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Oakwell House
2 Beevor Court
Pontefract Road
Barnsley
S71 1HG

www.sypensions.org.uk

NOTICE OF AUTHORITY MEETING

You are hereby summoned to a meeting of the South Yorkshire Pensions Authority to be held at Oakwell House, 2 Beevor Court, Pontefract Road, Barnsley S71 1HG on Thursday, 17 March 2022 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: J Mounsey (Chair), F Belbin, S Clement-Jones, S Cox, D Fisher, M Havard, D Nevett, C Rosling-Josephs, A Sangar, M Stowe, G Weatherall and N Wright

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SOUTH YORKSHIRE PENSIONS AUTHORITY

THURSDAY, 17 MARCH 2022 AT 10.00 AM - OAKWELL HOUSE, 2 BEEVOR COURT, PONTEFRACT ROAD, BARNSLEY S71 1HG

Agenda: Reports attached unless stated otherwise

Item		Page
	Committee Administration	
1.	Apologies	
2.	Announcements	
3.	Urgent Items To determine whether there are any additional items of business which by reason of special circumstances the Chair is of the opinion should be considered at the meeting; the reason(s) for such urgency to be stated.	
4.	Items to be considered in the absence of the public and press To identify where resolutions may be moved to exclude the public and press.	
5.	Declarations of Interest	
6.	Section 41 Feedback from District Councils	
7.	Minutes of the meeting held on 10 February 2022	5 - 10
	Corporate Items	
8.	Corporate Performance Report Q3 2021/22	11 - 40
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11.	SYPA Responsible Investment Policies - Annual Review	73 - 92
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14.	Responsible Investment Quarterly Update Q3 2021/22	159 - 180
	Pensions Administration & Policy Matters	

SOUTH YORKSHIRE PENSIONS AUTHORITY

10 FEBRUARY 2022

PRESENT: Councillor J Mounsey (Chair)

Councillors: F Belbin, M Havard, D Nevett, C Rosling-Josephs, A Sangar, M Stowe and G Weatherall

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

Officers: G Graham (Director), M McCarthy, G Richards and G Taberner (Head of Finance and Corporate Services)

Apologies for absence were received from Councillor S Clement-Jones, Councillor S Cox, Councillor D Fisher, Councillor N Wright, G Warwick and J Bailey

1 APOLOGIES

The Chair welcomed everyone to the meeting and thanked the Director for the tour of the new office which he thought was very impressive.

Apologies were noted as above.

2 ANNOUNCEMENTS

G Graham informed members that the recently published Levelling Up White Paper had included reference to LGPS funds investing 5% of their value locally although it was not clear what type of assets this would apply to. The consultation planned for 'over the summer' would cover this issue along with climate change reporting regulations and pooling guidance.

3 URGENT ITEMS

None.

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

RESOLVED – That item 12 – Border to Coast Strategic Plan and Budget 2022-25 and item 13 – Project Chip Update be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST

None.

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

There were no specific issues from the s41 members but they thanked the Director for his assistance in supplying replies to various emails councillors had received regarding climate change and investment issues.

7 MINUTES OF THE MEETING HELD ON 9 DECEMBER 2021

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

8 CORPORATE PLANNING FRAMEWORK

A report was considered which provided the opportunity to approve the 3-yearly detailed update of the various elements of the corporate planning framework.

Members were reminded that whilst elements of the framework were updated annually the whole framework was subject to an in-depth review every three years.

Attached as appendices to the report were updated versions of the:

- Medium Term Financial Strategy
- Human Resources Strategy
- ICT Strategy
- Equality and Diversity Scheme
- Risk Register

It was noted that the key focus for the next three years set out in the proposed corporate strategy was:

- Data – focussing on a range of data related projects including the valuation and a number of statutory exercises .

- Process Improvement – this focused on getting the most out of the investment in technology including automating processes and improving reporting.

- Investment – focused on activity to develop and refine the investment strategy to support the overall funding of the pensions scheme, including the delivery of the Net Zero Goal.

- Organisational Infrastructure – which focused on all the things that made the business work.

G Graham commented that over the last three years work to progress the Equality and Diversity Scheme had not achieved as much as planned. Members discussed this at length including ways to promote the benefits of the scheme to BAME communities..

Members also discussed the recruitment and retention of staff, noting that the labour market was not favourable to the public sector at the moment. It was intended to provide a clear career progression path for employees along with adopting an attractive agile and hybrid working system. There would be a review of the broader pay and benefits package which was intended to be completed by December 2022.

