SOUTH YORKSHIRE PENSIONS AUTHORITY

9 DECEMBER 2021

PRESENT: Councillor J Mounsey (Chair)
Councillor G Weatherall (Vice-Chair)
Councillors: F Belbin, D Nevett, M Stowe, N Wright, S Clement-Jones, D Fisher, M Havard, C Rosling-Josephs and A Sangar

Trade Unions: N Doolan-Hamer (Unison) and D Patterson (Unite)

Investment Advisors: A Devitt and L Robb

Officers: J Bailey (Head of Pensions Administration), G Graham (Director), G Kirk, M McCarthy, S Smith (Head of Investments Strategy), G Richards and G Taberner (Head of Finance and Corporate Services)

R Elwell and S Al-Nagar (Border to Coast Pensions Partnership Ltd)

Apologies for absence were received from Councillor S Cox and G Warwick

1 APOLOGIES

The Chair welcomed Cllr F Belbin to her first Authority meeting.

Apologies were noted as above.

2 ANNOUNCEMENTS

G Graham informed members that the Authority had won the Pensions for Purpose Impact Investing Adopter Award 2021. The award recognised the Authority's ambitions to achieve positive benefits with its investments as well as the leadership it had shown on key issues in this area.

Members were informed that, following the latest government announcement, a very small number of staff would be working in the office on essential tasks whilst the others would be working at home until further notice.

The next meeting of the Authority would be an in-person meeting in January unless the regulations changed.

3 URGENT ITEMS

The Director informed members that there was one urgent item which would be taken in the private part of the meeting.

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

RESOLVED – That the urgent item, 'Waiver of Contract Procedure Rules – Data Centre Connectivity' would 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 MEETING HELD ON 9 SEPTEMBER 2021

RESOLVED – That the minutes of the meeting held on 9th September 2021 be agreed as a true record.

8 MEMBERSHIP OF THE AUTHORITY AND APPOINTMENT OF THE VICE-CHAIR

A report was considered which gave details of a change to the membership of the Authority and the appointment of the Vice-Chair following the resignation of Cllr Alan Law.

RESOLVED – That members:

i) Note the change to the membership of the Authority.

ii) Approve the appointment of Cllr Garry Weatherall as Vice-Chair of the Authority for the remainder on the Municipal Year.

9 PROGRAMME OF AUTHORITY MEETINGS 2022/23

A report was submitted that proposed a schedule of Authority meetings, including seminars, for 2022/23. It was noted that conferences and further training opportunities would be offered as they became available.

RESOLVED – That the proposed schedule of meetings at Appendix A is approved.

10 Q2 CORPORATE PERFORMANCE REPORT

G Taberner presented the Corporate Performance Report for Quarter 2 2021/22.

It was noted that key headlines were:

- Good progress on a range of corporate objectives.
- Fund value at a record high of £10.4bn and a funding level almost 115%.
- Operational budget forecast showed sufficient resources available for key projects in 2021/22.
- Underspends forecast against the budget – particularly staffing budgets due to 14% vacancy rate.
- Further increase in sickness absence levels compared to previous quarter.

Section 3 of the report provided information on the progress being made on delivering the various strategies which formed the corporate planning framework. A table provided updates in respect of developments during the quarter in delivering the programmes of work as well as updates in respect of activity that had taken place to deliver the ICT, HR and Equality strategies.

The report gave details of an increase in sickness absence for the quarter. The increase in long-term sickness absence was due to one continuing absence and three further absences during the quarter. Three of the four employees returned to work in quarter 2 on phased return and the fourth was due to return in quarter 3 therefore it was hoped that sickness absence would show a reduction at the end of quarter 3.

Members noted the quarter 2 financial performance and forecast outturn. The forecast underspend for the year was £195k at quarter 2; the majority of this related to employee costs. Detailed variances against budget for each of the service areas were contained within the report.

