

## **SOUTH YORKSHIRE PENSIONS AUTHORITY**

**11 JUNE 2020**

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

Trade Unions: D Patterson (UNITE) and G Warwick (GMB)

Investment Advisors: A Devitt and L Robb

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

Apologies for absence were received from N Doolan-Hamer (due to technical issues)

### **1 APOLOGIES**

The Chair welcomed everyone to the meeting.

Apologies were noted as above.

### **2 ANNOUNCEMENTS**

G Graham informed Members that extra meetings would be arranged in September and October to discuss the pooling process for Property and the Fund's Agriculture Portfolio.

Suggested dates would be circulated in the coming weeks.

### **3 URGENT ITEMS**

None.

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

None.

### **5 DECLARATIONS OF INTEREST.**

None.

### **6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS**

None.

### **7 MINUTES OF THE AUTHORITY MEETING HELD ON 19 MARCH 2020**

G Graham informed the Authority that the Climate Change and Responsible Investment policies had been deferred until September. These policies required considerable debate which didn't sit well in a virtual format. New information from Border to Coast was also expected shortly which could affect the debate.

RESOLVED – That the minutes of the meeting of the Authority held on 19<sup>th</sup> March 2020 be agreed as a true record.

**8 CORPORATE PERFORMANCE REPORT - QUARTER 4 2019/20**

G Taberner presented the Quarter 4 Corporate Performance report.

Members noted the following headlines:

- Significant progress had been made in delivering the Corporate Strategy.
- Long-term sickness absence levels were down on the previous year.
- Employer performance on data submission was improving.
- Investment performance had been hit by the Covid-19 market impact but was better than the benchmark.
- There had been a significant underspend against the budget, as detailed within the report, which was reserved for future improvements in service.

The impact of the office closure in March and the efforts to transfer staff to home working was evident in the performance figures for Quarter 4 and this was expected to continue into early 2020/21.

The Risk Register had been fully reviewed by SMT during the quarter and two risks had been revised upwards due to the impact of Covid-19.

In addition to the Corporate Risk Register, which was appended to the report, a specific risk register relating to the impact of Covid-19 on the ability of the Authority to achieve its objectives had been developed. This was included elsewhere on the agenda.

RESOLVED – That the report be noted.

**9 THE PENSIONS AUTHORITY AND THE COVID 19 PANDEMIC**

A report was submitted to update members on the impact of the Covid-19 pandemic on the Authority's operations.

In order to facilitate home working for all members of the Authority's staff, the ICT team had to procure, configure, issue and support the set-up of 65 laptops in a very short period of time.

In order to secure so many laptops in the required timescale it had been necessary to waive standing orders to go directly to suppliers. A waiver was also required to extend the licensing of the software that provided secure external access to the Authority's network. Subsequently, the Team had to secure an upgrade to the capacity of the Authority's internet connection and bring forward the scheduled replacement server which had become unreliable due to the increased load being placed on it as a result of

remote working. The server replacement also required an urgent waiver of contract standing orders.

The report detailed measures taken in areas such as adapting the telephone system, the use of video conferencing and communications with Scheme members and employers, the Authority and the Local Pension Board, District Council Finance Directors.

Managers were in regular contact with the members of their team to ensure they had the support they needed.

The report outlined two areas of significant operational impact.

Firstly, the number of scheme member deaths had risen significantly during March and April. In the short term, as these cases represented the highest priority type of work, the need to process them had impacted on lower priority cases.

The second area of operational impact was in relation to rent collection for the commercial property portfolio. Many businesses had seen their income dry up virtually overnight thus losing the ability to pay rents. The approach the Authority had taken, supported by Aberdeen Standard as the Authority's investment manager, had been to agree to move tenants to monthly payment on request to assist them in managing cash flow and to consider rent deferrals on a case by case basis.

RESOLVED – That the Authority:

- i) Note the contents of the report and the actions taken to protect the Authority's services and staff in response to the Covid-19 pandemic.
- ii) Endorse the waiving of contract standing orders, as set out in paragraph 5.3 of the report by the Director in order to protect the Authority's services and staff as a matter of urgency.

## 10 INDEPENDENT ADVISORS COMMENTARY

A Devitt provided a market commentary on events since the last Authority meeting.

