

SOUTH YORKSHIRE PENSIONS AUTHORITY

14 January 2016

Annual Fund Meeting

1. Purpose of the Report

To report on the meeting held on 22 October 2015.

2. Recommendations

Members are recommended to note the contents of the report.

3. Information

3.1 This year's AFM for scheme members was held at Doncaster Racecourse on the evening of 22nd October. There were 67 members present, as follows –

- 50 Pensioners
- 8 Contributors
- 7 Deferred members
- 2 Councillors

3.2 After introductions and a welcome from Councillor Ellis, (Chair of the Authority) and Frances Foster (Treasurer), presentations were made by -

- John Hattersley – Fund Director
- Gary Chapman – Head of Pensions Administration

Martin McCarthy was due to give a presentation on the creation and constitution of the Local Pension Board but this had to be withdrawn due to insufficient time.

Questions were pre-submitted and response built into the presentations although some time was allowed for an open forum at the end of the meeting.

3.3 Cllr Ellis – Chair

Cllr Ellis welcomed members to the meeting.

She began by complementing the venue and extending her welcome to the meeting as chair for the first time, before handing over to John.

3.4 John Hattersley – Fund Director

John opened with a summary of the Fund Accounts at March 2015 saying the full document is published on the Authority's website.

John started with saying contribution and transfers rose by £89 million while benefits payable rose by £13 million.

He said one unusual factor this year compared to last year is the increase in payments to and on account of leavers. This is due to the transfer of the probation service. As part of a national restructuring the Ministry of Justice decided all eligible employees of probation should be moved into a single fund, and that is being administered by greater Manchester. Therefore in December we transferred out £114 million pounds of cash and the equivalent amount of liabilities was also transferred to Manchester.

John finished the fund account slide by announcing net assets at 31 March of £6.28 billion compared to £5.56 billion last year. However John went on to say that unfortunately this has fallen to £5.87 billion at the end of September 2015.

John moved onto the Fund's Investment Return compared to benchmark and CPI over 1, 3, 5 and 10 years. Saying last year the Fund slightly underperformed compared to its benchmark of 14.4% with the average local authority fund performing at 13.2% so we were already ahead of average.

He said over the 3, 5 and 10 year return we outperformed the benchmark and although this was by only 0.1% it represents over 65 million pounds of added value and a reduction of deficit of £140 million pounds. In terms of peer groups the fund ranks 13th over 10 years.

John went on to cover bonds, saying we have more money in bonds as they are less risky and provide a steady income of cash.

John spoke about the UK/overseas equities – 68% in overseas companies and 32% in UK equities. This is a wider weighting than most funds have but you also have to bear in mind that about 80% of the earnings of the UK's biggest 100 companies are produced overseas anyway.

John then covered the breakdown of the FTSE 100. The FTSE 100 being the biggest companies listed in London.

More than a 5th of the index is made up of companies involved in activities relating to exploration processing in the retail of commodities. Banks and financial services account for a further 20%. So as an index it is remarkably

skewed and is not wholly reflective of the UK's domestic economy but that is our main stream index and the one we are measured against.

Property – John went on to say the Funds commercial real estate portfolio performed well last year although the overall property return suffered because of the agricultural valuation which was a bit disappointing and we had currency moves on the European funding holdings. The Fund's 5 most valuable commercial properties were shown, locations and values given.

In conjunction with the West Yorkshire Pension Fund we acquired a portfolio of property assets in the area, 3 of the buildings were shown. A hotel in Sheffield and 2 other offices in Doncaster and Rotherham, combined value of £14 million pounds.

Market Values at end March – Although the Fund's total market value has increased dramatically over time it hasn't been a smooth ride, and going forward we are not expecting the same rate of growth, clearly there will be a few knocks on the way as the fund value has already fallen since the year end.

State Street 2014/15 Market Returns – The Fund's management approach has not changed, it remains one of delivering sound cost effective investment management, in accordance with the long term requirements of the fund.

John went on to say the slides illustrate the dilemma that all funds are facing. The Fund deficit is unlikely to have reduced by the time we get round to the 2016 fund valuation.

At this point the slide presentation finished and John went on to talk about responsible investment and the Fund's policy position.

John said that there has been a lot of coverage in the press on the possible consequences of climate change and hence future pension returns.