The Risk Register, was attached at Appendix A and had been reviewed in October resulting in the following changes:

- Removal of risk I3 – *Failure to implement effective arrangements for the oversight of investment management functions being undertaken by Border to Coast Pensions Partnership*.
- Reduction to risk I6 – *Contribution rates for employers are unaffordable due to business interruption.*
- Increase to risk P1 – *Failure to maintain a suitably qualified and experienced workforce which reflects the community which the Authority serves*.

Further details and commentary regarding the risks where scores had not changed was included in the risk register.

In answer to a question from Cllr Sangar regarding the creation of a dedicated project team to clear residual backlog cases, J Bailey explained that the previous project had some success but the subsequent attempt to deal with the backlog as business as usual had not worked.

The new project team would consist of four recently recruited Pensions Officers, with management oversight, and would not impact on business as usual. It was hoped the majority of the backlog would be cleared within 6 months.

With regard to sickness absence, members discussed the importance of support in the areas of mental health and wellbeing, especially during the extended period of at-home working. G Taberner gave details of the various means of support available.

RESOLVED – That the report be noted.

11 APPROVAL OF THE LEVY 2022/23

A report was submitted to gain approval for the Levy for 2022/23 under the Levying Bodies (General) Regulations 1992.

It was noted that the 2022/23 Levy had been calculated as £350,000, a reduction of £11,000 compared to the 2021/22 Levy.

The estimated apportionment of the 2022/21 Levy, based on the 2021/22 Council Tax Base shares was detailed within the report. It was noted that the actual apportionment would be re-calculated to reflect the approved 2022/23 Council Tax Base figures for each district as soon as the information was available.

RESOLVED – That Members approve a total Levy of £350,000 for 2022/23 in accordance with The Levying Bodies (General) Regulations 1992, to be allocated to the District Councils in proportion to their approved Council Tax base amounts for 2022/23.

12 ADVISORS COMMENTARY

A Devitt provided a market commentary on recent events.

Highlights included:

- Low interest rates and high inflation had combined to create expectations that the Bank of England would increase interest rates at their November meeting. Sterling fell as UK interest rates were maintained at 0.1%
- Supply chain issues and labour shortages continued to plague manufacturing and high energy prices remained a strain on input costs.
- As Covid's impact continued to muddy the post-Brexit economy, an ongoing fishing row and labour shortages were reminders of the complex implications of Brexit which was still "work in progress".
- The regulatory influence in China had continued to affect Chinese stocks.
- COP26 had attracted a huge amount of media attention as had the countries who had not attended (China, India and Russia) which served as a reminder of the inherent conflict in many of the conference's goals – especially with developing economies still committed to coal-fired production.

A Devitt commented that last quarter a climate of VULCA (volatility, uncertainty, complexity and ambiguity) was forecast. The conflict at the centre of COP26 illustrated why this complexity and nuance was important to understand. Inequality and the disparity of progress between developed and developing countries was at the heart of the conflict and had been seen to arrest the recovery from Covid as well as the race to address climate change. Bridging that gap would be essential in the year ahead. Other things to watch in the coming months were the supply chain, corporate earnings and next steps and the road from Glasgow.

The Chair thanked A Devitt for an informative and comprehensive update.

13 INVESTMENT PERFORMANCE - QUARTERLY REPORT TO 30 SEPTEMBER 2021

S Smith presented the quarterly Investment Performance report to 30th September 2021.

It was noted that the value of the Fund at the end of September 2021 was £10.4bn. At the end of November this had risen to £10.65bn compared to £9.84bn at the end of March 2021.

With regard to asset allocation, changes had been minimal compared to previous quarters.

As equity markets continued to improve the opportunity was taken to take profit. £15.5m was raised from legacy holdings and these proceeds were used to fund the drawdowns into the alternative funds.

£25m of legacy index-linked gilts was sold to maintain a neutral weighting to the category and £89m was invested into the alternative funds with £79m of this invested to infrastructure funds.

The current Fund allocation was detailed in the report and was shown against the strategic target.

It was noted that two categories were outside their tactical ranges, private equity and infrastructure.

There had been significant uplift in valuations from private equity holdings which led to being over the higher allocation. It was expected that some realisations would be completed over the next two quarters which would bring the allocation down.

