

SOUTH YORKSHIRE PENSIONS AUTHORITY

INVESTMENT BOARD

7 MARCH 2019

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

Officers: F Bourne (Administration Officer), G Graham (Fund Director), G Richards (Senior Democratic Services Officer) and S Smith (Head of Investments)

Trade Union Members: N Doolan-Hamer (Unison)

Investment Advisors: L Robb

A Stone (Client Relationship Manager) (BCPP Ltd)

K Bray (LAPFF)

K Parker and S Shah (Royal London)

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

1 APOLOGIES

Apologies were noted as above.

2 ANNOUNCEMENTS.

None.

3 URGENT ITEMS.

None.

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

None.

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 DECEMBER 2018

RESOLVED: That the minutes of the meeting of the Board held on 13 December be agreed and signed by the Chair as a true record.

7 RESPONSIBLE INVESTMENT UPDATE

A report was submitted to provide members with an update on the Authority's responsible investment activities.

The Fund Director informed the Board that this was the first opportunity to see information from BCPP and Robeco and as such the report was much more detailed and comprehensive than previously.

Detailed voting reports had been circulated separately to members, and summary information was in the Border to Coast Quarterly Newsletter which was attached as Appendix A to the report. The detailed reports were provided by Robeco who are engaged to vote shares on behalf of Border to Coast.

Following the transfer of assets to Border to Coast, engagement on behalf of the Authority would take place through three main routes.

- Direct engagement between Border to Coast fund managers and companies.
- Engagement through the Local Authority Pension Fund Forum.
- Engagement through Robeco on behalf of Border to Coast which was on a global basis.

The Fund Director informed the Board that Border to Coast had convened a Climate Change Working Group at officer level to develop proposals for specific changes to their Responsible Investment Policy at its next review. SYPA officers would form part of this group and would be looking for the policy to be developed to include specific and measurable targets.

Members reported being lobbied on several issues including Saudi Arabia, tobacco and climate change.

With regard to Saudi Arabia, it was noted that this was a very difficult area and it was suggested that the Authority should write to government asking for a review of their list of countries with permitted status.

Tobacco was another area that attracted a lot of attention and, although it had been a successful investment over the years, members felt that it was getting harder to defend even if it was also difficult to support a case for divestment.

Cllr Mounsey mentioned a letter that had been sent to the Chair from DMBC on the matter of continued investment in tobacco and felt that further discussion on this topic would be useful.

The Fund Director would be happy to facilitate an in-depth discussion on the topic in the future.

The Chair reported that she had recently met with South Yorkshire Climate Change Alliance and whilst appreciating that SYPA were further forward than many others in regard to responsible investment, they were still lobbying for divestment.

The Fund Director commented that the Authority needed to improve in communicating the positive investments it made; he would look to draw out a more positive message in the Annual Report.

RESOLVED:

- i) That the report be noted.
- ii) That a letter be sent to government asking them to review their list of countries with permitted status.

8 QUARTERLY PERFORMANCE REPORT

The Board considered the Quarterly Report to December 2018.

S Smith informed the Board that the final quarter of 2018 had seen a big dip in the financial markets caused in part by trade protectionism between the US and China and the underperformance in the tech sector.

This drop wiped out the gains from the previous two quarters and the value of the Fund dropped from £8.3bn to £8.1bn.

For the quarter to the end of December, the Fund returned -2.8% against the expected benchmark of -4.2%.

During the period £645m of emerging market equities and cash transitioned to Border to Coast, the transition period was approximately three weeks.

The equity protection strategy added value and increased the return to the Fund by 2.2%.

L Robb commented that the equity protection strategy was working and was reducing the risk of contributions rising.

Cllr Sangar said the report was as expected due the situation between the US and China. The decision to go with the equity protection strategy had proved worthwhile but the decision whether to renew it at the end of the period would be a very difficult one.

S Smith commented that the Asset and Liability study would inform the decision over the coming year.

RESOLVED: That the report be noted.

