

SOUTH YORKSHIRE PENSIONS AUTHORITY

9 SEPTEMBER 2021

PRESENT: Councillor J Mounsey (Chair)

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

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

Investment Advisors: A Devitt and L Robb

Officers: G Graham (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)

A Stone and G Kendall (Border to Coast Pensions Partnership Ltd)

Apologies for absence were received from D Patterson and J Bailey

1 **APOLOGIES**

Apologies were noted as above.

2 **ANNOUNCEMENTS**

None.

3 **URGENT ITEMS**

None.

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

RESOLVED – That Item 16 ‘Annual Review of the Border to Coast Pensions Partnership’, Item 17 ‘Progress on the Agricultural Portfolio’ and Item 18 ‘Advisor’s 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 ANNUAL AUTHORITY MEETING HELD ON 10 JUNE 2021**

RESOLVED – That the minutes of the Annual meeting of the Authority held on 10th June 2021 be agreed as a true record.

8 MINUTES OF THE ORDINARY AUTHORITY MEETING HELD ON 10 JUNE 2021

RESOLVED – That the minutes of the Ordinary meeting of the Authority held on 10th June 2021 be agreed as a true record.

9 CHANGES TO THE MEMBERSHIP OF THE AUTHORITY

A report was submitted to inform Members of recent changes to the Membership of the Authority.

The Chair welcomed Cllr G Weatherall to the meeting.

It was noted that a new Vice-Chair would be appointed to replace Cllr Law once Sheffield CC's membership had been confirmed.

RESOLVED – That the report be noted.

10 Q1 CORPORATE PERFORMANCE REPORT

G Taberner presented the Corporate Performance report for Q1 2020/21.

Key points for the quarter were:

- Good progress on a range of corporate objectives in key areas of training and development and the office accommodation project.
- Fund value at a record high of £10.2 billion and funding level over 110%.
- Operational budget forecast showed sufficient resources available for key projects in 2021/22.
- Delays to delivery of some of the corporate plans including clearance of casework backlogs regarding aggregations and procurement of a new HR and Staff Payroll system.
- Increase in sickness absence levels compared to the previous quarter, although they remained fairly low overall.

Members noted a table within the report which provided updates in respect of developments in delivering the Corporate Plan and supporting strategies.

With regard to Pensions Administration, it was noted that the improvement in priority cases times was mostly attributable to improvements in reporting on death cases. 98% of death cases and 76% of retirement cases were processed within the 5 day target time.

In relation to non-priority case performance, high volumes of aggregation cases continued to account for the majority of 'late' cases. A project team was being established to focus on improving the effectiveness of processing in this area.

In answer to a question from the Chair regarding clearing of backlogs, the Director confirmed that some progress had been made albeit slowly. The backlog was not affecting processing of retirements or benefit payments.

Members were reminded that the budget for 2021/22 was set and approved at £5,445,600. The total budget requirement had not changed but it was now necessary to request approval for a small number of budget virements to reflect the planned expenditure on projects and the resourcing of that. These concerned the Oakwell House Project, the Investment Strategy budget and the Pensions Administration budget. Full details were set out in the report.

It was noted that there had been eight complaints during the period, six of which were outside the Authority's control.

Members noted the updated Risk Register which was attached as an appendix to the report.

The August review of the Risk Register resulted in two changes, namely 02 – Failure to meet statutory requirements for disclosure of information to scheme members and 05 – Disruption to services due to failure to complete the works required to Oakwell House on time and on budget. Full details were within the report.

RESOLVED – That Members:

- i) Note the report.
- ii) Approve the proposed budget virements to resource the delivery of key corporate priorities as set out in paragraphs 4.18 to 4.20 of the report.

11 ADVISOR'S COMMENTARY

A Devitt provided a market commentary on recent events.

Highlights included:

- Vaccine roll out remained a mixed picture. The “vaccines as a path to full economic recovery” narrative seemed to have had a positive effect and had fuelled resilience in equity markets, particularly in the US.
- Interest rates remained at record lows and seemed set to remain there for some time, this was leading investors to seek alternatives to bond yields that were further eroded by inflation.
- The regulatory interference in China had hit Chinese stocks in the quarter.
- Supply chain disruptions remained which was shoring up prices and was still a key point to watch as an indicator of policy action.
- Geopolitical upsets, such as the Taliban regaining control in Afghanistan, did not seem to be impacting markets currently.

It was thought that the months ahead were likely to be characterised by volatility, uncertainty, complexity and ambiguity.

Inflation would be something to look out for and how companies were coping and what was the base level of consumer demand. Some profit taking and less market support in the equity market was expected which would cause the market to be more volatile and COP26, the UN Climate Change Conference in November, would be a key forum for setting environmental standards and expectations.

L Robb commented that all markets were priced relative to low interest rates and low inflation, if anything challenged that environment it would be a risk.

In response to a question from Cllr Wright, A Devitt commented that it was difficult to attribute any disruption to the pandemic or Brexit. Brexit repercussions were not thought to be a large threat to portfolios at the moment.

The Chair thanked A Devitt for the update.

12 INVESTMENT PERFORMANCE REPORT TO 30 JUNE 2021

S Smith presented the Quarterly Investment Performance report to 30th June 2021.

The report contained the valuation breakdown of the Fund showing the values across the different asset classes. This showed that at 30th June 2021 the Fund was valued at over £10bn and the funding level was 113.3%. For the quarter to the end of June 2021, the Fund returned 4% against the expected benchmark of 4.3%.