Succession planning was also discussed, with members noting the likely retirement of key members of the Senior Management Team in future year which would be likely to present recruitment challenges.

The Chair thanked the Director for a very comprehensive report.

RESOLVED – That Members:

i) Approve the updated Corporate Strategy covering 2022-2025 at Appendix A.

ii) Approve the updates supporting strategies at Appendices B-E.

9 PENSIONS AUTHORITY BUDGET 2022/23

A report was submitted to present the Authority budget proposals for 2022/23 for approval.

Members were informed that the overall aim of the budget process was to ensure 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.

The budget for the year ahead reflected continued emphasis on equipping the organisation for meeting the challenges expected in the next three years as detailed in the Corporate Strategy which was elsewhere on the agenda. Additional resources were included for four new posts to be established to support various specific areas of the planned work. The budget also included the impact of some significant savings that had been achieved following the completion of previous corporate objectives in respect of business systems and procurement of a new contract for actuarial services.

The report showed the proposed budget for 2022/23 and the main changes within it compared to the original budget for the 2021/22 year (prior to the one-off virements relating to the capital budget and financing for the Oakwell House office refurbishment).

Members were informed that the budget requirement was for a total of £5,830,000 representing an increase of £384,400 (7%) on the previous annual budget of £5,445,600 which had been held in cash terms since 2019/20

The report gave details of:

- Transfers Between Budgets
- Salaries Budget Movement
- Workforce and Pay Policy
- Other Budget Movements
- Reserves
- Local Pension Board

Members were informed that the budget proposals outlined in the report were based on a continued approach of comprehensively reviewing the resource needs in the context of the Authority's current and future requirements. The areas suggested for additional investment had been carefully identified to link to and support the achievement of the Corporate Strategy objectives.

RESOLVED – That Members approve the 2022/23 budget for the Authority at a total of £5,830,000.

10 APPOINTMENT OF MONITORING OFFICER

A report was submitted which sought the Authority's approval to appoint Jason Field as Monitoring Officer to the Authority.

Members were informed that the Authority's Monitoring Officer, Garry Kirk, had left BMBC at the end of January 2022. The Council had appointed Jason Field, Head of Legal Services, as its Monitoring Officer and was recommending that he assumed the same responsibilities in relation to the Pensions Authority.

The Authority was therefore recommended to formally appoint Jason Field as Monitoring Officer to the Authority.

RESOLVED – That Members approve the appointment of Jason Field (Head of Legal Services, Barnsley MBC) as the Authority's Monitoring Officer with effect from 1st February 2022.

11 INVESTMENT ADVISORS

Members were reminded that the current Independent Investment Advisors were appointed in September 2019 for a period of 3 years ending in September 2022. Given the time required to make an appointment it was now appropriate to consider the options and actions to be taken in relation to the contracts.

The Advisor's contracts limit the total duration of an advisor's service to 10 years. By September 2022 Mr Robb would have served more than 10 years which meant that his contract could not be renewed. Ms Devitt would have served for three years and it was possible to renew her contract for a further period if members wished to do so.

Members had two specific choices:

1. Whether to continue with two advisors or move to one advisor.

2. Whether or not to renew Ms Devitt's contract.

Members agreed that having two advisors with different backgrounds and experiences provided a better range of challenge and input for the Authority and the Investment Panel.

Members welcomed the proposition to renew Ms Devitt's contract and agreed to the suggestion that the appointment should be for four years to ensure that the advisor's contracts did not come to an end at the same time.

Cllr Sangar commented that Mr Robb had done an excellent job over the last 10 years and this should be recognised.

Cllr Stowe agreed commenting that Mr Robb had seen the Authority through some difficult times.

Members noted the process required to appoint a new Investment Advisor.

RESOLVED – That Members:

i) Approve the extension of Ms Devitt's contract for a further four years from September 2022.

ii) Agree to undertake an appointment process for an advisor to succeed Mr Robb for three years with effect from September 2022 as outlined in paragraph 5.5 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.

12 BORDER TO COAST STRATEGIC PLAN AND BUDGET 2022-25

A report was submitted to determine how the Authority's vote should be cast in relation to shareholder resolutions associated with the Strategic Plan and Budget for the Border to Coast operating company.

