

SOUTH YORKSHIRE PENSIONS AUTHORITY

18th January 2018

Scheme Members' Annual Fund Meeting

1. Purpose of the Report

To report on the meeting held on 19 October 2017.

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 Source Academy, Meadowhall on the evening of 19th October. There were 77 members present, as follows –

- Pensioners - 56
- Contributors - 11
- Deferred members - 4
- Councillors – 6

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 the presentations.

3.3 Questions received prior to the meeting

Q. I would like an update on developing an ethical investment policy.

A. (Steve) We have a responsible investment policy which takes into account environmental, social and governance issues which could have a material/financial impact on companies and performance and hence our interests in them in terms of their overall return to the Fund. That policy has been recently reviewed and is available on the SYPA website.

Q. How will Brexit affect pension funds?

A. (Steve) Difficult because we don't really know what is going to happen with Brexit negotiations. Initial concerns that it would have a dramatic effect on the economy and that hasn't been followed through thus far. Our performance has been strong in terms of equity markets although it has led to the devaluation of sterling so that had an effect on the Fund positively because the European investments that we have denominated in Euros went up in relative value which lead to an increase in inflation and we have seen this week inflation rise to 3% so it's difficult to say what will happen in the future but so far so good. Watch this space in terms of Brexit.

Q. What is the current situation with our funds invested with the Icelandic banks?
How much do they still hold?
What is the rate of return now?
Are you content with the way things stand?

A. (Steve) we've had about all we are going to get back from the Icelandic Banks (about £18.5m loans advanced at the maximum level. We've now had about 92% of that back at £17m).
There was quite a process to start with where we engaged with the Local Government Associations who were negotiating for a lot of local authorities and funds from Icelandic Banks, so against the worst case position where recovery was as low as £14.5m I think we've done well to get it up to 17m as a final result. Are we satisfied with that? - Are we content with that? - I think it is as good as it's going to get. We can't be entirely content because we didn't get every penny back.

Q. How does SYPA ensure probity in operating the organisation?

A. (Steve) We are very proud of the high standards that the organisation operates to. Personally I think that if anybody dips into the websites of how our meetings are conducted they are an example in how business meetings should be conducted. The meetings are public (some confidential papers aren't). But for the majority of papers in the public domain are on our website. We are subject to internal and external audit. We have a corporate planning & governance board which met this morning which is our own audit committee which receives papers from internal and external auditors commenting on performance and raising issues to the attention of members. We are subject to review by our own independent Local Pensions Board which looks after some of the stuff I was talking about earlier, how the investment practice is working. We have three independent advisors on that board and they are very challenging as the members of the board will testify to- they are not slow in coming forward with any questions. They get straight into our ribs on certain issues and I think that is an excellent example of very good governance. We are also subject to regulations by the Pension Regulator and we are also subject to regulations by the Financial Conduct Authority. All our key investment staff are approved by the FCA so I think our governance standards are second to none.

- Q.** In the SYPA Climate Policy Report (December 2016) you say that an in-house monitoring tool is being used to help measure the carbon intensity of the Fund and that you will commission a further carbon audit in December 2017. Will the authority make the results of the carbon audit public? What steps has/will the authority take to reduce the carbon exposure of the pension fund based on the results of the monitoring?
- A.** (Steve) We have commissioned another carbon audit. We have agreed as part of our policy that we would do that periodically. We have only just recently taken a report to members about that. We've commissioned a new audit and we should have the results on that by the end of this year, where we can make some comparisons with the report from two years ago and see how the fund stands in terms of its carbon levels.
- Q.** The Environment Agency Pension Fund is now in surplus, with strong investment returns, after its decision to reduce carbon in its portfolio, demonstrating that carbon reduction does not automatically equate to reduced returns. Does the board plan to follow this good example and take positive action to build on the policies of tilting towards a lower carbon portfolio?
- A.** (Steve) Effectively we have tilted towards a lower carbon portfolio. But the reasons for the Environment Agency surplus are more about the overall market about the strength of equity performances as I mentioned earlier so they delivered 19.6% return. In 2016/17 we delivered 22.5%.
- Q.** What progress has been made in 'tilting' SYPA's investments towards lower carbon assets? In particular, please let us know where have new investments been made in sustainable activities/projects including local infrastructure or affordable housing?
- A.** (Steve) Since April 2016 we've put an extra £90m into alternative investments, things like infrastructure and private debt funds, private equity funds. Many of the funds are in the low carbon areas or infrastructure around rail, hydro gas transmissions, holding stock but also things like waste to energy infrastructures including one quite recently in a bio mass plant in East Yorkshire (Hull). We've put £90m into that area and we have also invested in social housing through real estate investment trusts. So we don't directly invest but we are part of a trust which is a bigger entity and gives us the opportunity to get some investment into the social housing areas with a number of social housing bodies that are funded through each trust.
- Q.** The SYPA Climate Policy states that it will endeavour to manage a tilt within portfolios in favour of lower carbon assets in line with the Paris agreement, with a view to progressively decreasing the Fund's carbon exposure. How do you reconcile this with the fact that, based on your published investment holdings, your holdings in many fossil fuel companies including Shell, BP and Glencore, went up between 2016 and 2017?
- A.** (Steve) I showed you two slides earlier, Top 10 Holdings and the index and why we invest in those because the index is weighted into oil, gas, mining etc. If we followed that index and had all our money in there, we'd be at 100% if you like, but we are at 80+% so we have tilted our policy to that extent and whilst some holdings did increase slightly in BP and other, Glencoe, they did

