

8 DRAFT MINUTES OF THE LOCAL PENSION BOARD MEETING HELD ON 13TH FEBRUARY 2020

RESOLVED – That the draft minutes of the Local Pension Board meeting held on 13th February 2020 are noted.

9 DRAFT MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 5TH MARCH 2020

RESOLVED – That the draft minutes of the Audit Committee meeting held on 5th March 2020 are noted.

10 CORPORATE PERFORMANCE REPORT Q3 2019/20

The Authority considered the Quarter 3 Corporate Performance report.

The key messages for the quarter were noted as:

- The Corporate Plan remained on target.
- The Pensions Administration restructure had been implemented.
- Funding level was above 100%.
- Healthy financial reserves were now in place to support Corporate Plan activities going forward.
- Administration performance remained below benchmark – this was linked to high vacancy levels
- There was a large variance between the budget and the forecast outturn.

Members discussed the risk around the impact of climate change on the value of the Fund's investments and the difficulty of rating and mitigating the risk.

The Fund Director informed Members that the Risk Register had a monthly headline review and was discussed in detail at quarterly Senior Management Team meetings. The risk around climate change would be looked at again at the next SMT meeting. Members were reminded that the Authority was constantly looking for positive investments in terms of addressing climate change.

It was noted that the Risk Register would also be updated to take account of current events with regard to Coronavirus.

Cllr Yasseen drew Members' attention to risk G1 around Member knowledge and understanding. As a new Member she had found it challenging to understand all the documents and policies and had spent a lot of time studying to gain that understanding.

She felt that proposals should be looked at whereby Members served a term of two or three years to keep the knowledge within the Authority for longer.

The Chair replied that it was not in SYPA's gift to change how the local authorities selected Councillors to sit on the Authority; the Leaders had also made a decision to rotate the position of Chair around the districts every two years and this was certainly not on the recommendation of officers or SYPA. It had to be up to each individual to lobby to stay on the Authority.

G Graham sympathised with Cllr Yasseen, remarking that he and the Deputy Clerk wrote to the Chief Executives of the four districts each year before the annual council meetings setting out the role of an Authority Member and the time commitment involved in the hope this would influence decisions.

RESOLVED – That the report be noted.

11 INVESTMENT STRATEGY REVIEW

The Fund Director announced that he would be taking the Investment Strategy Review and the Responsible Investment Policies Annual Review together due to the degree of overlap between the two.

Members were informed that due to time sensitivity the Investment Strategy Statement (ISS) must be agreed today, although the ISS could be changed at a later date if required.

There was also a decision to be made in relation to equity protection; this would be dealt with in the private part of the agenda due to it containing market sensitive information.

The report at item 11 set out proposed changes to the strategic asset allocation which, if agreed, would start to be implemented at the beginning of the next financial year, subject to market conditions.

Members' attention was drawn to paragraph 5.12 of the report which set out the hierarchy which would be used to realise investments in order to pay benefits due to Scheme members.

The proposed implementation process would rely on products that were included within the Border to Coast Delivery Plan. This could affect the timing of the process, especially in current market conditions.

The paper at item 13a set out a number of policies in the responsible investment area that were subject to regular review; a diagram within the report set out a hierarchy of those policies.

Members discussed the ISS and RI policies in terms of climate change and the apparent lack of urgency of markets and investment houses to address the need of investors to support the ambition of being carbon neutral by 2030.

The Fund Director agreed that there was clearly a need, given Members views, for future debate on how the Authority addressed some of these issues in policy terms. In the meantime Members could send him any comments or suggestions and officers would look again at the policies in conjunction with the Chair.

Cllr Sangar commented that in terms of the Investment Strategy Statement, he would like the following words removed from the third paragraph of the social, environmental and corporate governance section on page 60 – ‘and, therefore, will not actively invest in or disinvest from companies solely or largely for social or ethical or environmental reasons’ as he felt it didn’t reflect what some Members were trying to achieve in this area. The sentence would then read: ‘The Authority believes that the pursuit of standards of best practice aligns the interest of Fund members with those of fellow shareholders and with society as a whole’.

After debate it was agreed to remove the sentence as requested.

RESOLVED – That the Authority:

- (i) Endorse the changes to the investment strategy set out in the report, including the changes to Equity Protection set out in Appendix B on the confidential part of the agenda.
- (ii) Approve the revised investment Strategy Statement subject to the amendment described above.
- (iii) Defer approval of the Authority’s:
 - Responsible Investment Policy
 - Climate Change Policypending further debate.
- (iv) Approve the updated Policy on Responsible Investment for Commercial Property.

12A INDEPENDENT ADVISORS COMMENTARY

A Devitt provided a market commentary plus a update on events since the report was produced.

