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Clerk

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NOTICE OF AUTHORITY MEETING

You are hereby summoned to a meeting of the South Yorkshire Pensions Authority to be held Virtually via Connect Remote on Thursday 18 March 2021 at 10.00 am for the purpose of transacting the business set out in the agenda.

Sarah Norman
Clerk

This matter is being dealt with by: Gill Richards Tel: 01226 772806
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Distribution

Councillors M Stowe (Chair), A Atkin, S Cox, J Gilliver, A Law, J Mounsey, A Murphy, C Rosling-Josephs, A Sangar, A Teal, N Wright and T Yasseen.

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SOUTH YORKSHIRE PENSIONS AUTHORITY

18 MARCH 2021 AT 10.00 AM - VIRTUALLY VIA CONNECT REMOTE

Agenda: Reports attached unless stated otherwise

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SOUTH YORKSHIRE PENSIONS AUTHORITY

21 JANUARY 2021

PRESENT: Councillor M Stowe (Chair)
Councillor J Mounsey (Vice-Chair)
Councillors: A Atkin, S Cox, J Gilliver, A Murphy, C Rosling-Josephs, A Sangar, A Teal, N Wright and T Yasseen

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

Investment Advisors: A Devitt

Officers: J Bailey (Head of Pensions Administration), N Copley (Treasurer), G Graham (Director), G Kirk (Monitoring Officer), M McCarthy (Deputy Clerk), G Richards (Senior Democratic Services Officer) and G Taberner (Head of Finance and Corporate Services)

Apologies for absence were received from Councillor A Law and L Robb

1 APOLOGIES

The Chair welcomed everyone to the meeting.

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.

RESOLVED – That Item 12 'Property Debt Write-Offs' be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST.

None.

6 MINUTES OF THE AUTHORITY MEETING HELD ON 10 DECEMBER 2020

RESOLVED – That the minutes of the meeting held on 10th December 2020 be agreed as a true record.

7 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

None.

8A CORPORATE STRATEGY UPDATE

A report was submitted which sought to secure approval of the updated Corporate Strategy covering the next three years.

Members noted that every aspect of the Authority's work over the last 12 months had been fundamentally affected by the Covid-19 pandemic. While services had been maintained and many corporate strategy projects had progressed over the year, progress had been generally slower than planned.

Given this, the update carried forward a number of projects from the previous update and rescheduled completion of some longer term projects to reflect the impact of Covid-19 on the previously planned timelines. The agenda remained broadly the same with a focus on:

- Investing in the development of staff.
- Investing in technology.
- Delivering the changes to the investment strategy including the move to a net zero target.
- Delivering the Authority's new accommodation as approved at the last meeting.

It was noted that in response to the recommendations contained in the Hymans Robertson Governance Review an additional corporate objective had been added that related to scheme funding.

RESOLVED – That the updated Corporate Strategy, at Appendix A to the report, is approved.

8B PENSIONS AUTHORITY BUDGET 2021/22

A report was considered which presented the Authority's budget proposals for 2021/22 for approval.

Members were informed that the overall aim of the budget process was to ensure the that the organisation's financial resources and allocations were determined on the basis of supporting the achievement of the corporate aims and objectives set out in the Authority's Corporate Strategy.

Members were reminded that the budget for 2020/21 was prepared on the basis of a detailed review of resource requirements in order to provide the required investment in a range of areas to support delivery of the Authority's corporate priorities.

As reported during the course of the year, the impact of Covid-19 had slowed some of the progress in these areas, therefore many of the priorities remained to be carried forward into 2021/22.

It was noted that the overall budget requirement was for a total of £5,445,600 representing a freeze in cash terms on the 2020/21 budget. A table within the report provided an overall summary of the main changes proposed within the budgets for employee costs and running costs.

Members noted that there were currently two apprentices in post in Pensions Administration; in next year's budget there was provision for an apprentice within Finance and Corporate Services and also one within the IT team.

Cllr Murphy requested information on the recruitment of apprentices and what equality and diversity processes were followed including age, gender etc.

G Taberner reported that the recruitment process was done in conjunction with the learning provider. The Authority had an Equality and Diversity Strategy which was followed and had a HR Business Partner who ensured that all policies were followed.

J Bailey commented that the apprenticeship scheme was under the National Apprenticeship Arrangement which was for 16-24 year olds.

In terms of wider equality and diversity, there was more work to be done in terms of the diversity of the workforce. The Authority was compliant with the rules but it was recognised that there was more that could be done in terms of encouraging applicants from more diverse backgrounds.
There were plans to engage with an equality and diversity organisation to provide training for all staff and to provide pointers as to where the Authority could widen the net in term of recruitment.

G Graham agreed and commented that the Authority also needed a workforce that was evenly distributed across all age ranges. Although this had improved over the last few years, the average age of employees was around 45 which meant there was more work to do in this area. It was also important that the Authority's workforce reflected the diversity of scheme members.

The Authority had managed, in the last few years, to generate wider and better qualified interest in the vacancies that had been advertised and it was hoped to build on this.

Members were reminded that the funds in the Capital Projects were earmarked for the funding of projects including the Long Term Accommodation project, the replacement of Business Systems and for potential costs that would arise in relation to the Pensions Administration software. It was expected that funds would be required from this reserve during 2021/22 but, as yet, the details of the amounts required and timing were uncertain and therefore this had not been included in the budget forecast for the earmarked reserves. This would be kept under review and reported to the Authority for approval as required.

RESOLVED – That Members approve the 2021/22 budget for the Authority at a total of £5,445,600.

8C MEDIUM TERM FINANCIAL STRATEGY 2021/22 TO 2023/24

A report was submitted which presented the Authority's Medium Term Financial Strategy 2021/22 to 2023/24 for consideration and approval.

Members noted that the Medium Term Financial Strategy (MTFS), which was attached as an appendix to the report, presented the financial forecasts for the Authority and for the Fund. It was designed to support the delivery of the policy position and objectives set out in the Corporate Strategy and was updated annually at the same time as that strategy so that the financial objectives aligned with the corporate objectives.

The MTFS also provided a framework of rules within which the Authority would determine the resources available to fulfil its functions. In the updated MTFS the framework remained in place and the specific measurable financial objectives and limits within it had been updated as appropriate to meet the needs and circumstances of the Authority over the next three years.

RESOLVED – That Members approve the Medium Term Financial Strategy 2021/22 to 2023/24.

8D TREASURY MANAGEMENT STRATEGY

A report was considered which fulfilled the Authority's legal obligation under the Local Government Act 2003 to "have regard to" the following guidance:

a. The CIPFA Prudential Code of Practice (2017);
b. The CIPFA Treasury Management in Public Services Code of Practice and Cross-Sectoral Guidance Notes (2017);
c. MHCLG Statutory Guidance on Local Authority Investments (2018); and
d. MHCLG Statutory Guidance on Minimum Revenue Provision (2018).

Members were informed that the Authority would receive reports on its Treasury Management activities including, as a minimum, an annual strategy for the forthcoming year, an annual report after year end and interim updates as part of the quarterly corporate performance reports.

The annual strategy report was forward looking and included:

a. The Treasury Management Strategy, including treasury indicators.
b. The Investment Strategy.
c. To the extent that they applied to the Authority, capital plans, prudential indicators and minimum revenue provision policy statement.

Members were reminded that the responsibility for the implementation and regular monitoring of its treasury management policies and practices remained with the full Authority, and responsibility for the execution and administration of treasury management decisions was delegated to the Authority's Section 73 officer.

The report also gave details of training requirements, the Annual Investment Strategy and risk assessment and credit ratings.

RESOLVED - That Members approve:

i) The 2021/22 Treasury Management and Annual Investment Strategy.

ii) The Treasury and Prudential Indicators for 2021/22.

iii) The Minimum Revenue Position statement as set out in the report.

9 STAFF SURVEY

A report was submitted which presented the results of the staff survey.

Members were reminded that the Authority undertook its last staff survey in 2018.

Concerns had been raised by some staff about the degree of anonymity possible in previous surveys and there were also concerns about the robustness of some of the questions. A need had also been identified to measure progress over time by creating an “engagement index” using the results of the survey. Consequently it had been decided to procure an external organisation to undertake the survey. Consultancy+ had been appointed using a national consultancy framework.

The survey had been carried out in November 2020 with the results being reported in December and shared with staff. A total of 82 responses had been received which represented approximately an 85% response rate. The detailed report was attached as an appendix to the report.

The broad results showed some improvement on 2018 although the two surveys were not directly comparable.

The three top areas identified were:

1. Treated fairly.
2. Collaborative teamwork.
3. Trusted to make decisions.

It was felt that there was room for improvement in:

1. Career path.
2. Role stimulation.

The areas highlighted as positive were all areas where there had been a significant degree of management focus over the last two years. The areas highlighted as areas for improvement had already been identified in the Corporate Strategy in the current year but progress had been impacted by Covid-19 and the need to work remotely. The areas would receive renewed focus and featured significantly in the update Corporate Strategy which was elsewhere on the agenda.

Cllr Atkin noted that although in the main responses were positive there seemed to be more negative responses from the IT Team.

J Bailey replied that the primary issue within the team was the lack of training opportunities. The issue was being addressed and would improve the resilience of the Team.

RESOLVED – That Members note the results of the staff survey and the actions incorporated in the updated Corporate Strategy elsewhere on the agenda.

10 REGULATORY UPDATE

A report was considered which provided members with an update on regulatory and policy developments.

The report detailed updates on:

- The £95k Cap.
- Employer Flexibilities.
- McCloud
- Reporting the Impact of Climate Change.
- Statutory Guidance on Pooling.
- Changes to Local Authority Audit Arrangements.

RESOLVED – That the various developments in the regulatory and policy environments as detailed in the report are noted.

11 EMPLOYER FLEXIBILITIES

A report was submitted to secure agreement in principle to the implementation of the new employer flexibilities and to the initiation of a consultation process with employers.

Members were reminded that, as previously reported to the Authority, the Government had made the Local Government Pensions Scheme(Amendment) No.2 Regulations 2020.

The regulations had introduced a number of flexibilities and the report considered whether the Authority should, in principle, seek to adopt them.

The flexibilities included:

- Reassessment of Contributions between Valuations.
- Debt Spreading Arrangements and Deferred Debt Agreements.
- Methodology for Calculating Termination Payments.

If the Authority resolved that it was minded to implement the various employer flexibilities and changes to the way in which termination payments were calculated, officers would then, in consultation with the Fund Actuary, develop policies on which employers would be consulted with a revised Funding Strategy Statement being brought to the June meeting for approval.

RESOLVED – That Members:

i) Agree in principle that the Authority should implement the employer flexibilities provided under the LGPS Regulations.

ii) Agree to initiate a consultation process with employers on the way in which the flexibilities should be implemented.

iii) Agree to initiate consultation on changes to the least risk basis for calculating termination payments.

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 PROPERTY DEBT WRITE-OFFS

A report was submitted to request the Authority's approval to write off irrecoverable debts relating to the Pensions Fund's commercial property portfolio.

RESOLVED – That Members approve the writing off of debts amounting to £44,871.08 including VAT relating to the commercial property portfolio.

CHAIR

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Delivering for our Customers – Corporate Performance Report

Quarter 3 2020/21

Contents

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5. Learning From Things That Happen
   - Complaints
   - Appeals
   - Breaches
   - Satisfaction Surveys

1. Introduction

1.1 South Yorkshire Pensions Authority only exists to provide services to our customers whether they be scheme members or employers.

1.2 This Corporate Performance Report provides a summary view of overall performance in achieving the Authority’s objectives; bringing together information on progress against the corporate strategy, a range of key performance measures, financial monitoring, and an ongoing assessment of the risks to the delivery of the Corporate Strategy. By providing this single view of how we are doing it will be easier for councillors and other stakeholders to hold us to account for our performance.

1.3 This report presents the information on overall performance during the third quarter of the 2020/21 financial year. More detailed information on the performance of the Authority’s investments and the pension administration service during the quarter are contained in other reports which are available on the Authority’s website.

2. Headlines

2.1. Key messages for the quarter are highlighted here. The detail and underlying context behind these are set out in the sections of the report that follow.

+

Sickness absence levels remain low.

Funding level over 100%

High levels of customer satisfaction from recent surveys.

Good progress being made on many of the corporate objectives despite Covid.

−

Large underspend resulting from "lockdown" slowing the process of filling vacancies.

Processing performance improving but still affected by remote working. Customers are satisfied with turnaround times.

3. Delivering the Corporate Plan & Supporting Strategies

3.1 This section provides information on the progress we are making on delivering the various strategies which form part of our corporate planning framework.

3.2 The Corporate Strategy for 2020-2023 was approved in January 2020 and sets out a range of changes and improvements over the whole range of the Authority's activities that have been planned to take place over this three year period. In order to manage these more easily and provide clear accountability, these have been divided into programmes of work each led by a member of the Senior Management Team. These cover:

a) Services to Scheme Members and Employers (MS) – which is linked to the corporate objectives around Customer Focus and Listening to our Stakeholders

b) Customer Service and Engagement (CS) - which is linked to the corporate objectives around Customer Focus and Listening to our Stakeholders

c) Delivering the Investment Strategy (IS) – which is linked to the corporate objectives around Investment Returns and Responsible Investment; and

d) Supporting the Corporate Organisation (CO) – which is linked to the corporate objectives around Effective and Transparent Governance and Valuing and engaging our Employees.

3.3 The following tables provide updates in respect of developments that have taken place during the quarter in delivering these programmes of work, as well as updates in respect of activity that has taken place to deliver on the ICT, HR and Equality strategies.

Corporate Plan Deliverables	Start	Finish	Progress Update / Activity Quarter 3	On Target
[MS3] Clear residual backlog cases.	Feb-20	July-21	As reported in Quarter 2, progress on this target was affected by the COVID-19 pandemic and the target date for completion has now been extended by 6 months to July 2021.	✓
[CS3] Actively promote take up of on line services utilising all available routes, including introducing measurement of effectiveness as well as pure volume.	Apr-20	On-going	Registration for the online portal has increased from 41k to 56k over the 12 months to 31 December 2020 and the promotion strategy continues.	✓
[CO1] Replace the Authority's Business Systems covering Finance, HR, Staff Payroll and Time and Attendance. Phase 1 – Scoping, specification and procurement.	Feb-20	Mar-21	The contract for a new finance system was awarded during the quarter and the implementation project for this system will commence in Quarter 4. Work on Phase 1 in relation to HR, Payroll and Time & Attendance will be taken forward in Quarter 4.	✓
[CO3] Implement the recommendations arising from the Hymans Robertson review of governance that was conducted in light of the Good Governance review.	Apr-20	Mar-22	Self-assessment of effectiveness being conducted by the Local Pension Board. First dry run of enhanced governance compliance statement to be undertaken alongside Annual Governance Statement.	✓
[CO4] Identify preferred option for the Authority's long term accommodation needs.	Jan-20	Dec-20	Heads of Terms for lease agreed and now with lawyers aiming for completion by 1st April. Project Team for the fit out appointed and commencing detailed design phase in line with RIBA process.	✓
[CO9] Replace the Authority's telephony infrastructure Phase 1 – Scoping Phase 2 – Procurement and Implementation	Sep-20 Apr-21	Mar-21 Mar-22	SYPA is working with an independent consultant who has scoped out our telephony requirements and we are proposing to purchase a new web-based solution prior to the office move later in 2021.	✓

Information and Communications Technology Strategy	Activity this Quarter	On Target
Developing and maintaining our ICT infrastructure to meet the needs of an increasingly agile organisation	Further server hardware replacements were completed to upgrade the capacity of the Authority's datacentre. The initial scoping and specification stages for a new cloud data backup solution were completed.	✓
Using technology to support a step change in the way customers access our services	The Support and Engagement Team delivered several 'live' and 'pre-recorded' online training sessions and demonstrations to a range of audiences including HR/payroll teams at scheme employers and pre-retirement presentations to scheme members.	✓
Using technology to deliver efficient business processes	Work has continued with the testing and development of new functionality for members to retire online via the mypension portal. Upgrades to the Monthly Data Collection process were made to improve system performance and reliability.	✓
Keeping data safe and secure	As part of our commitment to improving our Cyber Security resilience, a security assessment of the ICT infrastructure was commissioned. As a result, we identified and implemented a new security platform which provides automated vulnerability assessments of the ICT infrastructure and web applications.	✓

Human Resources Strategy	Activity this Quarter	On Target
Developing the Current Workforce to meet the Needs of the Organisation	The restructure of Finance & Corporate Services was completed during the quarter. A transition period will follow from January to March involving handover of tasks and training. The new team structure will then take effect from April 2021.	✓
Retaining a high quality workforce	The staff survey was completed in December 2020 using an external consultant in order to establish an engagement index that provides a baseline to measure progress against in future surveys. The results of this survey showed some positive progress and identified some concerns in areas such as career path and role stimulation that are already the focus of the new corporate strategy moving forward. As a Thank You to the staff for all their hard work in a very challenging year, a small gift was sent to each employee for Christmas.	✓

Equality & Diversity Strategy	Activity this Quarter	On Target
Workforce culture, environment, policies and practices that are safe accessible and inclusive for people from all protected characteristics	Research undertaken and a training provider identified to deliver organisation-wide equality & diversity training early in 2021.	✓

4. How are we performing?

4.1 This section sets out a range of performance measures which give an overall indication of how the organisation is doing in terms of delivering the services for which it is responsible.

Corporate Measures

4.2 The level of sickness absence in the quarter and year to date is as follows.

Measure	Performance Quarter 3 2020/21	Performance Previous Quarter 2 2020/21	Performance Year to Date 2020/21	Performance in Previous Year: 2019/20	Movement Year on Year
Short Term Sickness Absence – Days Lost per FTE	0.38	0.35	0.85	2.3	
Long Term Sickness Absence – Days Lost per FTE	1.26	0.59	1.93	4.1	
Total Days Lost per FTE	**1.64**	**0.94**	**2.78**	**6.4**	

4.3 Sickness absence is reported as 'Days lost per FTE' rather than as a percentage and the measures are calculated as annualised figures to enable comparison from year to year.

4.4 For this quarter, days lost is 1.64 days per FTE employee which is an increase on the low rate from the previous quarter; nevertheless, the absence rate is an improvement from this quarter last year which was running at 2.72 days per FTE.

4.5 Three employees fell into the long-term absence category. Two are now back at work but one remains absent and likely to be for some months yet.

4.6 There has been one COVID-19 (positive test) related absence of six days relating to one employee in this quarter. Overall, we are aware of two employees testing positive since the beginning of the pandemic.

Investment Measures

4.7 The following table presents a high-level summary of the key indicators of investment performance. A more detailed quarterly report on investment performance, including commentary on market conditions and performance, was provided at the previous Authority meeting in September.

Measure	Performance Quarter 3 2020/21	Quarterly Benchmark	Performance YTD 2020/21	2020/21 Benchmark	2020/21 Actuarial Target	RAG Indicator
Investment Return – ex EP	6.40%	5.80%	19.00%	17.30%		
Investment Return – Whole Fund	6.40%	5.80%	17.70%	17.30%	2.40%	

4.8 At the end of the quarter, 63.1% of the Fund's assets were being managed in pooled structures provided by Border to Coast. This is an increase on the previous quarter due to the transition of 10% of our assets into Border to Coast's Sterling Index-Linked bond fund.

4.9 The estimated funding level at the end of quarter 3 is 108.0%.

Pension Administration Measures

4.10 The key performance indicators for Pension Administration are presented in the table below. A more detailed report on the performance of the Pension Administration service is provided for each meeting of the Local Pension Board.

Measure	Quarter 3 2020/21	Quarter 2 2020/21	YTD 2020/21	Previous Year: 2019/20	Target 2020/21	Movement Year on Year
Proportion of priority cases processed on time	77%	78%	77%	89%	100%	⬇
Proportion of non-priority cases processed on time	73%	76%	74%	72%	100%	⬆
Proportion of all cases processed on time	73%	76%	74%	73%	100%	⬆
Proportion of employer data submissions on time	99%	99%	99%	94%	100%	⬆

4.11 As mentioned in the Q2 report, performance levels as measured against our own internal standards are likely to remain stable at these levels whilst remote working continues, though volumes of work completed are 5% higher than the equivalent Q3 period in 2019/20.

4.12 Employers continue to be able to provide monthly submissions, though we are not yet able to measure submission accuracy at point of receipt. Testing is underway on a tool to enable this to be measured in future.

4.13 Three new employers were admitted during the quarter.

4.14 At the end of the quarter, membership of the Fund stood at 164,793 and there were 564 participating employers with active members.

Financial Measures

Authority Operations

4.15 The main financial measure is performance against budget. The table below shows the forecast outturn position compared to the budget for the year. Details of the significant variances are shown beneath the table.

South Yorkshire Pensions Authority Operational Budget	2019/20 Actual Outturn £	2020/21 Budget £	2020/21 Q3 Forecast £	2020/21 Q3 Forecast Variance £	2020/21 Q3 Forecast Variance %
Pensions Administration	2,582,480	2,814,520	2,469,940	(344,580)	(12.20%)
Investment Strategy	715,750	771,700	639,750	(131,950)	(17.10%)
Finance & Corporate Services	612,990	621,855	661,430	39,575	6.40%
ICT	432,730	624,805	593,160	(31,645)	(5.10%)
Management & Corporate	360,190	430,635	424,910	(5,725)	(1.30%)
Democratic Representation	82,910	135,485	121,010	(14,475)	(10.70%)
Capital Expenditure Charged to Revenue	114,800	0	0	0	0.00%
Subtotal before transfers to reserves	**4,901,850**	**5,399,000**	**4,910,200**	**(488,800)**	**(9.10%)**
Appropriations to / (from) Reserves	543,750	46,600	535,400	488,800	1048.90%
Total	**5,445,600**	**5,445,600**	**5,445,600**	**0**	**0.00%**

4.16 The forecast under-spend for the year before transfers to reserves is (£489k) at the end of quarter 3, compared to the forecast under-spend of (£409k) at the end of the previous quarter. As reported previously, the budget for 2020/21 included a significant amount of growth to enable investment in a number of areas to support the corporate objectives and this included budgets for the creation of several new posts within the organisation.

4.17 The impact of the COVID-19 pandemic has affected the progress in relation to these objectives; there has also been a general reduction in costs relating to travel, conferences, stationery / office consumables etc. arising from the move to organisation-wide remote working.

4.18 The largest single element of the total budget and forecast outturn relates to Staffing Costs, which is forecast to be (£159k) under budget for the year. The main variances within this are explained in the following table.

Staffing Costs Analysis of Forecast Underspend	Q3 Forecast (Underspend) / Overspend £	Previous Quarter 2 Forecast (Underspend) / Overspend £
Pay Award -budget included assumption of 2%, actual award agreed was 2.75%	**20,000**	20,000
New / Amended Posts - vacancy savings pending recruitment Governance and Risk Officer Business Support Officers x 2 Communications Officer Communications Assistant Apprentice x 1	**(168,300)**	(135,000)
Other vacancy savings - including following posts now filled: Benefits Team Manager (July 2020) Support & Engagement Team Manager (June 2020) Project & Improvement Lead (September 2020) Customer Services Officer (September 2020) Apprentices x 2 (September 2020)	**(133,200)**	(128,000)
Net effect of differences to budget arising from changes to grade, hours, honoraria etc.	**(2,000)**	(2,000)
Normal Retirements resulting in additional vacancy savings	**(43,000)**	(43,000)
Net additional cost arising from review of Business Support and Finance & Corporate Services Restructure exercises - comprising vacancy savings pending restructure & additional forecast one-off costs (e.g. pension strain costs)	**101,000**	101,000
Costs in relation to overtime and employment of casual staff (funded from vacancy savings)	**45,900**	63,000
Additional cost of working from home disturbance allowance - introduced after the budget was approved.	**21,000**	21,000
Total	**(158,600)**	(103,000)

4.19 The table shows that there are large vacancy savings forecast due to recruitment not being undertaken as early as was originally planned. Recruitment is now in progress for the new posts of Governance & Risk Officer, Business Support Officers and to fill vacant Pensions Officer roles with interviews taking place in March 2021.

4.20 These savings are being partially offset by additional costs in relation to the requirement for overtime and casual staff cover for the vacancies, the cost of providing an allowance for homeworking which was not known about when the budget was approved, and will enable one-off costs in relation to restructure exercises to be fully met this year from the remaining staffing under-spends.

4.21 The following table sets out the breakdown of the total under-spends by department between the under-spend on staffing as explained above and the remaining under-spends on running costs which are explained in the commentary beneath the table.

Department	Staffing Costs Q3 Forecast (Underspend) / Overspend £	Running Costs Q3 Forecast (Underspend) / Overspend £	Total Q3 Forecast (Underspend) / Overspend £
Pensions Administration	(215,600)	(128,980)	**(344,580)**
Investment Strategy	(15,600)	(116,450)	**(131,950)**
Finance & Corporate Services	61,960	(22,385)	**39,575**
ICT	(12,740)	(18,905)	**(31,645)**
Management & Corporate	23,280	(29,005)	**(5,725)**
Democratic Representation	0	(14,475)	**(14,475)**
Total	**(158,600)**	**(330,200)**	**(488,800)**

4.22 <u>Pensions Administration</u>

4.23 Savings of approximately (£65k) are currently forecast across budgets for travel expenses, office-related expenses, catering, training courses, conferences, and subsistence as a result of remote working and the knock-on effects from COVID-19.

4.24 The printing and postage budgets for 2020/21 were reduced compared to previous years to take account of savings being achieved from using hybrid mail and the increasing move to paperless processing. There are further savings forecast this year of around (£47k).

4.25 Additional income of (£16k) above budget is forecast in relation to management fees charged for the cost of administering various actuarial disclosures and activity.

