

SOUTH YORKSHIRE PENSIONS AUTHORITY

10 JUNE 2021

ORDINARY MEETING

PRESENT: Councillor J Mounsey (Chair)

Councillors: S Clement-Jones, S Cox, M Havard, D Nevett,
C Rosling-Josephs, A Sangar, M Stowe and N Wright

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

Investment Advisors: A Devitt and L Robb

Officers: J Bailey (Head of Pensions Administration), G Graham
(Director), M McCarthy (Deputy Clerk), G Richards (Senior Democratic
Services Officer), S Smith (Head of Investments) and G Taberner
(Head of Finance and Corporate Services)

Apologies for absence were received from Councillor D Fisher,
Councillor A Law and D Patterson

1 APOLOGIES

The Chair welcomed everyone to the meeting.

Apologies were noted as above.

2 ANNOUNCEMENTS

G Graham informed members that three members of staff had received their long service awards after completing 25 years' service with the Authority. David Hall, a Team Leader in the Benefits Team, Katherine Morrison, a Technical Training Officer and Steven Newsome a Pensions Officer all who had received a £100 gift voucher.

3 URGENT ITEMS

None.

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

RESOLVED - That Item 14 'Statutory Officer Arrangements and the Establishment of a Governance Function' and Item 15 'Oakwell House Project Update' be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST.

None.

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

None.

7 MINUTES OF THE AUTHORITY MEETING HELD ON 18 MARCH 2021

RESOLVED – That the minutes of the meeting held on 18th March 2021 be agreed as a true record.

8 Q4 CORPORATE PERFORMANCE REPORT

G Taberner presented the Corporate Performance Report for Q4 2020/21.

Key points for the quarter were:

- Reduction in sickness levels.
- Funding level over 100%.
- Good progress being made on many of the corporate objectives despite Covid-19.
- Underspend for the year had enabled resources to be set aside to support key projects in 2021/22.
- Large underspend resulting from lockdown slowing the process of filling vacancies and some delays to progress on training and development.
- Process performance improving but still affected by remote working. Customers were satisfied with turnaround times.

With regard to Pensions Administration it was noted that overall volumes of casework processed continued to increase, and the percentage of priority cases completed within the period had risen slightly.

It was noted that the outturn underspend for the year before transfers to reserves was £554k compared to the forecast underspend of £489k at the end of the previous quarter. Details of the significant budget variances were detailed within the report.

It was proposed that the balance of the total underspend for the year to be transferred to the Capital Projects reserve. This was due to the costs identified with the office accommodation project, the costs of the business systems replacement and the costs involved in the implementation of the new pensions administration contract.

It was noted that the Risk Register had been thoroughly reviewed in April and the amended Risk Register was attached as Appendix A to the report.

RESOLVED – That Members:

- i) Confirm the approval previously given at the March meeting for the underspend for 2020/21 to be transferred into the earmarked Capital Projects Reserve and approve the other transfers to and from earmarked reserves as set out in the table in paragraph 4.62 amounting to a net total transfer to reserves of £600,553.
- ii) Approve the proposed use of reserves in the next financial year to resource the delivery of key corporate priorities as set out in the table in paragraph 4.68.

9A ADVISOR'S COMMENTARY

A Devitt provided a market commentary on recent events.

Highlights included:

- Vaccine rates were largely determining the emergence of countries into the post-Covid era.
- Rising awareness of climate change could alter supply chains, energy sources and how people work.
- Supply chain disruptions and rising energy prices had stoked inflationary concerns.
- Equity markets continued to inch higher whilst bonds were well priced and the demand for private market assets endured.

It was noted that economic progress was still tentative.

As emergency business loans and furlough schemes were withdrawn, this would be a critical moment for global economies, especially those dependent on tourism; sectors such as hospitality and airlines still faced an uncertain future.

As economies reopened, the service industry remained under strain and staff shortages were anticipated for lower paid roles. One positive indicator was relatively high savings and low debt both for consumers and corporates.

A Devitt commented that while Covid had dominated headlines, sub-plots of geopolitical tensions as well as environmental awareness would start to come to the fore.

L Robb reminded members that in the past at strategy reviews they had discussed levels of returns which were expected from different markets going forward.

