

## SOUTH YORKSHIRE PENSIONS AUTHORITY

### INVESTMENT BOARD

15 SEPTEMBER 2016

PRESENT: Councillor S Ellis (Chair)  
Councillors: M Stowe (Vice-Chair), J McHale, A Sangar and R Wraith

Officers: S Barrett (Interim Fund Director), S Smith (Head of Investments) and F Bourne (Administration Officer) (SYPA)

M McCarthy (Deputy Clerk), F Foster (Treasurer), and M McCoole (Senior Democratic Services Officer) (BMBC)

Trade Union Members: G Warwick (GMB), N Doolan-Hamer (Unison) and F Tyas (UCATT)

Investment Advisors: T Gardener, N MacKinnon and L Robb

Apologies for absence were received from: Councillor M Iqbal, Councillor P Wood and R Askwith

1 APOLOGIES

Apologies for absence 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 the following agenda items be considered in the absence of the public and press:-

Item 11 'Standard Life Presentation – Real Estate Performance Review'.

Item 16 'Asset and Liability Study 2016'.

Item 17 'Corporate Class Action Law Suits: Shareholder Rights, Class Actions and Portfolio Monitoring'.

5 DECLARATIONS OF INTEREST

None.

6 MINUTES OF THE MEETING HELD ON 30 JUNE 2016

Councillor Ellis commented that the Borders to Coast Pension Partnership (BCPP) submission had been made to the DCLG in July 2016. A report would be submitted to the next Investment Board Meeting in December.

RESOLVED – That the minutes of the meeting of the Investment Board held on 30 June 2016 be agreed and signed by the Chair as a correct record.

7 WORK PROGRAMME

The Board was presented with the Work Programme to 22 June 2017.

Councillor Sangar commented that the 'Government Consultation on LGPS Pooling' reports should cover a multitude of reports. Under the IIGCC item, he suggested that we should continue the review of the effects of climate change, together with the commitment the Fund had made in responding to the 2015 Paris Conference on Climate Change and the actions taken in the carbon audit.

Councillor Ellis commented that the matter would be raised with J Firth, the Principal Investment Manager.

M McCarthy informed Members that the next Board meeting would be held on 15 December, and not 8 December as stated on the Work Programme; this would be amended accordingly.

F Tyas suggested that Members had not been provided with enough notification and reminders of the valuation training held with Mercers yesterday.

M McCarthy commented that the invitation had been sent to Members and had been referenced at a number of meetings; the matter would be addressed further.

L Robb queried whether a decision had been made to replace the State Street universe data reporting with the service offered by PIRC.

S Smith commented that a decision had not yet been made; PIRC wanted to undertake a service in relation to the universe data. Members noted that many funds would look to go out to tender as an entirety for the service. A national framework tender has been formulated for this service. S Smith also noted that if the majority of funds did not subscribe to the PIRC service then the universe data would be worthless.

T Gardener had expressed concern that the Fund had not yet reached a decision to select PIRC; a total of 25 Funds had signed up to PIRC to date.

Councillor Ellis suggested that the avenues could be explored further at the Pooling Conference next week.

RESOLVED – That Members noted the Work Programme.

8 UPDATE ON MATTERS THAT HAVE ARISEN SINCE THE LAST MEETING

S Barrett referred to the commercial property portfolio agenda. Members were updated on the proposal to engage J Hattersley to act as a temporary property investment manager for the Fund. A contract offer has been issued, subject to review on a six monthly basis.

9 ACTUARIAL VALUATION 2016

S Barrett commented that the actuarial valuation had been incorporated into the valuation training session held with Mercers yesterday. The actuarial valuation process had commenced in May 2016, when the Actuary had met with the principal customers and representatives from the four local authorities to outline the initial thoughts on assumptions and procedures. The Actuary had met with officers, Mercers and F Foster yesterday, to provide an update on the position, and meetings would also be held with the principal financial representatives at the four local authorities, the Passenger Transport Executive and South Yorkshire Police. It was hoped to agree a position with good balance between the needs of both the Fund and the principal employers. A report would be presented to the Authority in the autumn which would lead to the Actuary reaching a final position in March 2017. It was hoped to have the key issues agreed in principle by the end of October 2016.

