

SOUTH YORKSHIRE PENSIONS AUTHORITY

INVESTMENT BOARD

14 SEPTEMBER 2017

PRESENT: Councillor S Ellis (Chair)
Councillors: S Cox, J Mounsey, A Sangar, I Saunders and R Wraith

Officers: S Barrett (Interim Fund Director), F Bourne (Administration Officer), N Copley (Treasurer), M McCarthy (Deputy Clerk), J Hattersley (Property Consultant), S Smith (Head of Investments), J Firth (Principal Investment Manager) and M McCoole (Senior Democratic Services Officer) (BMBC)

Trade Union Members: N Doolan-Hamer (Unison), D Patterson (UNITE) and G Warwick (GMB)

Investment Advisors: T Gardener and L Robb

An apology for absence was received from N MacKinnon

1 APOLOGIES

An apology for absence was 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 would be considered in the absence of the public and press:-

Item 11 Corporate Class Action Law Suits: Shareholder Rights, Class Actions and Portfolio Monitoring.

Item 12 Standard Life Presentation.

Item 18 Equity Protection Strategy.

Item 19 Mercer Presentation.

5 DECLARATIONS OF INTEREST

None.

6 MINUTES OF THE MEETING HELD ON 22 JUNE 2017

RESOLVED – That the minutes of the Investment Board held on 22 June 2017 be agreed and signed by the Chair as a correct record.

7 WORK PROGRAMME

The Board considered its Work Programme to March 2018.

M McCarthy stated that future meeting dates would be included onto the Work Programme.

RESOLVED – That Members noted:-

- i) The Work Programme.
- ii) The Work Programme would be updated to include future meeting dates.

8 LOCAL AUTHORITY PENSION FUND FORUM: UPDATE ON BUSINESS MEETING; ANNUAL CONFERENCE DECEMBER 2017

A report of the Interim Fund Director was submitted to inform Members that the minutes of the April 2017 business meeting had been issued, and to confirm the dates of the next Annual Conference in December 2017.

Members noted that the Forum's Annual Conference would be held in Bournemouth on 6, 7 and 8 December 2017. Member Funds were entitled to two free places, with accommodation and travel paid by the Authority; J Firth would also attend the Forum's Annual Conference in her capacity as a member of the executive.

S Barrett stated that the Border to Coast Pensions Partnership (BCPP) Member training event held in York on 11 and 12 September 2017 had been a good training session. Topics had included responsible investment and LAPFF, the latter providing a voice for local government to collectively increase its influence on such issues.

Councillor Sangar commented that LAPFF had proved very useful to the Board over the years, together with the reports presented; he queried the Fund's position following the commencement of BCPP.

J Firth commented that LAPFF was a member led organisation. Discussions were underway with the Forum to determine the membership of the pools moving forward. A report would be presented to the Business Meeting to suggest that the pools had the same membership rights as the funds, to have access to all of the same information and be able to attend meetings.

RESOLVED – That Members:-

- i) Noted the report.
- ii) Approved attendance for two Members at the next Annual Conference in December 2017.

9 CARBON AUDIT REPORT

A report of the Interim Fund Director was presented to request Members to authorise the biennial carbon audit specified in the Authority's Climate Change Policy.

Members noted that the Board had previously agreed, as part of the policy, that a carbon audit of the Fund's portfolios would be commissioned every two years to establish exposure to climate change and carbon risk. A carbon audit was due on the September 2017 data, subject to authorisation.

Councillor Mounsey referred to a number of possible implications for the Authority, and raised related issues on climate change.

Councillor Ellis highlighted the need to refine the carbon audit over time.

S Barrett commented that the Climate Change Policy would be presented to the next Board meeting, and he suggested that any concerns should be raised at that time.

J Firth stated that carbon foot printing was not an exact science or a complete tool. Carbon foot printing enabled the Fund and BCPP moving forward to identify any issues within the portfolio where engagement with companies could be considered to influence their business strategy. She suggested that the Fund should undertake a carbon footprint of those portfolios previously undertaken to facilitate comparability.

Councillor Sangar suggested a full discussion on the matter at the next Board meeting in December 2017. He was interested to compare results with those of 2 years ago, whether the policies implemented had made any difference in terms of the investment made, the implications of pooling and what decisions could be taken to influence the pool's decision making in this area.