9 CONSULTATION ON STATUTORY GUIDANCE ON ASSET POOLING

A report was submitted which requested approval of the Authority's response to the Government's consultation on Statutory Guidance on Asset Pooling.

The Board were informed that the Government had issued draft statutory guidance on asset pooling for consultation with LGPS interests including funds and pools. A copy of the draft guidance and the Authority's intended response were attached as appendices to the report.

The guidance covered a wide range of areas but finally provided a statement from the Government about key characteristics which pools must possess, including an FCA regulated entity at its core.

The guidance was broadly supportive of the governance arrangements and wider approach to the development of the Pool adopted by Border to Coast. It was unlikely that Border to Coast would have to make any major changes in the areas covered by the guidance; this would not be the case for all pools.

The Authority's response, although mainly in agreement with the guidance set out several areas of concern or where clarification was required.

The Board was informed that in producing the draft response at Appendix B, consultation had taken place with the Independent Investment Advisors and with the Border to Coast Officer Group.

RESOLVED: That the Authority approve the response to the consultation on the draft Statutory Guidance on Asset Pooling as set out in Appendix B to the report.

10 LOCAL INVESTMENT

A report was submitted to seek the Board's approval to the definition of the Local Investment Portfolio to be excluded from investment pooling.

G Graham reminded the Board that the Government's requirements of LGPS funds to pool their investment assets made a specific exception for "local investment".

The specific local investment commitments within the current portfolio were:

- St Brides White Rose Property Fund which invested in property across Yorkshire. A £25m extension to this fund had recently been agreed.
- A commitment to invest alongside the Sheffield City Region Combined Authority's JESSICA fund up to £80m in lending to support property developments within the City Region.

Taken together those commitments amount to around 1.5% of the Fund, which was within the broad limits set out in the Government guidance.

Members were informed that it was necessary to agree a definition of those local investments such as those identified that would be held outside the Border to Coast pooling structures. The definition was contained within the report.

It was suggested that the approved local investment allocation to remain outside of the pool be restricted to the two investments detailed above.

RESOLVED: That the Board approve the exclusion of local investments as set out in the report from the Border to Coast pooling structures.

11 MYNERS' PRINCIPLES: COMPLIANCE STATEMENT

The Board considered a report which contained an updated version of the Myners' Principles Compliance Statement.

Members had last approved a Statement of Compliance with the Myners' Principles in December 2017.

The update reflected the latest professional advice and guidance and changes since the last review.

The Myners' Principles set out principles for investment decision making and disclosure in the LGPS which should be adopted by all LGSPs administering authorities in relation to the management of LGPS funds. The way in which the principles are applied had been updated to reflect the way in which the Border to Coast pool operated.

RESOLVED: That the updated version of the Myners' Principles Compliance Statement be approved.

12 FINANCIAL REPORTING COUNCIL: UK STEWARDSHIP CODE - UPDATE

Members considered a report which sought approval of the updated statement of compliance with the Financial Reporting Council's UK Stewardship Code which made direct reference to the new investment management arrangements with Border to Coast.

The Stewardship Code was a set of seven principles directed at institutional investors who hold voting rights in UK listed companies. Its main aim was to improve corporate governance by improving the quality of engagement between institutional investors and companies in order to help improve long-term returns to shareholders.

Members were informed that signatories to the Code are listed in three categories, the Authority was classed as an asset owner. Given the new investment management arrangements with Border to Coast, officers had reviewed the Fund's current statement to reference the investment management arrangements in place with Border to Coast. Border to Coast are also a signatory to the Code as an asset manager.

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

13 PRESENTATION BY ROYAL LONDON

The Board received a presentation on its Buy and Maintain portfolio from Kate Parker and Shalin Shah from Royal London.

The presentation included details on performance, diversification, activity, the investment process and economic forecasts.

The Chair thanked Kate and Shalin for an informative presentation.

RESOLVED: That the presentation be noted.

CHAIR