4.26 <u>Investment Strategy:</u>

4.27 Savings of approximately (£26k) are currently forecast across budgets for travel expenses, office-related expenses, catering, conferences, and subsistence as a result of remote working and the knock-on effects from COVID-19.

4.28 Additionally there are savings of (£11k) on the budgets for investment advisory services arising from not having the cost of travel, hotel, catering expenses and so on due to COVID-19.

4.29 Costs of actuarial fees in relation to Investment Strategy are forecast to be (£18k) lower than budget.

4.30 There are forecast savings of (£61k) on corporate subscriptions and services compared to the budget that was set reflecting changing requirements that the budget for next year has now been adjusted for accordingly.

4.31 Finance and Corporate Services:

4.32 Savings of approximately (£10k) are currently forecast across budgets for travel expenses, office-related expenses, catering, conferences, and subsistence as a result of remote working and the knock-on effects from COVID-19.

4.33 The budget for professional qualification courses is forecast to be under-spent by (£12k) this year based on the timing of courses being completed but it is likely to be used more fully in future years following the restructure of the service.

4.34 ICT:

4.35 As previously reported, a saving of (£21k) is forecast on the agile working programme budget this year due to a proportion of the planned expenditure taking place in the last financial year instead in order to respond and equip staff for working from home as a result of lockdown restrictions in March 2020.

4.36 There are also savings of (£19k) forecast on the budget for various network and infrastructure costs due to re-phasing of work being undertaken on areas including the planned replacement of the telephony system, IT health check and penetration testing which are scheduled for the coming financial year.

4.37 The allocation of overhead costs in relation to office accommodation has been revised to more accurately reflect the numbers of staff in each department; leading to an over-spend of £16k on the ICT budget – although this is offset by an equivalent underspend in the other departments.

4.38 The budget for the Pensions Administration software system (UPM) is forecast to be overspent by £5k as a result of enhancements being commissioned in respect of Monthly Data Collection processing.

4.39 Management & Corporate Costs:

4.40 A saving of (£5k) is forecast on the budget for insurance as a result of savings achieved following the re-procurement of this contract that took effect from 1 April.

4.41 The budget for central corporate services is forecast to be under-spent by (£9k) as a result of the knock-on effects of remote working.

4.42 Expenditure of £10k is forecast on other professional services for items that were not anticipated when the budget was set. These relate to one-off items including costs that came forward from the previous year in relation to the finalisation of the Governance Review report and consultancy regarding the introduction of the Members Allowances scheme.

4.43 Expenditure of £24k on consultancy for the accommodation appraisal will be funded by a transfer from the corporate strategy reserve.

4.44 The budget for external audit fees is forecast to be over-spent by £17k as a result of additional fees being agreed with the external auditor to reflect extra auditing requirements arising from both COVID-19 and also from changes to the Code of Audit Practice.

4.45 There is a forecast saving of (£66k) on the organisational training and development budget that was added as a growth item. Due to the impact of COVID-19 and remote working, it has not been possible to make the anticipated progress this year. It is proposed that £30k of this saving is set aside in the corporate strategy reserve to be used for providing a placement opportunity in 2021/22 for an HR undergraduate. This would provide the needed additional staff resource to support and take forward some of the plans around training and development including production of an e-learning package for new staff.

4.46 Democratic Representation:

4.47 The budget set for Member Allowances was based on an estimate of the likely costs of the scheme prior to the final scheme being approved by the Authority in March 2020. This budget is forecast to be over-spent by £6k this year based on the actual costs of the agreed scheme and taking into account the 2.75% pay award applied with effect from 1 April.

4.48 Savings of (£14k) on Authority running costs and training costs and (£6k) on the costs for the Local Pension Board are currently forecast due to taking account of the reduction to costs for room hire, catering, travel, subsistence and conferences arising from the knock-on effects of COVID-19.

4.49 Earmarked Reserves

4.50 The Authority has two earmarked revenue reserves, the Corporate Strategy reserve and the ICT reserve, as well as a Capital Projects reserve.

4.51 As outlined above, it is proposed to transfer £24k out of the corporate strategy reserve to fund the costs of the accommodation appraisal review and to transfer £30k into the corporate strategy reserve from the savings on the organisational training and development budget to be used for providing an HR undergraduate placement in 2021/22.

4.52 The Authority generates income from software developed in-house that is sold to other organisations and this income is transferred into the ICT reserve each year. The forecast position is for a total of £4k to be transferred into the reserve this year.

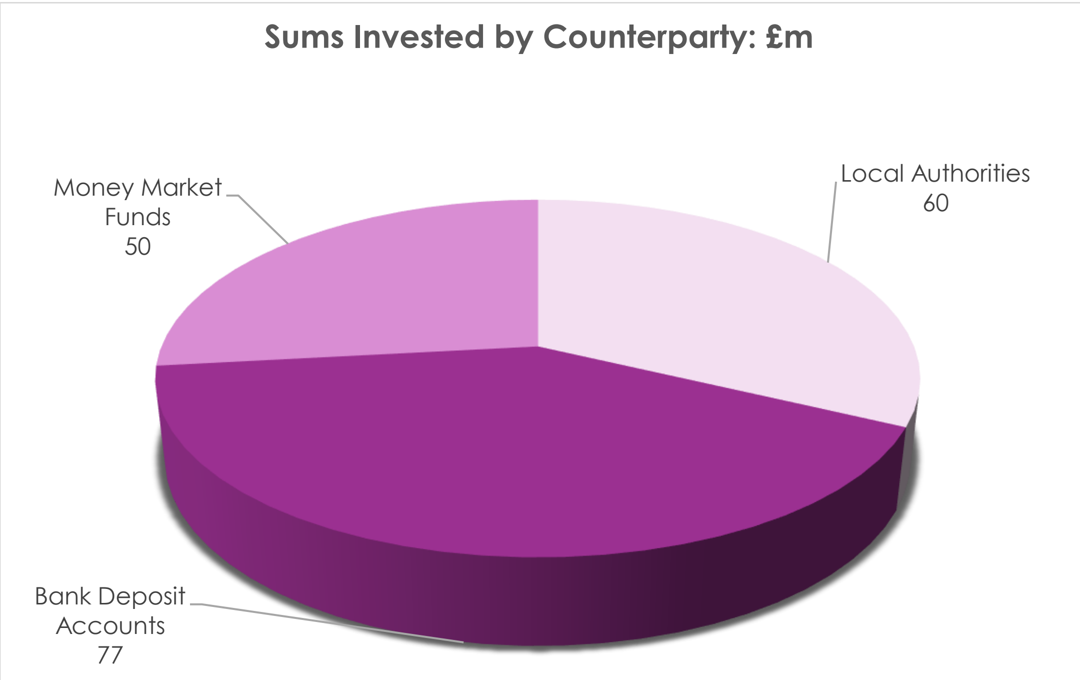
4.53 It is also proposed that, given the scale of costs identified within the accommodation options appraisal and the known costs of the business systems project together with the potential costs involved in the need to re-procure the pension administration system (regardless of the result of the process, which is reported elsewhere on the agenda for this meeting) it is proposed that for the moment the balance of the underspend be transferred to the Capital Projects reserve.

4.54 The balances and movement in the reserves arising from the above are set out in the table below.

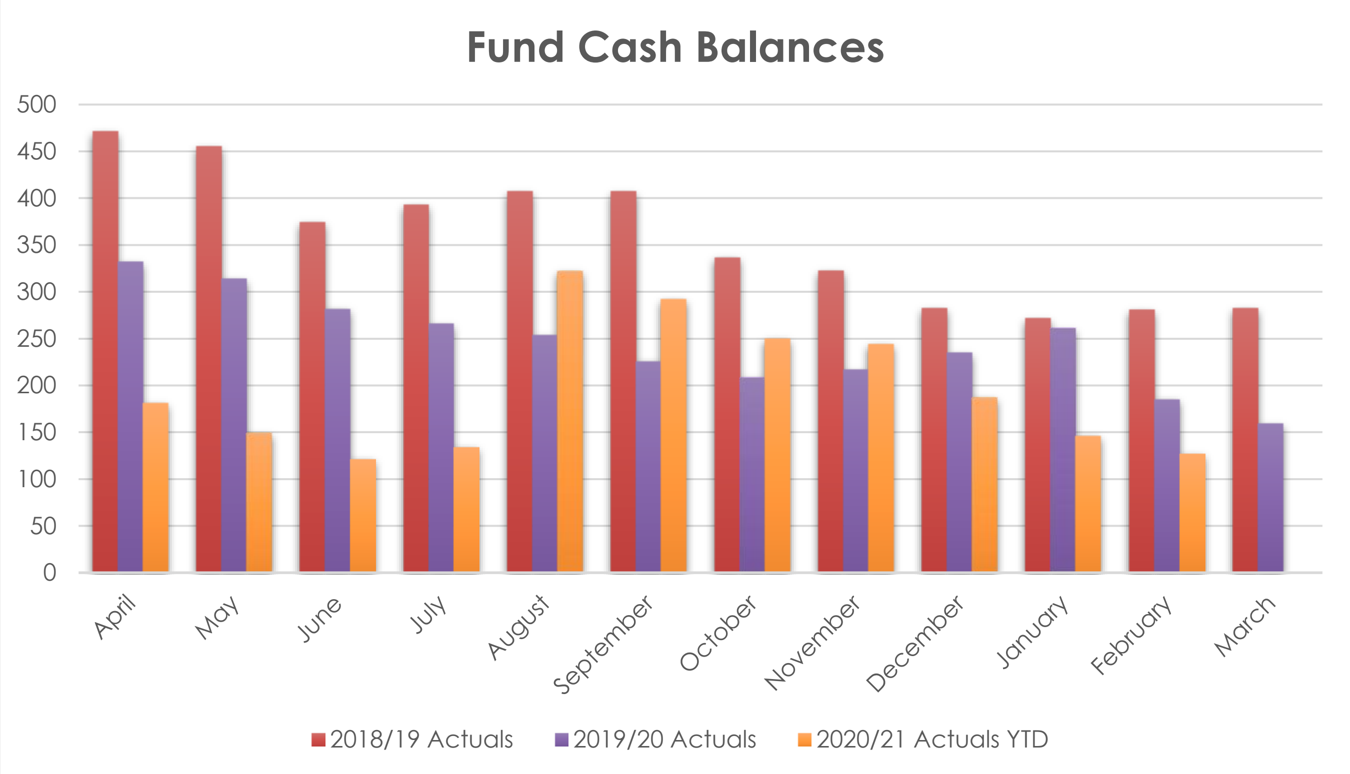
Reserves	Balance at 01/04/2020 £	Transfers In £	Transfers Out £	Forecast Balance at 31/03/20201
Corporate Strategy Reserve	232,831	30,000	(24,000)	238,831
ICT Reserve	112,383	4,000	0	116,383
Subtotal: Revenue Reserves	**345,214**	**34,000**	**(24,000)**	**355,214**
Capital Projects Reserve	665,500	525,400	0	1,190,900
Total Reserves	**1,010,714**	**559,400**	**(24,000)**	**1,546,114**

Treasury Management

4.55 The Fund's cash balances at the end of the third quarter stood at £187m. The chart below shows how the balances have been invested with different counterparties in line with the approved treasury management strategy for the year.



4.56 The following chart shows the movement in cash balances held for the last two financial years and this financial year to date.



4.57 Cash is only held pending Fund investment and the balance of cash at 31 December 2020 represents 1.95% of the Fund, compared with 3.2% at 30 September 2020. This reflects the re-investment during the third quarter of the cash received in August due to the reduction in allocation to UK Equities. The cash allocation remains well within the permitted range of 0% to 10% and is now much closer to the benchmark of 1.5%.

Breach of Treasury Limits and Use of Debt Management Facility

4.58 During December 2020, the limit on the HSBC Capital Account was breached overnight as a result of recovering a £40 million deposit on 21 December in order to ensure sufficient cash would be held for the completion of two property purchases taking place on 22 – 23 December 2020.

4.59 The balance on the account on 21 December was £65 million in breach of the £50 million limit. The balance was reduced on 22 December to £42 million, bringing this back within the limit.

4.60 During January 2021, two deposits were placed with the Debt Management Account Deposit Facility (DMADF) provided by the UK Debt Management Office, an executive agency of HM Treasury. This provides security for the deposits held and the Treasury Management Strategy allows for unlimited balances to be deposited in this facility subject to use of the account being reported to the Authority at the next available meeting.

4.61 Details of the deposits made are as follows.

From	To	No. of Nights	Deposit Amount £m	Rate of Interest
20/01/2021	27/01/2021	7	30	0.03%
27/01/2021	03/02/2021	7	30	0.01%

4.62 This facility is utilised only when required in the absence of any other suitable alternatives.

5. What is getting in the way – Risk Management

5.1 We regularly review the things which might get in the way of us achieving our objectives – these are the risks that are set out in detail in the corporate risk register.

5.2 The Corporate Risk Register is attached at Appendix A. The January review of the register resulted in the following changes to risk scores:

5.3 I7 – Business continuity failures mean employers are unable to meet contribution payment deadlines. The target score has been reassessed to a lower level reflecting both experience and the acceptability of risk in this area. The current score has also been reassessed downwards as a result of continuing very high levels of compliance by employers.

5.4 O2 - Failure to meet statutory requirements for disclosure of information to scheme members. The current score has been revised downwards from 12 to 9. Review of the 2020 Annual Benefits Statements process has identified improvements to project management and planning which are now being implemented. In addition compliance with all statutory disclosure standards is now being reported quarterly to the Local Pension Board providing greater visibility on this and in general not raising issues.

5.5 Commentary regarding the review of the other risks, where scores have not changed, is provided in the risk register attached at Appendix A.

6. Learning from things that happen

6.1 Inevitably when dealing with the number of customers that we do things can go wrong and we try to ensure that we learn from these things. Equally we should celebrate where things go particularly well or where customers feel members of our team have gone the extra mile to help them. This section provides information on the various sources of feedback we receive.

	Received in Q3 2020/21	Received in Q2 2020/21	Received in Q1 2020/21	Received YTD 2020/21	Received in Previous Year: 2019/20
Complaints	3	5	5	13	29
Appeals Stage 1	0	1	6	7	7
Appeals Stage 2	0	2	2	4	8

6.2 A detailed report of complaints and action taken is provided to the Local Pensions Board for scrutiny.

6.3 Formal complaints remain low compared with past years. Of the three complaints in the period, one was due to delays in receiving information from an employer and the other two were due to individual system errors which have now been resolved.

6.4 During the quarter, three appeals at Stage 1 were determined. Two of these related to objections in relation to the statutory provisions of the LGPS so could not be upheld. The third was partially upheld in that the member had received an overstated estimate of benefits prior to retirement and was therefore compensated for the error made. This was a result of an individual error and not indicative of a systemic issue.

6.5 Three appeals at Stage 2 were determined and rejected in the quarter, all of which related to ill-health retirements. Though the appeals were rejected, there were some procedural issues identified regarding the communication of decisions by employers and training has now been offered to employers to assist in the understanding of the ill-health process.

Breaches of Law and Regulation

6.6 We are required to maintain a register of breaches, the detail of which is reported to the Local Pension Board at each meeting as part of their oversight role. In this quarter there was one breach.

6.7 The individual data breach in the period was caused by an employer providing an incorrect address for a scheme member.

Satisfaction Surveys

6.8 A survey of members retiring during August to October showed that of the 182 respondents, 94% were satisfied with the service they received.

6.9 A survey on customer service received from telephone contact with the customer centre showed that of the 361 respondents, 91% were satisfied with the service they received.

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SOUTH YORKSHIRE PENSIONS AUTHORITY RISK REGISTER AS AT 22/01/2021

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Owner	Risk Change at Review	Last Review Date
G1	Governance	Failure to ensure that the elected Members knowledge and understanding of pensions related activities is robust and meets the statutory requirements in terms of Section 248a of the Pensions Act 2004.	Leading to ….. Improper scrutiny and challenge by elected Members; Mistakes, errors and omissions and non-compliance with statutory requirements; Failure to ensure contributions are collected; Failure to ensure benefits are calculated properly; Failure to ensure surplus monies are properly and prudently invested; Reputational damage in terms of censure from regulators.	Clerk to the Authority	Induction training provided to new Members which comprises a three day external training course; Programme of internal seminars; Periodic awareness presentations delivered to Members; A self-assessment framework for Members and Chairs is in operation but needs refining – this should assist in identifying training requirements; Lead member for training identified; Working to the spirit of CIPFA Code of Practice (Code of Practice on Public Sector Pensions Finance, Knowledge and Skills, revised in 2013 Production of Annual Report which includes commentary on Members training activities; External training augmented by internal training.	9	I = M P =M	2	I = L P = VL	Review of Member self-assessments. Addition of the Regulator's on line toolkit as a mandatory training requirement. *Comment 22.01.21* *No change to current score at this stage as continuing remote operation does enhance risks in this area.* *Further work on learning and development strategy programmed to run up to the Annual Meeting.*	Clerk to the Authority Clerk to the Authority		22.01.21
G2	Governance	Failure to ensure that the Local Pension Board is effective in carrying out its role.	Leading to ….. Ineffective scrutiny of the way in which the Scheme Manager (the Authority) exercises its responsibilities Action by the Regulator.	Clerk to the Authority and Director	Induction training and commitment to an ongoing programme of learning and development for all members. Introduction of an independent element to ensure that the Board is not "officer led". Stabilisation of Board membership.	9	I=M P=M	2	I=L P=VL	Additional learning development opportunities being provided. *Comment 22.01.2021* *No change from previous review* *See comment above with regard to the Authority. In addition the Board will be carrying out a self-assessment of its effectiveness to contribute to its annual report.*	Clerk to the Authority/ Director		22.01.21
G3*	Governance	Disruption and reduction in the effectiveness of the control environment	Remote working makes operation of baseline control arrangements more difficult or impossible Covid 19 infections reduce the numbers of staff available so that current controls cannot be operated	Senior Management Team	Adaptation of previous control arrangements to a remote working scenario to ensure that controls continue to operate in the first instance. Electronic workflows that accommodate staff absence in dealing with sign offs Ensuring that more than one person is capable of performing any task within a control process Ongoing review of staff absences at regular SMT meetings allowing risks to be highlighted early	8	I=H P=L	6	I=L P=M	Gradual extension of the number of processes where electronic workflows are used. Identification of staff who could be trained to provide cover in areas where resilience is lower than others *Comment 22.01.21* *No change since previous assessment. The implementation of new systems (particularly the back office systems) in the coming financial year will reduce risk in these areas.*	Senior Management Team		22.01.21
I1	Investment and Funding	Failure to ensure that the Authority has appropriate access to its cash resources to meet its commitments to make payments. (Liquidity and credit risk.)	Leading to ….. Financial loss; Negative impact on overall financial viability of the Scheme; Inability to meet pensioner payroll costs and investment commitments. Reputational damage.	Director	The Fund has immediate access to its cash holdings with the majority of cash being deposited for no longer than a week. Levels of cash holding are monitored daily. Treasury activity reviewed weekly by management and twice yearly by elected members with an annual review of limits. Treasury Management Strategy sets limits for the duration and risk profile of deposits with financial institutions. Triennial actuarial review considers contribution rates and cash flow requirements. New software available from the Actuary to assist with cashflows and funding level.	3	I = M P = VL	4	I = L P = L	Introduction of quarterly reporting of treasury activity to elected members. Consideration being given to splitting frictional cash (required for day to day purposes from cash awaiting investment). *Comment 22.01.21* *No change from previous assessment. The level of cash holdings has reduce to a more normal level following the deployment of cash to new investments. It remains difficult to find places to invest cash which deliver any yield while meeting the requirements for security.*	Director		22.01.21
I2	Investment and Funding	Failure to maintain the gains in funding levels achieved since the 2016 valuation, either as a result of falls in the market value of investments or an increase in the value of liabilities.	Leading to ….. The need to maintain high (and possibly unaffordable) levels of deficit contributions. The need to increase future service contribution rates which may create financial difficulties for employers given the economic environment in which they operate.	Director/ Head of Investment Strategy	The Investment Strategy already looks to shift out of more volatile "growth" assets into less volatile income earning assets.	8	I = H P = L	4	I = H P = VL	First principles review of the Investment Strategy to be undertaken alongside the triennial valuation from April 2019 for implementation from April 2020. Options for containing or reducing liabilities (e.g. a trivial commutation review) will be examined following the actuarial valuation. However, in the meantime data cleansing activity will be	Director/ Head of Investment Strategy		22.01.21

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Owner	Risk Change at Review	Last Review Date
			Critical review by the Government Actuary as part of their s 13 Valuation.							focussed on areas that impact the value of liabilities. *Comment 22.01.21* *No change from previous assessment Market conditions remain "fragile" with market highs seeming to have no basis in economic reality. This has resulted in strong performance and improved funding levels. Assets have been moved as far as possible to the target allocations set in the Strategy Review. However, there remains a movement out of index linked gilts which is dependent on drawdowns into alternatives. These funds remain in index linked as this is a less risky asset class which does generate some return.*			
I3	Investment and Funding	Failure to implement effective arrangements for the oversight of investment management functions being undertaken by Border to Coast Pensions Partnership.	Leading to ….. Inability to adhere to Authority policies and potentially not be able to fulfil the Investment Strategy.	Head of Investment Strategy	Border to Coast is an FCA regulated body and as such is expected to adhere to the Stewardship Code and work within stipulated guidelines as set out in prospectus. These guidelines were set with discussion with underlying funds. Alignment of policies with underlying fund policies Ensured that Border to Coast have sub funds to allow SYPA to fulfil its strategy. Ongoing collaboration about policy. Ongoing collaboration regarding potential changes to Authority strategy. Analysis of investment performance on a monthly/quarterly basis with detailed analysis on an annual basis.	**6**	I = M P = L	**6**	I = M P = L	Border to Coast have agreed a process for the provision of controls assurance with all the audit firms involved in the LGPS. *Comment 22.01.21* *No change from previous assessment that the risk is in line with the target. In addition to previous measures Border to Coast have introduced quarterly calls covering each of the product streams (internal funds, external funds and alternatives) together with a focus session with one external manager each quarter. These are providing further transparency and a further reassessment will be made after the Annual Review of Border to Coast.*	Head of Investment Strategy		22.01.21
I4	Investment and Funding	Failure to secure products through Border to Coast which address the requirements of the Fund's investment strategy.	Leading to ….. Failure to achieve required investment return. Erosion of the overall value of the Fund. Negative impact on contribution rates at valuation points.	Head of Investment Strategy	Ongoing dialogue with both Border to Coast and partner funds in order to influence product development. Monitoring of developments in the market place and where appropriate championing these within discussions with Border to Coast and partner funds.	**4**	I = H P = VL	**3**	I = M P = VL	Engagement with Border to Coast as an "implementation partner" in the development of the investment strategy. *Comment 22.01.21* *No change in assessment at this stage. It Is likely that it will be possible to remove this risk once the final position in relation to the Border to Coast property proposition has been determined later in the year.*	Head of Investment Strategy		22.01.21
I5	Investment and Funding	Impact of Climate Change on the value of the Fund's investment assets and its liabilities.	Leading to …… An increased gap between the value of assets and liabilities. Reduction in the level of investment income as companies failing to adapt to a low carbon economy become less able to pay dividends Changes in the liability profile of the Fund.	Director and Head of Investment Strategy	Climate Change Policy in place in addition to the Responsible Investment Policy, supported by engagement activity with investee companies to encourage a planned and more rapid transition to a low carbon economy. Ongoing monitoring of the carbon intensity of equity portfolios every other year in place. Lower carbon tilt adopted within the equity portfolios and continued by Border to Coast. Investment in the extended opportunity set provided by the move to a low carbon economy targeted within the Alternatives portfolio, particularly infrastructure. Ongoing monitoring of demographic data by the actuary in place.	**15**	I = VH P = M	**9**	I = M P = M	Product from the Border to Coast Climate working party including providing more regular measurement of the carbon intensity of portfolios. Consideration of alternative investment approached as part of the Investment Strategy Review. Scenario planning within the context of the ongoing development and review of investment strategies. Adoption of a "net zero by 2050" goal together with improvements in impact reporting to fully understand the scale of emissions. *Comment 22.01.21* *No change in assessment. Any movement will depend upon the adoption and more importantly the implementation of an action plan which will take place from March 2021.*	Head of Investment Strategy Head of Investment Strategy Director Director		22.01.21

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Owner	Risk Change at Review	Last Review Date
I6*	Investment and Funding	Contribution rates for employers are unaffordable due to business interruption	Employers (particularly TAB's and CAB's) unable to meet their liabilities due to not receiving income as a result of the interruption of their business due, for example, to school closures.	Head of Pension Administration	Existing assessment of employer risk and covenant identifying higher risk employers Ongoing communication and dialogue with employers and the Fund Actuary to identify possible options.	**8**	I = L P = H	**8**	I = L P = H	Identification of the applicability of the policy responses for private sector DB schemes to LGPS and engagement with the Scheme Advisory Board Implementation of new regulations allowing interim valuations and increased flexibility around exits *Comment 22.01.21* *No change in assessment. No further requests have been received but the ongoing disruption to business for providers in a number of sectors is likely to continue to present a challenge for some employers and therefore it is important that the risk remains on the register.* .	Head of Pension Administration		22.01.21
I7*	Investment and Funding	Business continuity failures mean employers are unable to meet contribution payment deadlines.	Employers unable to submit monthly data returns on time which from April 2020 will generate the input for direct debit payments. Disruption to Fund cash flow	Head of Pension Administration and Head of Finance and Corporate Services	Ongoing dialogue with employers to identify problems early. Maintenance of significant available cash balances through the Treasury Management portfolio	**3**	I = VL P = M	**4**	I = L P = L	Enhanced monitoring of contribution receipt and cash flow Redirection of Engagement Officer resource to maintain contact with employers to provide early warning of issues Focussed support to employers with the greatest difficulties, for example support with data submissions *Comment 22.01.21* *Target reassessed to a lower level reflecting both experience and the acceptability of risk in this area. Actual reassessed downwards as a result of continuing very high levels of compliance by employers.* .	Head of Finance and Corporate Services Head of Pension Administration Head of Pensions Administration		22.01.21