RESOLVED – That Members:-

- i) Agreed to commission a carbon audit on the four main equity portfolios.
- ii) Noted that there would be a report on the climate change policy at the next Board meeting in December 2017.

10 RESPONSIBLE INVESTMENT AND CORPORATE GOVERNANCE

A report of the Interim Fund Director was submitted to review the current Responsible Investment Policy and Shareholder Engagement Statement ahead of LGPS pooling and to redraft the policies in line with best practise, which would

support the Border to Coast Pensions Partnership (BCPP) developing their respective policies on a basis consistent with those of partner funds.

J Firth stated that the Shareholder Engagement Statement had been substantially reworked and renamed as the Corporate Governance & Voting Guidelines, to align with the work undertaken for the Fund and BCPP.

L Robb queried what differed in the context of the report compared to that previously presented to the Board.

J Firth stated that the current Responsible Investment Policy was a broader statement rather than a particular policy. The Responsible Investment Policy presented to the Board highlighted the work and how it was undertaken within specific headings.

Councillor Ellis queried whether the new layout of the Responsible Investment Policy aligned with how it had been set out by other authorities, and whether this would aid Members when viewing the Responsible Investment Policy as a pool.

J Firth commented that she was acting as the Responsible Investment lead for BCPP and was developing the policies alongside those presented today. By undertaking a similar exercise for the BCPP this had allowed her to influence the policy at the pool level. Other partner funds within the pool would be provided with a draft Responsible Investment Policy to be presented to their funds, to ensure alignment before entering into the pool, and to enable the policy at pool level to be acceptable to the underlying funds.

J Firth highlighted that all partner funds were now LAPFF members; the various funds within the pool had shown differing degrees of appetite for the Responsible Investment Policy. She was very hopeful to achieve alignment.

RESOLVED – That Members agreed:-

- i) The revised Responsible Investment Policy.
- ii) The Corporate Governance & Voting Guidelines, replacing the former Shareholder Engagement Strategy.

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

A report of the Interim Fund Director was presented to keep Members informed of the progress on securities class actions.

RESOLVED – That Members noted the report.

13 STANDARD LIFE PRESENTATION

Members received a presentation from Richard Marshall, James Britton and Simon Kinnie of Standard Life Investments on the Real Estate Performance Review, together with an update on the UK Market.

In summary; the Fund has outperformed its benchmark over all time periods between 3 months and 5 years. Indirect holding have dragged performance but steps have been taken to reduce this weighting. Lettings of new south east industrial units have been positive and the Funds void rate is expected to fall to 3.2%. A number of leases expire in 2018 and a focus will be on maximising tenant retention.

There was discussion over the merits of indirect property holdings and Tim Gardner asked for a timeline for the planned exit from indirect holdings.

Leslie Robb queried the merger with Aberdeen and requested that clients be kept appropriately briefed.

J Hattersley advised Members that there was a contractual requirement on SLI to alert on e.g. any 'key man' changes. Richard Marshall responded that SLI / Aberdeen would have a keen interest in assisting the new pool given that they were supporting three Funds with property mandates therein.

Councillor Ellis gave thanks for an interesting and informative presentation, and she requested that the Board be appropriately informed of any developments.

RESOLVED – That Members noted the contents of the presentation.

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

14 HEALTH & SAFETY AT WORK ACT 1974: COMMERCIAL PROPERTY PORTFOLIO ANNUAL AUDIT

A report of the Interim Fund Director informed Members of the outcome of the annual health and safety audit of the Fund's multi-let commercial property investment portfolio. Standard Life Investments monitor and report upon the managing agent's (Cushman and Wakefield) health and safety performance. The S2 Partnership provided the statutory health and safety compliance systems in each of the multi-let properties.

Members noted that the audit of the whole portfolio had identified a total of 1,795 risks of which 98.55% were now controlled, 26 outstanding uncontrolled risks had been identified and were being addressed by the managing agents, and no risks had been classified as intolerable.

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

15 POOLING UPDATE

A report of the Interim Fund Director was submitted to update Members on the progress of pooling in the Border to Coast Pension Partnership (BCPP Ltd).