reduce in other areas; a mining company and in oil companies to compensate for that.

- Q.** The pooling of Local Government Pension Scheme funds has been timetabled for early 2018. What plans now exist to ensure there are low carbon funds and strong responsible investment policies in place which build on the work already taking place at SYPA?
- A.** (Steve) We are leading on responsible investment. We have got one of our officers who is leading that work on behalf of BCPP. She is at a meeting today (AGM meeting) exercising her influence over one of the mining companies that we are talking about and it's our policy to engage rather than look to divest. We try and persuade businesses to move in this sort of direction rather than look for overall divestment. Had she not been there I'm sure she would have been here tonight. We have got very strong responses to the investment policies and if you dip into the SYPA website you will see that has recently been discussed by the authority and it is used in effect as the blueprint for BCPP. So we try to align our views on responsible investment with BCPP and encourage that alignment with the other 11 partners in BCPP so that we are all on the same playing field around responsible investment. I do expect that the issues around carbon funds will be on the agenda and get discussed as things move forward and if there's sufficient demand from all 12 partner funds that will have to be addressed by BCPP moving forward.

Questions from the floor

- Q.** You did mention about putting money into investment in, I thought you said personal debt originally, but then maybe it was private debt. What do you mean by investment in either personal or private debt?
- A.** (Steve) Apologies- it would be lovely if it could be my personal debt but I should have said private debt funds, private equity funds so it is private equity which is partnership companies that come together where we can take some of the actual equity and private debt funds is where people are providing resources that banks traditionally provided
- Q.** *Yes but that means that people are borrowing money and you are lending that money so that you will be in a position where you might have to then chase up the repayment?*
- A.** It means that we are providing the cash to people that fund businesses where businesses would normally have relied on banks so there is a risk but there is return too.
- Q.** *But its businesses, not individuals*
- A.** Its businesses
- Q.** Could I then ask a quick question of Gary- you did show in your membership chart that the deferred members were gradually growing and going past the active members, bearing in mind that there is this life expectancy increasing which you also mentioned, so does that mean that there could be a potential liability in the future that you might end up having to find funds that are diminishing?

- A.** (Gary) Yes, it is the nature of funding. The pension fund that we have got is a mature pension fund in that the liability eventually, in terms of cash flow from contributions coming in and benefits going out, won't pay them so we have to realise assets but that is the trick that we have to do at the actuarial level. The nature of pension funding and actuarial science is that what we have to pay the last pensioner their last penny on the day that they die. So every three years we do an actuarial valuation of the fund that says what is needed in the pension fund from employers, taking into account their employees contributions as well as investment performance on the assets. At some point in time the assets that we have, that will be in equities for growth, would be moved into defensive assets such as bonds to pay out as cash, that is the nature of pension funding. The problem comes when the fund is in deficit. So if the fund is in deficit then there isn't sufficient money in, from what should be in to balance the books, your assets and your liabilities. What we've got with the fund employers is a plan which is a long term plan, they are paying money back over and above what is needed for future membership to pay back that deficit, so each employer in the fund is actually paying extra to meet that requirement. If at any point in time the cost of the scheme becomes too expensive then there is a national cap that would limit the employer contributions and it is at that time when you have to look at the benefit entitlement- not for what's being paid to pensioners already but to existing employees and maybe then a discussion about how to change the pension scheme in the future. Should that happen there are protections in place to ensure that you can manage the pension fund going forward.
- Q.** (Comment) I want to put some points to you people. First of all I worked on the bins in Sheffield and I was finished through ill health in 1992. It was 2006 that I found out I had emphysema and asthma so can you go through all the old bin men in South Yorkshire who worked on your bins, and never had pulmonary tests.