Clearly, over the last 10 years or so returns had been very good from equities, bond yields had fallen and there had been virtually no yield from cash. There were expectations that long-term returns were going to be lower than in the past.

There was a risk that inflation and interest rates would be higher than in the past which may not be good for markets. Also corporate profitability could be affected by higher corporate tax rates.

The outlook going forward was not necessarily very bad but great returns from any asset class should not be expected going forward.

The Chair thanked A Devitt and L Robb for the comprehensive update.

9B PERFORMANCE REPORT

S Smith presented the Quarterly Investment Performance report to 31st March 2021.

The report contained the valuation breakdown of the fund showing the values across all the different asset classes. This showed that at 31st March 2021 the Fund was

valued at just over £9.7bn. Although markets had been volatile recently continued improvement had been seen and at 31st May 2021 the value of the Fund was £9.975bn.

With regard to asset allocation changes over the quarter, profits from the legacy equity portfolios continued to be taken and the funds used to draw down into the alternative funds.

The purchase of a Sainsbury's supermarket was completed and also £20m was switched from Border to Coast's overseas developed fund to the Sterling Investment Grade Credit fund.

S Smith informed members that the Fund had to make commitments to Border to Coast for the alternative sectors on an annual basis. £200m had been committed to infrastructure, £120m to private equity and £100m to private debt which would be drawn down over the coming months and years.

A chart within the report showed the Fund's asset allocation against its strategic benchmark and included a RAG analysis which showed that no categories were outside the bandwidth.

It was noted that the quarter's performance was above the benchmark and over the long-term the annual return of 19½% was significantly above the benchmark. Most asset classes had added to performance, the only two areas that had underperformed were UK equities and emerging market equities.

With regard to the emerging market portfolio, Border to Coast had made the decision to transition the fund to a hybrid fund of internal management and external managers for Chinese assets which took place in April. Since then performance had been slightly ahead of the index.

The report also contained details of Border to Coast's performance since inception given that the company now managed 65% of the Fund's assets. It was noted that four of the five funds had shown outperformance.

With regard to the funding level, the breakdown of assets and liabilities over time showed that at the beginning of lockdown the funding level dropped significantly but had picked up quickly and steadily increased to its current level of 108.7%.

The outlook seemed volatile and there were concerns over inflation but over the short-term there were no plans to significantly change the investment strategy.

RESOLVED – That the report be noted.

10 Q4 RESPONSIBLE INVESTMENT UPDATE

Members considered the Responsible Investment Update for Quarter 4 2020/21 which was in a new format intended to make it more accessible for stakeholders.

It was noted that highlights included:

- The casting of over 1,000 votes at over 100 different company meetings.

- A continued voting focus on Board independence and diversity and the need for companies to effectively adapt to climate change.
- A more balanced focus to engagement in the quarter between social and environmental issues, with social issues retaining greater prominence than previously.
- The recovery of a net £373k through shareholder litigation.
- Continuing progress on the development of SYPA's first impact report and a contribution to work on lace Based Impact Investing being recognised in a case study.
- Agreement to work to progress improvements in ESG reporting for the commercial property portfolio.

Members noted that activity during the quarter had become more balanced between the various issues being engaged on. In part this reflected the AGM season which brought broader governance and remuneration to the fore, it also reflected the fact that LAPFF had undertaken a significant amount of work around social issues associated with the pandemic.

Robeco had launched a new engagement theme on the climate transition of financial companies. It was noted that this was significant because banks provided much of the capital that could be used to either maintain investment in climate negative industries or support investment in the opportunities presented by the transition to a low carbon economy.

G Graham informed members that HSBC's Board had put forward a proposal to phase out the financing of coal and other fossil fuels to their AGM which had met with almost universal shareholder support. This seemed to add weight to the sense that companies were changing quite rapidly.

Cllr Stowe commented that as responsible investment was the biggest topic members were lobbied about it was important that members understood responsible investment matters and all the elements within it.

The engagement debate was also important as there was a lot of lobbying around divestment. He pointed out the Exxon, who had been held up as one of the worst examples on not adapting their business to address to climate change concerns, were now starting to improve due to engagement.

G Graham informed members that a further Responsible Investment Seminar would take place in the autumn. Border to Coast was also producing video material on an introduction to responsible investment which would be available in the near future.