Information from the BCPP Joint Committee meetings would be available on the Authority's website, S Barrett highlighted the sensitivities around the transition timetable for the transfer of staff and assets. Members noted that Chris Hitchin had been appointed as Chairman in July 2017, and that the appointment of the CEO would be shortly announced. The Chairman and CEO and others as a panel would be involved in the appointment of the next level of senior appointments of Chief Operating Officer, Chief Investment Officer and Chief Risk Officer by November 2017.

T Gardener highlighted a potential problem in relation to asset allocation, that the new Chairman, CEO and in particular the CIO could potentially raise differing views from those being pursued currently.

S Barrett stated that the planned commencement of BCPP was still from June 2018.

S Smith added that the transition was expected to be undertaken over an 18 month period. Following discussions between BCPP and external advisers, it had been determined that they could not take the quantum of assets in one move. A timeline had been devised to transfer UK equities and bonds from the internal funds to be transferred on Day 1, and commence the transfer of external funds during the following 3 month period. This would enable the Fund to transfer its UK equities and bonds in June 2018, US and European equities to be transferred in December 2018 and other Far East and emerging market equities to be transferred in June 2019.

There was a general discussion over the wisdom of operating from two locations. S Barrett and S Smith stated that the assets would continue to remain at Fund level. BCPP was proposing to apply for advisory services from the FCA, BCPP would manage the assets, have full sight of the portfolio and make decisions, which would be brought back to the Fund to execute those deals.

S Barrett added that the preferred BCPP plan was that staff would be TUPE transferred across from June 2018, with the above advisory status under the FCA to manage assets and make decisions, which would be referred back to an individual based in Barnsley to execute such matters over the transitional period of 18 months.

T Gardener queried whether the individual responsible for the execution could be physically placed in Leeds, although they were still part of the South Yorkshire Fund.

S Smith commented that legal advice had been sought on the matter, which had concluded on a preference for both groups to not be located together.

T Gardener suggested that further questioning of the proposed approach might be worthwhile to encourage more flexible thinking to resolve the problem. L Robb

suggested that the issue and the residual assets should be kept as simple as possible.

T Gardener queried how much contact the Board had with BCPP. He suggested that it would be interesting to invite Chris Hitchin; Chairman of BCPP to a future Board meeting.

Gary Warwick raised matters in relation to scheme member representation and Councillor Ellis suggested a meeting be arranged with the trade union members, prior to the next BCPP Joint Committee Meeting on 20 October 2017.

Councillor Sangar commented that he had been surprised to learn at the recent BCPP Member training, how different each pool was. He queried how the pool had met the demands made by the Secretary of State.

Councillor Ellis informed Members that all BCPP meetings would be held within the public domain, in order to provide transparency.

RESOLVED – That Members:-

- i) Noted the report.
- ii) Noted that the Advisors would be provided with a copy of the staffing structure.
- iii) Agreed that a briefing meeting be arranged with the trade unions prior to the BCPP Joint Committee Meeting on 20 October 2017.
- iv) Noted that the Advisors would be provided with the analysis received in relation to undertaking advisory functions at Leeds and local execution.
- v) Noted that Chris Hitchin would be invited to attend a future Board meeting.

16 MIFID II

A report of the Interim Fund Director was submitted to outline the impact of the implementation of the second Markets in Financial Instruments Directive (MiFID II). This framework of European legislation governs investment firms providing certain investment services to clients and the organised trading of financial instruments. MiFID II would take effect from 3 January 2018 and would have significant implications for LGPS administering authorities.

S Smith stated that MiFID II governed how investment firms categorised their clients. Pension Funds and local government was currently categorised as per se professional, but under the new ruling would be classified as retail investors. This provided certain undesired protections, restricting investment in certain asset classes or products in which MiFID II considered too complex for retail investors. Therefore administering authorities wanted to be able to opt up. A process has been put in place by the LGA together with input from others; qualitative and quantitative tests would be undertaken.

Members were advised of 6 pooled vehicles that the Fund wished to maintain i.e. Marathon, Royal London, Aberdeen Standard Life, Ashmore, Coronation and BMO; a number of which had already contacted the Fund to request the basic information. The Fund also had direct investments, of which correspondence had commenced to be received from the brokers, who had indicated that they would classify the Fund as a professional client; the Fund had approximately 20 broker relationships that it wished to maintain.