Markets around the world had fallen dramatically in late March. They reached a low on 23<sup>rd</sup> March but since then had retraced a significant part of their lows, particularly in the US. While performance had been dominated by tech and so-called stay at home stocks, the latter half of May saw signs of life in value as well as small-cap stocks.

During the period oil prices collapsed into negative territory for the first time ever and unemployment in the UK was close to 2 million and was expected to top 3 million or 10% post furlough.

Sterling had remained under pressure throughout the period and the FTSE remained weak despite some recovery.

Central banks in the US, UK and Europe had responded to the situation quickly and governments had also responded to try and ease the burden on companies.

In terms of the South Yorkshire fund, the equity portfolio would have dropped and companies would be much less likely to pay dividend as they would want to conserve cash, therefore income from the equity markets was likely to be considerably constrained.

There would be a need to insure the fund against inflation, this could be done through real estate and property. The agriculture portfolio would be a good source of inflation hedge, similarly infrastructure would be a good long-term source of inflation hedging.

In terms of the outlook, the sheer volume of money pumped into the economy by central banks was not showing any signs of stopping. Interest rates were not expected to rise for a considerable length of time. This would affect investment decisions and there would be a need to seek out other risk areas.

The Chair thanked A Devitt for an informative presentation.

**11 QUARTERLY REPORT TO 31 MARCH 2020**

Members considered the Quarterly report to 31<sup>st</sup> March 2020.

S Smith reported that for the quarter the Fund returned -7.5% against the expected benchmark of -10.2% which gave a year to date return of -3.1% against an expected return of -4.5%. The value of the Fund was just under £8.2bn, without the equity protection policy this would probably have dropped to £7.9bn.

Looking at the outcome for the year, the Fund was down just over 3% which was a very good outcome given the way the markets moved in the last quarter.

During the quarter the Investment Grade Credit portfolio was transferred to Border to Coast. This commenced in February before most of the market turmoil. The transition period lasted approximately five weeks and was an extremely difficult programme to achieve but there was a very positive outcome as transaction costs were less than expected and the portfolio outperformed its benchmark for the period.

Members noted that the equity protection had been a benefit for the Fund last year but the decision had been made to let in roll off, this had occurred during the month of April. By then equity markets had started to recover and when all the options had expired there was an overall benefit of £43m. Overall, over the two-year period the equity protection had done what it was intended to do.

The funding level had fallen to around 94% at the end of March but, looking at the position now, the valuation at the end of May was £8.8bn which was only slightly below where it was in December.

Going forward over the next one to two quarters, the Authority would be looking to take money out of UK equities and also looking at the allocation to Index Linked gilts with a view to further reducing the Fund's exposure in this area.

RESOLVED – That the report be noted.

**12 RESPONSIBLE INVESTMENT UPDATE QUARTER 4 2019/20**

A report was submitted to update the Authority on responsible investment activity during the period January to March 2020.

The report contained details of the voting and engagement activity during the period.

In response to a question from Cllr Yasseen, G Graham explained that the next reports, which would cover the period to the end of June 2020 and subsequent quarters, would certainly contain information on the activity undertaken in response to the Black Lives Matter movement and other similar issues.

The report didn't pick up the full impact of the Covid-19 pandemic, however it referred to how some companies, particularly in Asia, had to change how they ran their Annual Meetings etc. but it didn't contain a lot of additional information on engagement given the way some companies had been behaving towards their workforces and suppliers. There would be a lot more emphasis on this in the future.

RESOLVED - That the Authority notes the activity undertaken in relation to responsible investment issues during Quarter 4 of the financial year.

### 13 PROCESS FOR POOLING PROPERTY INVESTMENTS

A report was submitted to set out, and gain approval for, the process leading up to decisions in relation to the pooling of the Fund's property investments.

Members were informed that, in line with the overall plan for pooling assets, Border to Coast was now developing proposals for products which would allow the pooling of property assets.

This would be a complex process and the Authority would need to make several decisions during the coming months; the process and timeline for this was detailed within the report.

Border to Coast was proposing to develop two products, a UK property fund and a Global property fund.

The UK fund would have two elements, one of which would be a traditional commercial property fund and the other would use funds to invest in specialist types of property, for example student accommodation. This would be a significantly larger direct property portfolio than SYPA had and would open up different types of assets in which to invest and should enable the Authority to improve the ESG characteristics of investments.

The Global product would be a traditional fund of funds, Border to Coast would partner with a fund manager to help select suitable products.