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Owner	Risk Change at Review	Last Review Date
O1	Operational	Failure to ensure the Authority protects the data it owns and the data it handles against inadvertent release and cyber-security threats.	Leading to ….. Loss of personal information resulting in reputational damage and censure by Information Commissioner; Loss of trust from partner organisations; Successful attacks by hackers or third parties; Disruption and delays. --- Cyber risk – the risk of loss, disruption or damage to the Authority or its staff/members due to its information technology systems and processes failing. Including risks to information, data security, as well as assets and both internal risks from staff and external risks from hacking and computer misuse.	Director	Data backup undertaken daily and backed up information removed from site; Disaster Recovery Procedures and Business Continuity Plan in place; External audit by third party organisations the Authority works with; Reporting of Incidents to Information Commissioner; Information Governance training included in the training programme; Independent Data Protection Officer established ; Contract management arrangements regarding the software provided by SY Pensions to third parties includes performance management consideration; Physical security of offices improved following relocation to Gateway Plaza --- Cloud based email management platform including targeted threat protection against email borne threats such as malicious URL's, malware, impersonation attacks and internally generated threats; ICT Security Policy and an effective system of governance in place; Mandatory GDPR/data protection and cyber security training for all staff; Comprehensive Patch Management Policy covering all desktop and server hardware/software; Annual ICT health checks and penetration testing via a CREST certification body; Cyber Essentials Plus Accreditation; Police vetting clearance for ICT staff; The principle of least privilege applied to all user accounts.	**8**	I = H P = L	**6**	I = M P = L	Bi Annual review of Business Continuity Plan. Data breaches reported to Local Pension Board quarterly for scrutiny. Data Protection Officer Assurance programme introduced. Reduction of in-house 'manual' mailing of personal data. Move to secure online communications with members where possible (e.g. Annual Benefit Statements). --- Cyber Security training identified for all staff; Develop an incident response plan to deal with incidents and enable the Authority to swiftly and safely resume operations; Establish an Incident Response Retainer; Migration to advanced cloud based Anti-Virus/End Point Protection solution; Database encryption of sensitive data. Penetration testing using mock "spearfishing" attacks being undertaken SMT approved additional training and implementation of new password policies *Comment 22.01.21* *No change in assessment on review. This risk remains and is likely to remain relatively high given our dependence on electronic data and the wider environment in terms of cyber-attacks etc.*	IT Manager Head of Pensions Administration Head of Pensions Administration Head of Pensions Administration --- IT Manager		22.01.21
O2	Operational	Failure to meet statutory requirements for disclosure of information to scheme members.	Leading to ….. Poor customer service and reputational damage. Censure and potential fines from the Pensions Regulator and other statutory bodies; Potential for inaccurate data to flow into the 2019 actuarial valuation process and to impact the correct calculation of member benefits.	Head of Pensions Admin	Production of the ABS is dependent on receipt of timely returns from employers. The updated Administration Strategy from March 2018 incorporates SLA's and improves upon them in terms of fines being levied for employers who are non-compliant; Production process for 2018 was brought forward to ensure sufficient contingency time; Joiner/leaver processes configured to meet statutory disclosure requirements.	**9**	I = M P = M	**2**	I = L P = VL	Introduction of monthly data collection from April 2018 removes reliance on year-end returns so production process will begin in June rather than July from 2019; ABS's to be issued online from 2019 which further reduces the production schedule and process can be managed fully in house; Administration performance reporting to Authority to focus on statutory compliance. Data Quality Improvement Plan to be implemented. Review of ABS process in light of 2020 issues including the quality (as opposed to timeliness) of monthly data submissions. *Comment 22.01.21* *Review of 2020 ABS process has identified improvements to project management and planning which are now being implemented. In addition compliance with all statutory disclosure standards is now being reported quarterly to the Local Pension Board providing greater visibility on this and in general not raising issues.*	Head of Pensions Administration	↓	22.01.21

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Owner	Risk Change at Review	Last Review Date
03	Operational	Closure of Government Guaranteed Minimum Pension service and reconciliation exercise.	Leading to ….. Significant under/overpayments of existing pensions in payment causing member hardship and reputational damage; Workload pressures of adjustment to excess volumes of member records. Failure to maintain adequate records going forward.	Head of Pensions Admin	Reputable external provider appointed to meet initial HMRC deadline of 31 October 2018; External provider currently handling responses finally received from HMRC to all mismatch queries raised. The final report from HMRC will allow the external provider to carry out a full final reconciliation across the database before we move to rectification. The final reconciliation is expected to be a two month project.	**12**	I = H P = M	**6**	I = M P = L	Liaison with LGPS funds to aim to ensure consistent approach to rectification once reconciliation finalised. Assurance work to be commissioned once HMRC issue final liability report *Comment 22.01.21* *No change following assessment report now received from external provider with an analysis of action required relating to final HMRC data. The implications are being worked through by the team, following which it may be possible to reassess the score and identify the potential timescale for completion of the work and removal of the risk. .*	Head of Pensions Administration		22.01.21
O4*	Operational	Significant reduction in productive capacity due to impact of the virus on sickness levels	Creation of backlogs of work and potential for missing key deadlines. Potential for backlogs of retirements to result in financial hardship and large arrears payments. Potential for backlogs of death cases to result in the need to recover large overpayments Failure to meet statutory deadlines for case processing and for issue of Annual Benefit Statements.	Senior Managemen t Team	Monitoring of sickness levels and productivity through regular SMT Business Continuity calls. Clear criteria within which casework is prioritised. Risk of compliance failures raised with TPR at national level with request to consider flexibility if required. Annual Benefit Statement exercise to start in May rather than July to balance workloads.	**12**	I=M P=H	**12**	I=M P=H	Reassessment of priority activities to concentrate on those activities that directly impact: - The retirement process - Pensioner deaths and deaths in service - Payment of staff and supplier - Collection of all forms of income Redeployment of resources from support areas (Engagement, Technical UPM Team) to casework and from other corporate areas to financial processing. *Comment 22.01.21* *There has been an increase in sickness in the last quarter (both long term and short term) although total levels of sickness remain below the levels of the previous year. In addition the need for staff to "home school" during the current lockdown is adding pressure. As a result it is not possible to reduce this score.*	Senior Management Team		22.01.21
P1	People	Failure to maintain a suitably qualified and experienced workforce which reflects the community which the Authority serves.	Leading to ….. Continuing imbalances in the Authority's workforce which create the potential for a sudden loss of a significant amount of experience. Skills gaps through a lack of succession planning. Reputational damage through criticism of the lack of diversity in the workforce. Impact on productivity and organisational resilience.	Director	A structured career grade scheme supported by highly structured and exam based training is in place for a key group within the pension administration workforce. Procedures within pension administration are well documented. Identification of potential single points of failure and production of plans to eliminate them. Production of an HR and Organisational Development Strategy targeting these issues.	**9**	I = M P = M	**6**	I = L P = M	Full implementation of the HR and Organisational Development Strategy. Formalise workforce and succession planning arrangements Implement Management. Development Programme covering all staff with supervisory and wider management responsibilities. Identification of potential single points of failure and production of plans to eliminate them. *Comment 22.01.21* *No change in assessment.* *Completion of recruitment to vacant posts following the Finance and Corporate Services Restructure this quarter should improve resilience but the deferral of key pieces of work in relation to learning and development to 2021/22 due to Covid-19 means that it will not be possible to reduce the score until further progress is seen in these areas.*	Director		22.01.21

Key: P = Probability I = Impact VL (1) = Very Low; L (2) = Low; M (3) = Medium; H (4) = High; VH (5) = Very High

Risk Matrix

5 Very High	**5**	**10**	**15**	**20**	**25**
4 High	**4**	**8**	**12**	**16**	**20**
3 Medium	**3**	**6**	**9**	**12**	**15**
2 Low	**2**	**4**	**6**	**8**	**10**
1 Very Low	**1**	**2**	**3**	**4**	**5**
	1 Very Low	2 Low	3 Medium	4 High	5 Very High

PROBABILITY

Risk Score

Risk Score	RAG Rating
0 – 5	**Low**
6-14	**Moderate**
15-25	**High**

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Vaccines, variants and volatility

Highlights:

- **As the Covid-19 disruptions near their one-year anniversary, the conversation, as well as the virus, continues to mutate. Last quarter we warned of the pending tsunami of 'vaccine politics' that seemed likely to eclipse 'lockdown politics', and indeed the divergence in roll-out between the UK and its European neighbours may portend a divergence in economic re-openings and growth.**
- **The dominant mood in equity markets is one of enduring ebullience, particularly despite some staggering disparities in consumer behaviour and demand – e.g. while new car sales fell by 26% in Europe in January 2021 (the worst January on record), consumer demand was robust in the US as stimulus checks were spent and retail sales jumped 5.3%.**
- **Market chatter turned from the Gamestop showdown which evidenced the brief moment in the sun for the retail investor or Reddit user, to rising interest rates (and Gilt yields) as well as unmistakeable hints of pending inflation.**
- **The existential threat of Covid-19 has pushed environmental and sustainability concerns to the forefront of the investor agenda, and as metrics and transparency improve and engagement gains increased participation and traction, we are moving towards more standardization of metrics and expectations in this emerging space.**
- **As we move towards the end of the first quarter, the year is suspended in perhaps even more uncertainty than 2020, as the endemic nature of Covid-19 now seems certain, the hopes for the impact of the vaccine seem high, even if rollout is uneven, and the severity of the impact on the economy seems set to unfold.**
- **As the shock of the Covid-19 upset subsides and recovery commences, we expect to see ongoing political agitation, dissatisfaction with incumbent governments and a desire to shift to alternative solutions for post-crisis management. The new US administration under President Biden has a challenging path ahead as it seeks to reopen schools and the economy, while with the performative second impeachment of President Trump over without a conviction, ongoing polarisation seems to be the order the day.**

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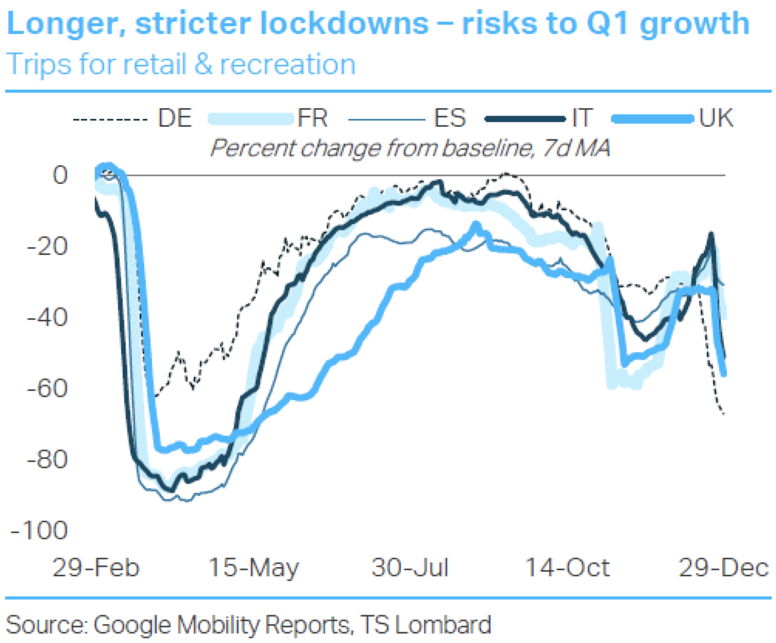
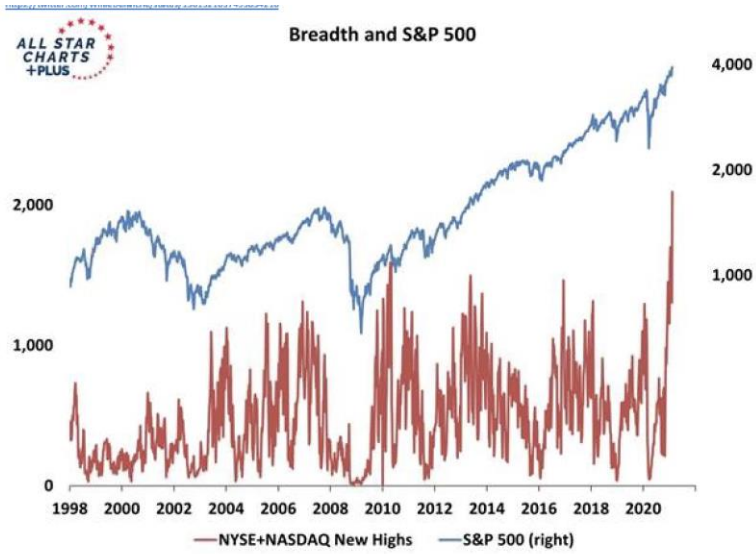
Current Macro Snapshot

Full Blown Stock Mania – or hints of a bubble?
It is clear that as Covid-19 passes its first anniversary and continues to evolve its status is moving from a pandemic to an endemic disease – as living with it and its seasonality seems to be inevitable. This has sparked uneven responses across the world although it was clear that the first quarter lockdowns were more sudden and more severe than might have been predicted as 2020 drew to a close. It is also leading to a redrawing of the "lines of battle" as some countries put schools at the forefront, such as in Europe, while border closures and restrictions on movement distort the ways of commerce and daily life.

Global deaths and cases numbers now near 2.4 million and 111 million, respectively, and as the chart below from European economies show, mobility has slowed significantly, and the longer lockdowns and renewal of "stay at home orders" seem to threaten Q1 growth, after a decent recovery at the end of 2020. Final figures show that the **US economy shrank by 2.5% in 2020, worst since WWII, while the UK experience was worse, with GDP sinking by 9.9%, the steepest annual drop since the Great Frost of 1709.**

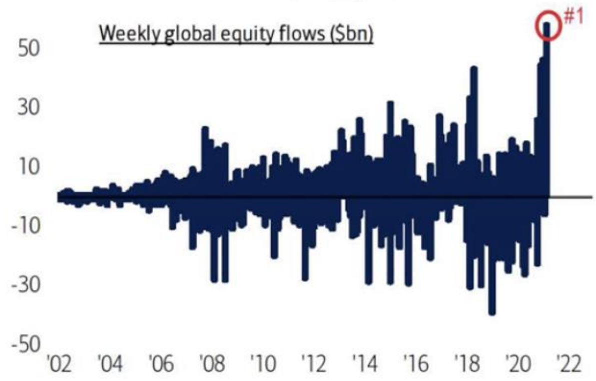


That said, corporate earnings look set to stage a recovery globally and market performance has been robust year to date and is growing in breadth, which indicates greater market robustness and staying power.



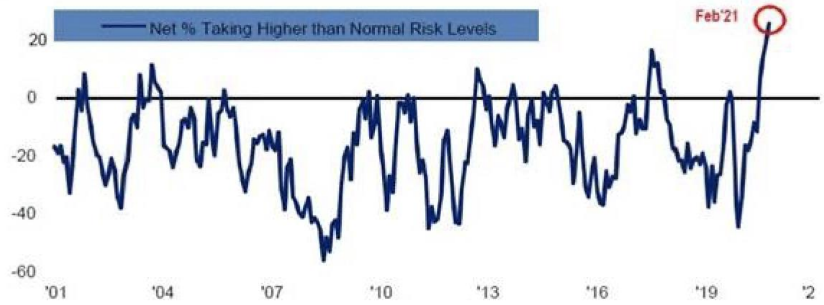
Money is continuing to flow into global equities, chasing the upwards momentum and adding to it, and risk appetite seems to be at the high end of the spectrum as the two charts below indicate. The enthusiasm of retail investors for equities has been a theme now since the early days of the post-pandemic disruptions, which some might see as a democratisation of equity markets. This was accentuated in the extraordinary spate of trading in Gamestop and other stocks which had been targeted by shortsellers and then massively run up by retail investors sparked by online organized campaigns. The swift run up – during the depths of winter – was described by one commentator as "full-blown stock mania" one of the "traditional warning signs" of a market top.

Chart 5: Largest week of global equity inflows ever
Global equity inflows, $bn



Source: BofA Global Investment Strategy, EPFR Global
BofA GLOBAL RESEARCH

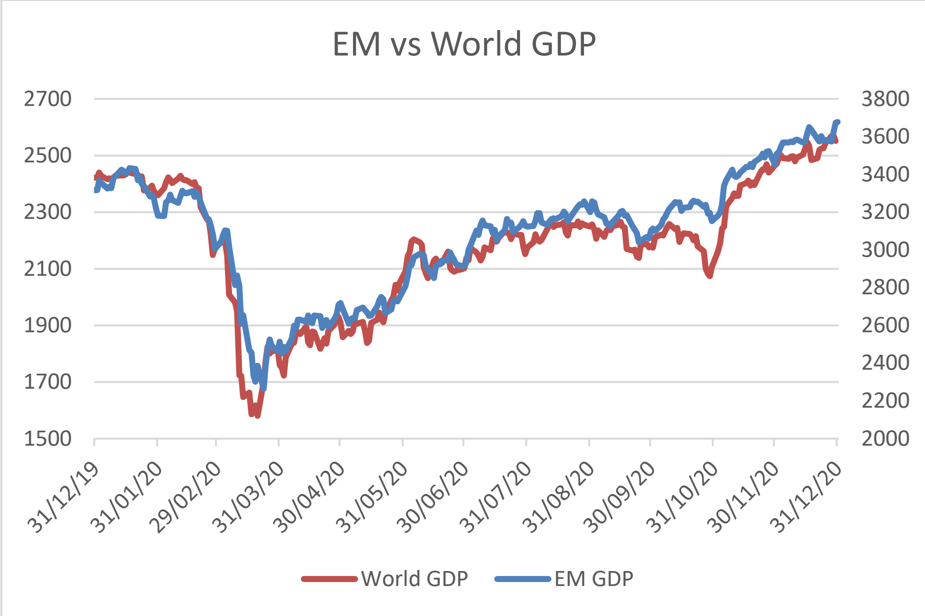
Exhibit 11: All-time high in investors taking "higher-than-normal" risk Net % Taking Higher than Normal Risk Levels

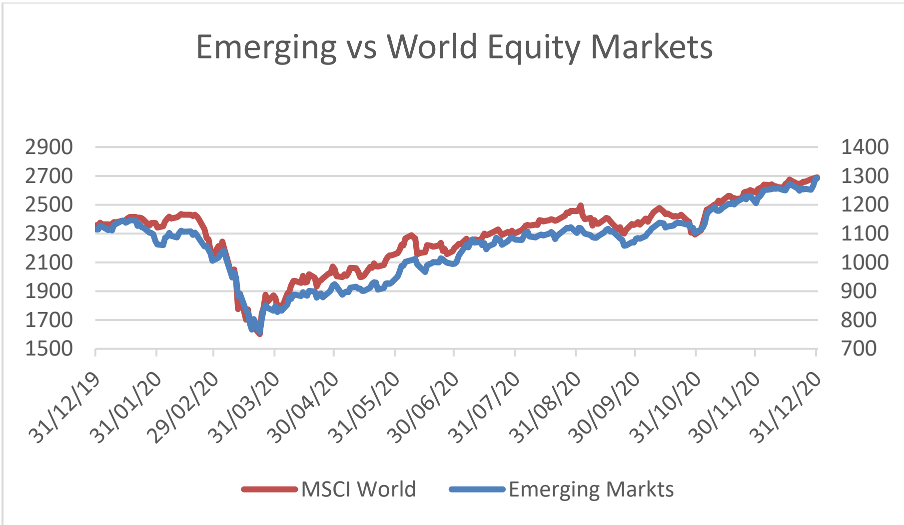


Source: BofA Global Fund Manager Survey
BofA GLOBAL RESEARCH

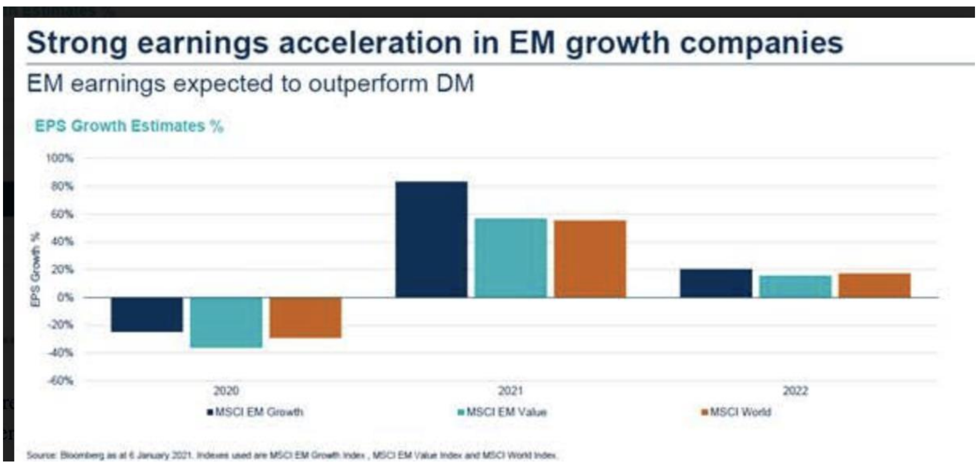
Emerging Markets emerge from the background

Emerging markets have received only occasional attention as the pandemic has evolved, partly due to the "first in/first out" status of China, and partly due to the region's exposure to commodities (prices rising) and the US dollar (falling). It can be seen that this time out of the spotlight has been a time of quiet consolidation of those markets – having lagged developed markets for some time, they fell by less in relative terms and grew steadily in line with the recovery in the rest of the world. GDP there has also fallen by less in broad terms, as economies such as India did not close as drastically as elsewhere due to economic constraints.





There is even the expectation that EM earnings, particularly in growth sectors will outperform developed markets in 2021 and 2022.

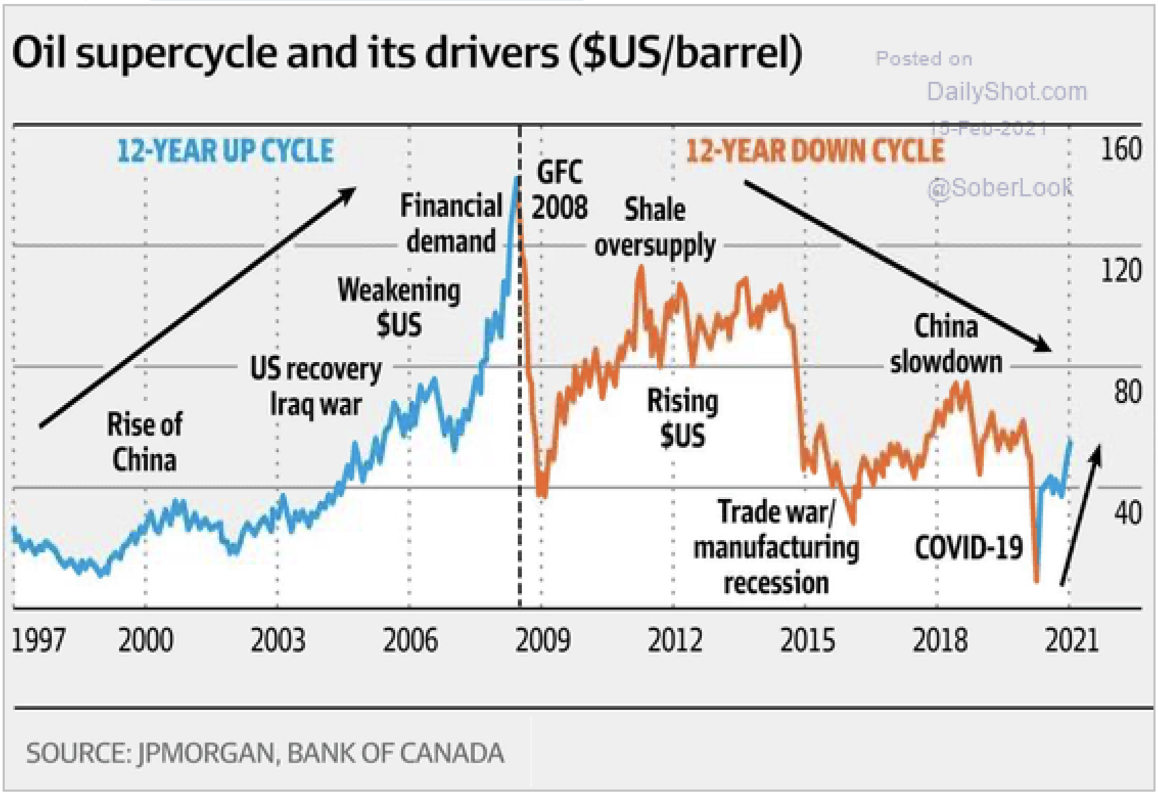


A falling dollar, inflation in the wings?

The US dollar has been in a steady mode of decline since the onset of the Covid-19 crisis, as the chart below shows, and this is not only a boost for emerging markets, many of which rely on exports as well as servicing US dollar debt. It also will erode, somewhat, some of the considerable returns that global equity market exposure will provide to a broader portfolio.

A falling dollar has implications for commodity markets, which tend to move in opposite directions to the direction of the dollar. The chart below charts the past 24 years of oil prices – an upwards super cycle and a more volatile down cycle. A question remains as to whether we are poised to enter another supercycle – and certainly while oil fell dramatically and even into negative territory briefly in 2020, it is up 23% year to date and all indications are that commodities including lumber are currently set to rise in the short to medium term. Lumber recently hit an all-time high rising by 104% this year to $828 per thousand board feet (almost four times gold's % increase).