The Fund would need to demonstrate that Members received an induction upon commencement as a Member onto the Authority and undertook general training; MiFID II would consider Members' responses as an entirety and would take into account experience as a whole including Advisors and officer support.

S Barrett and Martin McCarthy highlighted the need to improve the way that the information was documented. Information requested from Members each year would be refined to capture additional detail.

Councillor Sangar stated that he was the Member lead on training and development. He was keen that a method be established to document the information together with a training schedule, to ensure that the training needs were met year on year.

L Robb envisaged that it was very likely that the documentation would prove that the Fund had professional status, but he highlighted the need to look ahead beyond pooling.

S Smith stated that the assessment for MiFID 11 would be submitted to the managers and that the groups would be informed of the substantial changes incurred following commencement of the pooling arrangements.

Councillor Saunders queried whether the Member turnover would present a fundamental weakness for the Fund.

S Barrett did not consider this to be a fundamental weakness for the Fund, as Member turnover could be an issue for every administering authority. All new Members received a handbook and would undertake the fundamentals training, which would provide a level of reassurance.

Councillor Ellis stated that the recent BCPP Member training event had been very timely. She suggested that BCPP Member training be aligned for July each year, to ensure that the incoming Members onto the Authority undertook the training.

T Gardener commented that the fund managers would want to classify the Fund as professional status, and that they required enough evidence to enable them to do so; he did not foresee a problem.

RESOLVED – That Members:-

- i) Noted the report and potential impact on investment strategy of becoming a retail client with effect from 3 January 2018.

- ii) Agreed to approve delegated responsibility to officers to undertake the opting up to elective professional status when the proposed Regulations came into force in order to ensure it could continue to implement an effective investment strategy.
- iii) Noted that in electing for professional client status Members acknowledged and agreed to forgo the protections available to retail clients.
- iv) Noted the need to develop existing Member self-assessment arrangements with regard to knowledge of investments and risk.

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 EQUITY PROTECTION STRATEGY

A report of the Interim Fund Director was presented for Members to consider the merits of equity protection options given the increase in the Fund's valuation and improved funding position.

RESOLVED – That the Board:-

- i) Considered the reported position.
- ii) Noted that officers would progress proposals subject to the views of the Board.
- iii) Agreed an initial figure of £50k to carry out further work on the viability of this option.

19 MERCER PRESENTATION

Members received a presentation from Mercer in relation to protecting the contribution plan.

Councillor Ellis gave thanks for an informative presentation.

RESOLVED – That Members noted the contents of the presentation.

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

20 QUARTERLY REPORT TO 30 JUNE 2017

The Board reviewed the performance of the Fund during the quarter ended 30 June 2017.

For the quarter the Fund had outperformed the benchmark with a return of 1.1% against the expected return of 0.7% with the Fund valuation rising from £7614.4m to £7823.1m; the Fund had been above £8bm at the end of August 2017.

In relation to global economic data, a little pull back had been encountered during the last few weeks in relation to the geopolitical issues; there was still an expectation that the central banks would support the markets.

The Fund had come back into line with its benchmark performance over 1, 3 and 5 years. Members noted that generally there had not been a great deal of change in the outlook since the last quarter.

Over the last quarter a total of £140m had been paid to the Fund for the deficit contributions. The Fund had this year committed £400m to new alternative investments, on a draw down basis. The Fund had been underweight in property and bonds, and overweight in equities.

Councillor Ellis commented on the good performance of the Fund during the quarter.

RESOLVED – That the report be noted.

21 ANNUAL PERFORMANCE

A report of the Interim Fund Director was submitted to report on the annual performance of the Fund for the period to the end of March 2017.

Members noted that Portfolio Evaluation Ltd independently measured the performance of the Fund against its benchmark. The Authority subscribed to the Local Authority Pension Performance Analysis by PIRC Ltd, which indicated that the Fund's overall strategy gave a return that was within the top quartile of the funds measured; 60 of the 89 local authority funds had subscribed to the service, which provided a reasonable comparative universe analysis. Members were requested to contact S Smith if they required further information.

Councillor Ellis referred to the very good performance reported, which Members appreciated and recognised, especially during the transitional period of the move to the pooling arrangements.

RESOLVED – That Members noted the report.

CHAIR