It was noted there had already been a number of casualties due to Coronavirus and the current retail market climate.

Markets had been slow to react to the threat of Coronavirus and no-one had foreseen the global impact it would have; the markets didn’t react until there were developments in Italy.

There had been a dramatic fall in markets – the FTSE had lost 30%, European markets seemed to be taking the brunt. The European Central Bank was being proactive and the Federal Reserve had moved to cut interest rates twice in a week. Governments were also looking at other ways to alleviate the impact.

There would be testing times ahead, most commentators would say this was a temporary setback but there were still likely to be a lot of failures and bankruptcies.

Equity protection had been excellent for the Fund but the first quarter of 2020 would still show some losses. As a diversified fund, SYPA would not react in a tactical way at this time but there was an opportunity to rethink some of the Fund’s protection.

The Chair thanked A Devitt for the update.

12B FUND PERFORMANCE - QUARTERLY REPORT TO 31ST DECEMBER 2019

Members considered the Quarterly Report to 31st December 2019.

S Smith gave an update on events since the end of December.

At the end of December the Equity Protection had a negative impact of £149 million on the Fund. By the end of February this had turned into an positive impact of £11m and at this point year-to-date performance was still positive.

Since the end of February the situation had worsened considerably but Equity Protection had provide a positive impact of £250 million to the Fund; year-to-date performance was now down approximately 2% in value terms.

G Graham drew Members' attention to page 70 of the agenda which included a dashboard of various key investment metrics. Officers would welcome feedback on this new feature and suggestions for further information to be included would be welcome.

RESOLVED – That the report be noted.

13A RESPONSIBLE INVESTMENT POLICY - ANNUAL REVIEW

This was dealt with at item 11.

13B RESPONSIBLE INVESTMENT - BORDER TO COAST UPDATE

The Authority considered a report which gave an update on Border to Coast's Responsible Investment activities.

The update gave details on implementing their RI Strategy, the Climate Action 100+ group, engagement and voting.

Cllr Teal questioned when BP would disclose how its business strategy was consistent with the Paris Agreement. This was unknown at the moment, G Graham would circulate the information when available.

RESOLVED – That the report be noted.

13C RESPONSIBLE INVESTMENT UPDATE - QUARTER 3 2019/20

A report was submitted which provided an update for Members on responsible investment activity during the period October to December 2019.

RESOLVED – That the Authority:

- (i) Note the activity in relation to responsible investment issues during Quarter 3 of the financial year.
- (ii) Approve continued participation in the Workforce Delivery Initiative on a fee paying basis.

14 TREASURY MANAGEMENT STRATEGY 2020/21

Members considered the Treasury Management Strategy for 2020/21.

The report fulfilled the Authority's legal obligation under the Local Government Act 2003 to 'have regard to' certain CIPFA and MHCLG guidance.

The report was forward looking and included:

- The Treasury Management Strategy, including treasury indicators;
- An investment strategy; and
- To the extent that they applied in the Authority, capital plans, prudential indicators and minimum revenue provision policy statement.

The report also contained a list of approved investment instruments; a summary of the treasury investments held at the end of quarter 3 was attached as an appendix to the report.

RESOLVED – That the Authority:

- (i) Approve the 2020/21 Treasury Management and Annual Investment Strategy.
- (ii) Approve the Treasury and Prudential Indicators for 2020/21.
- (iii) Approve the Minimum Revenue Provision Statement as set out in the report.

15 PENSIONS ADMINISTRATION STRATEGY STATEMENT

A report was submitted advising Members of changes to the Administration Strategy including the intention to collect contributions from employers by direct debit from 1 April 2020.

Members were informed that Monthly Data Collection (MDC) had been successfully embedded into employer processes and officers now wished to move to the MDC process driving the collection of contributions from employers on a monthly basis via direct debit.

The existing Administration Strategy had been updated to reflect this change in process and also to update some other minor areas of the document which had become outdated e.g. the removal of references to Year-End returns which were no longer required. Appendix A showed the full Strategy document with tracked changes.

Employers were consulted on the proposed changes and some concerns were raised about the deadline to submit an MDC by the 5th day of the month following the end of the payment period.

Following discussions with the Fund's banking provider it had been possible to introduce some flexibility to the date and the deadline had been extended to the 9th, 10th or 11th of the

month depending on the month in question. This should accommodate those employers who had concerns.

The Local Pension Board had been provided with a summary of the feedback received from employers following the consultation and had expressed their support for the move to direct debit collection provided that the flexibilities referred to above were available where required.

RESOLVED – That the Authority:

- (i) Approve the changes to the Administration Strategy at Appendix A to the report which had been consulted on with employers.
- (ii) Approve the change in the contribution collection process from April 2020.