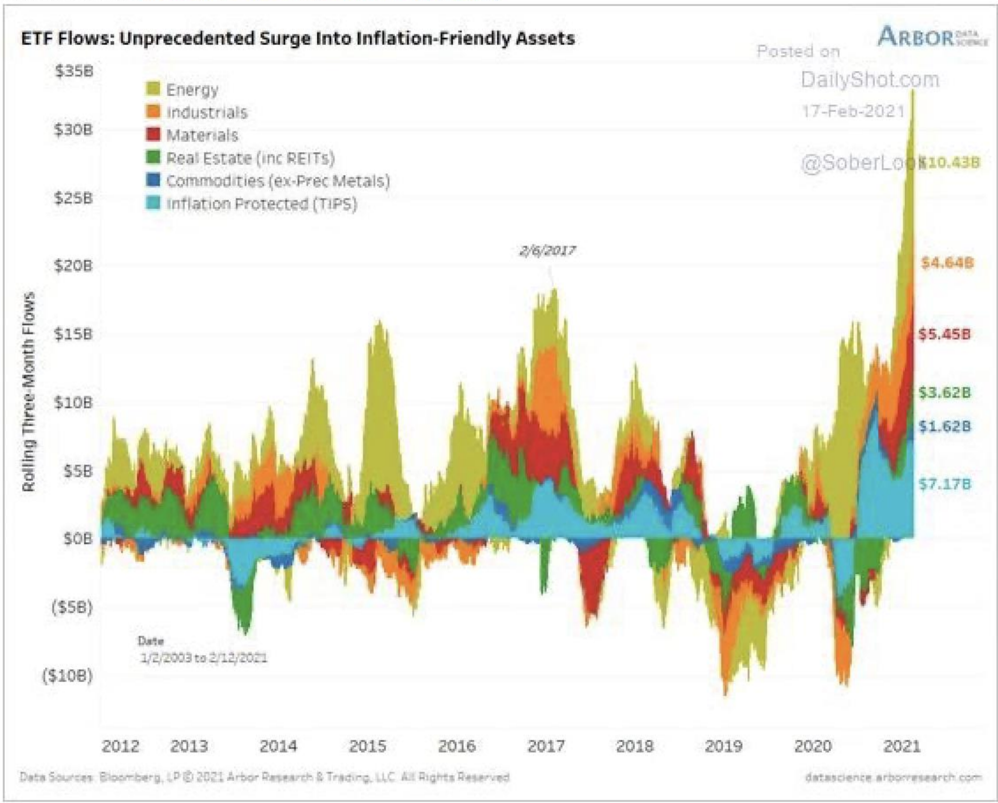
JPM via Daily Shot via https://twitter.com/RonStoeferle/status/1361702833691779073



This has two important implications – one is for inflation, and the other is for ESG/Sustainable investing. Commodity prices drive inflation and as supply chains have become disrupted due to Covid-19 inflation is on the rise (this has been the case in the UK for some time due to a weaker Sterling). Most portfolios are somewhat hedged against inflation – through real estate, infrastructure and (loosely) equity holdings, but the most successful active equity managers have tended to be underweight energy and utilities recently, and overweight areas such as technology and healthcare stocks. The chart below indicates that inflation expectations are mounting, as evidenced by flows into inflation related ETFs. It is also notable that the producer price index rose sharply in the US in January (+1.3%, the most since 2009) as the costs of goods and services rose. In the UK CPI rose by 0.9% in the 12 months to January 2021, up slightly from 0.8% in December.

The other implication of rising inflation expectations and a rise in commodity stocks is the implications for ESG scoring and implications – usually those managers who employ an integration of ESG risk factors across their portfolios will be underweight stocks such as commodity stocks and industrials. As these sectors appreciate managers with higher ESG scoring may perform less well.

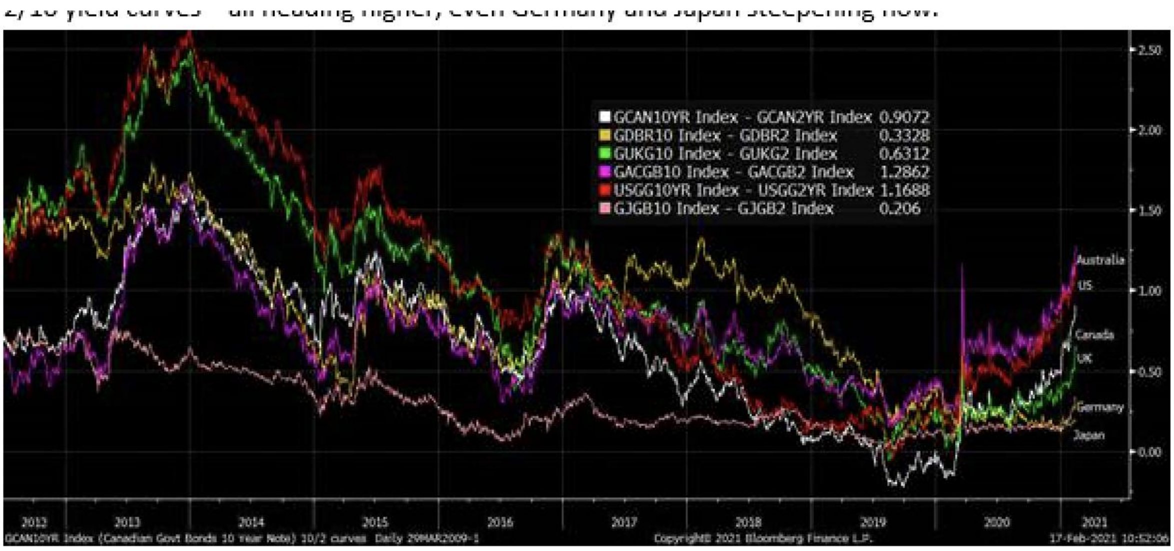
Flows into “inflation related” ETFs – “an unprecedented surge”.
Arbor via Daily Shot via https://twitter.com/jsblokland/status/1362133571880763405



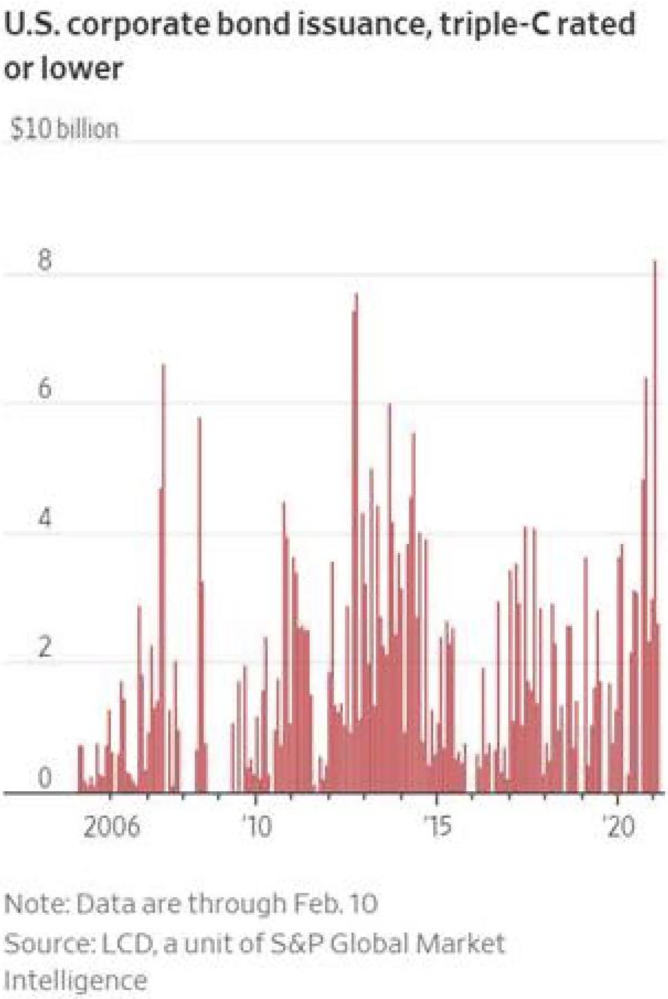
There are also indications that the US Fed is undergoing a subtle shift in policy, with a new framework under which it would not tighten pre-emptively in response to higher anticipated inflation. This would perhaps pave the way for higher inflation in the future.

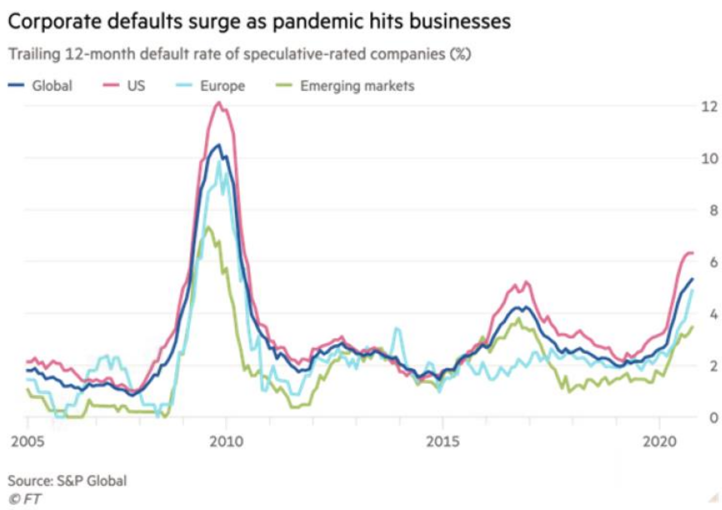
Is it finally time for rates to rise?
After over a decade of low rates, there are indications of a pattern of rising rates – see chart below – even in countries beleaguered by low rates such as Japan and Germany. This is an indicator to watch,

as it typically can precede a correction in the stock market as investors shift away from stocks in favour of now higher yielding bonds.



The relatively strong state of equity markets and support of credit issuance has led to a spate of issuance of lower rated bonds, which is indicative of non-discriminating risk appetite. These are further indicators of frothiness in risk assets and should be closely monitored going forward, particularly in the context of rising defaults as pandemic-related woes continue to affect businesses.





Individual Asset Class Performance

- Equities
- Fixed income
- Spotlight on ESG monitoring

Equities: A strong and broad start

Markets had a strong start to the year globally, with tech again leading the way, as was the case in 2020. The FTSE has delivered 2.53% year to date with the main European markets more or less in line with that, while the S&P was stronger at +4.22% year to date and the Nasdaq led with close to 8% for the same period. Reflecting the resurgence in economic activity in emerging markets, the Hang Seng was strong (+12.54% year to date) while the Nikkei 225 was up 9.4%. As noted above, market demonstrated both breadth and depth over the past few months, while the aberrant price action by stocks such as Gamestop was fairly contained and did not do too much to interrupt still subdued levels of market volatility. ‘

Fixed Income/Credit: as rates tick upwards, return is subdued
Rising rates are negative for fixed income returns and the slow rise in the US 10 -year rates indicate an expectation of a "jumpstart" in the economy as recovery starts to kick in post Covid. This is typically initially bearish for bonds as investors integrate their inflation expectations into their investment approach. With $600 stimulus checks already finding their way into the economy (and the stock market, apparently), and more stimulus on the way, this is leading to extended expectations for higher rates and inflation going forward.

Spotlight on ESG monitoring
Most institutional investors now are at a point of establishing a responsible investment policy and attempt to measure the ESG risks of a portfolio as well as its positive impacts. There is a considerable amount of jargon and confusion around taxonomy, best practice in terms of investment and manager and company engagement.

The framework below is a useful one to think about how investor action and approach can be aligned both in terms of harm avoidance and in positively impactful solutions.

<table>
<tr><th colspan="2"></th><th colspan="2">Investors' Action</th></tr>
<tr><th colspan="2"></th><th>Allocate capital</th><th>Change company practices</th></tr>
<tr><td rowspan="3">Investors' Approach</td><td rowspan="2">Do not harm</td><td colspan="2">Minimum safeguards or guardrails</td></tr>
<tr><td>Divestment / Exclusionary Screening</td><td rowspan="2">Active engagement</td></tr>
<tr><td>Solutions</td><td>Impact Investment (debt and equity, public and private) Public Private Partnerships</td></tr>
</table>

Source: Beyond Alpha, It's Time to Talk, January 2021

Active engagement is a key tool of the drive towards sustainable investing, but has been criticized due to the absence of conclusive evidence of the causal link between engagement and changing company behaviours. This will only be improved over time through better metrics, transparency and enforced accountability.

Currently our use of responsible investing dashboards enables tracking and monitoring of progress in levels of engagement, as well as the progress of companies in their transition from fossil fuels and towards lower carbon targets. On November 9 Rishi Sunak announced three new measures to place the UK at the forefront of green finance and enable a transition to net zero. The steps included requiring all major UK companies and financial institutions to disclose their climate risk in linked with the Task Force on Climate-related Financial Disclosures[1] by 2025, the introduction of a "green taxonomy" to better understand the impact of firm activities on the environment and the issuance of the first UK sovereign bond in 2021.

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Outlook:

Last quarter we noted the "warp speed "of vaccine development. Unfortunately the roll-out has in some regions been anything but, and the UK has led the field thanks to the impressive coordination of the NHS. With uncertainty around the lifting of lockdown extending and the furlough scheme in the UK extended until at least summer 2021, the real economy remains in a form of deep freeze, although financial markets are operating mostly as normal.

In the months ahead it will be interesting to watch for the following:

- **Withdrawing life support and waiting for the patient to wake up** Just as emergency business loans and furlough schemes have dulled the pain of business closures, it is only when this life support is withdrawn that we will see the patient's ability to wake up and return to functioning. This will be a critical moment for global economies, especially those dependent on tourism, and sectors such as hospitality and airlines still face a severely uncertain future.

[1] The TCFD's remit is to develop a set of voluntary climate-related disclosures to assist in understanding the associated material risks of climate change

- **Green shoots** The new Biden administration in the US has issued a record number of Executive Orders and is firmly committed to a net zero economy by 2050. It has appointed the eminently capable John Kerry as climate czar and will integrate climate change resilience into its planned infrastructure spending program. After a winter of extreme weather, particularly in the fossil fuel hub of Texas, the urgency of this focus is apparent. The actions of Rishi Sunak noted above are evidence that this is a global movement and the robust level of fund flows into ESG strategies for the past 12 months show that investors are following the money. We expect to see renewed pressure on asset owners to not just develop responsible investment policies but to evidence change and progress towards them.

- **Contending with inflation and rising rates.** As noted above the past few months have seen clear reversals in trends that persisted for years, and portfolios have been arranged according to the lower (inflation, rates, volatility) for much longer narrative. As this narrative comes under pressure, but growth continues to outperform value, it will be interesting to watch whether assets are realigned accordingly.

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February 19, 2021

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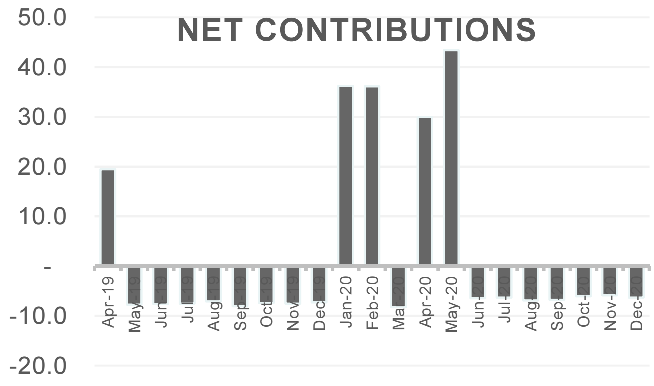
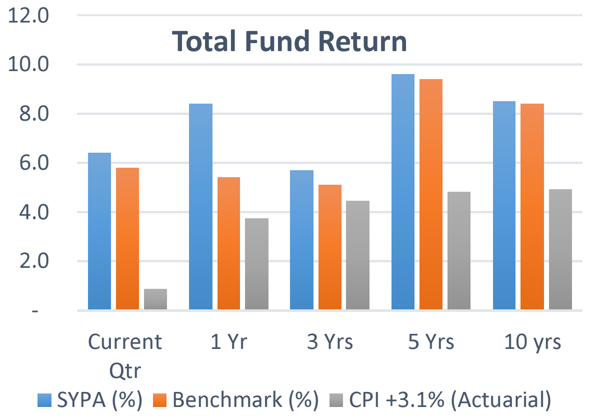
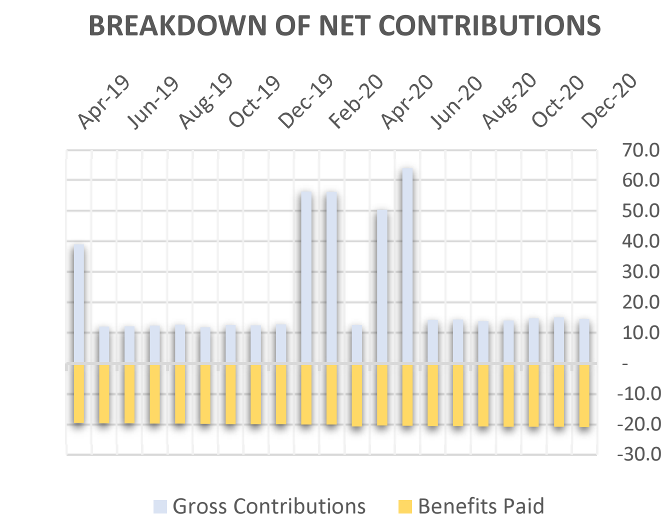
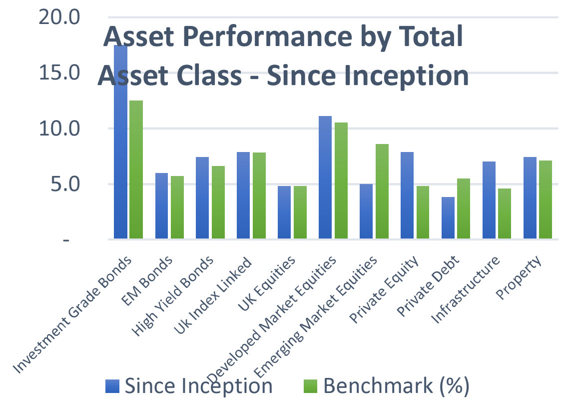
SOUTH YORKSHIRE PENSIONS AUTHORITY

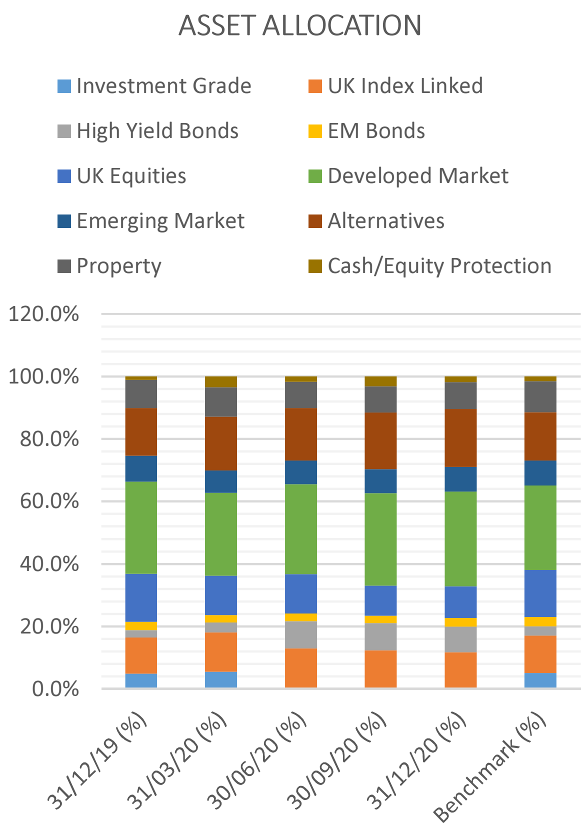
QUARTERLY REPORT TO 31 DECEMBER 2020

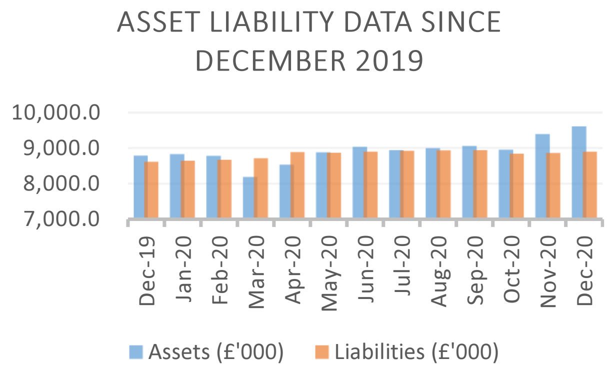

NET CONTRIBUTIONS
50.0
40.0
30.0
20.0
10.0
-
-10.0
-20.0
Apr-19 May Jun Jul Aug Sep Oct Nov Dec Jan-20 Feb-20 Mar Apr-20 May-20 Jun Jul Aug Sep Oct Nov Dec

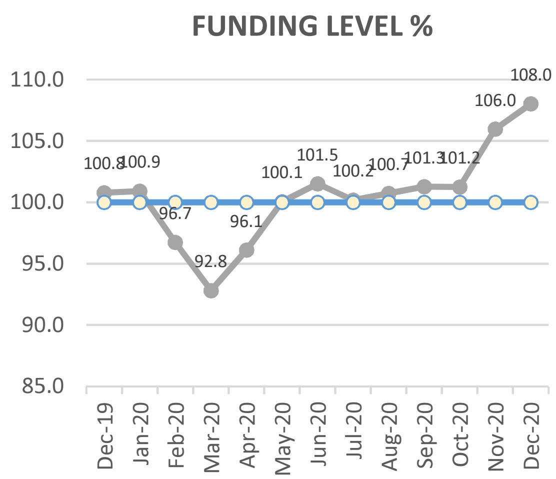

Total Fund Return
12.0
10.0
8.0
6.0
4.0
2.0
-
Current Qtr
1 Yr
3 Yrs
5 Yrs
10 yrs
SYPA (%)
Benchmark (%)
CPI +3.1% (Actuarial)


BREAKDOWN OF NET CONTRIBUTIONS
Apr-19 Jun-19 Aug-19 Oct-19 Dec-19 Feb-20 Apr-20 Jun-20 Aug-20 Oct-20 Dec-20
70.0
60.0
50.0
40.0
30.0
20.0
10.0
-
-10.0
-20.0
-30.0
Gross Contributions
Benefits Paid


Asset Performance by Total Asset Class - Since Inception
20.0
15.0
10.0
5.0
-
Investment Grade Bonds
EM Bonds
High Yield Bonds
Uk Index Linked
UK Equities
Developed Market Equities
Emerging Market Equities
Private Equity
Private Debt
Infrastructure
Property
Since Inception
Benchmark (%)


ASSET ALLOCATION
Investment Grade
UK Index Linked
High Yield Bonds
EM Bonds
UK Equities
Developed Market
Emerging Market
Alternatives
Property
Cash/Equity Protection
120.0%
100.0%
80.0%
60.0%
40.0%
20.0%
0.0%
31/12/19 (%)
31/03/20 (%)
30/06/20 (%)
30/09/20 (%)
31/12/20 (%)
Benchmark (%)


ASSET LIABILITY DATA SINCE DECEMBER 2019
10,000.0
9,000.0
8,000.0
7,000.0
Dec-19 Jan-20 Feb-20 Mar-20 Apr-20 May-20 Jun-20 Jul-20 Aug-20 Sep-20 Oct-20 Nov-20 Dec-20
Assets (£'000)
Liabilities (£'000)


FUNDING LEVEL %
110.0
105.0
100.0
95.0
90.0
85.0
100.8
100.9
96.7
92.8
96.1
100.1
101.5
100.2
100.7
101.3
101.2
106.0
108.0
Dec-19 Jan-20 Feb-20 Mar-20 Apr-20 May-20 Jun-20 Jul-20 Aug-20 Sep-20 Oct-20 Nov-20 Dec-20

Market background

The final quarter of 2020 saw strong returns from almost all asset classes, the exception being government bonds.

During the quarter UK equities were supported by the vaccine news and then by the Brexit negotiations being concluded with a deal being signed on December 24th just days before the UK exited the EU single market and customs union. Domestically focused areas of the market outperformed

Global equities gained strongly over the quarter with the gains for UK investors being tempered by the strength in sterling. After some weakness in October, markets recovered after the result of the US election became clear and vaccines were approved by regulators given the positive trial news.

In contrast to earlier periods the US market lagged other global markets over the quarter as they were impacted more by the switch of focus from technology stocks. The UK outperformed benefiting from a higher weighting to resource stocks which rebounded over the quarter. Emerging Markets generally outperformed Developed Markets, continuing to unwind the underperformance of the first half of the year. Fiscal and monetary support has helped economies to overcome the worst of the disruptions and it was further extended following the latest lockdown restrictions.

Government bond yields fell over the quarter, underperforming corporate bonds and equities as the US election results and vaccine developments drove risk-on behaviour.

Real estate returns were positive but as the second wave of Covid-19 gathered pace all UK nations introduced tighter restrictions towards the end of the period. This meant that consumer facing sectors continued to face challenging trading conditions. Supermarket and industrial sectors continued to show relative resilience.