Councillor Wraith gave thanks to F Foster for the work undertaken and requested that Members be kept informed of the position.

RESOLVED – That Members noted the update.

10 GOVERNMENT CONSULTATION ON LGPS POOLING

S Smith informed Members that each pool had met separately with the HM Treasury, DCLG and an independent advisor on the individual points for submission. The pool's submission had been made on 15 July. The group had met on 8 September in relation to all pool submissions, and feedback was awaited; it was hoped to receive confirmation from the Government by the end of September.

Councillor Wraith queried the staffing arrangements for the new pool.

S Smith commented that once the group had been formed and the key personnel had been employed, that staffing arrangements would be determined. It was noted that the Pensions Authority would still require a degree of admin support, although it was anticipated that the investment managers would transfer to the new pooling arrangement.

T Gardner highlighted that at some stage in the process the Fund would have to give a firm commitment to the way the money was invested. The Fund would continue with internal management with the option for external management and even if the Fund does decide internal there is the Government perspective to

consider. T Gardener commented that he was relieved that S Smith and the team would be there. Due diligence would be needed and the Fund should be informed if the money is going to be managed differently.

S Smith commented that the pool had agreed to establish a shell company to enable the work to start to be commissioned. Authority approval would be sought to commence the funding operation.

Councillor Ellis commented that special Authority meetings would be arranged if the pool's timeframe did not align with the Authority's meeting schedule.

Councillor Stowe queried how staff would be supported moving forward with the new pooling arrangements, together with the impact on the terms and conditions of employment which would be dealt with via trade unions and in-line with legislation.

RESOLVED – That Members noted the update.

11 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.

12 STANDARD LIFE PRESENTATION - REAL ESTATE PERFORMANCE REVIEW

Members received a presentation from Standard Life Investments on the Real Estate Performance Review, together with an update on the UK and European Markets.

T Gardner requested that the Board be provided with an explanatory note to address the realignment of sector weightings in response to a changing environment. Members noted that they would also be provided with a copy of the matrix.

Councillor Ellis gave thanks for an interesting and informative presentation.

RESOLVED – That Members noted the contents of the report.

**AT THIS POINT THE MEETING RE-OPENED TO THE PUBLIC AND PRESS**

13 LOCAL AUTHORITY PENSIONS FUND FORUM: UPDATE ON BUSINESS MEETINGS; ANNUAL CONFERENCE DECEMBER 2016

A report of the Interim Fund Director was submitted to inform Members that the minutes of the January and April 2016 business meetings had been issued, and to advise on the dates of the next Annual Conference in December 2016.

Members noted that the Forum's Annual Conference would be held in Bournemouth on 7, 8 and 9 December 2016. Member Funds were entitled to two free places, although accommodation and travel would have to be paid for.

Councillor Ellis suggested that in light of the developing agenda it would be reasonable to approve attendance of the Chair or Vice Chairman along with an officer.

RESOLVED – That Members:-

- i) Noted the report.
- ii) Approved attendance at the Annual Conference.

14 STATEMENT OF INVESTMENT PRINCIPLES

A report of the Interim Fund Director was submitted to seek Members' approval to the Statement of Investment Principles with effect from 1 September 2016, subject to any changes arising from the 2016 Actuarial Valuation.

The Authority has a statutory obligation to produce and publish a Statement of Investment Principles. There had been no changes of any substance made to the Statement since it had last been reviewed in September 2015, and it was proposed to continue with this version pending the outcome of the 2016 Actuarial Valuation.

RESOLVED – That the Board approved the Statement of Investment Principles with effect from 1 September 2016 for a period of not less than twelve months, subject to any changes which may arise following the 2016 Actuarial Valuation.

15 HEALTH AND SAFETY AT WORK ACT 1974: COMMERCIAL PROPERTY PORTFOLIO ANNUAL AUDIT

A report of the Interim Fund Director was submitted to inform Members of the outcome of the annual health and safety audit of the Fund's multi-let commercial property investment portfolio.

