

SOUTH YORKSHIRE PENSIONS AUTHORITY

INVESTMENT BOARD

21 JUNE 2018

PRESENT: Councillor S Ellis (Chair)
Councillors: M Stowe (Vice-Chair), S Cox, J Mounsey,
A Sangar and I Saunders

Officers: F Bourne (Administration Officer), G Graham (Fund Director), G Richards (Senior Democratic Services Officer), S Smith (Head of Investments), A Frosdick (Monitoring Officer) and C Tyler (Principal Policy and Communications Officer)

R Elwell and C Hitchen (BCPP Ltd)

Trade Union Members: D Patterson (UNITE) and G Warwick (GMB)

Investment Advisors: T Gardener and L Robb

Councillor A Teal and Councillor R Wraith (Observers)

Apologies for absence were received from: N MacKinnon, N Doolan-Hamer and M McCarthy

1 APOLOGIES

The Chair welcomed everyone to the meeting. Apologies were noted as above.

2 ANNOUNCEMENTS.

It was noted that the Doncaster members would have to leave at 12.30pm.

3 URGENT ITEMS.

None.

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

RESOLVED – That item 15 'Operation of the Authority's Arrangements for Independent Advice' would be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST.

None.

6 MINUTES OF THE MEETING OF THE BOARD HELD ON 8 MARCH 2018

RESOLVED: That the minutes of the meeting held on 8 March 2018 be agreed and signed by the Chair as a true record.

7 WORK PROGRAMME

G Graham informed the Board that the Work Programme would be revised in the coming months to take into account the transfer of functions to Border to Coast Pensions Partnership (BCPP).

RESOLVED: That the Work Programme be noted.

8 PRESENTATION BY BORDER TO COAST PENSIONS PARTNERSHIP LTD

The Chair welcomed Chris Hitchen and Rachel Elwell, Chair and CEO of BCPP, to the meeting.

R Elwell gave a presentation to update the Board on progress at BCPP and to provide details about the first Sub-Funds to be launched.

The presentation included:

- The aims and aspirations of Border to Coast
- Progress to date in 2018
- Investment Team Structure
- Future Launches
- Implementation of Responsible Investment
- Transition Management; and
- Key Issues for South Yorkshire

R Elwell informed the Board that the team had recently moved into their new offices in Leeds; Members would be invited to visit in due course.

With regard to the 2-day training course that had been arranged the previous year, it was intended to repeat this in November 2018.

Members expressed concerns that Border to Coast's Responsible Investment Policy would not be robust enough.

R Elwell reassured the Board that the Policy had been developed by Jane Firth who had also developed SYPA's policy.

Border to Coast had engaged Robeco with regards to engagement and voting and ShareAction had been very complimentary about the policy.

The policy would be reviewed annually and signed off by the partner funds.

Cllr Stowe commented that there had been concerns that Border to Coast would not recognise Trade Unions.

R Elwell replied that the unions had been fully involved in the TUPE process and Border to Coast were quite happy to engage with the unions if their staff so wished them to do so.

Cllr Stowe also expressed disappointment at the lack of Trades Union involvement at Committee or Board level. He stated that Trades Union representatives could play an important role in campaigning, research, oversight and scrutiny and due diligence. It was vital that there was a mechanism for Trades Union involvement.

G Warwick agreed and pointed out the revised guidance from the Scheme Advisory Board that recommended that Trades Unions were involved in the pools.

C Hitchen was sympathetic but pointed out that this was a matter for the Shareholders and not Border to Coast.

S Ellis informed the Board that the matter would be included on the next Joint Committee agenda in July.

The Chair thanked C Hitchen for his attendance and R Elwell for an interesting and informative presentation.

9 POOLING UPDATE

The Board considered a report which provided an update on the progress of the transfer of assets into the Border to Coast pooling structures and the extent that the process would impact on the Authority's investments.

Members were reminded that they had approved a process by which the Fund Director would carry out a due diligence process on each of the investment structures proposed by Border to Coast and consult the independent advisors prior to approving the transition of any assets into the pool structures.

Officers had met with the advisors the day before the meeting and it had been concluded there were no obstacles to investing in the structures proposed by Border to Coast. All decisions would be made after consulting and receiving approval from the Chair and Vice-Chair.

The Board noted the position for the three listed equity funds which was:

- Transition for the UK Listed Equity Fund would begin on 2 July 2018.
- Transition for the Overseas Developed Market Equity Fund would begin on 9 July 2018
- The Emerging Market Fund would launch in September 2018 to allow time to ensure that Border to Coast had sufficient internal resource in place to manage the fund.

With regard to the Agricultural Property Portfolio, G Graham reminded Members that SYPA would retain management of the portfolio in house through a consultancy arrangement. This was not sustainable in the longer term and advice would be sought about how the portfolio could be managed in a sustainable way going forward. A report would be brought to the Board in due course.

RESOLVED: That the report be noted.

10 QUARTERLY REPORT TO 31 MARCH 2018

The Board considered the Quarterly Report to 31 March 2018.

Members noted that global equities had declined over the first quarter of 2018 due to several factors, including:

- Concerns regarding US interest rate rises.
- The protectionist stand of President Trump; and
- Concern of a trade war between the US and China.

The UK equity market fell 6.9% over the quarter and was the worst performing of all the developed markets. In the US, equities advanced at the beginning of 2018, whilst in Asia the Japanese economy continued its improvement although there were some signs of slippage.

For the quarter, the Fund returned -1.8% against the expected return of -2.4%, with the Fund value falling from £1893.7m to £7996.0m.

