

SOUTH YORKSHIRE PENSIONS AUTHORITY

INVESTMENT BOARD

9 MARCH 2017

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

Officers: S Barrett (Interim Fund Director), M McCarthy
(Deputy Clerk), S Smith (Head of Investments SYPA), F Foster
(Treasurer), F Bourne (Administration Officer SYPA) and
M McCoole (Senior Democratic Services Officer) (BMBC)

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

Investment Advisors: T Gardener, N MacKinnon and L Robb

1 APOLOGIES

No apologies for absence had been received.

2 ANNOUNCEMENTS

Councillor Ellis welcomed Councillor Curran to his first Investment Board meeting, and introductions were made.

3 URGENT ITEMS

None.

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

Councillor Sangar suggested that agenda Item 19 entitled 'Responsible Investment Engagement' could have been written differently, to enable it to be presented within the public section of the meeting.

Councillor Ellis considered that the report should be taken within the private section of the meeting, but she suggested that the report be written differently in the future, to enable it to be presented within the public section of the meeting to provide greater engagement with the public.

RESOLVED – That agenda Item 19 entitled 'Responsible Investment Engagement' would be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST

T Gardener commented that he had recently commenced with AON Investment Consultants in a consultancy capacity.

Councillor Ellis commented that the issue had been addressed and it had been determined that it did not pose a conflict at the present time although this position might have to be reviewed at a later date if circumstances changed.

6 MINUTES OF THE MEETING HELD ON 15 DECEMBER 2016

RESOLVED – That the minutes of the meeting of the Investment Board held on 15 December 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, which provided an update on future proposed reports.

Members were requested to raise any additional agenda items to be incorporated onto the Work Programme moving forwards.

8 UPDATE ON MATTERS THAT HAVE ARISEN SINCE THE LAST MEETING

Members noted that an update on matters had been included within the agenda for today's meeting.

9 ROYAL LONDON PRESENTATION

The Board received a presentation from L Bramwell and J Platt at Royal London Asset Management.

The Board noted the following key points:-

- The Buy and Maintain portfolio of sterling denominated corporate bonds was valued at £330.20m as at 31 January 2017.
- The outcome of the EU Referendum had impacted on market bonds.
- The portfolio was very diversified and robust.
- 53.4% of the portfolio was invested into bonds of which 19.1% had claims on assets.
- 7.8% of the portfolio was invested into social housing, on a longer lending term of 20 to 30 years and was taking security over assets.
- Assets were being made to work hard to generate income within the portfolio.
- Due to a lack of bonds available at the present time, it had been difficult to build the investment trust sector into the portfolio.

Councillor Ellis thanked Royal London Asset Management for an interesting and informative presentation.

RESOLVED – That Members:-

- i) Noted the presentation.

- ii) To be provided with the spread over the premium Government bonds.
- iii) To be provided with metrics from Royal London that give reassurance that the portfolio is achieving what was anticipated in setting up a buy and maintain portfolio.

10 LOCAL AUTHORITY PENSIONS FUND FORUM: JANUARY 2017 BUSINESS MEETING AND AGM

A report of the Interim Fund Director was submitted to inform Members that the minutes of the October 2016 business meeting had been issued and to update on the LAPFF Annual General Meeting.

Members noted that the October 2016 minutes had been approved at the last business meeting of the Forum held on 31 January 2017 along with the LAPFF AGM in London, and the minutes had been sent to Members under separate cover.

The results of the LAPFF Executive nominations and ballot had been announced at the LAPFF AGM. The Chairman, Kieran Quinn (GMP Fund) had been re-elected, Ian Greenwood representing West Yorkshire Pension Fund (re-election) and Denise Le-Guy representing Surrey Pension Fund had both been elected as Vice Chairs, and Jane Firth had been re-elected as an officer representative.

The next LAPFF Business meeting was scheduled for 11 April in London.

RESOLVED – That the report be noted.

11 BRITISH VENTURE CAPITAL ASSOCIATION MEMBERSHIP

A report of the Interim Fund Director was presented to seek Members' approval to renew membership of the British Venture Capital Association on the Limited Partner tariff.

RESOLVED – That the Board agreed that the Authority renewed its membership of the British Venture Capital Association as a limited partner member.

12 ACTUARIAL VALUATION UPDATE

S Barrett informed Members that the Actuarial Valuation had now concluded. A report would be presented to the Authority meeting on 16 March, to link into the background work to support the investment strategy review.

13 INVESTMENT STRATEGY REVIEW

A report of the Interim Fund Director was submitted to present Mercer's investment strategy review post the 2016 triennial Actuarial Valuation. Overall the existing balance as between 'growth' and 'protection' assets will be maintained. The report proposed a shift over time from the current allocation to equities to other growth and 'inflation protection' assets. The aim is to play to the Funds' strengths as a long-term investor whilst meeting the need for both return on investments and inflation protection.

The principal change proposed is in respect of the balance between quoted equities (tradeable on stock exchanges) and other less liquid growth assets. A transitional reduction over the medium term from the Fund's allocation to equities of 10% (i.e. From 60 % to 50%) would be matched by a corresponding increase in other growth seeking and inflation protection assets such as private equity, private debt and real assets.