SOUTH YORKSHIRE
PENSIONS AUTHORITY

Fund Valuation

as at 31 December 2020

	Fund Valuation as at 31 December 2020						
	Sep-20		Quarterly Net	Dec-20		Benchmark	Range
	£m	%	Investment	£m	%	%	%
FIXED INTEREST							
Inv Grade Credit - BCPP	473.8	5.2	0.0	489.0	5.1	5	
UK ILGs - BCPP	1116.4	12.3	-892.1	913.0	9.5	12	
UK ILGs SYPA	0.0		872.1	211.7	2.2		
High Yield Bonds	310.3	3.4	-21.2	300.4	3.1	3	
EM Bonds	221.1	2.5	26.2	256.6	2.7	3	
TOTAL	2121.6	23.4	-15.0	2170.7	22.6	23	18-28
UK EQUITIES	870.1	9.6	0.0	978.9	10.2	10	5 _ 15
INTERNATIONAL EQUITIES							
Developed Market - BCPP	2602.9	28.8	0.0	2851.8	29.7	27.125	
Developed Market - SYPA	72.0	0.8	-23.1	54.9	0.6		
Emerging Market - BCPP	683.5	7.6	0.0	752.0	7.8	7.875	
Emerging Market - SYPA	11.9	0.1	-2.4	11.0	0.1		
TOTAL	3370.3	37.3	-25.5	3669.7	38.2	35	30-40
PRIVATE EQUITY							
BCPP	27.9		-1.9	27.4			
SYPA	649.9		12.2	688.9			
TOTAL	677.8	7.5	10.3	716.3	7.5	7	5_9
PRIVATE DEBT FUNDS							
BCPP	4.6		1.0	5.5			
SYPA	454.0		0.6	461.7			
TOTAL	458.6	5.1	1.6	467.2	4.9	5.5	4.5-6.5
INFRASTRUCTURE							
BCPP	20.9		17.3	36.2			
SYPA	479.5		61.4	552.5			
TOTAL	500.4	5.5	78.7	588.7	6.1	8	5_11
PROPERTY	763.6	8.4	37.1	821.9	8.6	10	8_12
CASH	288.1	3.2		187.0	1.9	1.5	0-5
EQUITY PROTECTION (EPO)	0.0			0.0			
TOTAL FUND	9050.5	100.0		9600.4	100.0	100	
COMMITTED FUNDS TO ALTERNATIVE INVESTMENTS	1061.5			1159.5			

Asset Allocation Summary

The most significant transaction this quarter was the transition of index-linked gilts to the newly launched Border to Coast fund. £872m of assets was transitioned by the Authority, representing 10% of our assets at the time.

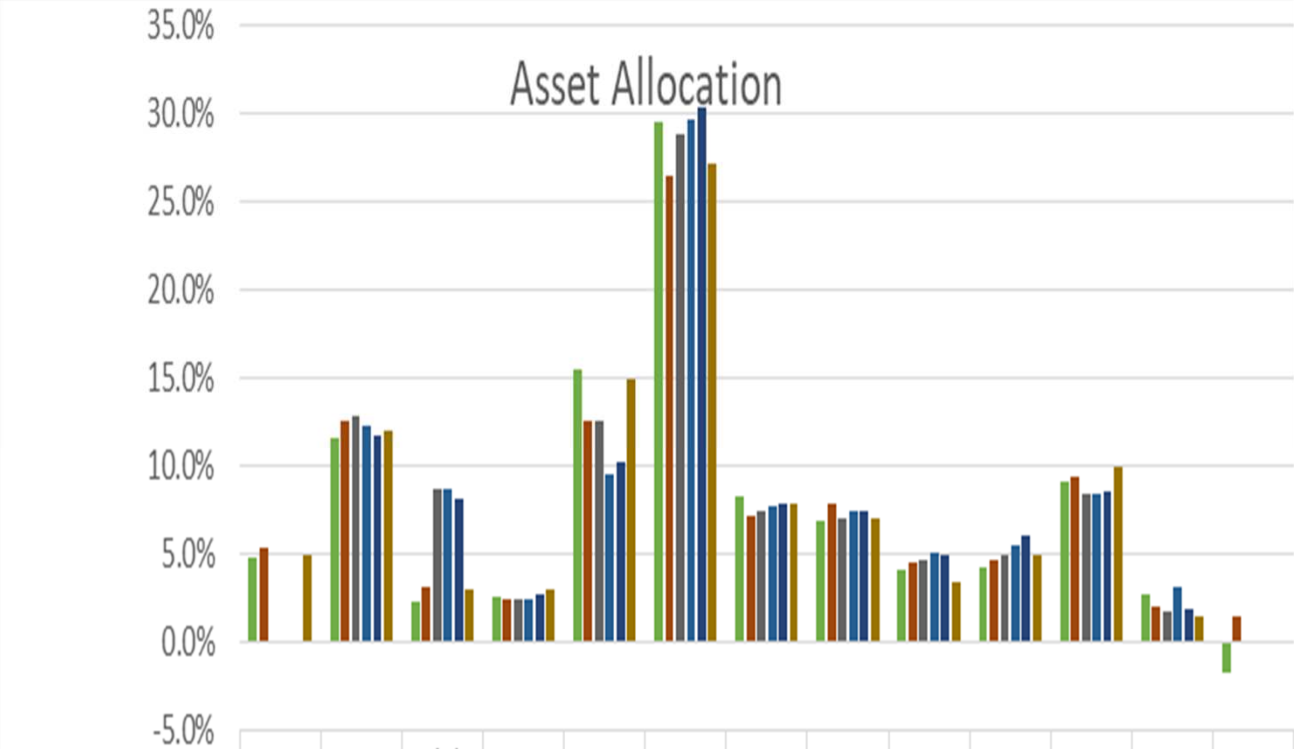
During the quarter we also reduced our residual holding of index-linked gilts by £20m. The sale was done in a way to bring the duration of the remaining legacy bonds more in to line with the benchmark index.

As equity markets continued to improve we took the opportunity to reduce the legacy holdings by £25m and these proceeds were used to fund the drawdowns into the alternative funds.

Within property we competed on the logistics property in Basildon for a purchase price of just over £23m. This is adjacent to an existing property owned by the Fund. We also had first drawdowns to the Hearthstone Residential fund and to Bridges Property V fund that we committed to earlier this year.

The change in weightings over the last few quarters can be seen in the next chart. The Fund has been very close to its benchmark weightings for most asset classes over this period although it can be seen that it has gradually been increasing its weighting to alternatives at the expense of quoted equities.

Asset Allocation Summary



	IG Bonds	Index Linked	High Yield Bonds	EM Bonds	Equity	Dev Mkt	EM Mkt	Priv Equity	Priv Debt	Real Assets	Real Estate	Cash	Equity PC
31/12/19 (%)	4.8%	11.6%	2.3%	2.6%	15.5%	29.5%	8.3%	6.9%	4.1%	4.3%	9.1%	2.8%	-1.7%
31/03/20 (%)	5.4%	12.6%	3.2%	2.4%	12.6%	26.5%	7.2%	7.9%	4.6%	4.7%	9.4%	2.0%	1.5%
30/06/20 (%)	0.0%	12.9%	8.7%	2.5%	12.6%	28.8%	7.5%	7.1%	4.7%	5.0%	8.4%	1.8%	0.0%
30/09/20 (%)	0.0%	12.3%	8.7%	2.4%	9.6%	29.6%	7.7%	7.5%	5.1%	5.5%	8.4%	3.2%	0.0%
31/12/20 (%)	0.0%	11.7%	8.2%	2.7%	10.2%	30.3%	7.9%	7.5%	4.9%	6.1%	8.6%	1.9%	0.0%
Benchmark (%)	5.0%	12.0%	3.0%	3.0%	15.0%	27.1%	7.9%	7.0%	3.5%	5.0%	10.0%	1.5%	0.0%

Performance
as at 31 December 2020

	Qtrly Performance		Financial Y.T.D.	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Investment Grade Credit - BCPP	3.9	3.1	12.9	11.6
UK ILGs	2.5	2.2	13.4	13.2
High Yield Bonds	4.3	3.1	14.9	11.6
EM Bonds	5.4	5.3	22.4	19.3
TOTAL	3.4	2.7	14.5	12.5
UK EQUITIES	12.5	12.6	20.5	20.5
INTERNATIONAL EQUITIES				
Developed Market - BCPP	9.6	9.9	35.1	34.8
Developed Market - SYPA	8.5	9.9	36.0	34.8
Emerging Market - BCPP	10.0	11.4	30.6	39.0
Emerging Market - SYPA	13.1	11.4	37.0	39.0
TOTAL	9.7	10.3	34.2	35.8
PRIVATE EQUITY	4.2	0.8	8.9	2.8
PRIVATE DEBT FUNDS	1.7	0.8	7.1	2.8
INFRASTRUCTURE	2.3	0.8	5.8	2.8
PROPERTY	3.6	1.6	2.8	0.5
CASH	0.0	0.0	0.0	0.0
TOTAL FUND excl EPO	6.4	5.8	19.0	17.3
TOTAL FUND	6.4	5.8	17.7	17.3

Performance Summary

For the quarter to the end of December, the Fund returned 6.4% against the expected benchmark return of 5.8%.

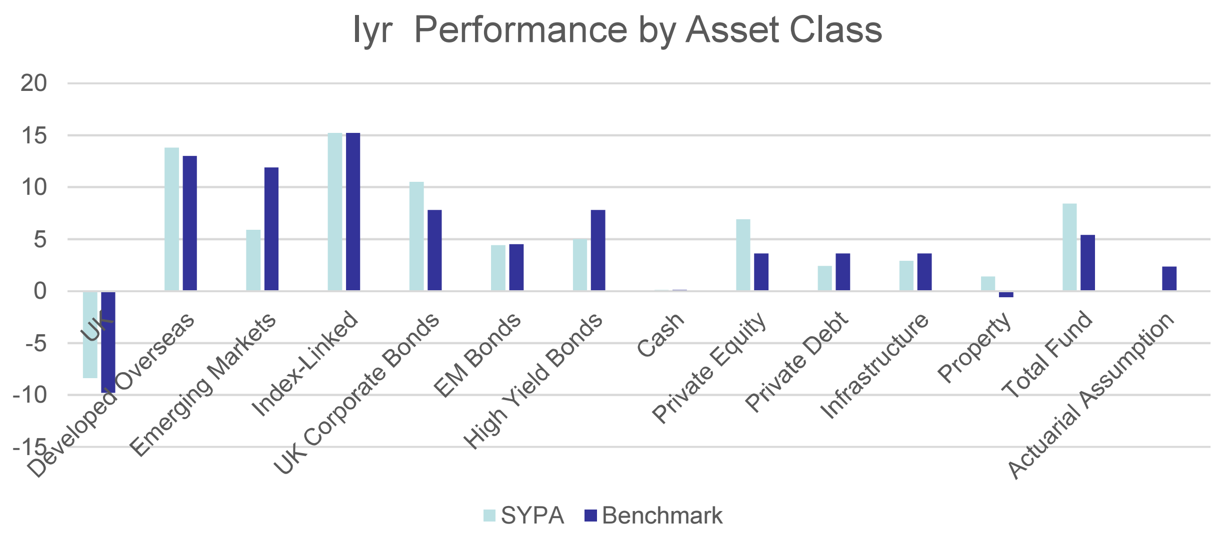
Asset allocations added 0.2% and stock selection added 0.4% overall.

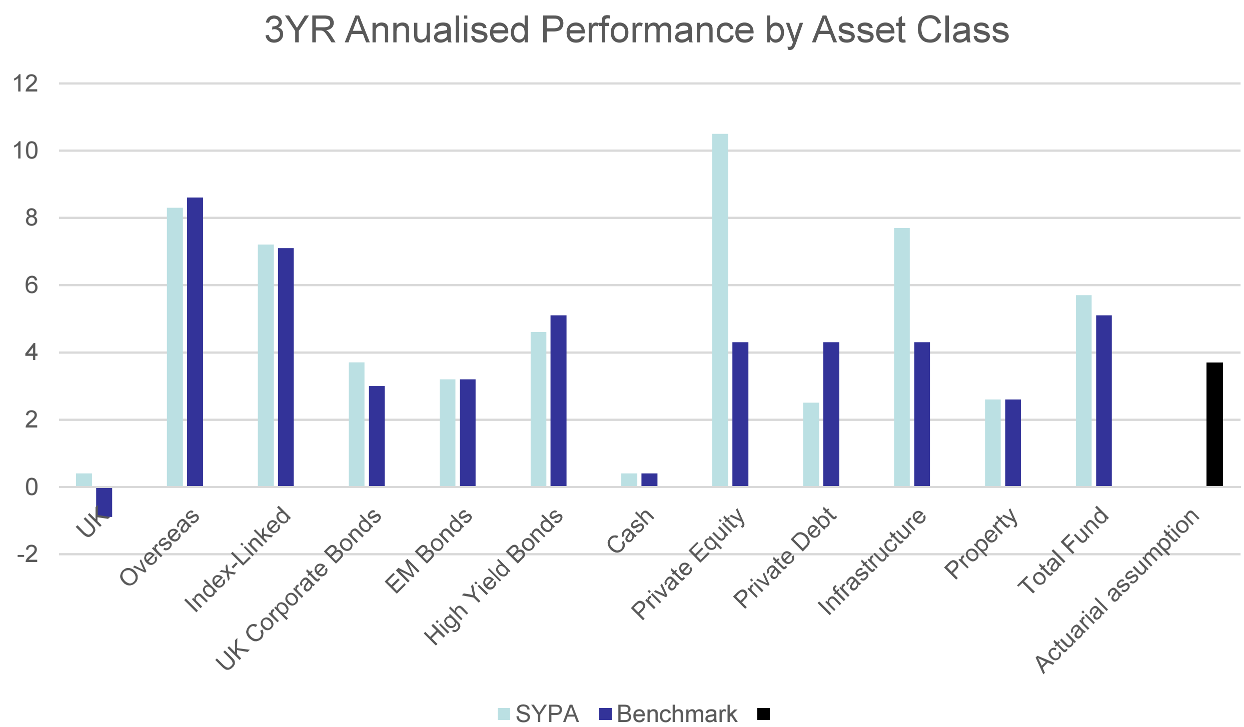
The breakdown of the stock selection is as follows:-

Dev Overseas equities	-0.1%
EM equities	-0.1%
Total bonds	0.1%
Alternatives	0.3%
Property	0.2%

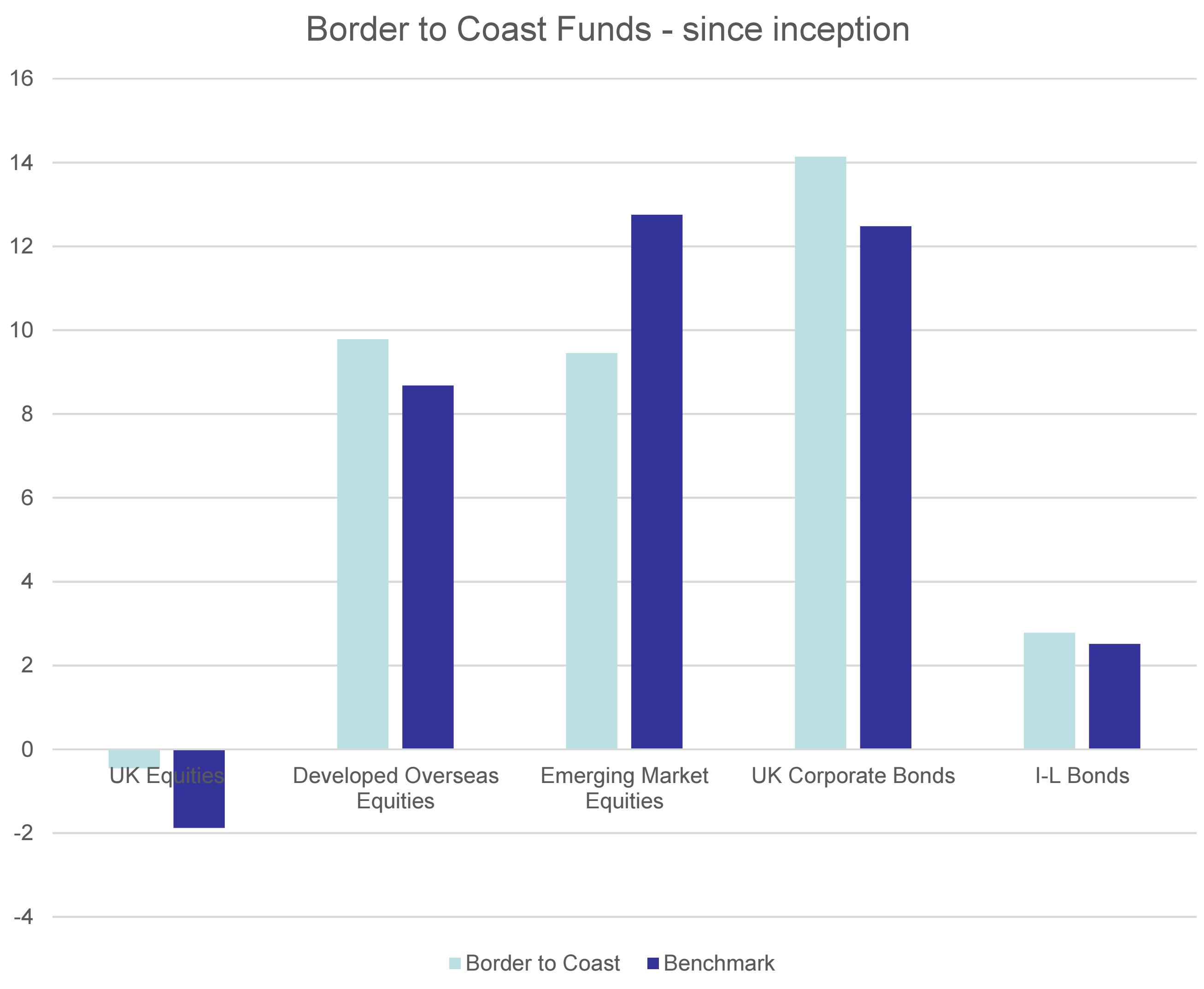
For the year to date performance at total fund level is now 0.4% above the benchmark but if we exclude the impact of the equity protection that rolled off at the beginning of this financial year we would be ahead of target by 1.7%.

Performance-Medium term





Performance-Border to Coast Funds



Performance – Border to Coast Funds

The charts show the performance of each of the Border to Coast funds that we hold since the inception of the individual product.

Border to Coast launched their Index-Linked Bond portfolio in October. We transitioned £872m of bonds to them which represented 10% of our assets at that stage. The transition involved three funds, SYPA, Durham and North Yorkshire. The transition period was only one day as there was a very high retention rate of over 90% of assets. Initial performance has been slightly ahead of benchmark

It can be seen that three of the other four funds have outperformed their benchmark and matched the target return.

As reported last quarter the one fund that has shown disappointing performance has been the Emerging Market fund and it has been agreed that this will become a hybrid fund of internal management and two external managers for Chinese assets. The transition of these mandates is expected to take place 2Q 2021

Funding Level

The funding level as at 31 December 2020 is 108%.

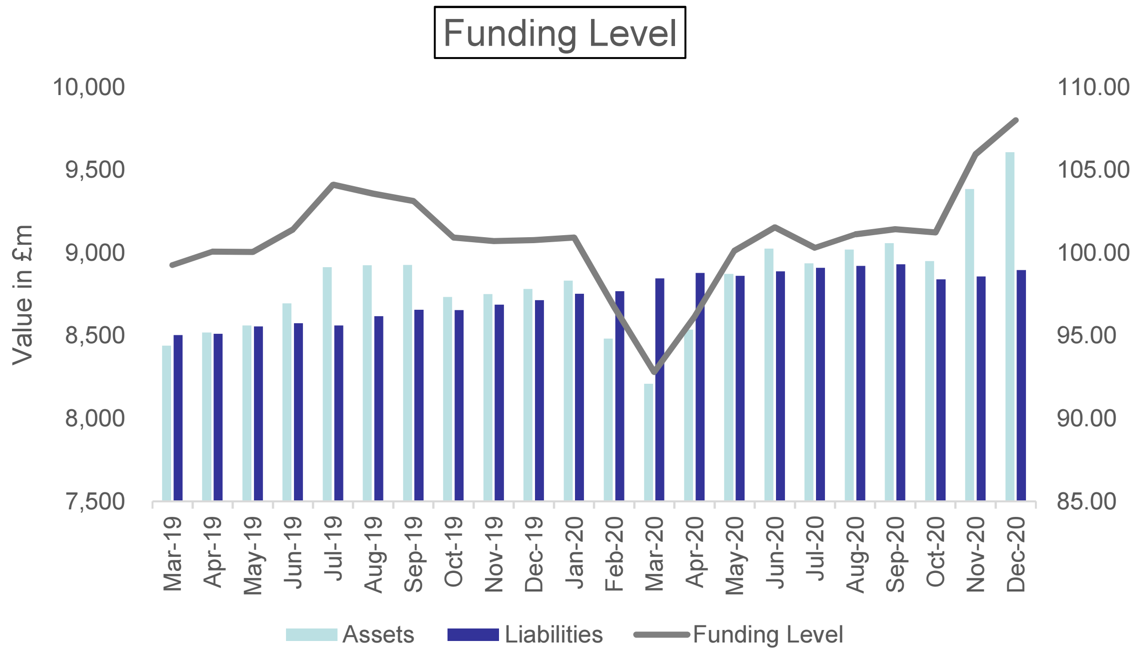
The breakdown is as follows:

Fund's Assets:

As at 31 December 2020: £9,607.9m
As at 30 September 2020: £9,058.4m
An increase of £549.5m

Funds Liabilities:

As at 31 December 2020: £8,895.2m
As at 30 September 2020: £8,930.3m
A decrease of £35.1m



Outlook

From here the future direction of markets depends in part on news flow regarding the spread of the virus and the success or otherwise of mass vaccination plans. It is probably no coincidence that the onset of winter has seen rapidly rising levels of infection in the northern hemisphere while previous hotspots such as Latin America have improved.

In absolute terms high valuations and potential delays to economic recovery means that equity markets are unlikely to be supported by positive earnings revisions until later in the year. However relative to bond markets equities have some attraction. Government bond yields have risen but remain low by historic standards and are still negative in many areas.

UK Equities

UK equities have lagged other markets over the last few years. Many of the uncertainties regarding Brexit have now been resolved and the fact that in valuation terms the UK market is cheaper relative to global shares than it has been for many years makes it more interesting than it has been for some time. We will look to maintain the current exposure.

Overseas equities

We expect market conditions to remain volatile. Emerging market valuations remain more attractive than developed market equities and so any reductions will be from developed markets rather than from emerging markets. Will look to sell down our legacy positions to meet cash flow requirements

Bonds

For long term investors, the best one can say is that interest rates will remain very low for a long time and that higher risk investments will have higher risk premia.

Outlook

Bonds cont

Coming out of the crisis may prove to be the most difficult time for many businesses that have been propped up by cheap credit and government support. Default rates may increase again when such accommodation is removed. Investors must, therefore, remain highly vigilant and mindful of the credit quality of their fixed income holdings.

Spreads may not fall dramatically from here, but it does seem unlikely that they will rise much either. Given the lack of viable alternatives in developed market government bonds, or increasingly in investment grade credit, EM and high yield spreads look likely to remain well bid.

At least there is a yield and therefore a decent level of income in high yield and emerging markets. The same cannot be said for developed markets government bonds. Yields are so low that one needs deflation to justify holding for any but the shortest period of time. These markets will continue to be supported by central banks but long-term investors need higher potential returns to justify allocations here

Real Estate

A renewed sense of optimism moving into 2021, with a no-deal Brexit averted, is likely to be tempered by the latest national lockdown. With liquidity likely to be impaired this quarter, 2021 looks set to be a year of two halves for the investment market. If the virus is suppressed then a recovery in activity is expected in the second half of 2021.

The lockdown has reinforced existing structural changes. The investment market is demanding ever higher risk premia for most discretionary retail.

Investment strategy will continue to favour sectors with more defensive characteristics. Fundamentally the preference would be to invest in areas where the structural drivers of demand are positively impacted by or largely insulated from the ongoing pandemic, including logistics and supermarkets.

Will look to selectively increase weighting.

Outlook

Alternatives

The alternative investment market which includes investments within private equity, private debt and infrastructure, generally generates above market returns and we are looking to add further investments into this asset class although it may take some time for capital to be deployed.

Cash

The deployment of cash to alternatives and property has seen the gradual reduction in this cash balance and this is likely to reduce further this quarter

SOUTH YORKSHIRE
PENSIONS AUTHORITY

SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Responsible Investment – Quarter 3 Update**	**Status**	For Publication
Report to	Authority	**Date**	18th March 2021
Report of	Director, and Head of Investment Strategy		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Director	**Phone**	01226 772887
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

1.1 To provide an update on the responsible investment activities undertaken by and on behalf of the Authority.

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2 Recommendations

2.1 Members are recommended to:

a. **Note the Responsible Investment Activity undertaken by and on behalf of the Authority.**

b. **Approve the proposed submission to the inquiry into a Just Transitions being undertaken by the All Party Parliamentary Group on Local Government Pensions at Appendix A.**

c. **Approve the Authority's commitment to support the Paris Aligned Investment Initiative.**

d. **Approve the Authority adopting the Impact Investing Principles.**

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3 Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Companies which are well managed and appropriately address the Environmental, Social and Governance risks which they face are more likely to deliver strong returns making the achievement of the goals set out in the Investment Strategy more likely.

Responsible Investment

To develop our investment options within the context of a sustainable and responsible investment strategy.

Responsible investment is a fundamental part of the Authority's investment beliefs and are central to how the Authority invests. A central part of a responsible investment approach is transparency about the activity undertaken both by and on behalf of the Authority.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

It is an important aspect of the Authority's accountability to stakeholders that the actions which it takes in relation to responsible investment are publicly reported so that there is proper transparency in relation to the Authority's activities.

4 Implications for the Corporate Risk Register

4.1 The actions in this report are related to the various investment related risks included in the Corporate Risk Register and in particular the risk around climate change.