RESOLVED – That Members:

i) Note the Strategic Plan and Budget for the period 2022-2025 proposed by the Board of Border to Coast operating company at Appendix B.

ii) Authorise the casting of the Authority's vote in favour of the shareholder resolutions required to approve the Strategic Plan and Budget.

13 PROJECT CHIP UPDATE

A report was considered which updated members of the Authority on the progress of discussions related to Project Chip.

RESOLVED – That Members:

i) Note the progress being made in discussions over Project Chip.

ii) Endorse continued discussions.

CHAIR

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Delivering for our Customers – Corporate Performance Report

Quarter 3 2021/22

Contents

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 2021/22 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.

Recommendations

1.4 The financial measures set out within Section 4 of the report include details regarding the forecast outturn for the year and the proposed use of reserves to finance the planned projects that have taken place in 2021/22 as well as the proposed transfers from the current forecast under-spend into reserves to be used in future years.

1.5 The financial measures section also includes a proposal for an additional post of Senior Finance Officer to be established in Finance & Corporate Services to meet an identified need as explained in the detail in paragraphs 4.55 to 4.64 of the report.

1.6 The Authority's approval is required for both of the above items and Members are recommended to:

a) Approve the other transfers to and from earmarked reserves as set out in the table in paragraph 4.53; currently forecast to amount to a net total transfer from reserves of £1,185,160; and

b) Approve the addition of 1.0 FTE Senior Finance Officer to the staffing establishment in Finance & Corporate Services.

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.

+	−
Reduction in sickness absence levels. Fund value at a record high of £10.8 billion. Improvements in pension administration performance measures.	Delays occurring on a small number of corporate objectives. Under-spends forecast against the budget - particularly staffing budgets due to 9% vacancy rate.

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 update to the Corporate Strategy for the period 2021-2024 was approved in January 2021 and reflects the continuing journey to build a stronger, more resilient organisation focussed on delivering for our customers and capturing what we have learnt from having to adapt the way in which we operate to the COVID-19 pandemic. The detailed objectives and plans 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, Listening to our Stakeholders, Valuing & Engaging Our Employees, and Scheme Funding;

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, Scheme Funding and Responsible Investment; and

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

Corporate Plan Deliverables 2021/22 to 2023/24	Start	Finish	Progress Update / Activity Quarter 3	On Target
[MS1] Complete procurement processes required for Pension Administration System to deliver: > Improved interface with employers including monthly data collection; > Improved member self-service; and > Process automation.	Dec-20	Mar-22	Engagement undertaken with provider to jointly agree an improvement / development plan in areas of historic underperformance (e.g., monthly data collection process) as part of the new contract commencing in February 2022.	✓
[MS2] Implement regulatory changes arising from the McCloud and Goodwin judgements and the GMP rectification process.	Oct-20	Mar-23	GMP rectification project with external provider (ITM) commenced in this quarter.	✓
[MS3] Clear residual backlog cases.	Feb-20	Jul-21	A new dedicated project team set up from 1 January 2022.	✗
[MS4] Put in place and deliver a project and communications plan to support the delivery of the 2022 valuation, taking into account lessons learnt from the 2019 process.	Apr-21	Sep-22	New actuary appointed this quarter with key focus on preparation for 2022 valuation.	✓

Corporate Plan Deliverables 2021/22 to 2023/24	Start	Finish	Progress Update / Activity Quarter 3	On Target
[MS5] Provide additional support to staff to maximise their effectiveness > Providing opportunities for staff at the top of the career grade to develop their skills through secondment opportunities and participation in project work. > Create an easily accessible and updated single knowledge base for pension administrators based on the existing portal which has not been kept up to date. > Implement a structured development programme for Pension Officers reaching to top of the career grade	Mar-20 Apr-20 Feb-20	Ongoing Mar-22 May21	External LGPS Technical Knowledge portal has gone live and made available to all senior staff in the Benefits Team. A number of staff in the team achieved 'accelerated' promotion through the Career Grade scheme this quarter using the new flexibilities introduced into the scheme.	✓
[CS1] Implement a new approach to employer engagement focused on structured support to employers to ensure they are meeting their statutory responsibilities in a timely manner and focusing on compliance.	Apr-20	Mar-22	A number of engagement sessions undertaken this quarter with key large payroll providers to build improved performance through support and collaboration.	✓
[CS2] Actively promote take up of online services utilising all available routes, including introducing measurement of effectiveness as well as pure volume.	Apr-20	Ongoing	Circa 2,500 new portal registrations in this quarter.	✓
[IS2] Implement revised approaches to reporting on the Authority's stewardship approach: > Adopt the revised FRC UK Stewardship Code and report in line with its requirements > Develop a framework for reporting the impact of the Fund's investments against the UN Sustainable Development Goals (SDGs)	Apr-20 Feb-20	Mar-22 Mar-23	Results of the FRC's assessment of the Stewardship Code submission are awaited. The first impact assessment using the SDGs is being presented to the March meeting of the Authority	✓