Now the second thing that affects the British economy, the North East of England is the only place in Britain that exports more than we import year in and year out. Now we've had City Regions dumped on us by Westminster and the Labour run councils. In Teesside in the South Val region and North Val region from Tyneside to our boundary with Scotland. Now if these City Regions fail the British Economy will go with it. Make no mistake about this and on top of this we've got these idiots in London dumping these boundary changes on us and believe this or not half of South Teesside, the second biggest industrial area in Europe is going to come under an MP from our next door neighbour in North Yorkshire, which is the biggest rural area in England. So this is what you are dealing with so take this on board.

- Q.** First of all I'd like to say how pleased I am with SYPA, I'm completely satisfied. I'm glad you've allowed some supplementary questions because questions can arise from the presentations that you give and my question is to Gary. On page 22 (of the booklet) you show on the annual review cost per member and you compare it to 30 other Local Government pension schemes. I would have found that helpful if you would have compared that also with the

schemes that we are going to join with in the BCPP. Because it seems like we are going to take a hit on that because we are efficient and they are not, or less efficient than us, and can you tell me whether their funds are in as good a shape as our fund is.

- A.** (Gary) I can't because I just don't know the answer to the question now. It is something that is available. We signed confidentiality in relation to benchmarking surveys that's why I can't publish the report to the members anyway but I could give you a general answer if I looked it up. But I don't even know whether they are a part of the 30 that participated because there are 99 funds so I don't know whether our partners in BCPP have all participated. What I do know is they all have annual reports, so effectively they are all public documents and their performance should be being reported elsewhere.

Surely you must know, if you are going to join funds in different areas, if you will be picking up a lot more costs than we have already got.

(Sue) The pooling arrangement is for investment, not for the administration of the scheme which is what you are seeing here.

- Q.** (to Steve) You mentioned that the Warwickshire, Bedfordshire and Surrey (particularly Surrey) requested to join our pooling scheme. I'm just curious as to why these strange bed partners would want to join the North?
- A.** (Sue) I don't think it was any coincidence that I met the chair of Surrey down in London before pooling where I told them that we were, I think, the only FCA registered Pension Fund. She was absolutely amazed. She had never heard of a pension fund being FCA registered and as we now know the government said all these pools have to be FCA registered and I think that might have been one of the things that she thought that South Yorkshire were comfortable with FCA registered and that we work within that and other pension funds don't. I think the other thing that was particularly why BCPP co-opt together with all of its constituent parts is that we have internal investment that a lot of people admire and envy and wanted to avail themselves of that, and one of the guiding principles of BCPP is that we strengthen our investment team so that everybody can do that. It is really great value. It is a cheap way of investing how we do it and it's down to our staff that are matching the big city people on investment returns and we should all be very proud of them.
- Q.** In Steve's presentation he mentioned that Leeds is where the pool is going to open, could you elaborate on that a little - who's going, who's staying?
- A.** (Steve) The BCPP need their own headquarters. Leeds was chosen as a strategically sensible place to have a future skill set, recruit people and be able to get to. After quite a lot of discussions about where it should be, what the rational was, the board rational is it has got to be an office within walking distance of a major railway station, and it's in Yorkshire. It is therefore accessible for our staff who will transfer there. So from SYPA the starting

point is that our investment team will be on a TUPE transfer list to move into that office at some stage, probably around June 2018 is the current plan.

Q. How much money are we going to give to the pools?

A. (Steve) We have £7.6bn as at 31 March 2017. That's probably gone up to about £7.9bn as we speak now. We won't be giving it all because we will initially retain the agricultural portfolio because that's quite a unique thing so that's likely to stay with the South Yorkshire Pension Fund. Over the first few years we won't be transferring the property portfolio because that is a specialist area of work that will require BCPP to gear itself up to be fit and ready to take that on and a decision about that will be at least two years down the line. So that's about £7m or £8m so that will stay with the fund. We will have assets that are already committed in certain areas around our alternative investments where we have invested in private equity and private debt funds. We will continue to manage those in run off, but any new ones will be run through BCPP so there's a bit of extra in there and also will be running a bond portfolio. Most of the bonds we manage internally but we have an external bond manager for a relatively small amount of bonds. That initially will stay with us until it can be transferred. So over a period of time most assets will transfer in. Agriculture, there is no plan for it to transfer at all and property may or may not be further down the line. There will be some elements that will be running off but the majority will go.

3.4 A full recording of the meeting is available to view at <http://www.youtube.com/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.