SOUTH YORKSHIRE PENSIONS AUTHORITY

12th January 2017

Scheme Members' Annual Fund Meeting

1. Purpose of the Report

To report on the meeting held on 20th October 2016.

---

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 The Holiday Inn Barnsley on the evening of 20 October. There were 62 members present, as follows –

- Pensioners – 47 (including 1 LPB member)
- Contributors – 9 (including 1 LPB member)
- Deferred members - 2
- Councillors – 3 (excluding Chair & Vice)
- Employer Representative - 1

3.2 After introductions and a welcome from Martin McCarthy (Deputy Clerk) and Councillor Ellis, (Chair of the Authority) presentations were given by -

- Steve Barrett – Interim Fund Director
- Gary Chapman – Head of Pensions Administration

Questions were taken in an open forum at the end of each presentation.

3.3 Cllr Ellis – Chair

Cllr Ellis welcomed members to the meeting. She also welcomed Steve Barrett to his first AFM, explaining his position as the Interim Fund Director saying he replaced John Hattersley who retired this year. Cllr Ellis paid tribute to John saying he is man whose skills and knowledge about pensions and the investment world are unsurpassed and we will really miss him. She said he did 42 years in public service and he deserves a long and happy retirement. His skills and knowledge were nationally acknowledged. He has also passed his experience on to his staff and left South Yorkshire Pensions Authority in a very strong position, with staff's loyalty and hard work which has been put to the test this year because the investment team have had all the extra work that pooling has brought about, as well as the admin side who have had their trials and tribulations with the new UPM system.

3.4 Steve Barrett – Interim Fund Director

Steve opened with an overview of what he would be covering during the presentation.

Steve went on to say the fund valuation at March 2016 was £6.22m saying there wasn't a great deal of movement between this and last year. He spoke about how our assets are allocated over different asset classes. 58.2% in equities and 20.8% in fixed interest, the balance being split between private equity 4.8% alternative assets 2.7% and property real estate 11.3%. He went on to say private equity is the asset class which usually provides finance to smaller and growing companies although it can also be used for large management buyouts.

He said the Fund equity split is basically a third in UK and two thirds in overseas companies. This is a higher overseas weighting than most funds have but we must bear in mind that 80% of the earnings of the UK's biggest 100 companies are produced overseas anyway.

Steve moved on to show examples of the properties the Fund is investing in, explaining how much money is invested in properties that are in good locations.

Steve commented that property did quite well up to the end of March 2016 but, for the second year in a row, we didn't do too well on our agricultural portfolio, but overall the property portfolio brought a good return.

Steve then moved onto Fund Valuation saying the slide shows how the Fund has grown over the years; reflecting on the crash of 2009 and how we built it back up again. Saying the graph shows there wasn't much change between 2015 and 2016. Also that the fund continues to grow and between March 2016 and August 2016 the Fund had grown to £7bn. Overall the message is that the Fund is steadily increasing in value.

Actuarial Valuation

Steve went on to cover the actuarial valuation saying every three years we have a valuation exercise to have a look at the assets we have. He said our assets are growing and deficits reducing and recovery is progressing. He said we are well underway with discussing things with the actuary. He said there are positives to take nationally that the LGPS is a success story in so far as it is now holding more assets per pound of liability than it ever held before.

Pooling

Steve said the LGPS is a world class pension scheme. Any of the pooling proposals will not have any impact on people's pensions. What the proposals are talking about are what the Government hopes will be a better way of doing things and making efficiency and substantial savings across the country, saving £200m-£300m per year. What the Government asked for was to create half a dozen British wealth funds and to invest more into infrastructure projects.

Steve went on to say it is about bringing together the investment side not the administration side and that SYPA will still continue to exist with its own identity and own asset allocation. Saying that explains the benefits of bringing together 12 funds which has an overall value of over £35bn rather than our £7bn.

He said we should be able to achieve cost reduction. We should be able to rationalise the number of external managers with less fees by using internal managers. Steve went on to show a slide of the 12 authorities that are in the proposed pooling representing £35.9bn of investment, also the total number of members and total number of employers.

Steve went on to Investment decision making, saying that whilst the funds will be pooled the key asset allocations will stay with the authority.