As reported last quarter, the change in benchmark weighting for infrastructure funds had meant that the Fund was below the lower limit for this asset class. There had been significant drawdowns during the last quarter and further anticipated drawdowns should rectify the position during the financial year.

Members noted that for the quarter to the end of September, the Fund returned 2.3% against the expected benchmark return of 1.1% and for the year to date the Fund had now returned 6.4% against an expected return of 5.5%.

S Smith gave an update on the performance of Border to Coast funds. Charts within the report showed quarterly returns and also the longer-term position of each of the funds. It was noted that four of the five funds had outperformed their benchmark and matched the target return.

RESOLVED – That the report be noted.

14 RESPONSIBLE INVESTMENT UPDATE

Members considered the Responsible Investment update for Quarter 2.

Highlights over the quarter included:

- The casting of more than 1,000 votes at 89 different company meetings.
- A continued high level of engagement activity with more emphasis on climate issues and a continuing focus on social issues.
- The closing out of some of Robeco’s engagement themes in line with their plan with some successes noted.
- Equity portfolios continued to demonstrate strong ESG performance relative to benchmark.
- The availability of new metrics for the commercial property portfolio.

- Some improvement in the forecast progress towards Net Zero of the equity portfolios following Border to Coast's commitment to Net Zero. It was noted that this was not sufficient to hit 2030.
- A continuing high level of collaborative and policy development activity.

With regard to the progress towards Net Zero, Cllr Sangar asked about the availability of data to support this.

There was a detailed discussion about the availability and accuracy of data and the progress of both SYPA and Border to Coast to obtaining the necessary data to make informed decisions.

R Elwell commented that this was a challenge for the entire industry and significant strides would need to be made in the next two years to ensure a consistent approach for the provision of data.

G Graham commented that SYPA may need to reconsider its Strategic Asset Allocation in the context of achieving Net Zero whilst ensuring returns were sufficient to pay pensions that were due.

Members also discussed the government's intention to legislate in relation to the taking of "foreign policy stances" in the context of LGPS investment. It was felt that this would be a difficult area and further advice and clarification would be needed from the Scheme Advisory Board and LAPFF.

RESOLVED – That Members note the activity undertaken during the quarter.

15 ANNUAL REVIEW OF BORDER TO COAST'S RESPONSIBLE INVESTMENT POLICY

A report was submitted to secure the Authority's endorsement for the various Border to Coast Responsible Investment policies following their annual review.

Members were reminded that Border to Coast conducts a review of its Responsible Investment Policy and Voting Guidelines so that they can be updated before the following voting season. In addition the Company had also developed, for the first time, a stand-alone Climate Change Policy. The three documents were attached as appendices to the report.

It was noted that the Responsible Investment Policy had been updated to reflect the creation of the separate Climate Change Policy and included two specific exclusions from the investment universe. These exclusions were pure coal and tar sands companies and were very common exclusions across the industry and would not result in any specific sales of stocks in the current equity portfolios. In all other aspects the substance of the policy remained the same but the policy did make clearer the process to be followed where a process of engagement had not achieved its aims. The policy also identified, following discussions with Partner Funds, the focus areas for engagement over the next three years which were detailed within the report.

The main changes to the Voting Guidelines were set out in the report and would all support the Authority's general position and reflect an ongoing raising of expectations with clear consequences in terms of the way in which votes were cast.

The Climate Change Policy was an entirely new document and had been developed through a process which had examined wider international best practice and was utilising similar tools to those adopted by SYPA such as the IIGCC framework in order to create an action plan as measure progress. The key statement within the policy was a commitment to Net Zero by 2050 or sooner.

With regard to responsible investment training, including climate change and maintaining and increasing knowledge and understanding of climate changes risks, Members requested that this was added to their training programme for the following year.

RESOLVED – That Members:

i) Endorse the Border to Coast Responsible Investment Policy, the Corporate Governance and Voting Guidelines Policy and the Climate Change Policy, attached at Appendices A-C.

ii) Welcome Border to Coast's adoption of a Climate Change policy and its adoption of a Net Zero commitment.

iii) Request that climate change training be added to the training programme.