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Corporate Plan Deliverables 2021/22 to 2023/24	Start	Finish	Progress Update / Activity Quarter 3	On Target
[IS3] Implement the action plan for achieving Net Zero by 2030	Mar-21	Annual reviews to 2030	Updated action plan being presented to March meeting. While the trajectory of measured emissions remains down and there is significant investment in avoiding emissions, it is clear that this alone will not materially bring forward the likely achievement of Net Zero. Further work will be undertaken in the forthcoming investment strategy review.	⇔
[CO1] Replace the Authority's Business Systems covering:				
> Financials (including removal of cheque acceptance)	Dec-20	Oct-21	The new Advanced Cloud Financials software went live on 20 December 2021.	⇔
> Committee Administration (Modern.gov)	Mar-21	Sep-21	The new instance of Modern.gov is now live on our website and all meetings content has been migrated. Work will take place during Q4 to train users and enable us to make greater use of the system functionality for workflows and reporting management.	⇔
[CO2] > Introduce revised induction process and e-Learning approaches to support annual and refresher training programmes	Feb-20	Mar-22	Some progress has been made on this objective - we have the platform of LinkedIn Learning in place to support the eLearning provision, the HR Undergraduate on placement has undertaken research and interviews with a small number of staff to gain insights around the experience of induction. However, due to workloads and other priorities, it is currently anticipated that the completion of the work on developing the new induction / 'on-boarding' process and delivering eLearning content for annual and refresher mandatory training will take place during 2022/23.	✘

Corporate Plan Deliverables 2021/22 to 2023/24	Start	Finish	Progress Update / Activity Quarter 3	On Target
[CO2] > Create a structured programme to support the development of management and supervisory skills.	Sep-21	Mar-22	The Leadership and Management Development Programme has continued to progress successfully since commencing in June 2021 and SMT have had a feedback session in December 2021 with the trainer to discuss emerging themes at the halfway stage. Plans are now in place for the trainer to deliver a programme for members of SMT in 2022/23, and also to continue to provide facilitated action learning sets for the team managers and team leaders on a quarterly basis.	✓
[CO4] Implement the preferred option for meeting the Authority's long-term accommodation needs, including a policy framework to support homeworking.	Dec-20	Dec-21	The refurbishment project was completed, and the handover of the new office took place in December 2021. As a result of supply chain delays (outside of our control) and delays with the required works by Virgin Media for installation of network connectivity, the achievement of a fully operational office was completed in January 2022.	✓

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 2021/22	Quarter 2 2021/22	YTD 2021/22	Prior Year: Quarter 3 2020/21	Movement Year on Year
Short Term Sickness Absence – Days Lost per FTE	0.94	0.68	2.20	0.38	⇧
Long Term Sickness Absence – Days Lost per FTE	0.47	2.53	3.60	1.26	⇩
Total Days Lost per FTE	**1.41**	**3.21**	**5.80**	**1.64**	⇩

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 1.41 days per FTE employee, representing a reduction of 1.8 days per FTE from the previous quarter. This is due to a large reduction in the days lost from long term sickness absence, whereas there was a small increase in short term sickness absence compared to quarter 2.

4.5 Sickness absence is actively monitored under the Authority's managing attendance policy, and data on the application of this policy is reported quarterly to SMT. The Authority's Health, Safety and Wellbeing Committee continue to promote a range of initiatives to help support staff with their wellbeing. A series of webinars on topics including Men's Mental Health, Dealing with the Menopause, Optimising Sleep and Mindfulness were delivered during quarter 3. There are further activities to be undertaken in 2022.

Investment Measures

4.6 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, is provided elsewhere on the agenda.