16 REVIEW OF THE CONSULTATION & COMMUNICATIONS STRATEGY

A report was submitted which provided the Authority the opportunity to review the updated Consultation and Communication Strategy.

The Strategy had been updated to reflect the move towards digital communication and interaction with Scheme members as well as to recognise the creation of the Customer Centre.

The Strategy had been issued to the Scheme members who made up the Focus Group and employers for comments. No comments had been made by employers; the comment from the Focus Group were included in the report.

RESOLVED – That the Authority approve the Consultation and Communications Strategy as set out as an appendix to the report.

17 REVIEW OF THE GOVERNANCE COMPLIANCE STATEMENT

Members considered a report which asked for approval of a revised Governance Compliance Statement following changes to the Authority's governance arrangements as required by s55 (1) of the Local Government Pension Scheme Regulations 2013.

Members were reminded that the Governance Compliance Statement was last reviewed at the Authority's meeting in June 2019 following the adoption of revised governance arrangements at the Annual Meeting. As part of the process of preparing the Authority's Annual Governance Statement for inclusion in the 2019/20 Annual Report and Accounts the Statement had been reviewed again. The principle changes related to:

- Clarifying the position in relation to representation of the wider employer base within the Authority's structures.
- Providing additional information in relation to the Local Pension Board.

RESOLVED – That the Authority approve the revised Governance Compliance Statement as set out in the Appendix to the report.

18 APPOINTMENT OF MONITORING OFFICER

A report was submitted to seek the Authority's approval to appoint Garry Kirk as Monitoring Officer following the retirement of the current Monitoring Officer, Andrew Frosdick at the end of May 2020.

RESOLVED – That the Authority approves the appointment of Garry Kirk (Service Director, Legal, Barnsley MBC) as Monitoring Officer following the retirement of Andrew Frosdick.

19 MEMBERS ALLOWANCES SCHEME

A report was submitted which introduced a scheme of members' allowances for the Authority.

Members were reminded that under the current arrangements the costs of allowances was borne by the individual district councils rather than by the Authority. Proper accounting practice would dictate that the costs of allowances solely concerned with the work of the Authority should be borne by the Authority and ultimately by the Pension Fund.

The district councils had agreed that with effect from the 2020/21 financial year the Authority should create its own scheme of allowances and meet these costs directly.

In order to create a valid scheme it was necessary for the Authority to commission an independent review so that members were not involved in setting their own remuneration. A report had been commissioned from Dr Declan Hall, an expert in the area, who had worked with each of the district councils on their own schemes. His report was at Appendix 1, with the proposed scheme reflecting his proposals at Appendix B.

Members were informed that, given the difference between the current and proposed allowances for the Chair and Vice-Chair and the fact that these members had been working to the requirements of the roles as outlined in Dr Hall's report, it was proposed that the Authority would bear the cost of the new allowances for these members for the 2019/20 financial year.

RESOLVED – That the Authority:

- (i) Approve the scheme of members' allowances as set out at Appendix B.
- (ii) Note the agreement of the district councils that the cost of allowances relating to the Authority's work should in future be borne by the Authority.
- (iii) Approve the arrangements for the allowances for the Chair and Vice-Chair for 2019/20 as set out in the report.

Exclusion of the Public and Press

RESOLVED – That under Section 100(A) of the Local Government Act 1972, the public and press 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.

20 INVESTMENT STRATEGY STATEMENT - EQUITY PROTECTION

Members considered a confidential appendix to the report on the Investment Strategy Statement together with updated advice from the Investment Advisory Panel indicating that market conditions had resulted in a changed climate in terms of this element of the Strategy.

RESOLVED – That the Authority approve the implementation of the revised advice of the Investment Advisory Panel in relation to Equity Protection.

21 PROPERTY DEBT WRITE OFFS

A report was submitted to request the Authority's approval to write off debts relating to the Pension fund's commercial property portfolio.

Members were informed that there were currently two outstanding rent debts that were now deemed irrecoverable. The details relating to each debt and the reasons for proposing them to be written off were set out in the report.

RESOLVED – That the Authority approve the writing off of debts amounting to £84,114.48 including VAT.

22 FUND DIRECTOR'S APPRAISAL

A report was submitted to receive the Fund Director's appraisal for 2019/20 and approve his objectives for 2020/21.

RESOLVED – That the Authority:

- (i) Note the Fund Directors appraisal for 2019/20 carried out by the Chair and Vice-Chair.
- (ii) Approve the revised role profile for the post and the re-designation of the role as Director with immediate effect.
- (iii) Approve the proposed objectives for 2020/21.

CHAIR