5 Background and Options

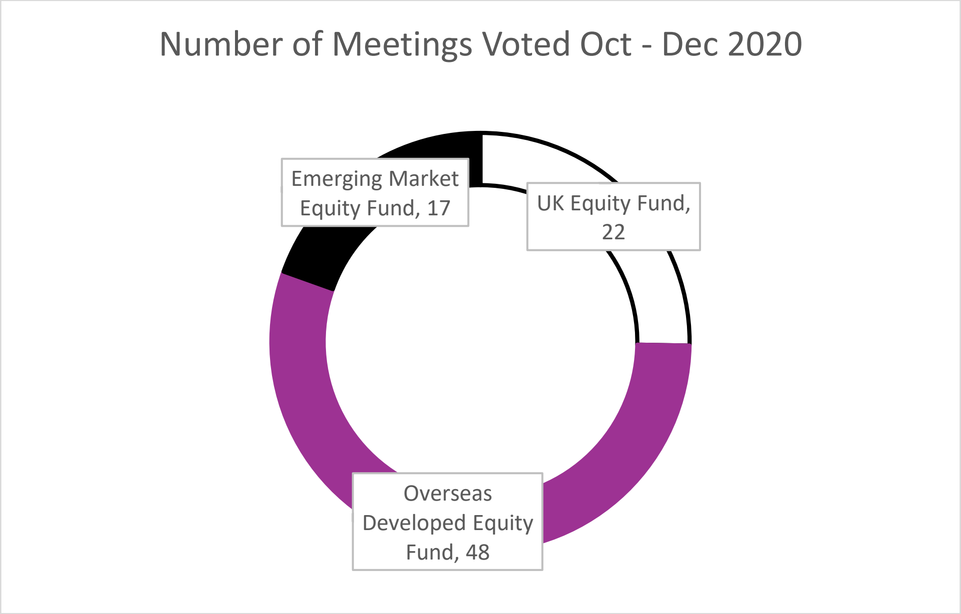
5.1 The Authority's approach to responsible investment is delivered through four streams of activity, largely in collaboration with the other 11 funds involved in the Border to Coast pool.

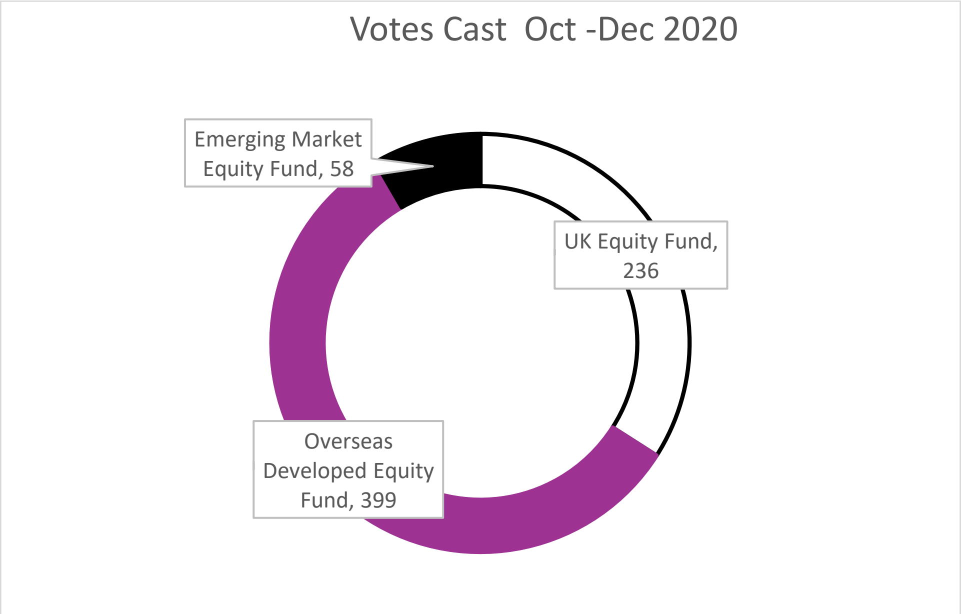
- Voting – Using the voting rights attached to shareholdings to influence the behaviour of companies to move in line with best practice.
- Engagement through Partnerships – Working with others to engage in dialogue with companies in order to influence their behaviour and also to understand their position on key issues.
- Shareholder Litigation – Joining in legal actions which seek to punish companies for corporate "misbehaviour" and thus protect the financial interests of the members of the pension fund.
- Active Investing – Making positive choices about which companies to invest in having considered the full range of responsible investment issues based on the premise stated above that well governed companies will produce sustainable and superior returns. This is part of the Authority's overall investment philosophy and is not covered in this report.

Voting

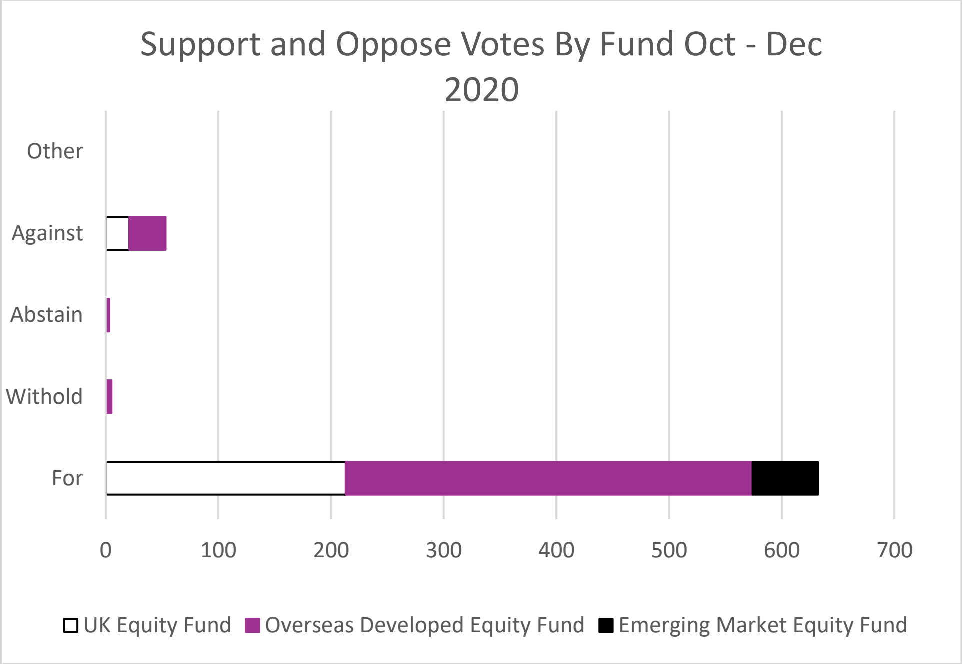
5.2 The charts below illustrate at a high level how the Authority's holdings in listed equities were voted in the period to the end of December 2020. Detailed reports setting out each vote are available on the Border to Coast website (link under background papers).

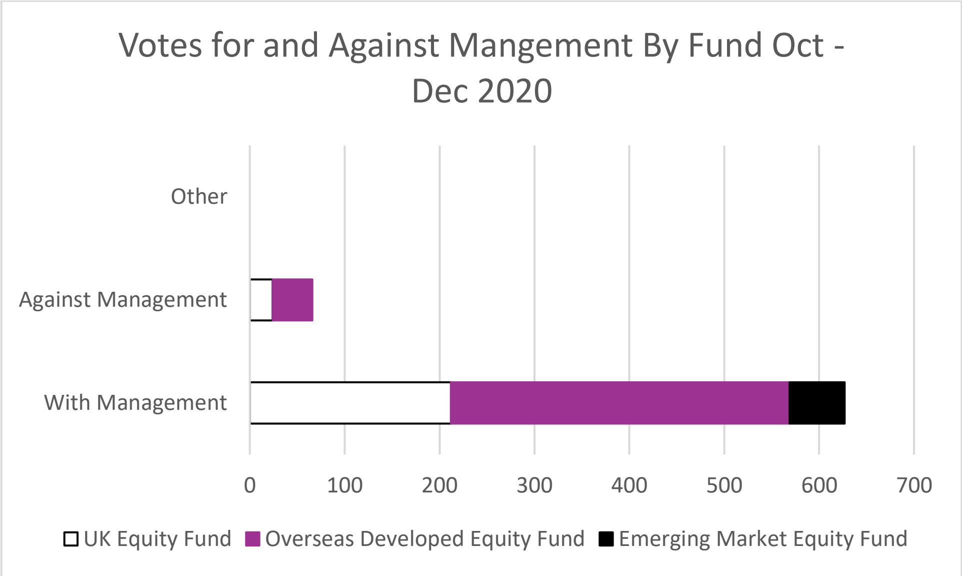
5.3 While this is a relatively quiet quarter for voting there was still a reasonable amount of activity although more concentrated in the developed markets than in the previous quarters of the year.





5.4 The pattern of support and oppose votes and votes for or against management is consistent with previous quarters and analysis of the voting reports indicates continuing adherence to the Border to Coast voting policy and also the continuation of some of the previously observed trends around, remuneration, board independence and representation. In the Overseas fund nearly half of votes against related to Board composition while around a quarter related to executive pay, while in the UK around a third related to audit appointments and a fifth to executive pay.





5.5 In addition to the more routine resolutions concerning board membership remuneration and audit appointments there have been the usual crop of shareholder proposals linked to specific issues with some of the more significant highlighted in the graphic below.

At Procter & Gamble we supported proposals for the Company to report on its efforts to eliminate deforestation in the supply chain (supported by 67% of shareholders) and to report annually on its efforts in diversity and inclusion

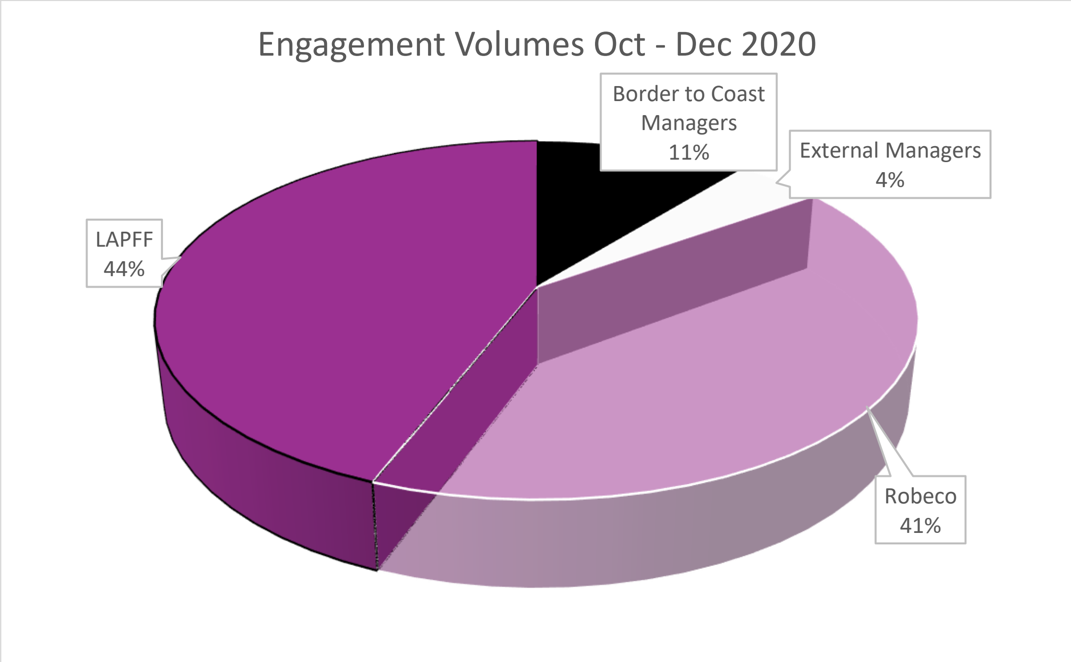
At ANZ Bank we supported a proporals for the company to report on its progress in reducing exposure to fossil fuel assets in line with the Paris agreement and on targets for future reductions. This was supported by 28.9% of shareholders doubling the level of support compared to a similar resoultion last year

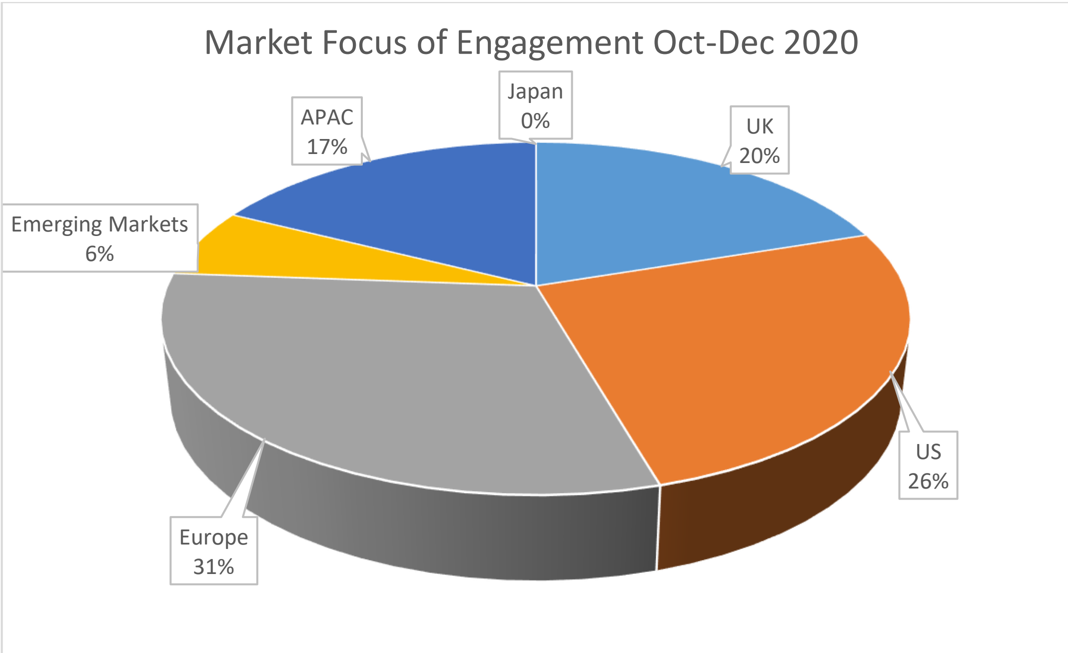
We supported a resolution related to indigenous cultural heritage sites following the destrution of the Juukan Gorge whihc resulted in the Company making significant moves in this area. Given that BHP far exceeds its peers in relation to disclosure of lobbying activities we did not support a resolution on this.

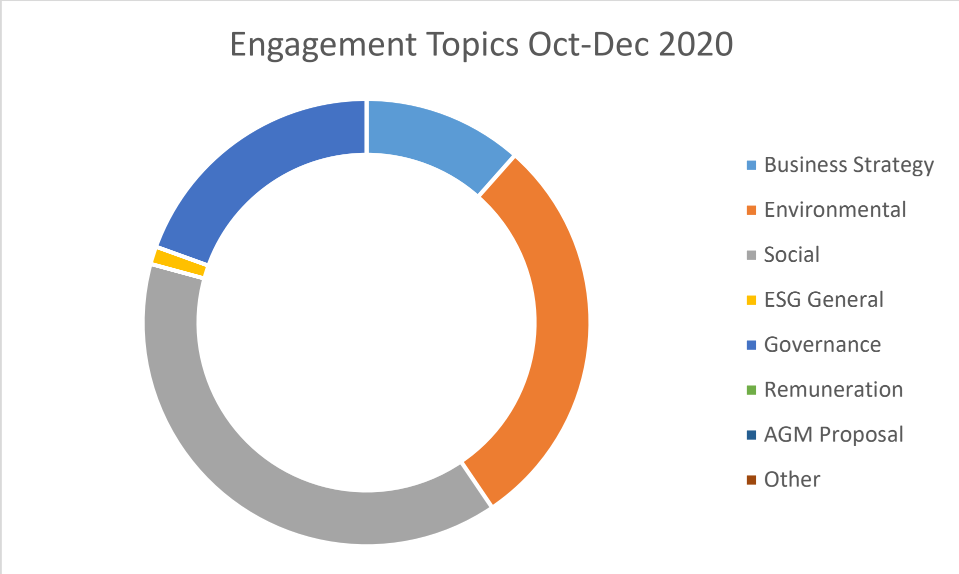
5.6 During the quarter new rules were also introduced by the US Department of Labor relating to the consideration by fiduciaries (fund managers or trustees) of ESG factors in relation to plans regulated under US pension legislation. These regulations were opposed by the vast majority of the several thousand individuals and organisations that responded to a consultation exercise (including Border to Coast). The rules require investment decisions to be made solely on the basis of pecuniary (direct financial) factors. The rules accept that some ESG factors may be compatible with a purely financial analysis. The Department has strongly opposed investor comments which suggest that investors might focus on economy wide issues such as diversity in seeking to improve company performance. These regulations represent something of a backward step in terms of ESG and Responsible investing in the United States, certainly when compared to the UK, although there remains the possibility that they may be repealed by the incoming administration.

Engagement

5.7 The graphs below illustrate the scale and nature of engagement activity undertaken over the quarter.


Engagement Volumes Oct - Dec 2020
Border to Coast Managers 11%
External Managers 4%
LAPFF 44%
Robeco 41%

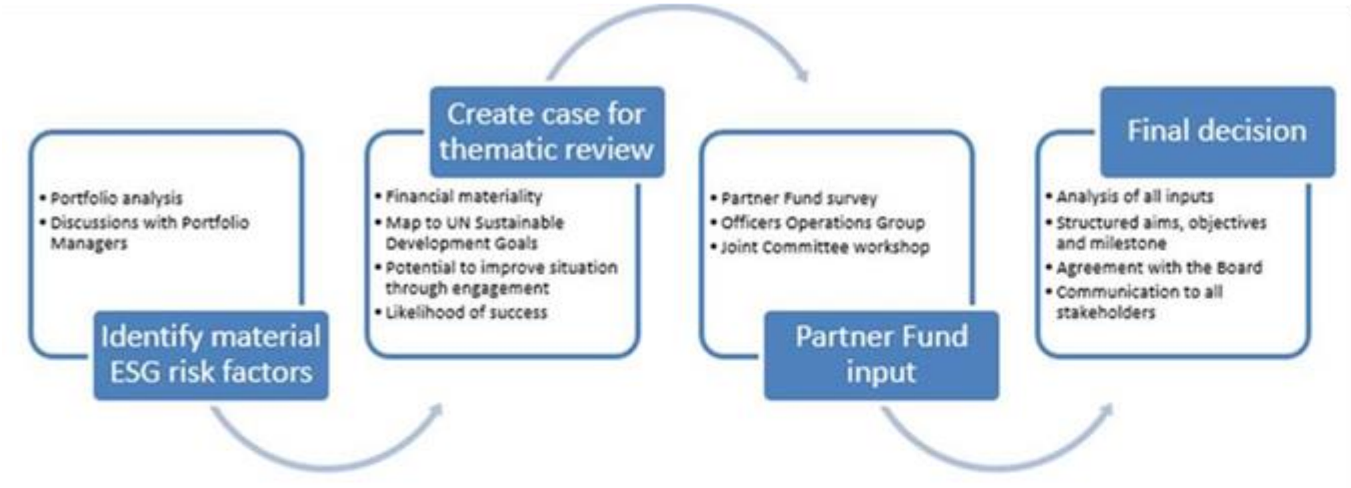

Market Focus of Engagement Oct-Dec 2020
Japan 0%
APAC 17%
UK 20%
Emerging Markets 6%
US 26%
Europe 31%



5.8 While the level of engagement on environmental and climate issues remains high the increasing emphasis on social issues partly sparked by the pandemic continues to be seen. However, this is not restricted to what might seem the more obvious areas such as labour standards and health and safety but also human rights and issues such as privacy and fake news (a particular focus in discussions with the big technology companies).

5.9 In the climate arena the focus continues to be on persuading companies to be transparent about setting science based targets which support the transition to net zero in line with the goals of the Paris agreement. Progress continues to be made in this area, particularly through the Climate Action 100+ initiative where Robeco are the lead organisation in relation to a number of companies. Notably in the last few weeks Shell have made further commitments to the energy transition as well as indicating that they have passed what is known as "peak oil" (in 2019). More details on engagement activity are contained in the various quarterly reports linked under background papers.

5.10 Border to Coast are developing their approach to identifying engagement themes in order to ensure focus on the most financially material issues and will be discussing the development of their approach with Partner Funds in the coming months. This reflects the fact that after three years it is appropriate to review the themes initially identified (transparency and disclosure, governance and diversity, with a focus on climate being added later given its financial significance). The proposed process is set out in the graphic below.



5.11 This proposal represents a more evidence based and collaborative approach which is welcome and will also support the requirements of the Stewardship Code which emphasise the need for evidence based and structured approaches, as well as the setting of clear outcome focussed objectives for engagement. In addition the mapping of proposed activity to the Sustainable Development Goals will be helpful to the Authority in its own reporting as it moves to using the SDG's as a framework for analysing impact.

Collaborations

5.11 Effective collaboration is at the heart of the Authority's approach to responsible investment and over the quarter there have been a number of significant developments which support the Authority's overall direction of travel and which are reported on here.

5.12 The Local Authority Pension Fund Forum (LAPFF) has continued to hold its business meetings and webinars during the quarter culminating in a series of webinars which replaced the in person annual conference. The Authority has continued to be represented at the Forum's business meetings and a briefing note following the latest business meeting has been placed in the on line reading room. The Forum has consulted its members on the proposed work plan for 2021/22. Officers have consulted with colleagues within the Border to Coast Partnership and responded directly. In general the proposed work plan continues the themes of previous years with a continuing emphasis on climate and areas where LAPFF has some form of unique insight or added value. This is the approach which the Authority has previously supported seeking greater focus from the Forum. However, there remains some work to do to ensure that the objectives set for each element of the work plan are truly outcome focussed and this issue formed the core of the response, which because LAPFF ask that the draft work plan be treated as confidential has been made available in the on line reading room.

5.13 LAPFF is also supporting an inquiry by the All Party Parliamentary Group (APPG) on Local Government Pensions on the transition to a low carbon economy. The APPG has asked for written submissions addressing a number of specific questions before the end of April. Given the Authority's commitment to Net Zero and the impact of previous energy transitions in South Yorkshire this is an issue where SYPA has a particular perspective which may be of use to the inquiry and a proposed response is set out in Appendix A for approval.

5.14 The Authority is a long term supporter of the Institutional Investors Group on Climate Change (IIGCC) which represents 275 investors with EUR35tn of assets under management. IIGCC is the major investor coalition on climate issues and has been a prime mover in other initiatives such as Climate Action 100+ and the wider adoption of TCFD reporting. The Group has now written to all members asking them to sign up to its Paris Aligned Investment Initiative. This requires a commitment, as a minimum to achieving net zero portfolios by 2050 in line with the Paris agreement, with at least a 50% reduction by 2030. Given the Authority's position of a 2030 net zero goal it would be appropriate for SYPA to sign up to this commitment, and a recommendation to this effect is included at the head of this report.

5.15 The Authority in considering the structure of the property portfolio last September accepted a place for investments targeting specific impacts, in addition to financial return within the overall investment strategy and through the work being developed on impact reporting accepts that all its investments have an impact. Impact investing and the understanding of impacts is a growing field within the overall responsible investment space and one which provides significant opportunities to improve the degree of engagement with scheme members around investment issues. The Authority has been invited to support the *"Impact Investing Principles for Pensions"* which have been developed by Pensions for Purpose and the Impact Investing Institute. This requires the Authority to commit to:

1. Seek investment advice on an impact investing approach for our pension fund;
2. Review environmental, social and governance impacts across our investment portfolio; and
3. Consider available impact investment strategies.

5.16 As these commitments reflect what the Authority is already doing it is proposed that SYPA sign up to these principles in order to provide some leadership in this area within the Border to Coast Partnership.

5.17 The LGPS Scheme Advisory Board is working to develop a framework of guidance and support for Funds in relation the Responsible Investment, and is establishing a practitioner steering group to support this, which the Director has been asked to join.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	There are no specific financial implications arising from this report. Provision exists within the relevant budgets to support the Authority's involvement in collaborative initiatives and its share of the costs of work undertaken by Border to Coast.
Human Resources	None
ICT	None
Legal	Participation in these activities is within the statutory powers of the Authority and is positively encouraged by the LGPS Investment Regulations.
Procurement	None

George Graham **Sharon Smith**

Director **Head of Investment Strategy**

Background Papers	
Document	**Place of Inspection**
Border to Coast Voting Reports	https://www.bordertocoast.org.uk/?dlm_download_category=voting-activity
Border to Coast & Robeco Engagement Reports	https://www.bordertocoast.org.uk/?dlm_download_category=engagement
LAPFF Quarterly Engagement Reports	https://lapfforum.org/publications/category/quarterly-engagement-reports/

Submission to the All Party Parliamentary Group for Local Authority Pensions' Inquiry into Responsible Investment for a Just Transition by South Yorkshire Pensions Authority

Introduction
South Yorkshire Pensions Authority is a unique organisation within the Local Government Pension Scheme, being the only democratically accountable single purpose pensions authority amongst the various LGPS Administering Authorities. The Authority has a long history of positive involvement in the area of responsible investment and was an early adopter of its own climate change policy and of the requirements of the Task Force on Climate Related Financial Disclosure. Consequently the Authority welcomes both the APPG's inquiry and the opportunity to present its views during the evidence gathering stage. The Authority has also set a goal to make its investment portfolios net zero by 2030, one of the first LGPS funds to do so.

The South Yorkshire Pension Fund for which the Authority is responsible has assets of £9.xbn and xxxk members as at the end of March 2021 and deals with 5xx employers. The Authority is one of 11 administering authorities that form part of the Border to Coast Pensions Partnership. More information about the Authority's activities and investment approach is available at www.sypensions.org.uk

As South Yorkshire represented the heart of the British coal mining industry the Authority has, perhaps, a unique perspective on the just transition to a low carbon economy, given that this place could be seen as the victim of an unmanaged, and hence unjust, transition away from coal.