It was noted that there had been a considerable reduction in carbon emissions from SYPA's equity portfolios in the last 12 months which was significant travel in the right direction.

A Devitt commented that it was important to keep an eye on the emerging market portfolio especially in terms of Chinese allocations.

Members felt that it would be useful to get further information on this from Border to Coast's China managers.

L Robb commented that there were two key points for next year's strategy review. One was how to build ESG factors into the strategy and the impacts of this on asset allocation and also how Border to Coast could manage asset classes to take account of SYPA's objectives.

RESOLVED – That the report be noted.

11 REGULATORY UPDATE

A report was submitted to provide members with an update on regulatory matters.

The report gave details of the following regulatory matters and how SYPA was responding to them:

- The Scheme Advisory Board's Good Governance Project.
- The Pensions Regulator's Single Code.
- The McCloud Remedy.
- Boycotts, Divestment and Sanctions Bill.

RESOLVED – That the report be noted.

12 REPORTING OF DECISIONS MADE BETWEEN MEETINGS

A report was submitted which provide an update on decisions taken between meetings of the Authority using the urgent business or similar procedure.

Members were reminded that when a member decision was needed between meetings of the Authority the agreed procedure was that the Director would consult the Chair and s41 members to seek agreement for a proposed course of action. The decisions were then taken to the next Authority meeting.

One such decision had been taken since the last meeting which related to two Border to Coast shareholder resolutions on executive pay. Following the required process the Authority supported both resolutions.

RESOLVED – That the report be noted.

13 ANNUAL GOVERNANCE STATEMENT

Members considered the Annual Governance Statement.

Members were reminded that the Accounts and Audit Regulations required the Authority to provide a statement each year reviewing the effectiveness of its governance arrangements and control environment.

The Annual Governance Statement (AGS) assessed compliance with and performance against the standards set out in the Authority's Local Code of Corporate Governance. The Annual Governance Statement for 2021/21 was attached at Appendix A to the report for approval.

The Director commented that the year reviewed in the AGS had been like no other and had placed a range of different strains and pressures on the Authority's

governance and control arrangements which were reflected on in the Statement. All had been effectively addressed although further work and opportunities had been identified in a number of areas.

The AGS included a summary of the assessment of the control environment from the Internal Audit Annual Report. Members noted that currently this was a provisional assessment pending the completion of the full Internal Audit Annual report and, should any amendment be required, this would be made prior to the publication of the statement as part of the accounts.

The action plan reflected the development of a number of themes from previous years together with some additional issues which reflected the learning from changes that had to be made during the pandemic.

RESOLVED –That members:

- i) Approve the Annual Governance Statement for 2020/21 and authorise its signature by the Chair and Director.
- ii) Note the provisional conclusion of the Head of Internal Audit which would be revised if required by the content of the Internal Audit Annual Report.

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.

14 STATUTORY OFFICER ARRANGEMENTS AND THE ESTABLISHMENT OF A GOVERNANCE FUNCTION

A report was submitted which sought to secure approval for the transition to new arrangements for the provision of the statutory officer and democratic services functions of the Authority including the establishment of a new role and the potential TUPE transfer of staff from Barnsley MBC.

RESOLVED – That members:

- i) Approve the proposed process of transition from the current statutory officer arrangements as set out in the report.
- ii) Approve the establishment of the new role of Corporate Manager – Governance at Grade L as set out in paragraph 5.18 a).
- iii) Note that the Head of Finance and Corporate Services and the Corporate Manager – Governance will be recommended for appointment to the relevant statutory roles with effect from 1st April 2023.
- iv) Approve the acceptance of the TUPE transfer of any relevant staff from Barnsley MBC as set out in paragraph 5.18 c).

- v) Note the proposals for financing these establishment changes set out in the body of the report and the proposed changes to the Authority's service level agreement with Barnsley MBC.

15 OAKWELL HOUSE PROJECT UPDATE

A report was considered which updated members with progress on the delivery of the Authority's new office base at Oakwell House.

RESOLVED – That members:

- i) Note the progress made with delivery of the Oakwell House Project.
- ii) Approve the identified procurement route for the main contractor for the project.

CHAIR