He said there will still be a need for appropriate local supervision and control over the fund but the pool itself will need to be kept under governance through local elected members so there is likely to be a joint committee with one member representative from each of the 12 individual funds, appropriately supported by officers and other advisors and we expect the pool to have an operating company of officers reporting to the joint committee particularly around issues of performance.

He spoke about holding the pool operator to account with regards Investment reporting and how well the pool is operating on our behalf.
Steve said the implementation timetable was 1st April 2018 which is a significant challenge. He said there is a lot of work for staff and elected members so it may take a little longer to get there.

Questions from members

Q Do we have any guarantee that pooling investments is not the first step to combining the funds?

A We've no idea there's nothing been said yet. Having seen an idea of moving towards some sort of pooling then it's not unreasonable to ask that kind of question but at the moment there's nothing coming from Government that lets us know one way or another, what their plans are.

In terms of bringing pension funds together as a complete entity dealing with investments and the administration side this would be an enormous task to do so the answer to question is that we don't know at this point.

Q Brexit- You seem to suggest a decline in business investment and reduction in real incomes. The reverse seems to be the case. Our currency adjustment helps exporters and hence job security in the private sector. Should Local Government stop moaning? Brexit will happen- support it.

A Everyone is entitled to their own view on this but even the economists don't agree on what is going to happen with Brexit but the broad answer is that no one really knows what is going to happen at this stage. There are worries about inflation there are worries about the economy moving in a downward direction and so I don't think it's just about the exports because we import a lot and that costs more if sterling has gone down in value and at the moment I think we have a trade deficit so overall I would think if we have a trade deficit we would probably do worse rather than better through a devalued pound, but that's anybody's view.

Q I understand that the Authority has received the report from its carbon auditors. I would like to know the key points within the report, what recommendations were made by the auditors and what actions will be taken to implement these recommendations?

A A carbon audit of our four main equity portfolios, equivalent to £2.8bn of public equities was commissioned in December 2015. This exercise was undertaken by Trucost, a consultant that specialises in the provision of environmental data and carbon foot printing. The audit compared each to its appropriate benchmarks to explain the effect of stock selection and sector allocation decisions. A substantial report was produced; but due to the conditions of the contract, the full report remains confidential and not for public disclosure. However, the key report findings show that each of the individual equity portfolios were all more carbon efficient than their relevant benchmark indices. Both sector and stock selection effects for each portfolio were positive, which means that managers are investing in lower carbon intensive sectors and picking lower intensive stocks within sectors.

The report identified approaches that the Authority could take to mitigate the future risk of stranded assets within portfolios, which the Authority has taken on board. These included engaging with large emitters, monitoring carbon disclosure of some Asian companies and monitoring carbon footprints. Engagement is continuing with heavy emitters via the Local Authority Pension Fund Forum, collaborations with other investor groups and at individual company meetings.

Q "The Ontario Teachers' Pension Plan ("Teachers") is one of the largest pension funds in the world, and it is making investments from the $171billion it has under management into infrastructure as a deliberate broadening of its interests. One of these investments is a share in Birmingham Airport here in the United Kingdom.

Will the SYPA consider making investments in elements of the public infrastructure improvements here in The North of England that we need so badly to make sure that our Northern economy can stay moving?

If such an SYPA willingness exists in principle, what conditions would need to be satisfied for such investments to take place in such a way that the interests of current and future pensioners were protected?

A Steve answered by saying we invest on an international basis ourselves. We have investments in infrastructure locally through some limited partnership agreements. We are interested in diversification. Saying we would be interested in any goods infrastructure opportunities. Steve went on to say we have for example invested in Newcastle airport. We've also made investments in collaboration with other pension funds.

A member responded to this saying: what conditions would need to be satisfied for such investments to take place in such a way that the interests of current and future pensioners were protected. Saying that hits at the heart about the concerns over pooling arrangements and the concerns about the facility for government to give guidance on the use of it. How do we safeguard ourselves against our fund being pushed into the infrastructure investments the private sector isn't really that interested in. In other words under government guidance that our money goes into funds that we might not otherwise have chosen.

Cllr Ellis picked it up from here saying we were all worried when this was introduced. She said the first thing all pension funds will have to do is make sure our liabilities are covered, i.e. we can pay your pensions. If we felt we were being pushed into something that didn't have a good return we would have to look to legal remedies to stop that because in law it's very clear what pension authorities should be doing which is first and foremost the duty to our members. Cllr Ellis went on to say there would be a big push back if it wasn't guidance but an absolute direction and I don't think they will go there.