With regard to annual performance, the Fund returned 4.7% against the expected return of 3.8%. The performance was attributed to:

Bonds – Being underweight bonds added to performance. Asset mix across bonds was also positive.

UK Equities – The outperformance of the UK FTSE 100 portfolio added more value than the underperformance of the mid cap portfolio.

Overseas Equities – Being overweight the asset class added value.

Alternatives - The performance was mixed across the portfolios.

Property - Performance was behind the benchmark overall but the commercial portfolio outperformed its benchmark with the agricultural portfolio underperforming.

T Gardner commented that the managers had worked very hard to achieve such performance and should be congratulated.

RESOLVED: That the report be noted.

11 ANNUAL PERFORMANCE REPORT

The Board considered a report which detailed the performance of the Fund for the period to the end of March 2018.

Members were informed that the performance of the Fund was now independently measured against its benchmark by Portfolio Evaluation Ltd. In addition, the Authority subscribes to the Local Authority Performance Analysis by PIRC Ltd along with another 60 local authority funds therefore giving a reasonable comparative universe analysis.

The reports from Portfolio Evaluation and PIRC were attached as appendices to the report.

As previously mentioned, the Fund had returned 4.7% over the year to March 2018.

Together all the Fund's portfolios had shown an outperformance against the overall benchmark of 0.4%. The remainder of the outperformance was due to the impact of the equity protection programme that was put in place early in March.

Performance within the Local Authority Universe showed the Fund achieved a return which was in the top quartile of funds that were measured. The average return was 4.5% with the median return being 4.0%. Property was the best performing of the major asset classes returning 10% over the year and being heavily weighted to this asset class was a feature of outperformance of the Universe.

Longer term the Fund was now showing outperformance of its benchmark over the one, three and five year periods. Relative to other funds SYPA had outperformed over all periods.

The Board noted that officers and Advisors would be reviewing the property portfolio in light of the changing nature of the high street and that the benchmark would be revisited. Longer term, decisions would have to be made about the agriculture portfolio.

RESOLVED: That the report be noted.

12 IMPLEMENTATION OF THE EQUITY PROTECTION STRATEGY

A report was submitted to provide the Board with an update on the implementation of the Equity Protection Strategy being managed by Schroder.

Schroder implemented the strategy during March 2018 through the purchase and sale of options on the major equity indices representing £2.6bn of the Fund's developed market equity exposures.

Mercer had reviewed the implementation of the strategy on behalf of SYPA and concluded that the strategy had been implemented in line with the mandate given.

As mentioned earlier, the strategy had already had a beneficial effect on the year-end position of the fund by insulating against the full effect of the significant market falls around the turn of the financial year.

RESOLVED: That the report be noted.

13 PROPERTY PORTFOLIO: MANAGEMENT ISSUES UPDATE

A report of the Fund Director was submitted which gave an update on matters relating to the asset management of the investment property portfolio.

As predicted the previous year, the sum spent on empty property rates had increased because the newly acquired industrial parks took time to let. The Warrington property continued to be a drain but the letting out of some of the car park spaces was partially offsetting that. Currently there was an active interest in the property but if this didn't materialise other options would be considered.

The Board were informed that currently the Authority's insurance arrangements were tendered under a framework agreement managed by Barnsley Metropolitan Council. In future it was intended to seek quotes for the agricultural portfolio outside of the agreement as this would open the bidding to mutual insurers who were otherwise excluded.

Members noted that political uncertainty surrounding the Brexit process continued to affect all aspects of real estate management but was especially important for agriculture. Practitioners were postponing decisions until there was a better understanding of the outcome of the process.

RSOLEVED: That the report be noted.

14 RESPONSIBLE INVESTMENT ISSUES

The Board considered a report which gave an update on activity in relation to a number of responsible investment issues.

The report detailed items discussed at the last business meeting of LAPFF and also LAPFF's quarterly engagement report.

It was noted that the LAPFF Annual Conference would take place on 5-7 December 2018 at the Hilton Hotel in Bournemouth. In previous years an elected member had attended the conference along with an officer. If the Chair could not attend, Members would be canvassed for their availability.

Members were informed that the current AGM voting season had reached its peak. Over 400 shareholder proposals had been put forward with over two-thirds related to social or environmental issues.

The Authority supported a number of shareholder resolutions related to climate change and lobbying, including proposals at Royal Dutch Shell and Rio Tinto.

Members were reminded that the Authority was party to litigation to recover withholding tax paid on "manufactured overseas dividends". The litigation involved the interaction of EU law and HMRC's interpretation of UK tax law. The case had recently been considered by the Upper Tribunal who found against HMRC in the test case; the judgement appeared to be comprehensively in favour of the claimants. Given the sums of money involved it is thought likely that HMRC would take the case to the Court of Appeal. When a final judgement is received a further report would be made to the Authority.

RESOLVED: That the report be noted.

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.

15 OPERATION OF THE AUTHORITY'S ARRANGEMENTS FOR INDEPENDENT ADVICE

A report was submitted to review the Authority's current arrangements for independent advice in the context of the transfer of assets to Border to Coast and the consequent changes in the role of the Authority as it moved away from directly "running money" to focussing on setting strategy and managing performance.

RESOLVED: That the Board:

- i) Accept the resignation of one of the Advisors with effect from 31 August 2018.
- ii) Approve the changes in the way in which the Authority's arrangements with its independent advisors would operate as set out in the report.
- iii) Approve the reappointment of the two remaining advisors up to the end of August 2019.
- iv) Approve the process for the "refresh" of the Advisory panel from September 2019 as set out in the report.

CHAIR