16 <u>GUARANTEED MINIMUM PENSION RECONCILIATION AND RECTIFICATION</u>

J Bailey presented a report which sought to secure approval for policies to be followed in implementing the rectification of Guaranteed Minimum Pensions (GMPs) in payment following completion of the reconciliation exercise.

Members were reminded of the background to the requirement for individuals to receive a GMP and the necessity to reconcile records held by HMRC with those held by pension funds to ensure that individuals were receiving the correct GMP benefit and then address anomalies.

SYPA had commissioned ITM to undertake this work and they had now reached a stage where they were in a position to make amendments to both benefits in payment and the benefit entitlements of members who had yet to retire.

The proposed policies were set out within the report and reflected practice adopted by other administering authorities and supported by the LGA.

To ensure appropriate transparency, once ITM had competed the work of implementing the rectification exercise, the Authority would be asked to approve the write-off of the amounts not to be recovered from scheme members who had previously been overpaid as a single block amount.

The intention was to complete the rectification exercise by July 2022.

RESOLVED – That Members:

i) Note the position that had been reached in the GMP reconciliation exercise as set out in the report.

ii) Approve the implementation of the policies outlined in paragraph 5.5 in relation to the rectification of GMPS already in payment.

17 PROCUREMENT OF ACTUARIAL SERVICES

A report was submitted which formally reported on the conclusion of the procurement process for actuarial services.

Members were reminded that at its meeting on 30th September 2020 the Authority agreed to undertake a procurement process for actuarial services using the new national framework agreement covering those services. The procurement was driven by a desire to seek opportunities to improve the service provided to employers through making greater use of technology and a need to better control costs both to the Fund and, for some pieces of work, the employers.

An invitation to further competition was issued to the four qualifying actuarial firms in September 2021 with three bids being received by 11th October. The bids were evaluated and interviews held with the three bidding firms before a decision was made.

The successful provider was Hymans Robertson LLP who had been appointed for an initial period of five years (with an option to extend this period).

The procurement process had now concluded and the process of transition from the incumbent to the new provider had begun. The process had reinforced the understanding that the market had moved on in terms of the nature of service provision and the cost of the service. The delivery of benefits would be based on the improvements in technology and in increased levels of self-servicing.

RESOLVED –Members note the outcome of the procurement process for actuarial services.

18 RECOMMENDATIONS FROM THE AUDIT COMMITTEE

ExclusionA report was submitted to enable the Authority to consider recommendations made by the Audit Committee.

Members were informed that at its last meeting in October the Audit Committee considered two items on which it made recommendations to the Authority.

The first item was the process for procuring future external audit services, details which were set out at Appendix A to the report. The Audit Committee recommended that the Authority agree to participate in the national arrangements provided through Public Sector Appointments Ltd.

The second item was the annual report of Deloitte LLP, the Authority’s external auditor (at Appendix B to the report). While there was no requirements for this to be considered by the Authority, it was considered good practice in terms of transparency and the wider governance responsibilities of all members.

RESOLVED – That members:

i) Accept the recommendation of the Audit Committee that the Authority participate in the national audit procurement arrangements for the next procurement cycle as set out in Appendix A.

ii) Receive the Annual Report of the External Auditor as set out in Appendix B and consider the comments of the Audit Committee set out in the body of the report.

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.

19 WAIVER OF CONTRACT PROCEDURE RULES - DATA CENTRE CONNECTIVITY

A report was submitted to seek approval for a waiver of Contract Procedure Rules in order to address the urgent need to provide internet connectivity to Oakwell House as a result of the failure of the previous contractor to deliver.

RESOLVED – That members:

i) Authorise the Director to take action to extricate the Authority's current contractual arrangements due to failure to deliver.

ii) Approve waiver of Contract Procedure Rules to allow the direct award of the Authority's contract for data centre connectivity to the company named within the report, should the ending of the arrangement with the current provider be possible and cost effective.

CHAIR