Standard Life Investments (SLI) had been appointed as the Authority's commercial property advisor to monitor and report upon the health and safety performance of Cushman and Wakefield, the managing agent. The Authority had also appointed S2 Partnership to provide the statutory health and safety compliance systems in each of the Authority's multi-let properties. S2 would independently audit each property annually, and the reports would be reviewed by SLI and acted upon by Cushman and Wakefield.

Members noted that following an audit of the whole portfolio, a total of 1869 risks had been identified over the year; 99.57% of which were now controlled. Cushman and Wakefield were currently addressing the remaining 8 outstanding uncontrolled risks.

RESOLVED – That the Board noted the annual health and safety report prepared by Standard Life Investments (SLI).

16 QUARTERLY REPORT TO 30 JUNE 2016

The Board reviewed the performance of the Fund during the quarter ended 30 June 2016.

Performance for the quarter had returned 7.0% against the expected return of 6.6%, with the Fund valuation rising from £6220.2m to £6630.5m. The Royal London portfolio had returned 5.1% against the benchmark index of 4.3%. Index-linked gilts had returned 12.2% against the benchmark return of 13.4%. Higher income bonds had returned 5.3% against an expected return of 4.3%. Emerging market bonds had returned 5.4% against an expected return of 4.3%.

International equities had returned 8.7% against the benchmark return of 8.3%. Private equity had returned 7.0% against the benchmark return of 0.8%. Alternatives income had returned 5.7% against the benchmark return of 0.8%.

L Robb suggested that in the overview, the officers consider each quarter whether there are more helpful ways to explain relative performance, rather report mechanically based on asset allocation or stock selection. As an example this time, index linked underperformance was due to taking a short duration position rather than due to stock selection.

S Smith commented that the Fund was still uncomfortable with the valuation of index-linked bonds. During this quarter the Fund's overall exposure to bonds had not changed, but had switched and reduced the index link weighting to be moved into corporate bonds. The Fund had benefited from not being in some of the financial stocks and the high yielding bonds investing in the commodity area. The Fund would look to increase its weighting in the UK, but would slightly reduce its US weighting which had become very overweight. Members noted that in August the Fund had invested in a Standard Life Infrastructure Fund in conjunction with a number of other LGPS funds.

T Gardener queried how close the Fund was to reaching a nil position with hedge funds.

S Smith referred to a number of direct quota hedge funds that the Fund would shortly be out of, and others that would take an additional year. Members noted that SYPA had an Investment Manager that oversaw the two alternative asset portfolios, in conjunction with the Bond Manager.

N MacKinnon commented that his initial thoughts had been that the immediate impact of Brexit could have a negative impact on businesses, and to a lesser degree consumer confidence. In the run up to the Referendum the views of many economists and the political establishment was that Brexit would be damaging to the economy. N MacKinnon commented that in his opinion, the economists and political establishment's views were incorrect. The export orders were now at a 2 year high and the output expectations were improving. The next stage would be to focus on Article 50 and he thought this would lead to further uncertainty.

Councillor Ellis congratulated the Investment Team on the very pleasing results in light of the recent changes made following the retirement of the Fund Director and the Brexit Referendum.

RESOLVED – That Members noted the contents of the report.

17 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.

18 ASSET AND LIABILITY STUDY 2016

A report of the Interim Fund Director was presented to enable Members to give further consideration to commissioning an Asset and Liability Study post the 2016 actuarial valuation.

The Advisers suggested that instead of formally tendering for an asset and liability review, it would be more helpful at this stage to have a discussion with the investment consultant (Mercers - Jo Holden), to agree some particular areas to focus on particularly longer term planning around how to achieve satisfactory returns/income if low interest rates, low bond yields and relatively high equity valuations persist.

RESOLVED – That:-

- i) The Board agreed the preferred course of action in respect of an Asset and Liability Study.
- ii) The Interim Fund Director would meet with the Fund's Actuary and Investment Advisors to progress the work.

19 CORPORATE CLASS ACTION LAW SUITS: SHAREHOLDER RIGHTS, CLASS ACTIONS AND PORTFOLIO MONITORING

A report of the Interim Fund Director was submitted to inform Members of the progress regarding the portfolio monitoring system on corporate class actions.

RESOLVED – That Members noted the report.

CHAIR