Q In view of Brexit have you considered moving away from Government Bonds to real assets in UK & abroad similar to the Canadian Teachers Pension Fund?

A Steve answered by saying our government bond investments are all index linked and therefore these are 'real' assets. Index linked bonds are regarded as the best matching assets for our liabilities so we would not normally consider selling these assets. Every three years we have another look and are working with advisors and the likely liability from this point in time moving forward is discussing how we should spread those between growth, between protection and between income assets so that will all come under review in any event.

Questions from the floor

Q When you invest abroad what sort of assistance and guidance do you get?

A We have three advisors in the main fund who come in at the point of considering asset allocation to determine how much exposure we would have in different asset classes. Then the investment team would always do their very best and research intelligence and analysis in any potential investment and in such instances we might put money in funds that are exposed to parts of the world that we wouldn't want to put a huge investment into but take a share of so we would have monies with funds who might be in emerging markets and so on.

Q The number of members (authorities) that are in the pooling fund and the diversity that there are concerns me that you are going down to Surrey and it seems that you have said that the reason for taking these parties on is because they tend to have internal management of the fund. I cannot understand why we haven't gone to West Yorkshire and to 2 or 3 other funds where you would have had only 4 or 5 parties would surely have been much more sensible and the costs would have surely been less if you had only 4 or 5 parties instead of 12 others. I cannot understand why you have gone down this road with parties that are so diverse.

A The government's criteria were looking for scale; they wanted at least £25bn so you had the whole country trying to work out who was going to work with who to get these issues around scale and what could work together. A lot of funds have no internal managers so people from my understanding wanted to buy into something where there was a good internal management form. I would hope that that would grow over time and be more effective and more efficient than having funds which were largely externally managed. Steve went on to say the specifics of why and who joined and who didn't he couldn't comment on at which point Cllr Ellis come in.

Cllr Ellis explained that when we were looking at partners we did meet up with Manchester and other Funds. I think what you did is what we did, you immediately look to your immediate neighbours thinking that would be easier, that would be regional or we'd worked with in other spheres or it appear that you'd have an easier working relationship with them because you are used to them and you know where they are. What became apparent fairly quickly was that actually where you were in the country wasn't the most important thing, but how you approached things, what you wanted from your fund. So we started calling it 'like-mindedness', people who we thought we would be able to do business with that would have the same approach as us. And Steve's already talked about there are some funds that don't do any internal management, none what so ever. We happen to think that our internal management and investment team have done a really good job for us. We didn't want to go outside all the time, that was very important to all of us.

Things like the FCA we all agreed very quickly that we wanted to have that registration and we wanted to be able to prove to our members that we were quality organisations. I understand that there are still some pools that still haven't decided that. And that's because they didn't match themselves up at the beginning for what kind of pool they were, what they were comfortable with because over the next five years they are going to have some tricky negotiations.

Cllr Ellis went on to say it helped that in the first few months of getting together we are approaching things in a like-minded way. You talked about responsible investment; everybody there was committed to it, exploring that. So that's how we got those people and although there are some pools that geographically put together, Surrey and other people came in because actually during those exploratory talks they liked what we were all saying. But at the end of the day the Government said £25bn so that was our general approach and we will see in the coming months and the coming years how that works out. It's been a good start so far and we've made more progress than a lot of other pools.

3.5 Gary Chapman – Head of Pensions Administration

Gary opened with a slide covering the review of the Annual Report starting with membership numbers saying as always the numbers are going up. He said we get more deferred and more retirements during the year that adds to the numbers. Saying overall membership went up by 4.9%. In terms of active members, effectively the numbers are going up, slightly contrary to what we would expect given that the local authorities staff in the area have reduced in numbers. We do have auto-enrolment which means that members have to be brought into the scheme. They can opt out again if they wish but some stay in so we see the numbers starting to increase a little bit. Gary said that from under 50,000 in 2013 we are starting to gradually creep back up again.

Gary went on to cover scheme employers saying these keep going up and up and have been for a number of years now however he went on to say we are not gathering many more members in terms of that. All members are just transferring from one employer to another and it's mainly due to the academies that are coming out of local authority control to running things themselves at which point they take on employer responsibilities and have their own contribution rates and are responsible for their own administration.

