

SOUTH YORKSHIRE PENSIONS AUTHORITY

INVESTMENT BOARD

13 DECEMBER 2018

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

Officers: F Bourne (Administration Officer), N Copley (Treasurer), A Frosdick (Monitoring Officer), G Graham (Fund Director), G Richards (Senior Democratic Services Officer), M Shah (Investment Analyst) and S Smith (Head of Investments)

Trade Union Members: N Doolan-Hamer (Unison) and G Warwick (GMB)

Investment Advisors: L Robb

D Booth (Chief Investment Officer) and A Stone (Client Relationship Manager) (BCPP Ltd)

Apologies for absence were received from: Councillor I Saunders, T Gardener, D Patterson and M McCarthy

1 APOLOGIES

The Chair welcomed everyone to the meeting.

Apologies were noted as above.

2 ANNOUNCEMENTS.

The Board was informed that the Clerk to the Pensions Authority and Chief Executive of Barnsley MBC, Diana Terris, would be retiring in May 2019.

The Fund Director informed Members that if anyone wished to view the Authority's new offices, they could do so after the meeting.

3 URGENT ITEMS.

None.

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

It was noted that Appendix B to item 11, 'Pooling Alternative Investments' was an exempt item.

5 DECLARATIONS OF INTEREST.

Cllr Ellis commented that as a Non-Executive Director of BCPP Ltd she would be mindful of any potential conflicts.

6 MINUTES OF THE MEETING HELD ON 13 SEPTEMBER 2018

RESOLVED – That the minutes of the meeting held on 13 September 2018 be agreed and be signed by the Chair as a true record.

7 WORK PROGRAMME

The Board considered its Work Programme.

The Fund Director informed the Board that it was hoped to arrange a presentation on the work of LAPFF at 10am before the next Investment Board meeting; the meeting would then follow the presentation.

RESOLVED – That the Work Programme be noted.

8 INVESTMENT STRATEGY STATEMENT - AMENDMENT

A report was submitted to seek the Board's approval to the amendment to the Investment Strategy Statement to make direct reference to the new investment management arrangements with Border to Coast Pensions Partnership (BCPP). It was reported that it was a statutory requirement to make changes to the Investment Strategy Statement within six months of a major change of this sort.

Members were informed that there was no change to the underlying Investment Strategy but changes had been made throughout the document to take out reference to internal investment management and to reference the investment management arrangements now in place with BCPP.

RESOLVED – That the amendments to the Investment Strategy Statement be approved.

9 QUARTERLY PERFORMANCE REPORT

The Board considered the quarterly report to 30 September 2018.

It was noted that for the quarter, the Fund returned 1.6% against the expected return of 1.4% with the Fund valuation rising from £8210.5m to £8333.5m.

The upside that was given up for the comfort of equity protection strategy was equivalent to 0.4% of performance. Markets had fallen recently and the equity protection had then added an extra 1% in performance.

RESOLVED – That the report be noted.

10 BORDER TO COAST PRESENTATION

The Chair welcomed Daniel Booth, Chief Investment Officer, and Andrew Stone, Client Relationship Manager, from BCPP Ltd.

They delivered a presentation which included:

- Border to Coast - Progress Update
- Key Economic Themes
- Equity Fund Management Approach
- UK Listed Equity Fund – Q3 Update
- Responsible Investment
- Overseas Developed Equity Fund – Q3 Update
- Performance since inception/post Q3
- Alternative Asset Platform

The Board were informed that during the next few months Border to Coast would need:

- Approval to form subsidiary companies of Border to Coast (Q1 2019) – Shareholder (100% approval)
- Approval of the implementation and operational budget as part of the Strategic Plan (Q1 2019) - Shareholder (75% approval)
- Approval of the Limited Partnership Agreement and associated legal documentation (Q1 2019) e.g. subscription agreement, powers of attorney – Pensions Committee/Officers
- Investment commitments – Private Equity (Q1 2019). Infrastructure (Q1 2019), Private Debt (Q2 2019) and Diversified Alternatives (Q2 2019)

The Chair thanked D Booth and A Stone for an interesting and informative presentation.

11 POOLING ALTERNATIVE INVESTMENTS

A report was submitted to seek embers' endorsement of the proposed approach to the pooling of alternative investments within structures provided by the Border to Coast Pensions Partnership.

Previous reports to the Board had highlighted the broad approach to the pooling of alternative investments proposed by Border to Coast. The report now being considered represented the next stage of the process of committing to investment in the Border to Coast Alternatives proposal and dealt with:

- The legal structure of the investment;
- The “mandate” in relation to Private Equity which would be the first asset class to be launched within the alternatives framework; and
- The level of commitments the Fund would be making to these asset classes to continue to meet the current strategic asset allocation.

The Fund Director reminded the Board that Alternative investments were inherently illiquid. The Authorised Contractual Scheme already provided by Border to Coast

had to meet a range of legal requirements in relation to liquidity and therefore could not be used to hold investments of this sort.

Border to Coast had considered four options using the criteria detailed within the report. After a detailed appraisal a structure based on the use of limited partnership vehicles was identified as the best fit against the criteria; these were illustrated at Appendix A to the report. The various “general partner” legal entities required would need to be incorporated as subsidiaries of Border to Coast and this would need the approval of a shareholder resolution by all 12 partner funds. The partner funds had commissioned independent legal advice on both the overall structure and on the various legal agreements that would need to be signed on entering this structure.

The report also detailed how the proposed structure would operate, the investment mandate, concentration limits and commitment pacing. With regard to commitment pacing, the Head of Investment Strategy had carried out an exercise to model the cash flows into and out of each existing investment and made a range of assumptions about the overall value of the Fund to arrive at a sustainable level of commitment for the medium term. Border to Coast had been notified of SYPA’s commitment to Alternatives in each of the next three years. Members noted that these figures would be reviewed in light of the review of the Investment Strategy which could increase the allocation to Alternatives.

G Graham informed the Board that both of the Authority’s advisors approved of the proposed structure.

L Robb commented that the proposals made sense, BCPP already had expertise in this area and could access a wider range of investments at lower cost due to scale.

RESOLVED: That the Board:

- i) Endorse the structural approach to the pooling of Alternative investments proposed by Border to Coast and, subject to the receipt of appropriate legal advice, the approval by the Authority of the necessary shareholder resolutions.
- ii) Note the proposed mandate in relation to Private Equity and receive the views of the Advisors thereon.
- iii) Note the proposals of the Head of Investment Strategy in relation to the pace of commitments to the various Alternative asset classes, in order to maintain the current strategic asset allocation.

12 RESPONSIBLE INVESTMENT POLICIES ANNUAL REVIEW

A report was considered which presented the annual review of the Authority’s Responsible Investment Policy together with the annual review of Border to Coast’s Responsible Investment Policy and Voting Guidelines for approval.

Members were informed that this year for the first time the Policy was being reviewed in the context of pooling with all of the Authority’s listed equity assets now being managed within the Border to Coast pool. This meant that responsible

investment and stewardship responsibilities are now exercised operationally by Border to Coast as the Fund Manager. Border to Coast had developed their own collective Responsible Investment policy and Voting Guidelines with the 12 partner funds; these were presented as appendices to the report.

Other than the changes to reflect the changed responsibilities from pooling, the Border to Coast Voting Guidelines had been drawn up, with advice from their advisor Robeco, to reflect that shares will now be voted globally, resulting in changes to reflect practice across the differing markets.

RESOLVED: That the Board approves the updated Responsible Investment Policy as detailed at Appendix A to the report.

CHAIR