Clearly people are entitled to express their opinions. Campaigners need to recognise that pension funds exist to pay pensions and not simply a tool for the minority to use other peoples' money to effect change as they see fit.

If we agree to ignore the fact that oil and gas are the raw materials for a diverse range of products such as plastics, manmade textiles, toothpastes adhesives, shampoos etc. and concentrate on the 50-70% of oil that goes towards transportation fuels. We need to understand the modern world simply cannot function without energy; it is the engine of modern life. So the task facing investors is how to understand that and how to make sure we are in an appropriate position to take advantage of challenges and changes that are taking place. The world is not standing still.

It seems to us there are two major drivers for its energy policy at the moment. The first is regulation, the second is technology. On the demand side efficiency gains can significantly reduce energy consumption : on the supply

side renewables are becoming much more financially competitive and as investors we must embrace and encourage such changes supporting companies as they adapt and innovate through this period of transition.

We have to stimulate a discussion on how our capital can be best deployed. The energy sector (in particular fossil fuel) is most at risk from these changing policies. It can be argued that if global warming is to be contained to no more than a 2.5 degree increase it will not be possible to utilise many of the fossil fuel reserves now identified. In essence these will become what are known as “stranded assets”. From an investment perspective it is important to understand how these are valued.

John also covered the spectre of Government intervention on the way LGPS funds are invested ie “pooling”.

3.5 Gary Chapman – Head of Pensions Administration

Gary opened with a slide covering the Annual Review saying overall membership had increased as it does every year. Deferred and pensioner numbers have gone up and we also have some extra active members making a total of 141,719. Gary went on to say it’s a sizable number we are providing a service for and over the last couple of years there has been an increase, however prior to that there was a drop due to the councils scaling back on staff.

Scheme Employers – The number of employers joining the fund is slowing down a little but is still rising. It doesn’t affect the number of members as these employees are just transferring from one employer to another, typically in the education sector from the local council to their own academy status. At year end we had 320 employers; currently we have 335 with active members.

Performance – Gary went on to talk about performance saying we had completed 58,953 cases which is about as many as we would normally do, however performance was awful. We usually achieve around 99.7% and we dropped to 70.6% at the year end and during the year we have been worse than that. This is all down to our new pensions administration system, which Gary told the members he would cover in more detail later in the presentation.

He said the number of complaints were up mainly due to the performance where we weren’t able to meet the customers’ expectations as good as we normally would, particularly because retirement benefits would have been delayed because of the new system. However we have continued to survey members and overall satisfaction is at 98.6% which is pretty good.

Benchmarking – Gary explained to members that we benchmark with other local authorities. Disappointingly the number of funds participating had dropped. We are a regular, but we don’t know why other funds don’t take part. However it’s a useful comparison with likeminded funds. The cost per member

is showing as £17.86 and we have been constantly below average, which in this respect is a good thing, and where we want to be. We provide a good service for a below average cost. I am pleased to say we have been below average 12 out of 13 years of participation.

Gary then went onto a commercial break, showing a demo of our online system mypension.

Gary then moved on to cover the Pensions Administration System, saying at launch it didn't do what we wanted it to do! We went live probably a year before we should have however we had no option. We had a job to do and to carry on. It resulted in a horrible year and at one point we had a backlog of 13,000 cases. To counteract that we've been working overtime since mid-January. In October 2015 the backlog is down to 4,515 cases. Performance from October 2014 to August 2015 was a terrible 56.17% but we've started to come through as recent performance is showing as 86% which shows we are doing more work that is current rather than backlog work, which means there is light at the end of the tunnel.

Gary went on to apologise to the audience and to everyone who had been affected by our poor performance. Gary made it clear we are still pushing the software supplier to meet our demands.

Pensions Increase – Gary said it was bad news for pensioners and deferred members as we were in negative inflation in September at -0.1%. Gary confirmed we don't reduce pensions we just won't increase in 2016. Not so for active members as the 2014 scheme is a CARE scheme. Pension earned in the year is revalued by the inflation factor and if that is negative the Government can choose to reduce a members pension account on post 2014 benefits. We are waiting to hear from Government.

Gary went on to cover current issues – Freedom & Choice; this has not really taken off in the LGPS. End of Contracting Out, will cause a lot of work. Pensions Taxation – Is having more of an effect on us. We have to provide information for individuals who may be caught by the lowering of the pension taxation limit.