Context
Any consideration of how the Local Government Pension Scheme can make more purposive investment in support of wider policy goals while continuing to meet its fiduciary duties also needs to reflect on the way in which LGPS funds now invest. The pooling of LGPS investments in England and Wales through the 8 asset pools creates both risks and opportunities in this respect and the nature of these will vary from pool to pool depending upon the degree to which pooling represents a move from unique to collaborative delivery of investment solutions.

However, the LGPS is also a unique investor with each fund being connected to and rooted in a place. While the transition to a low carbon economy will impact on individual people, it will impact on people collectively in the places in which they live and LGPS is uniquely positioned to recognise the opportunities that this could present.

Submission
This submission, which was approved at a meeting of the Authority on March 18th 2021 follows the broad headings provided in the inquiry's terms of reference in order to assist with assimilating our views into the inquiry's own debates.

SouthYorkshirePensionsAuthority

1. What are the main barriers for investors and companies?

The most significant barriers that we see in this area for investors are:

- The balance between fiduciary duty and addressing what present as non-financial issues, particularly in the context of the current stage of the transition where company valuations (for example in relation to oil and gas reserves) do not yet appear to fully reflect the impact of the move away from a carbon based economy. This presents a challenge for investors (and investment managers) who might, all other things being equal, wish to not invest in such companies but cannot make a financial case for doing so.
- The fact that such a great proportion of carbon positive investment options are in private markets which some, particularly smaller, funds find it difficult to access, although this is an area where pooling should be able to achieve a positive benefit. Even allowing for this, though no investor can afford to tie up too great a proportion of their portfolio in illiquid assets of this type, placing an effective ceiling on investments in private markets which can support the transition.
- The focus on a simplistic and time consuming debate over exclusion. The stores of capital represented by large companies such as BP and Shell will have to be a fundamental part of financing the transition and if that transition is not to negatively impact communities that are hugely dependent on these major employers then engagement and influence from investors, particularly those with a stake in a place like LGPS will be crucial. Failure to re-purpose these stores of capital makes the risk of an “unjust” transition even greater.

From the point of view of companies the key issues would appear to be:

- Realism as to timescales. In an ideal world it would be possible to switch off carbon intensive industries and processes and instantly replace them with low or no carbon alternatives, and from the point of view of companies this is what many lobby groups are seeking. Instant change is more likely to see the sort of negative effects caused by the closure of the coal industry, like the rapid withdrawal of major employers from communities. Companies need to be given time to adapt, however, in exchange for this there needs to be an open commitment to their transition plan signed off by shareholders following appropriate consultation with affected communities.
- The scale and nature of investment required, particularly where new technologies are required, for example in industries like steel making. While some competitors are still using older technologies or not transitioning away from carbon, companies that are doing so can find themselves at a competitive disadvantgage which is not in the interests of shareholders. Clearly this can impact decision making by companies.

2. How might government and those responsible investors signed up to a just transition raise awareness and stress the importance of a just shift to net zero, including throughout the investment community and across government?

The last 12 months have seen a sea change in the way in which investors view ESG issues and risks. This is precisely the moment to capitalise on the holding of CoP26 in Glasgow and move the debate forward. The increasing use of the UN Sustainable Development Goals (SDG's) as a framework for understanding the wider impact of investments is potentially a key lever in changing understanding and gaining support for the Just Transition.

There are already a wide range of channels and organisations through which such information can be disseminated across the whole investment community and subsets of it such as LGPS, ranging from the Institutional Investors Group on Climate Change (IIGCC) to the Local Authority Pension Fund Forum (LAPFF), and it would not be helpful to create further organisations in an already crowded space. Government and leading investors can work through these organisations to promote best practice, while investors signed up to the idea of a Just Transition can publicly report on the impact of their investment decisions which will help create a wider understanding of the opportunities available in this space and encourage others. The creation of the perception that full recognition of climate and transition risk "is the way to do investment strategy" through means such as this will create a positive momentum in the industry, as has been seen in relation to the broader sweep of ESG issues during the Covid-19 pandemic.

The prominence given to the consideration of transition risk by this sort of process will transmit itself to investee companies who will recognise the need to address these investor concerns, particularly where this is supported by effective engagement activity.

Government specificlally can either through regulation or guidance encourage investors, and particularly asset owners such as pension funds, to pay more than lip service to climate change and the wider responsible investment agenda. Progress is already being made in this direction through the proposal to require reporting in line with the TCFD, but this could perhaps go further by the mandating of stewardship code compliance (currently only a "should" for LGPS funds). Government could also consider providing more active support for the Net Zero Asset Owner movement given that the goal of Net Zero by 2050 is written into UK law.

3. **How can investors assess and report the level of risk of not considering a just transition? And what support and regulations are needed from government?**

This is a very difficult area and while data and measurement are important it is vital that progress is not delayed waiting for the perfect data set. The move to make reporting in line with the requirements of TCFD mandatory will be helpful but this focuses on climate risk and the move to net zero. Important though this is it is only half the story and the wider impacts of the transition are not an area of focus. The wider understanding of the impact of the transition will only come through some wider reporting of the impact of all elements of an investment portfolio. The latest version of the UK Stewardship code indirectly moves investors in the direction of reporting in this way, however, adoption is not mandatory across the industry (although within the statutory guidance for LGPS funds it is something funds "should" do) and the level of commitment to fully meeting the requirements of the Code is likely to be patchy in these early years, and there is currently no standardized framework for understanding these wider impacts, although there is a clear trend to the use of the SDG's in this space.

The ideal situation would be for all investors and asset owners to be required to publicly report on the impact of their portfolios in the widest sense using a common framework of the SDG's. This would allow the identification of issues such as where a positive impact on climate has a negative effect on fair work which would imply an "unjust" transition. To achieve this would require statutory backing for the Stewardship Code and also some additional refinement to the Code, although such refinements would very much be with the grain of the new Code.

4. How can local authority pension funds, whilst exercising their fiduciary duties, invest in a just transition and the opportunities created? And what role is there for government to create and support new opportunities?

The opportunities in the transition to a low carbon economy are clear, as a society we will need to create new industries to replace those that have no future and fundamentally change industries that will need to continue (such as steel and cement making) so that they can operate in a post transition economy. Businesses will need to raise capital for their adaptation process, but will only be able to do so where there is a commercial case and LGPS will only be able to invest where the return from that commercial case is enough to meet the return target which allows them to meet their liabilities. But we also need to be reasonable in the expectations we set around this. It would not be appropriate for example for the climate transition to be the only investment theme reflected in a portfolio as large as SYPA's and while absolute limits would be impractical and counterproductive creating a climate where the climate transition should be a part of the opportunity set examined by investors is an important signal.

The key challenge is how to bring viable opportunities and investors together at sufficient scale for larger investors such as LGPS to be able to participate in the transition process, much of which is currently being financed in the less liquid private markets. Some of this will happen through fund managers who are already operating in the market place, and the climate transition is a significant investment theme across private markets both in the UK and globally. But some businesses and some localities (certainly in the UK) find it difficult to attract fund managers interest regardless of the quality of the opportunity. There may well be a role here for LGPS funds to work together to commission specific funds or add targeted sleeves to managers funds, both ideas which have already been tried on a small scale by a small number of funds and fund managers.

There is a challenge around mindset, if investors go out positively looking for opportunities to invest in things that support the transition, or any other specific characteristic, and which deliver their required return and risk characteristics they will find them, as we have demonstrated with our portfolio of local development loans. Too often fiduciary duty is used as an excuse for lack of imagination and/or effort in finding the right opportunities. This can be addressed through the sharing of good practice between funds, while the greater resources available within a number of the pool companies will, in time, be able to support a more active search for opportunities.

The structure of some of the opportunities that present themselves in this area may also be a challenge for individual LGPS funds, for example involving direct lending, which funds may not feel equipped to undertake. Again the greater resources available in the pools may be able to assist in addressing this.

There is also a challenge in terms of a mismatch in scale. As a pension fund we are often approached by local organisations seeking to raise finance for initiatives that would support the climate transition but which are too small for us to engage with. The total sums involved mean that the due diligence costs could not be justified however appealing the investment might appear in headline terms. This is an ongoing challenge as so many of the opportunities that have made a real difference in terms of the transition have grown organically from small local initiatives and do not have the institutional scale or infrastructure for institutions like SYPA to deal with them easily. This seems to point to the need for some additional form of aggregator in the marketplace to raise finance for the many small initiatives that will form part of the transition.

5. **How can investors best engage not only with investee companies but also with stakeholders locally, nationally and internationally about the risks and opportunities?**

From the investee company point of view engagement is likely to be more productive if undertaken collectively with a significant weight of shareholder funds behind any engagement. The success of Climate Action 100+ in moving the dial on the climate transition with so many companies shows the benefits of this approach. This approach also needs to be given time to have an impact. It will, though, be necessary to broaden the scope of engagement around climate issues so that it addresses the potential wider impacts of the transition on both businesses and the communities in which business operates, to appropriately emphasise the Just Transition.

Similar approaches may work in other areas, for example internationally an investor coalition with a significant weight of assets behind it may find it easier to engage with governments, as has been the case in the engagement over deforestation with the government of Brazil. Collaborative engagement would certainly be our preference in most areas as this allows a greater level of resource and expertise to be brought to bear on the exercise.

The one group of stakeholders glossed over in the question is scheme members (or beneficiaries). It is incredibly important that as the stewards of their pension fund we explain to them why we regard climate risk as the most significant risk we face in terms of the Fund's investments, and why managing a Just Transition from a "brown" to a "green" economy is central to our thinking. There are clearly a wide range of ways of doing this, but creating a strong dialogue with scheme members enables us to understand their views on the climate transition and other issues and weigh them in the decision making process as appropriate in line with the views expressed by the Law Commission on fiduciary duty. This is, obviously, something that can only effectively be done on a fund by fund basis, although the sharing of good practice through groups like the Scheme Advisory Board, will be beneficial in improving the quality of such engagement across the board.

6. What role is there for government to support a just transition (skills, active labour market policies, economic development, infrastructure investment, investment in communities) and how could investors be part of that process?

Government (local and national) must work with industry to identify those places at risk in the transition to a low carbon economy. In the UK some of these places are likely to be places that are already in some way “left behind”. Government’s role must be to fund those things which the market cannot, which might include skills and other labour market issues but also items such as transport infrastructure where in many cases there is no obvious income stream for investors or where government can borrow money more cheaply than the market. These forms of intervention will support the creation of investable places where business will want to develop the new green facilities that will replace the core of the existing “brown” economy.

Investors can support this process in various ways, for example through supporting commercial development to exploit the investment in infrastructure, a small proportion of which could be speculative. This is the core premise of our local development loan portfolio and of the Lancashire Pension Fund’s allocation to the Preston, South Ribble and Lancashire City Deal area, and of some of the local investment work done by the Greater Manchester fund so there are models which can easily be followed.

On a different tack the development of a programme of “retro-fitting” the housing stock in order to achieve carbon neutrality or reduction will create investment opportunities both in the production and fitting sectors. Such a programme will require government subsidy, or it will not gain sufficient traction to assist in meeting the 2050 goal, but again offers the opportunity to redeploy resources from “brown” to “green” sectors within the economy on a very significant scale given the volume of work that will be required.

Probably the most important role for Government, though, is the atmosphere it creates. If Government solely focuses on the transition regardless of the conseqnuences then we will see a situation analogous to the decline of coal in the 80’s. However if Government sets out an ambition for the transition that “no place will be left behind” and backs that with a framework of interventions which address key blockages to investment in the green ecomomy in particular places then business will get the message and buy in to a just transition, because it will become the way in which transition is done.

7. What lessons can be learnt (both successes and failures) from the UK and abroad about previous initiatives to support people and places as their economy has experienced industrial change? And what initiatives are already underway that can be drawn on?

In the Authority's view there are a number of crucial lessons that need to be learnt from the transition away from coal which impacted our place from the early '80's onwards the scars of which our communities are still dealing with.

Firstly transition needs to be planned and managed. This means that companies and government need to share information about those industries and facilities that ultimately will have no place in a net zero economy, and come to an agreement about what will replace those industries and facilities. For example if an oil company is closing a refinery but making a move into being an energy producing and distributing company will the site of the refinery be useable for producing elements of what the reconfigured business requires. Without action of this sort the places affected by this latest round of changes will become "left behind" in the same way as so many mining communities were in the 1980's. Planning and management of this sort needs to be locally led and nationally supported rather than nationally driven in some sort of latter day 5 year plan. Equally though it requires government to set out an ambition that "no place will be left behind" in the transition, something that President Biden has begun to articulate in the US.

Secondly companies, investors and the wider public sector need to accept clearly defined roles in such plans. Investors like LGPS can help companies finance the investment they need to make in, for example new production facilities, while investment from the wider public sector can be targeted to support re-skilling and the development of alternative sources of employment. For investors such as LGPS it is vital that the defined role fully respects the prime importance of their duty to ensure that they make a return sufficient to meet their liabilities when due.

Thirdly local communities need to be engaged and involved in the transition, rather than it being something done to them by outside forces, whether that be the forces of capital in terms of industry or the forces of the state in terms of government. If people are engaged in and understand the change that is occurring they will be much more prepared to support the change that is necessary even if it does result in some short or medium term difficulties. This reinforces the need for such change processes to be locally led, and accountable.

Finally the approach must be timely. Specific efforts by national government in the UK to address the aftermath of the closure of the mines were too late. The sorts of intervention discussed above, if they are to have impact need to happen alongside, and preferably ahead of the transition from "brown" to "green".

What we are suggesting requires a genuinely joined up response focused on individual places harnessing both state and non-state actors. As far as we are aware this is not something that is being proactively considered in the UK, but there do seem to be some examples in Germany, where the refocussing of RWE's business presents similar challenges for some communities to those faced by British mining communities in the 1980's, and which will no doubt be faced as the oil industry winds down some of its larger scale operations in the coming years.

Conclusion

In conclusion the Authority believes that LGPS funds can play a specific positive role in the transition to a low carbon economy reflecting their unique connection to specific places, while still maintaining the entirely appropriate primary focus on ensuring that funds are available to pay pensions when they become due.

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Subject	**Investment Beliefs**	**Status**	For Publication
Report to	Authority	**Date**	18th March 2021
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Director	**Phone**	01226 772887
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

1.1 To secure approval for an updated statement of investment beliefs providing greater clarity and focus in relation to responsible investment, following the evolution of the Authority's policy position in this area.

2 Recommendations

2.1 Members are recommended to:

a. **Approve the statement of Investment Beliefs set out in the body of this report.**

3 Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Responsible Investment

To develop our investment options within the context of a sustainable and responsible investment strategy.

The Authority has long considered responsible investment a cornerstone of its approach to the management of its investment portfolio. The proposed statement of beliefs is intended to provide more focus to this activity and set other actions such as the commitment to net zero in a broader policy context. Further to the decision of the authority on September 30, 2020, the Authority's goal is for carbon emissions from the totality of its investment portfolio to be zero by 2030.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report do not address specific risks identified in the Corporate Risk Register, however, they do support a general approach to investment intended to focus on the long term sustainability of what is being invested in and to therefore ensure the liabilities of the Fund are met in the longer term.

5 Background and Options

5.1 In September 2019 the Authority approved the following statement of investment beliefs:

*"SYPA is an **active, global, long term** investor and looks to maintain a **diversified** portfolio of assets managed through the Border to Coast Pensions Partnership in a **responsible** way which gives due regard to **Environmental, Social and Governance** issues aiming to achieve superior **net of fees risk adjusted returns**. The overall approach to risk can be summarised as **moderate.**"*

5.2 This statement is supported by further definitional statements setting out what SYPA means by each of the terms in bold. Since the approval of this statement the Authority's thinking and policy position has evolved in a number of ways, in particular through the adoption of the goal of achieving net zero portfolios by 2030. It is therefore appropriate to expand somewhat on the responsible investment element of this statement, given that members have made clear that this is absolutely central to how they wish the Authority to manage the Fund's investments.

5.3 In order to support this process and ensure that the end product reflects the views of Authority members during November 2020 members participated in a workshop facilitated by Pensions for Purpose the aim of which was to provide greater refinement and focus to the Authority's approach to Responsible Investment. The workshop used the framework of the UN Sustainable Development Goals (SDG's) to provide a framework for considering the issues which members considered presented the greatest risks and also the greatest investible opportunities. The intention behind this work was to create a statement of what SYPA means by responsible investment beliefs to support the overall statement of investment beliefs.

5.4 While members' considered a wide range of the 17 sustainable development goals to be significant priorities for global action when refined to those which were considered as investible the top 3 areas were:

- SDG 13 – Climate Action
- SDG 6 - Clean Water and Sanitation
- SDG 7 – Affordable and Clean Energy

5.3 Clearly it is possible to make successful investments across the wider range of SDG's, and the Authority will wish to do so where appropriate within the overall investment strategy, but these were the three where members saw a combination of high priority alongside investment potential.

5.4 When taken with existing policy positions it is proposed to translate this prioritisation into the following beliefs statement:

South Yorkshire Pensions Authority believes that investing in well governed and sustainable assets is key to delivering the long term investment returns required by the Pension Fund. The Authority's goal is for carbon emissions from the totality of its investment portfolio to be zero by 2030 (the "Net Zero Goal") and has developed a net zero action plan to chart its route to this goal. This action plan includes the *incorporation of this Net Zero Goal in the Authority's investment beliefs and investment strategy, and contemplates frequent review of the performance of its investments within the context of this goal, as well as monitoring of the delivery of the commitment and the transition towards it.*

We believe that well governed assets will present the following characteristics:

- *A recognition of the key risks to the long term sustainability of the business, in particular climate change, and will have created action plans to address these risks over reasonable but not unduly prolonged timescales;*
- *Transparency in their governance, balancing the interests of shareholders, executives and other stakeholders including the workforce;*
- *Respect for the human rights of the communities with which they interact and their various stakeholders;*
- *Acknowledges the environmental impacts of their activities and takes steps to minimise and/or mitigate them.*

The Authority expects those managing money on its behalf to reflect these factors in their investment process and where specific risks or concerns are identified to engage with assets in order to ensure that these characteristics are met. Engagement activity will:

- *Have clear and specific objectives;*
- *Be time limited;*
- *Where unsuccessful link to clear consequences reflecting the degree to which the investment thesis for the asset has been undermined by non-compliance.*

The Authority will report each year on the impact of its investment portfolio on society using the framework of the UN Sustainable Development Goals and will where possible, given the constraints of pooling, seek to prioritise investments which address the opportunities presented in relation to:

- *SDG 13 – Climate Action*
- *SDG 6 - Clean Water and Sanitation*
- *SDG 7 – Affordable and Clean Energy*

The Authority's fundamental belief is that this approach is entirely consistent with securing the long term returns the Pension Fund is required to deliver, and that it is therefore in the best interests of both scheme members and employers.

In line with the net zero action plan the Authority will also report every year on the performance of its investments within the context of its Net Zero Goal, as well as on the delivery of the Net Zero Goal and the transition towards it.

5.5 The statement provides clarity on what we expect both of underlying assets and those managing money on our behalf while not being inconsistent with the broad approach taken over many years, or with the policy framework developed collaboratively through the Border to Coast partnership.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	None directly.
Human Resources	None
ICT	None
Legal	None directly from approval of the statement, however, the Authority will need to continue to carefully weigh the both financial and non-financial issues in its decision making in order to ensure that it is complying with its statutory duties.
Procurement	None

George Graham

Director

Background Papers	
Document	**Place of Inspection**

Agenda Item 13

Subject	Net Zero Action Plan	Status	For Publication
Report to	Authority	Date	18th March 2021
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Director	Phone	01226 772887
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

1.1 To gain approval for the Authority's action plan for the achievement of its Net Zero Goal

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2 Recommendations

2.1 Members are recommended to:

a. **Approve the Net Zero Action Plan set out in Appendix A.**

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3 Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Responsible Investment

To develop our investment options within the context of a sustainable and responsible investment strategy.

In focussing on delivering the Net Zero goal the Authority must maintain its focus on the achievement of the investment returns required to meet its liabilities when they fall due. The action plan at Appendix A seeks to achieve this balance between two of the corporate objectives which must have equal priority given the statutory duties of the Authority.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report specifically address the risks in relation to climate change included in the Corporate Risk Register which are the highest scoring risks facing the Authority at present.

5 Background and Options

5.1 At its meeting on 30th September 2020 the Authority agreed to set the goal of making its investment portfolios net zero in terms of carbon emissions by 2030. This is, as was explained at the time, a very aggressive time scale for action of this sort. The BT Pension Scheme which is considerably larger than SYPA has committed to a 2035 goal and other schemes are looking at or have committed to 2040 or 2050, in line with the Paris agreement. Thus SYPA is looking to move further and faster than its peers to net zero and has to do so within the context of the pooling process which to some extent, particularly when looked at together with key elements of our investment beliefs, limits our flexibility.

5.2 Achieving Net Zero is a journey and the Authority's view in setting the 2030 goal was clearly that the journey needed to begin and be undertaken at pace. Thus we will need to do a number of things at the same time rather than wait for the completion of one piece of work before beginning the next. This is reflected in the Action Plan attached for approval at Appendix A. We do need to understand our starting point through the measurement and reporting work that has already been commissioned but we do know that achieving the goal will be heavily dependent on reducing emissions from the listed equity portfolios which are the largest single asset class in which we are invested. The Action Plan therefore seeks to initiate progress on a number of fronts now in order to create momentum towards the goal.

5.3 The road to Net Zero is not going to be a straight line, and while more precise targets will be developed when better data is available it is clear that progress is likely to be lumpy, with key strategic changes having a significant impact while the actions of investee companies contribute a steadier underlying positive trend in emissions. Thus it will be important to maintain focus on the end goal and the direction of travel rather than individual way points, which is what the approach laid out in the Action Plan seeks to do.

5.4 On its own this Action Plan will not get us to Net Zero, we will need further iterations that make adjustments to reflect the progress made, and at the next review of the investment strategy Net Zero needs to become a key part of how we do investment rather than an overlay added in later. We will also need to devote considerable resource in terms of member and officer time to managing the implications of the Net Zero goal for our involvement within Border to Coast.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	There are no direct financial implications arising from this report. The Action Plan highlights the need to use a number of processes, such as the investment strategy review, which are already budgeted to facilitate delivery of the Net Zero goal.
Human Resources	There will need to be an increased level of training in this area for some staff directly involved in the delivery of the Action Plan which will be identified through the appraisal process and can be delivered within existing training budgets.
ICT	None
Legal	As indicated in the body of the report and in the action plan the Authority must ensure that it continues to demonstrate a focus on its duty to meet the obligation to pay pensions when due while at the same time positively addressing climate change. The two need not be incompatible, but there is a tension of which the Authority must remain aware and stay on the right side of.
Procurement	None

George Graham

Director

Background Papers	
Document	**Place of Inspection**
IIGCC Net Zero Investment Framework	Presentation: Net Zero Investment Framework – IIGCC

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SOUTH YORKSHIRE
PENSIONS AUTHORITY

Action Plan for Delivering the Net Zero Goal

March 2021

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Introduction

"A journey of a thousand miles begins with a single step"

Chinese Proverb found in the Tao Te Ching written between the 4th and 6th Centuries BC

At their meeting on 30th September 2020 members agreed to include within the Authority's Responsible Investment Policy Framework a commitment to making its investment portfolios net zero in terms of carbon emissions by 2030. In doing this members requested that a plan for achieving this be brought back for consideration within six months. This document is that plan, which is the first step on SYPA's journey to net zero.

The goal which the Authority has set for itself is ambitious but that ambition is founded on the belief that institutions such as SYPA need to show leadership in order for the required change to be delivered with the overall degree of urgency required by the position in which the world finds itself. In that context this plan is simply the starting point. The climate challenge that the Authority wishes to address is urgent and in doing so we should not allow the perfect to be the enemy of the good, we need to make progress now so that we can begin the journey to net zero as quickly as possible.

This Action Plan has been developed using the Institutional Investors' Group on Climate Change (IIGCC) Net Zero Investment Framework. This recognises that there can be no "one size fits all" route to net zero, investors like SYPA need to focus on maximising efforts that achieve decarbonisation in the real economy. This requires a comprehensive investment strategy led approach supported by concrete targets (at portfolio and asset class level) combined with smart capital allocation and engagement and advocacy activity. Such a strategy led approach must not just deliver emissions reductions, but also increase investment in the climate solutions which we need to achieve net zero. This approach will reduce the exposure of SYPA's investment portfolios to climate risk while increasing their exposure to climate opportunity, thus providing greater long term protection for our scheme members' savings.

All of this does, of course, need to be seen in the context of our participation as one of 11 partner funds within the Border to Coast Pensions Partnership and we will need to work with and gain the co-operation of the other partners and the operating company in order to achieve our goal.

This first step highlights a number of significant gaps in our knowledge, although those gaps are common across the investment community; our plan is both to fill in those gaps as far as possible and take specific actions in parallel in order to make full use of the relatively short time available to us to achieve net zero. We already report in line with the requirements of the Task Force on Climate Related Financial Disclosure and each year in our Annual Report we will present our progress both in delivering this action plan and towards achieving net zero.

This plan will need to be developed further as we better understand our current position and we will do that as information becomes available.

Defining the Goal

Before putting in place a strategy to achieve the goal of net zero it is important to understand what we mean by it and importantly how it will be measured.

What we are seeking to achieve is that the net level of carbon emissions from the holdings in our investment portfolio equals zero. In itself this seems simple. However, there are a number of ways of defining carbon emissions and it is important that we understand which of these we are using so that we can pull the right levers in order to achieve our goal.

The accepted standard for defining (and measuring) carbon emissions has "3 scopes".