Measure	Performance Quarter 3 2021/22	Quarterly Benchmark	Performance YTD 2021/22	2021/22 Benchmark	2021/22 Actuarial Target	RAG Indicator
Investment Return – Whole Fund	4.15%	3.70%	10.70%	9.30%	6.30%	

4.7 As in the previous quarter, the outperformance in quarter 3 was primarily due to the positive uplift in valuations of the alternative funds, in particular the private equity funds.

4.8 The total Fund value at 31 December was a record £10.8 billion.

4.9 At the end of the quarter, 69.8% of the Fund's assets were being managed in pooled structures provided by Border to Coast. A transition of legacy high yield and emerging market bonds to the new Border to Coast MAC fund took place in October 2021. At the end of December 2021, the funding level was estimated at 113%.

Pension Administration Measures

4.11 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 2021/22	Quarter 2 2021/22	Quarter 1 2021/22	YTD 2021/22	Previous Year: 2020/21	Target 2021/22	Movement Year on Year
Proportion of priority cases processed on time	86%	76%	88%	83%	78%	100%	↑
Proportion of non-priority cases processed on time	74%	72%	72%	72%	73%	100%	↑
Proportion of all cases processed on time	75%	72%	75%	73%	73%	100%	↑
Proportion of employer data submissions on time	99%	99%	99%	99%	99%	100%	↔

4.12 Performance on priority cases returned to previous levels as long-term sickness absence has reduced.

4.13 Projects Team set up from January 2022 to tackle older non-priority backlog cases.

4.14 At the end of the quarter, membership of the Fund stood at 169,529.

4.15 Two new employers were admitted during the quarter.

4.16 Five terminations were completed during quarter 3.

4.17 There were 547 participating employers with active members at 31 December 2021.

Financial Measures

2021/22 Quarter 3 Forecast Outturn

4.18 The quarter 3 performance and forecast outturn is as follows. Details of the significant variances are shown beneath the table.

South Yorkshire Pensions Authority Operational Budget	2020/21 Actuals £	2021/22 Revised Budget £	2021/22 Q3 Forecast £	2021/22 Q3 Forecast Variance £	2021/22 Q3 Forecast Variance %
Pensions Administration	2,376,700	2,719,750	2,528,670	(191,080)	(7.00%)
Investment Strategy	631,420	539,760	537,220	(2,540)	(0.50%)
Finance & Corporate Services	685,190	710,620	747,790	37,170	5.20%
ICT	560,960	667,200	665,880	(1,320)	(0.20%)
Management & Corporate	430,000	402,650	384,750	(17,900)	(4.40%)
Democratic Representation	118,180	142,620	118,160	(24,460)	(17.20%)
Subtotal - Cost of Services	**4,802,450**	**5,182,600**	**4,982,470**	**(200,130)**	**(3.90%)**
Capital Expenditure	42,600	1,630,000	1,648,290	18,290	1.10%
Subtotal before transfers to reserves	**4,845,050**	**6,812,600**	**6,630,760**	**(181,840)**	**(2.70%)**
Appropriations to / (from) Reserves	600,550	(1,367,000)	(1,185,160)	181,840	(13.30%)
Total	**5,445,600**	**5,445,600**	**5,445,600**	**0**	**0.00%**

4.19 The forecast under-spend for the year before transfers from reserves is (£182k) at quarter 3; a small reduction on the quarter 2 forecast under-spend of (£195k).

4.20 The majority of the total under-spend relates to employee costs. Details of the variances on the individual service area staffing budgets are included in the analysis below. In short, this reflects the fact that we currently have 8.7 FTE vacancies (down from 13.6 FTE at Nov 2021), representing 9% of the total budgeted establishment of 97.1 FTE.

4.21 The detailed variances against budget for each of the service areas with variances of more than £5k are explained below.

4.22 <u>Pensions Administration – Total Underspend Forecast (£191k):</u>

4.23 There is a total forecast under-spend on the employee costs budget of (£133k). This includes (£35k) relating to the budget for a training officer role that would have been filled by secondment from the benefits team as a way of providing the resource needed whilst offering a development opportunity, but this has not yet been taken up. The remaining balance of the total forecast under-spend on employee costs is due to staff turnover and vacancies across the service area. Recruitment has taken place during Q3 with 3 FTE pensions officers due to commence in post during Q4.