Public Sector Exit pay cap – Government are saying for example if you are made redundant and your total payout is more than £95,000 the excess over and above that can be abated, it can be taken from any redundancy payment or your lump sum or pension. The £95,000 not only includes the redundancy payment but the cost to let the members retire early (the employer cost for early retirement). We are currently awaiting detail of how it will work.

Gary went on to do a Q & A session and cover the questions that members had written in with when they applied for a ticket.

Q – What benefit do I get for being in the scheme for over 40 years?

A – There is no longer a limit of 40 years in the scheme; you can carry on accruing benefits for as long as you can. As long as you don't get hit by the tax rules.

Q – Future of pensions for women?

A – In general there is plenty of scope to pay into pensions, you don't have to be in an employment with a pension scheme, and you can make your own arrangements. Employers now have to auto enrol members. There is much more availability particularly for women. There was a time when it was male orientated but it has changed over the years. If you are talking of children, the trick is trying to get them to do something to pay. The earlier someone starts paying into a pension the better a pension they will receive. The answer is to get people motivated to do it.

Q – How many members earn over £100,000?

A – Pension Authority members – 0
Fund members – 32

Q – I am a widower, what happens to my pension when I die?

A – If it's your own pension there is a 10 year guarantee that will pay the balance owed if you die within 10 years to your estate or nominee. Outside 10 years or if you are in receipt of a widowers pension it will die with you.

Q – Do state pensions get paid abroad?

A – State benefits are paid whatever country you're in but if outside EU there are only a certain number of countries you can be in where you will still get the increases each year if you are due to one. Gary said he has a list of the countries if the person who asked the question would like to see it.

Q – Are our pensions secure?

A – Yes they are. The LGPS is a statutory scheme which should provide Government protection. However even if all active members stopped paying in today we still have 5.8 billion in the fund to pay pensions, but clearly not everyone will stop paying in.

Q – Can widower's pensions be converted into a cash lump sum?

A – Yes, but there are limits. We aren't currently offering this discretion, however next year we will revisit the members who qualify and provide options.

Q – How does LGPS 2014 affect existing pensioners?

A – Depends on when you retired. If you retired before 1st April 2014 it doesn't affect you at all as you are in the old scheme.

Q – Can a list be kept of members who own computers?

A – If you have a computer you can go on our website and register for electronic communications. We will know who hasn't got a computer and we won't be switching off paper communications. We won't be going down that route for many years to come.

3.6 Questions from the Floor

Q – I'm a pensioner with an injury allowance and the payslips we receive no longer shows a breakdown of the figures, we just get a collective figure. Can it be changed please?

A – Gary said he would look into it and get back to the member.

Q – As both an active scheme member and Sheffield Climate Alliance I was pleased to hear of the recent decision by the investment board to commission a carbon audit of the investment portfolio, so thank you for that, but I would like to know more about the details of that commitment.

Is there anything else you can share about this decision at this time. Things I'm interested in such as who has been commissioned to prepare the audit, when will they report back to the board, what form will that output take and be made publically available, and what steps will be taken or have already been taken to ensure the findings of the audit are fully considered by the Board.

A - We have approached 4 prospective auditors and gone through the tender process and we have informally awarded the contract. The paperwork is being done and I hope the report will be available before Christmas.

The investment board has decided that it will have a meeting to discuss the outcome of the December Parish Conference and it will review its overall policy again in light of that outcome and I hope of course that the outcome of that audit report will be shown to members.

Q – What was the net loss on the Icelandic Bank deposits?

A – We haven't actually achieved an outcome yet. We had £18.5 million across 4 banks and 5 various deposits. The main Icelandic banks themselves

have now been recovered apart from £24,000 worth of krona which is still held in Iceland in a deposit account. The outstanding monies are with the 2 London subsidiary banks, Heritable and KSF. We expect to have full recovery from heritable, we don't know about KSF and that could take 3 to 5 years further in administration until we know the outcome. At the moment our liability is roughly £850,000

John went on to give the quiz answers.

- 3.7 A full recording of the meeting is available to view at <http://www.youtube.com/user/SYPensions>

4. Implications

- Financial - none
- Legal - none
- Diversity - none

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Background papers used in the preparation of this report are available for inspection in the Pensions Administration Unit.