As detailed in the report, the modelling suggested that there would be no payback for SYPA for at least 10 years, and there were also issues around the risk/return characteristics which were currently being debated between the Partner Funds. The Partner Funds needed to agree what they wanted to enable Border to Coast to build the product.

Border to Coast would provide further background information on their proposed products in the form of a recorded webinar for members and this would be made available to members in due course.

L Robb commented that he hoped the Authority would support the proposal for Border to Coast to recruit a Head of Property so that he/she could shape the product rather than inherit it.

The ideal solution for SYPA would be UK property that delivered high net returns and more opportunities that offered some regional and specialist opportunities and an overseas fund with good partnering with external managers to provide good returns at an acceptable level of risk.

In answer to a question from Cllr Sangar, the Director confirmed that the development costs would be shared by all Partner Funds.

**RESOLVED – That the Authority:**

- i) Approve the process leading up to a decision in relation to the pooling of the Authority's property investments as set out in the report.
- ii) Note the line on learning materials to be provided by Border to Coast.
- iii) Agree to support Border to Coast incurring further development costs in particular for the appointment of a Head of Property prior to formal approval of the product design.

#### **14 VALUATION 2019 - REVIEW OF OUTCOMES**

A report was considered that updated members on the final outcomes of the 2019 valuation process.

Members noted that the funding position as at the valuation date of 31<sup>st</sup> March 2019 showed a funding level of 99% as compared with 86% at the 2016 valuation.

The report referred to the national picture and, as the table within the report showed, there had been a general move towards 100% funding for the majority of LGPS funds.

With regard to SYPA's valuation, the table at section 5.7 in the report showed that, despite the fact that the Authority had a close to 100% funding position overall there was a significant variation between different categories of employers within the Fund.

The academy sector in particular still had low levels of funding especially where there had been issues around the timing of their conversion.

Although 148 employers had a reduction in contributions there were 317 employers whose contributions were increased.

With regard to the use of employer flexibilities, 43 employers had elected to pre-pay their monthly deficit payments, either on an annual or 3 year basis. A number of Multi-Academy Trusts were now paying a combined employer contribution rate for all the schools within the Trust.

Members were informed that 97% of employers had elected to build the expected McCloud judgement costs into their contributions from 1 April 2020. This would potentially significantly reduce the risk of underpayment and the administrative burden in terms of recouping the costs at a later date.

RESOLVED – That the Authority note the completion of the Valuation process and the range of outcomes that apply to both individual employers and to groups of employers in the Fund.

## 15 REVIEW OF THE CONSTITUTION

A report was submitted to secure approval for the Authority's updated Constitution.

Members were informed that a review of the whole suite of constitutional documents had been undertaken. This had included:

- Incorporating all parts of the Constitution into a single document.
- A number of internal inconsistencies had been addressed and some policy documents removed from the Constitution, although they remained part of the policy framework.
- Additional; sections had been incorporated into the Constitution:
  - Officers' Code of Conduct.
  - A Pensions Authority specific Conflicts of Interest policy.
  - Protocols on the operation of the Monitoring Officer and s73 officer roles.
  - Incorporation of the newly approved member allowances scheme.
  - The addition of a section setting out the management structure.
- The broad provisions of the Constitution remained the same. However, a number of additions had been made. These included:
  - In light of the actions that were required to deal with the response to the Covid-19 situation, the addition of specific powers for officers to take the actions required to safeguard the Authority's assets and services in the event of a civil emergency.
  - The addition of an additional lower tier in the approval hierarchy for debt write-offs.
  - The addition of the Deputy s73 officer (the Head of Finance and Corporate Services) as an officer able to sign and seal documents.

RESOLVED – That the Authority:

- i) Approve the updated Constitution as detailed at [www.southyorks.gov.uk](http://www.southyorks.gov.uk)
- ii) Authorise the Monitoring Officer to make future presentational and factual amendments without reference to the Authority.

## 16 AUDIT COMMITTEE ANNUAL REPORT 2019/20

The Authority considered its Audit Committee's Annual Report which had been produced to provide stakeholders with information on the work of the Committee during 2019/20 and to support the process of assurance gathering required in order to produce the Authority's Annual Governance Statement.

The report outlined the Committee's:

- Roles and responsibilities.
- Membership and attendance.
- Work Programme.

RESOLVED – That the report be noted.

CHAIR