Gary went on to say that numbers have gone from just under 200 in 2012 to 391 now with a further 55 in the pipeline. It is showing no signs of slowing down. We have roughly the same number of members to deal with but we have to deal with more employers and employers have to administer the scheme, they have to deduct and pay over contributions and they have to meet our timescales. We aim to educate and we have various methods to get information across to them, but nevertheless it is a challenge particularly with the numbers that we have got now.

Gary moved onto performance saying a few years ago we were really on top of things performing at 99% against our targets for service delivery. He said that saying you may know from previous years AGM that we've put a new system in, and had to go live before we were ready. Anybody who has experienced IT projects will probably know they tend to run over, however we weren't allowed to because we had to be off our old system and so went live before we were ready. We struggled to get case work out on time and as a result the performance fell through the floor and at our worst we were about 59% which is poor. We have started gradually getting through that. We are now two years since going live. It's been a real struggle but we are starting to ensure that we get our performance back to where it was.

Gary said looking at the statistics now we are at about 85%. It shows that we are gradually getting there. He said that our administration teams have worked amazingly to get us back on track. They have persevered, worked Saturdays and done everything that they needed to.

Gary moved onto complaints saying they have shot up during this period. Formal complaints, where it needs dealing with formally, rather than staff dealing with it over the phone, we had 31. Gary said we would usually have 4 or 5. Putting it into context out of 67,993 cases dealt with we had 31 complaints which is only 0.04% of total workload, which isn't too many, but its 31 too many.

In terms of overall satisfaction members satisfaction has fallen to 89%. Saying we do benchmarking. Benchmarking ourselves with other like-minded authorities. However we were disappointed that only 34 pension funds took part as there are 89 in the country.

Gary went on to say the cost per member is what we spend on each of our members. Gary explained we take the total cost and divide it by the total number of members. Saying essentially we aim to make sure we are below the average cost which is OK but it wouldn't be OK if we didn't deliver the above average service to our members.

Gary then moved onto a slide with statistics saying CIPFA guidelines requires us to publish statistics in the annual report but reviewing them is difficult since not much changes year on year. Gary went on to show statistics instead that compared 1996 and 2016 which showed significant increases in most of the categories reviewed.

Gary then moved on to Pensions Increase saying last year it was bad news as the increase had been zero. This year pensions in payment and deferred pensions will increase by 1% from next April. Gary moved on to a slide showing what PI had been since April 2010.

Gary went on to recap issues that were currently ongoing – Freedom & Choice; saying this has not really taken off in the LGPS. End of Contracting Out has caused some extra work and we have partnered with another organisation and that's still ongoing. Pensions Taxation – the government didn't do what they said they would do and in fact now seem to be going in a different direction. Public Sector Payments Cap – was due from 1st October, however it's been delayed and could be delayed indefinitely which has helped employers who are dealing with restructuring and redundancies.

Gary then moved onto current issues - Actuarial Valuation – saying we are well on the way with the actuarial valuation. We have already had discussions with district councils and we are at the point of getting individual employer contribution rates. Gary went on to say in the New Year we will sign off the valuation setting employer contribution rates for the next three years. Clearing backlogs – Gary said our admin team are clearing backlogs. He said if you are a current member you will have received your Annual Pension Forecast. We need to have these out by the end of August which is an insane timescale however it is statutory and we have to abide by it. Gary went on to say we did but at a cost, as work got left at low priority level. Gary then moved onto reviewing the way we work saying the reason for this is to try and ensure we don't get into issues such as backlogs again. We are looking to using our staff in the most effective way to ensure we continue to provide you with the service you deserve.

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. Are death benefits for the beneficiaries of female scheme members the same as for the beneficiaries of male scheme members?

A. They are now but only in respect of benefits that have built up since 6th April 1988.

Q. Has the Pension Fund been adversely affected by the Pension Freedom legislation?

A. Minimal impact so far. A few enquiries but low take up. Also the scheme is due to change to make it easier for deferred members to take their benefits early which will further reduce the impact.

Steve and Cllr Ellis went on to do the Quiz

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

Joanne Webster
Communications Manager
Email: jwebster@sypa.org.uk
Tel. No. 01226 772915

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