There were no proposed changes to the overall allocation to Bonds. However within the allocation to Bonds it was proposed to hold the index linked portfolio as liability matching assets, adopting a suitably more passive approach. For other internally managed bonds it was proposed to migrate from fixed interest bonds to 'floating rate' bonds. This would be a move to offer some protection in response to expected rising interest rates. In such a scenario the Fund's fixed interest bond portfolio would fall in value and would be likely to achieve lower income streams than 'floating rate' bonds with a link to increases in interest rates.

Members had previously given consideration at earlier Board meetings, for a strategic review of Fund assets and liabilities following the 2016 triennial Actuarial Valuation. This had now been undertaken by Joanne Holden an investment consultant in consultation with the Fund's officers and advisors.

Councillor Ellis thanked Joanne Holden for an interesting and informative presentation.

RESOLVED – That the Board:-

- i) Approved the recommended Asset Allocation strategy.
- ii) Agreed that further consideration be given to the Board's investment beliefs.

14 FINANCIAL REPORTING COUNCIL: UK STEWARDSHIP CODE

A report of the Interim Fund Director was submitted to seek Members' approval of the Authority's statement of compliance with the Financial Reporting Council's (FRC's) UK Stewardship Code.

Members had agreed at the Board meeting held in December 2016 that a 'Tier 1' compliant statement be prepared, following consultation with the FRC, to support the Authority becoming a signatory to the Code. The Fund's current compliance statement had been reviewed by officers, who had consulted with the FRC in relation to the content required to obtain Tier 1 status.

RESOLVED – That Members adopted the revised statement of compliance with the UK Stewardship Code and that it be submitted to the Financial Reporting Council for inclusion on its website.

15 VOTING GUIDELINES

A report of the Interim Fund Director was presented to seek Members' consent to the retention of the current voting guidelines.

Members noted that the Authority's UK voting guidelines had last been revised in March 2016, and were reviewed annually in conjunction with PIRC, the Authority's corporate governance advisor. There were no further revisions to be made.

RESOLVED – That Members noted the report.

16 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 RESPONSIBLE INVESTMENT ENGAGEMENT

A report of the Interim Fund Director was submitted to advise Members of the Fund's responsible investment engagement activities.

Councillor Ellis requested that Councillor Curran be provided with additional documentation to assist him in his role of a newly appointed Member to the Authority.

Councillor Ellis congratulated Jane Firth, who had been re-elected as a LAPFF officer representative.

Councillor Ellis hoped that future reports could be written in a manner to enable them to be presented within the public domain.

RESOLVED – That the report be noted.

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

18 INVESTMENT STRATEGY STATEMENT

A report of the Interim Fund Director was submitted to seek Members' approval to the Investment Strategy Statement (ISS). Members noted that the updated version of the Strategy, previously outlined in a Statement of Investment Principles (SIP), was subject to regular review. The pooling of investments had given rise to new regulations which required an ISS.

RESOLVED – That Members:-

- i) Approved the Investment Strategy Statement (ISS) to be kept under review from time to time and at least every three years.

**Councillors Ellis, Wraith, McHale and Sangar approved the ISS.
Councillor Curran did not approve the ISS.**

- ii) Noted that the Benchmark Asset Allocation table be updated.

- iii) Agreed that the Investment Beliefs be removed from the Investment Strategy Statement which is to be made available on the SYPA website.

19 GOVERNMENT CONSULTATION ON LGPS POOLING

Councillor Ellis referred to the last Board meeting where Members had instructed her to speak with the other chairs within the Pool. She would provide an update at the Authority meeting on 16 March, together with an update on the meetings held with the LPB / Trade Unions.

20 QUARTERLY REPORT TO 31 DECEMBER 2016

The Board reviewed the performance of the Fund during the quarter ended 31 December 2016.

The Fund had ended the last quarter with an underweight position to bonds and UK equities and an overweight position to overseas equities, private equity funds, alternative income funds, property and cash. During the last quarter, markets had generally been positive after the US election result, commodities had been buoyant which had led to firmer global economic data and oil prices had been strong. As bond yields had moved higher, Government bonds had given up some of the earlier gains, and the dollar had surged to a fifteen year high.

Performance for the quarter had returned 2.2% against the expected return of 2.5%, with the Fund valuation rising from £7100.3m to £7304.3m. Although the individual portfolios showed mixed performance against their respective benchmark indices the property portfolio was the main contributor to the underperformance of the Fund, and in particular it was due to the devaluation of the agricultural portfolio.

Members noted that the agricultural portfolio would not be transferred directly into the Pool, and would be held outside of the Pool for the immediate future.

Members requested that the full bound copy of the quarterly report circulated separately to Members be dispensed of, and would be replaced with a shortened succinct investment summary to include performance for the quarter.

RESOLVED – That Members:-

- i) Noted the update.
- ii) Receive an update report on the agricultural portfolio.
- iii) Agreed that the full bound copy of the quarterly report was no longer needed. Focus would be on a shortened succinct investment summary report.

CHAIR