With regard to asset allocation, as equity markets continued to improve, profits were taken - £3.8m was raised from legacy holdings and used to fund the drawdowns into alternative funds. £100m was withdrawn from the Border to Coast overseas developed fund to reduce the overweight position to equities.

The report gave details of recent property transactions and the Fund allocation was shown in a chart against the strategic target. The changes in net investment for the categories over the last year was also included and showed that the Fund was being de-risked in line with the strategic benchmark.

Members were informed that over the quarter all Border to Coast's equity funds had underperformed their respective benchmarks. Looking at the longer term position, a chart within the report showed the performance of each of the Border to Coast funds held by SYPA since inception. It showed that four of the five funds had outperformed and matched the target return.

RESOLVED – That the report be noted.

13 BORDER TO COAST PRESENTATION

Andrew Stone and George Kendall gave a presentation from Border to Coast Pensions Partnership.

The presentation covered:

- Border to Coast's purpose and approach.
- Progress at Border to Coast.
- SYPA's Investments.
- Upcoming Fund Launches.
- Approach to Responsible Investment.

Following the presentation members asked questions about a range of issues raised in the presentation.

The Chair thanked A Stone for a very interesting and informative presentation.

14 Q1 RESPONSIBLE INVESTMENT UPDATE

Members considered the Responsible Investment Update for Q1 2021/22.

It was noted that highlight included:

- The casting of 6,110 individual votes as 411 different company meetings.
- A number of significant “say on climate” votes.
- The Authority, along with one other Border to Coast Partner Fund, casting its vote differently in relation to the Shell climate transition plan because of the lack of connection between that plan and the underlying business plan.
- An increase in the level of engagement activity in emerging markets.
- A continued high level of engagement around social issues as well as some increase in engagement around environmental issues driven by “say on climate”.
- A new engagement theme around post pandemic labour practices.
- Continued gradual improvement in ESG performance in all three of the equity portfolios with a noticeable positive impact from the restructuring of the Emerging Markets Fund.
- Continued reductions in all carbon emissions metrics with a highly material reduction in the Emerging Markets Fund, although it was clear that in isolation and without further action, those portfolios would not currently hit the 2030 Net Zero Goal.
- The inclusion of the Authority as a leading practice case study by external organisations in relation to both place-based impact investing and Net Zero.

The report contained detailed sections on engagement activity, voting activity, portfolio ESG performance, progress to Net Zero, collaborative activity and policy development and members asked a number of questions around the progress being made towards key objectives such as Net Zero.

RESOLVED – That the report be noted.

15 DEVELOPMENT OF THE BORDER TO COAST PROPERTY POOLING PROPOSITION

A report was submitted which provided members with an update on the development of the Border to Coast property proposition and to gain approval for the required contribution to further development costs.

Members were informed that Border to Coast was proposing to launch Global and UK products which addressed the demand from partner funds.

Having considered feedback from partner funds around differences in risk appetite and return expectations, the Company proposed to launch two “fund of fund” structures. One would focus on Core and Core+ holdings, and the other with a higher risk/return balance would target Value Add and Opportunistic holdings which would involve more development risk.

The Company would need to secure an advisor to work with them on selecting the specific funds to hold within these products and this procurement would be part of the next stage of development.

It was noted that the Company and the Authority's Investment Advisory Panel were in ongoing dialogue over the detailed business case for the pooling of existing investments and those discussions would culminate in a recommendation later in the financial year.

Members were informed that the remaining development work would involve significant spend on legal and tax advisors to draw up the necessary documents for regulatory approval and create the required legal structures together with specialist support for the various procurement processes as well as the costs of a project team within the Company. The estimated contribution per partner fund was up to £0.5m which included a significant contingency.

RESOLVED – That members:

- i) Note the progress being made in developing Border to Coast's property proposition and the proposed next steps for the Authority.
- ii) Approve a contribution of £0.5m to the further development costs of the proposition.

16 DECISIONS TAKEN BETWEEN MEETINGS OF THE AUTHORITY

A report was submitted which gave details of decisions taken as a matter of urgency between meetings.

It was noted that one decision had been required since the previous Authority meeting. This related to the casting of the Authority's shareholder vote on four resolutions at the annual general meeting of Border to Coast. The resolutions covered:

1. The approval of the Annual Report and Accounts.
2. The reappointment of KPMG as auditors.
3. The annual review of the conflicts of interest policy for directors.
4. The register of director's interests.

Having considered the advice of the Director and the views of the s41 members, the Chair had agreed that the Authority's vote should be cast in favour of all four resolutions.

RESOLVED – That members note the decisions taken between Authority meetings using the appropriate urgency procedures.

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.

17 ANNUAL REVIEW OF THE BORDER TO COAST PENSIONS PARTNERSHIP

A report was submitted which allowed members to review the performance of the Border to Coast Pensions Partnership and the Authority's arrangement for overseeing and engaging with the work of the Partnership.

RESOLVED – That members:

- i) Note the views of the Independent Advisory Panel set out in Appendix A.
- ii) Approve the recommended actions set out in Appendix A.

18 PROGRESS ON THE AGRICULTURAL PORTFOLIO

A report was considered which provided an update on activity associated with the Agricultural Property portfolio.

RESOLVED – That members:

- i) Note the activity being undertaken in relation to the portfolio following the review considered by the Authority last year.
- ii) Endorse the approach outlined within the report to “Project Chip” and delegate execution to officers in consultation with the Independent Investment Advisors.

19 ADVISOR'S APPRAISAL

A report was submitted which provided an opportunity to appraise the performance of the arrangements in place for independent advice in relation to investment matters.

RESOLVED – That the report be noted.

CHAIR