Scope 1 emissions are direct emissions from company-owned and controlled resources. In other words, emissions released to the atmosphere as a direct result of a set of activities, at a firm level.

Scope 2 emissions are indirect emissions from the generation of purchased energy, from a utility provider. In other words, all GHG emissions released in the atmosphere, from the consumption of purchased electricity, steam, heat and cooling.

Scope 3 emissions are all indirect emissions – not included in scope 2 – that occur in the value chain of the reporting company, including both upstream and downstream emissions. In other words, emissions that are linked to the company's operations.

Companies reporting in line with the requirements of the Task Force on Climate Related Financial Disclosure Standard (TCFD) must report on Scope 1 and 2 whereas reporting on Scope 3 is voluntary and as will be clear from the definition incredibly hard to measure with the significant risk of double counting as between direct producer and indirect consumer organisations. However, the data reported by fund managers to the Authority makes no distinction as to these different types of emission, and while a restricted definition might make a 2030 goal easier this is not practical and would leave the Authority open to the accusation of avoiding the key issues in emissions reduction.

Therefore for the purpose of delivering the Authority's Net Zero Goal the following definition will be used.

"The Authority's goal is for the net carbon emissions from the totality of its investment portfolio to be zero by 2030."

While concentrating on scope 1 and 2 emissions allows the Authority to set targets which are comprehensible and where data is likely to be available, this position will need to be kept under review as more data becomes available and the investment impacts of using specific measures becomes clear. Measurement and regulation are continually developing in this area and to a significant degree we are going to be trying to hit a moving target, particularly in the next few years when the pace of change in these areas is likely to be greatest.

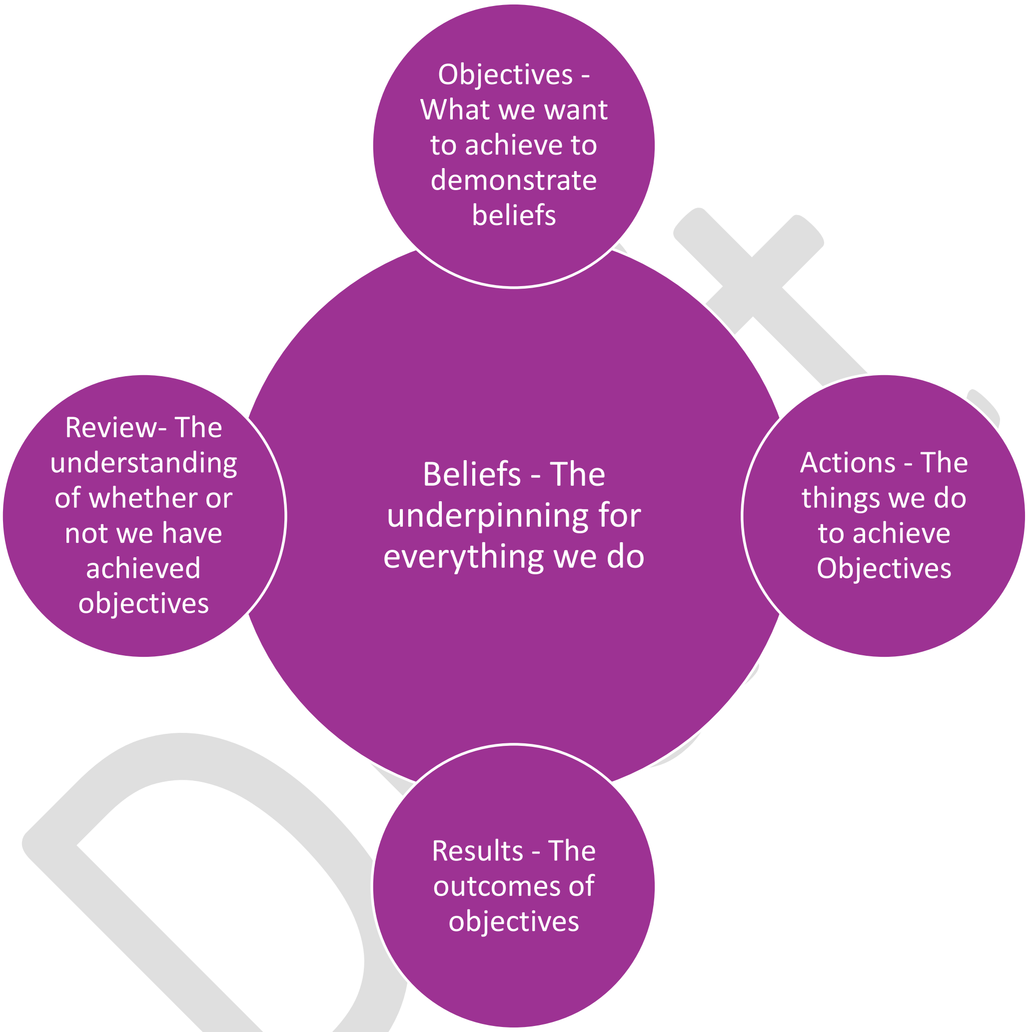
It is also the case that the measures identified within these definitions are of necessity backward looking and so thought will need to be given to adding a more forward looking element to the definition to ensure that investment opportunity is not lost in too great a focus on backward looking data.

In addition the Authority will separately seek to make the remainder of its operations carbon neutral over the same timescale with relevant actions included in future iterations of the corporate strategy.

Governance and Strategy

Getting the governance and strategy right mean that the organisation will retain focus on specific goals and will have decision making processes which are able to receive understand and react to information on progress to specific goals as it comes through.

This is illustrated as a cycle in the graphic below



Everything we do needs to start with beliefs, they provide the framework within which we develop objectives which lead to us taking actions which lead to results which we then review to see whether we have achieved our objectives, and so the cycle goes on.

In making any decisions in relation to any of the stages of this cycle it is important to remember that the Authority is required by the LGPS Investment Regulations to ensure that it has taken proper advice. In most cases this will be provided by a combination of officers and the independent investment advisers, but in this area there is likely to be a requirement at various points for additional specialist advice. Given the requirement to pool which is placed on LGPS funds there is also a need to ensure that Border to Coast are engaged with the Authority on this journey.

The specific actions required to give effect to the structure outlined above are set out in the table below:

Ref	Action	Responsibility	By When
SG 1	Agree Investment Beliefs Reflecting the Commitment to Net Zero	Authority	March 2021
SG 2	Revise Investment Strategy following 2022 Fund Valuation directly reflecting Net Zero Commitment, including further scenario and transition path analysis (to be repeated in each triennial strategy review).	Head of Investment Strategy	March 2023
SG 3	Review performance of all investments in the context of the Net Zero Commitment on a rolling basis.	Director	Ongoing commencing 2020/21 Annual Report
SG 4	Monitor the delivery of the Net Zero Commitment and the transition path on an annual basis	Director	Ongoing commencing 2020/21 Annual Report
SG 5	Create a forum to engage with Border to Coast to identify how they can assist and support the Authority on its Net Zero journey.	Director	April 2021

As things stand while we are aware of the level of emissions and carbon intensity of the Authority's equity portfolios (roughly 50% of investment assets) we have significantly less visibility in relation to the rest of the portfolio which includes a number of specifically carbon neutral or carbon positive investments. Thus we do not know the distance we have to travel in order to achieve the Net Zero Commitment, or whether our portfolio is on a pathway for net zero by 2030, 2050 or some other date. Hence in order to effectively deliver the items 3 and 4 above it is necessary to commission the data gathering work approved by the Authority in September 2020.

The investment strategy was last reviewed following the 2019 fund valuation and is in the process of being implemented. While it is not possible to quantify the impact in carbon terms the movements involved in the new strategic asset allocation are in a less carbon intensive direction, for example out of UK equities where the benchmark index is heavily weighted towards extractive industries, and into infrastructure which is heavily focussed on renewables. Given the need to complete implementation of this strategic review and for any review to address the level of liabilities which the Fund's investments need to meet any detailed strategy changes need to await the next scheduled review. However, as set out below work to address the carbon metrics of individual investment products and to exploit the investment opportunities offered by the move to a low carbon economy are things that can be done now ensuring that progress does not need to wait on the overall review of the strategy.

Setting Targets Objectives and Reporting

Measurement and reporting will be central to how we drive forward the changes that are required in order to achieve the net zero commitment. The detail of these will flow from some of the strategic work set out in the previous section and from the work mentioned elsewhere to establish a comprehensive baseline position which enables us to understand how far we have to travel to achieve net zero.

In simple terms what we are seeking to do is establish a set of steps to reduce carbon in each element of the portfolio over a given time. How this will be achieved for individual asset classes is the subject of the next section of this plan.

This section of the framework deals with the four outer circles in the diagram on page 5, which can be described as the "plan do review" cycle.

At this stage given that we do not know how far we have to travel setting targets at individual mandate or portfolio level is difficult. However, we need to be in a place to do that so that they can feed into the reviews of individual mandates and investment products as well as the overall review of the investment strategy. Again this emphasises the importance of the data gathering that is being commissioned to establish the baseline position for the whole portfolio.

In the interim we will need to accept that setting the path of emissions for portfolios where we have data on a downward trajectory will be the best we can achieve.

The other key consideration here is that we are not the only investor in the products in which we are invested and while in terms of the Border to Coast internally managed funds we can seek to influence we cannot dictate. Nor are we able to simply switch into a carbon neutral fund because the pool does not offer one, and to do so would require a fundamental change in the Authority's longstanding investment approach (either in terms of active v passive management, or in terms of internal management v much more expensive external management) which we do not believe is justified. These issues are dealt with in more detail in the next section of this document.

Setting targets alone is not enough. We need to be held accountable for our progress towards those targets, which means we need to report publicly on our progress towards the net zero goal and also on the specific steps we have taken towards that objective.

Ref	Action	Responsibility	By When
TR1	Following Investment Strategy Review identify interim targets leading to net zero	Director / Head of Investment Strategy	March 2023
TR2	Work with Border to Coast and other investors in relevant products to ensure mandates and performance objectives specifically reflect the Net Zero Commitment	Head of Investment Strategy	Ongoing commencing April 2021
TR 3	Conduct an annual review of progress towards Net Zero and make adjustments to either targets or implementation approach as necessary while continuing to meet return objectives	Head of Investment Strategy	Annually from April 2022

Asset Class Implementation

The products in which the Authority invests are all made up of very different sorts of asset which have different characteristics, therefore it is highly unlikely that one approach to implementing net zero will be applicable across such a wide range of assets ranging from farm land to private equity investments in tech start-ups, through traditional instruments such as shares and bonds.

This section of the document looks at each major asset class in turn and identifies an initial approach which reflects the need to focus on the real economy and the practical issues associated with operating within the context of pooling, where the Authority is not wholly in charge of its own destiny. All of this also needs to be set within the context of the Authority's broader beliefs about how to do investment.

Specifically the Authority believes in:

- Being an active investor – This means picking the best stocks to invest in using the skill of individual managers. However, our moderate risk appetite means that while we believe in active investment we invest in active products that maintain broad portfolios within a particular asset class and select the best companies in particular sectors as opposed to highly active products which would select both companies and sectors, and thus generate much more concentrated portfolios.
- Being a global investor – This means that we will be exposed to investment in emerging economies such as China and India where the stage of development means that economic growth is sometimes being driven by companies in industries such as cement which are high emitters.
- Managing money internally wherever possible – While we now invest through Border to Coast for listed assets we look to the company, where possible, to provide products using its own team rather than external managers. This makes changing products more difficult as a wholesale switch away from the current range of products could significantly undermine and destabilise this important aspect of what Border to Coast offers to its partner funds.
- Engagement over divestment or exclusion – The Authority has long operated on the basis that it seeks to influence companies through engagement, this is part of being rooted in the real economy. However, this is a position that is likely to be challenged in some areas by the setting of such an aggressive timescale for achieving net zero.

As we progress along the road to net zero (and further along the pooling journey more generally) these beliefs about how to do investment are all likely to be challenged in different ways and the Authority will need to at some point to consider whether it continues to support each of these propositions or whether it needs to take a different approach. However, in doing so it will need to consider not just the achievement of the net zero objective but its primary responsibility which is to ensure that the pension fund is able to meet its liabilities.

The other contextual factor to be considered before looking at the approach in each asset class is the fact that the Authority (like all other LGPS Administering Authorities) is part of a pool and needs to secure the co-operation of the other partner funds within Border to Coast in order to make progress where changes are required to investment products. While there is a broad consensus within the Partnership about the significance of climate risk there is, as yet, not a consensus over the means of addressing it, although there does appear to be movement towards the idea of targets. Clearly this will significantly influence the pace at which the Authority can move.

The following sections deal with each asset class in turn.

Listed Equities

The Authority's listed equity investments are managed against benchmark indices with a performance target of 1% over the benchmark and a core risk tolerance of a 3% tracking error. This latter tolerance limits the scale of "active bets" (i.e. the degree of divergence from the index) which the fund manager can take.

It is possible to make changes to the way in which these products are structured, and within the current limits for managers to make larger "active bets" but it is important to do so in a way which does not undermine a well-established and successful investment process, and lead to poor performance in products which have performed well historically and since the assets and the investment team were transferred to Border to Coast.

Border to Coast have begun exploring how these products could be developed to become more climate aware and this work will be brought to investors during 2021/22. This could involve changing the benchmark index to one that is more climate aware. However, this can have unintended consequences (such as the potential in the UK to increase tobacco exposure, or more generally an increase in exposure to banks) which is why further discussion with investors is required before implementing any changes. For the Emerging Market Fund the move to include a more concentrated China portfolio with external managers during the second quarter of 2021 will reduce carbon emissions in the portfolio as a first step. Importantly this change is being made to improve the overall management of the Fund and not for reasons associated with climate showing the balance of the different considerations which are part of the investment decision making process.

Any initial changes to these portfolio will be in place before the next investment strategy review and it will be possible to have a clear view of their impact to allow discussions to take place about whether further changes are required in order to achieve the targets which will have been set by that point. Changes beyond those currently being considered could include the exclusion of specific sectors from the investment universe and these are likely to be contentious with other investors, highlighting the tension between what might be seen as "virtue signalling" and the need to act within the context of the real economy to seek to redirect stores of capital to adapting to a low carbon future.

However, listed equities are the single largest asset class in which the Pension Fund is invested and in order to achieve SYPA's ultimate goal, on a straight line basis it will be necessary to reduce the contribution to aggregate emissions from these portfolios by at least 50% by 2025. This could be achieved in a number of ways depending on the outcomes of the review of the investment strategy following the 2022 valuation, and on the views of other investors in the funds.

An important feature of investment in listed equities is the voting rights which are conferred on asset owners. The way in which the Authority, through Border to Coast, chooses to exercise these voting rights has the potential to accelerate progress by companies towards net zero. The Border to Coast voting guidelines already say that votes will be cast against the reappointment of board members where companies are not making progress towards net zero as assessed by the Transition Pathway Initiative (TPI). Once this position has bedded in it will be appropriate to review its impact and consider whether a further strengthening of the voting position would be helpful in achieving the net zero goal.

The ability to exercise voting rights is supported by engagement with investee companies. Most engagement activity is undertaken by Robeco, acting for Border to Coast (the actual share owner in the pooled products). For the coming year two additional engagement themes around "acceleration to the Paris Agreement", and climate transition of the financial sector have been added to the Net Zero theme. Border to Coast are seeking to develop clearer tracking and reporting in this area. Successful engagement on these issues will, likely, hasten progress towards net zero, and engagement will need to remain a key tool in the armoury in order to ensure that companies in which the Authority is invested meet their commitments to reducing emissions.

Both the Authority and Border to Coast are also members / supporters of a number of investor bodies in the climate space such as the Institutional Investors Group on Climate Change (IIGCC) and Climate Action 100+. Involvement in groups such as these can be used to assist in tracking the progress of individual companies towards Paris alignment but can also be used to assist in influencing the development of standards in relation to data and measurement for adoption by investee companies.

While, should the current funding level be maintained, through the 2022 valuation it might be expected that there would be some further reduction in equity exposure the Fund will continue to be open to the building up of new liabilities which means that there will be a need to maintain a fairly significant proportion of growth assets within the portfolio. Thus equities will likely continue to be the single largest asset class and therefore the emissions performance of these portfolios will be crucial to the achievement of the net zero goal.

Fixed Income

These portfolio are handled by a mixture of internal and external managers within Border to Coast products, using a variety of performance targets against a benchmark index. The favoured investment styles within these products tend towards relatively low turnover approaches which seek the best credits to buy with little reference to the composition of the index.

Emissions data is less available within fixed income than in equity investment, although for corporate credits there is the ability to use the same underlying data for both types of investment. However many of the credits included in these portfolios are from sovereigns or multi-lateral institutions (such as the European Investment Bank) where the calculation of emissions data is much more difficult. While it is possible to engage with corporate bond issuers in the same way as for equities this is not possible for sovereigns and multi-lateral institutions so the ability to influence behaviour is not present in the same way.

Fund managers in this space do seek to engage with corporates and there is an increasing issuance of "green bonds" both by corporates and governments which will begin to form part of portfolios where they meet the wider investment criteria, although currently the scale of issuance means that the supply of such bonds is currently not always great enough to be investable while yields are slightly lower than the market as a whole making them less attractive as an investment. These are issues which will be resolved through market forces over time.

However, at this stage until data is available we are to a great degree "flying blind" therefore the immediate actions alongside encouraging managers to both engage more actively and consider "green bonds" where they are genuinely investable, are to gather relevant data so the baseline can be established which will allow a move to setting of targets although this will require the agreement of the other investors in the Border to Coast products.

Alternatives

While there are three asset classes within alternatives (Private Equity, Private Debt and Infrastructure) these will, at this stage, be considered together.

The key initial issue here is the lack of data, which is being addressed, to some extent, through work already commissioned by the Authority. However, we cannot manufacture data where it does not exist and to some extent we will be dependent on movement in market expectations driving fund managers to provide the data we need, including the implementation of some new legislation during 2021.

Regardless of the data issue though alternatives are the area where Net Zero provides the greatest opportunity. We already have significant investments in renewables and other investments which support the transition (such as electric trains replacing more polluting diesels), and the low carbon transition is a clear investment theme within these portfolios. This will over time result in a build-up of assets with positive characteristics.

Any investment portfolio of the scale of SYPA’s alternatives portfolio is likely to contain some investments which could be regarded as “carbon negative”. Given the “blind pool” nature of many of these funds this is almost inevitable. The work commissioned on data should allow at least some of these to be identified, and it will then be necessary to consider whether any action is appropriate. By their nature alternatives cannot just be bought and sold like listed equities and secondary sales very often result in a loss of value, so it is likely to be necessary to hold such investments to maturity, and acquire additional carbon positive investments to offset them.

Any investment portfolio needs to maintain a degree of diversification, even so it is possible to, and can be beneficial to emphasise one investment theme over others particularly where that theme is riding a significant trend in the real economy. This has been seen historically in tech focussed private equity funds for example. Therefore it would not be unreasonable to seek to emphasise low carbon or transition supportive investments within the alternatives portfolios. The question that arises is how to achieve this within the context of pooling. The Authority has made a small number of investments (in renewables and clean energy) outside of the Border to Coast framework but these have either been follow on investments or in listed alternatives vehicles (which will ultimately be pooled), and have been part of a process of bringing the portfolio closer to its strategic weight on an accelerated basis while maintaining an even deployment of funds through Border to Coast. However, the potential to do this going forward is likely to be limited as the Border to Coast products mature, and the ability to make complimentary non-pooled investments disappears. Therefore there will need to be discussions within the Partnership about portfolio structuring so that the potential for alternatives to strongly support a Net Zero goal can effectively be realised. There appear to be a number of ways in which this could be achieved and the most appropriate solution will need to be debated and agreed with Border to Coast partners.

Property

The property portfolio provides a number of opportunities in terms of the movement to Net Zero. Again there is a lack of comprehensive data, and there are some challenges in undertaking alterations such as the addition of solar panels where the cost needs to be recovered through service charges, particularly in the current economic climate.

The data that is available should allow us to identify the buildings representing the greatest issue for specific action, and to develop a potential programme of work with tenants over a number of years. It will be important to have this programme agreed and committed prior to any transfer of assets to the Border to Coast pooled product in order to “bake in” progress to Net Zero within this product at an early stage.

In terms of the agricultural portfolio the review recently conducted by the Authority requires the production of a specific plan to address climate issues as part of the overall approach to managing the portfolio.

The table below sets out the specific actions proposed in relation to each asset class.

Ref	Action	Responsibility	By When
AC1	Agree and implement changes to equity mandates following production of proposals by Border to Coast (subject to agreement by other investors).	Head of Investment Strategy	April 2022
AC2	Consider whether further changes are required to the structure of equity products in the light of the impact of the changes made under AC1	Head of Investment Strategy	By December 2024
AC3	Determine whether further strengthening of the voting guidelines in relation to the low carbon transition is necessary in light of the impact of the changes already made	Director	As part of Border to Coast Policy Review Dec 2021and then annually
AC4	Develop a more structured approach to reporting on the results of engagement in relation to climate issues and for the Authority’s involvement with investor coalitions on climate issues.	Director	Documented approach by March 2022 and then to be developed on an ongoing basis.
AC4	Consider the approach to Net Zero for Fixed Income Portfolios in light of the data for each product following the 2021 annual report.	Director & Head of Investment Strategy	Ongoing as part of each annual review of Border to Coast
AC5	Initiate a discussion with Border to Coast about the place of “green bonds” within the Fixed Income Portfolios	Director	As part of the Annual Review of Border to Coast
AC6	Identify through the work being carried out on data any particularly carbon negative alternative investments and consider whether any action is possible	Director	By December 2021 and then as part of the annual reporting process
AC7	Engage Border to Coast in discussion over the best means to achieve a positive bias to supporting the low carbon transition within the alternatives portfolios	Head of Investment Strategy	Ongoing from Sept 2021 leading in to Series 2

AC8	Work with Aberdeen Standard to identify and initiate a programme of improvements to the environmental performance of the commercial property portfolio	Director	December 2021
AC9	Work with Bidwells to identify a programme of further improvements to the environmental performance of the agricultural portfolio as identified in the portfolio review	Director	Plan in place by December 2021

Risks

Achieving net zero by 2030 is a very ambitious goal, and consequently there may be a greater degree of risk that the goal is not achieved than if a less ambitious goal had been adopted. That does not mean that the goal is wrong, simply that the risks are greater, and therefore it is important that we understand the risks so that we can identify actions which can mitigate against them.

The key risks identified are:

Unintended Consequences

Changing one aspect of the way in which we invest can result in unexpected results elsewhere. Thus, for example, adopting a more climate aware benchmark could reduce oil and gas exposure but increase tobacco exposure which could be seen as undesirable for other policy reasons. Similarly a focus on scope 1 and 2 emissions could result in an increased exposure to financial institutions, although they represent very significant different forms of investment risk within a portfolio.

Given this it is important, given that the Authority will wish to continue to invest in internally managed products with a broadly similar risk appetite, that changes affecting the structure of mandates and the investment process are thoroughly researched and debated before implementation which will also require the agreement of other investors.

Inability to Secure Agreement of Other Investors

This is perhaps the most significant risk to SYPA being able to make changes to the way in which money is invested so that net zero can be achieved. Effectively the pooling process means that other investors can block SYPA from achieving its objectives (although equally viewed through a different lens SYPA could be seen as moving others in a direction which is not in line with their objectives). Fundamentally this is a challenge of the pooling process, perhaps magnified by SYPA's commitment to internal management which makes it more difficult simply to change managers. The only mitigation is for all involved to maintain an open dialogue. However, ultimately it may not be possible to secure agreement to changes which are necessary to allow the achievement of SYPA's climate goal. In this case the Authority will need to determine an appropriate course of action within the context of pooling which allows it to meet its financial objectives. This may require the reconsideration of key aspects of the Authority's current investment beliefs, and the weighing of the relative importance of different factors against the achievement of the climate goal.

Data Gaps

As indicated throughout this document this is an area that is bedevilled by gaps and inconsistencies in data. While the Authority has taken action to address this it will on occasion have to act in the absence of data and almost always with limited data. This is to accept that in the initial stage of the process it is important to build a momentum behind measures moving in the desired direction allowing the development of measures and the achievement of comprehensive data to follow.

Transition Cost / Performance Erosion

This risk exists if the Authority decides to make changes in the products in which it is invested solely in order to achieve the net zero goal. It is unlikely that this will be the case. For example in the case of the Emerging Market Equity allocation a reduction in carbon metrics will occur as a result of the restructuring of the China allocation which is being done in order to improve the overall management of the Fund and make achieving its performance objective more likely.

Whenever changes are made to the way in which funds are managed some form of transition cost is incurred. The nature and scale of the change is what determines the scale of the cost. The key issue for SYPA will be to minimise the number of times changes need to be made. The ability to achieve this is constrained by the Authority's success in achieving agreement to a direction of travel with other investors in relevant products and is therefore linked to the previous risk.

In terms of performance the Authority needs at all times to ensure that the construction of its investment portfolio is designed to achieve the actuarial return target. This is always based on assumptions and estimates and will always be subject to market events. Clearly the Authority would not make changes to its investment mandates which were designed specifically to erode performance and any changes need to be made in the context of the overall objective of being able to meet the Fund's liabilities when they become due.

Conclusion

This Action Plan can only be the first step on the journey to Net Zero. The actions it contains will not, in themselves, be enough to achieve the 2030 goal. However, we must start to make progress and the specific steps outlined here will begin moving us towards the Goal while we gather the data which will allow us to make informed choices about the further steps that are necessary.

In this initial stage a stand-alone action plan like this is appropriate. However, in carrying out our next review of the investment strategy we must ensure that Net Zero becomes part of how we do investment rather than something separate which is overlaid on the strategy once it has been developed.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 14

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