4.24 The training budget is forecast to be under-spent by (£12k).

4.25 The budget for office accommodation costs, apportioned to services pro-rata to staffing numbers, is forecast to be over-spent by £50k. This is due to a range of issues including the fact that the unavoidable delay in being able to transfer the data centre from Gateway Plaza until January 2022 meant that rent, business rates, utilities etc. were all charged for an additional two months (Dec and Jan) that hadn't been included in the budget. In addition, the costs of electricity have been higher than expected as a result of the wider inflation on energy prices. Finally, the costs of the facilities management provision required in the first few months of mobilisation were higher than forecast. This will stabilise now as the transition period comes to an end.

4.26 It is currently estimated that the budget for actuarial fees will be under-spent by (£45k) for the year. This is partly due to the change of contract during the year, and another factor is that a proportion of the work required in this area is demand-driven (based on numbers of admissions, terminations etc.) which can be difficult to predict.

4.27 Other professional services, including legal fees, consultancy, and corporate subscriptions are forecast to be under-spent by a total of (£25k) based on the known and anticipated expenditure requirements for this year.

4.28 Total savings of (£21k) are forecast across budgets for travel expenses, office-related expenses, catering, conferences, and subsistence, due to continued impact of remote working and knock-on effects from COVID-19.

4.29 Income from charges to scheme members (in relation to sharing orders for example) has been (£8k) more than budget.

4.30 <u>Finance and Corporate Services – Total Overspend Forecast £37k:</u>

4.31 The employee costs budget head includes two planned over-spends which will be financed by transfers from earmarked reserves. These over-spends are as follows.

4.32 An amount of £22k relating to agency staff costs as a result of hiring an interim accountant in the early part of the year to support the accounts closedown and audit process which was required as a one-off to provide cover whilst some of the permanent team members were working on the implementation project for the new finance system.

4.33 An amount of £11k relating to the HR Undergraduate placement student, the financing for this was set aside from the 2020/21 training and development budget into the corporate strategy reserve.

4.34 There are savings of (£23k) anticipated as a result of staff turnover / vacancies for the year – these have been used to fund additional costs of £17k on overtime that was required in the first half of this year due to having staff shortages at the same time as undertaking major projects to implement a new finance system and a new investment accounting system, and also produce the 2020/21 accounts and ensure the audit was completed successfully to the usual early timescale of 31 July, well ahead of the statutory deadline of 30 September.

4.35 The service's over-spend on office accommodation (explained in para 4.25 above) is £13k.

4.36 There is a forecast saving of (£3k) across budgets for travel expenses, office-related expenses, catering, conferences, and subsistence due to continued remote working for the first half of the financial year and the knock-on effects from COVID-19.

4.37 <u>Management & Corporate Costs – Total Underspend Forecast (£18k):</u>

4.38 The employee costs budget is forecast to be under-spent by (£13k) as a result of an vacancy in the post of Business Support Officer (Corporate) that remained unfilled for the first 9 months of the year due to difficulty recruiting. The post was filled via the use of an agency in December 2021. There is a related overspend of £5k forecast on the staff recruitment and advertising budget.

4.39 The organisational training and development budget was included as a growth item in the budget with effect from 2020/21 but due to the impact of COVID-19 and remote working, progress on the planned activities in this area has been slower than originally anticipated, and the available budget in 2021/22 of £55k is forecast to be under-spent this year by (£15k). Nevertheless, the planned work in this area is continuing to progress with a number of initiatives under way including a manager development training programme, implementation of the *LinkedIn Learning* platform, and an HR Undergraduate student in post on a 12-month placement, which will 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.

4.40 An under-spend of (£5k) is forecast due to savings made on insurance and central corporate services costs.

4.41 The external audit budget includes a forecast net over-spend of £9k for audit fees payable to Deloitte LLP based on anticipated increases to be approved by the contracting body, Public Sector Audit Appointments Ltd (PSAA) – reflecting increased costs of audit delivery that are taking place across local government.

4.42 <u>Democratic Representation – Total Underspend Forecast (£24k):</u>

4.43 There is a small under-spend of (£2k) expected on the Member Allowances budget due to turnover and changes in Authority membership following the elections in May 2021.

4.44 The budget for Authority running costs and training costs is forecast to be under-spent by (£17k) and the Local Pension Board budget by (£5k) due to the fall in expenditure for room hire, catering, travel, subsistence and conferences, mainly arising from the knock-on effects of COVID-19.

4.45 <u>Capital Expenditure – Total Overspend Forecast £18k</u>

4.46 The total forecast capital expenditure to be financed from revenue this year is £1,648k.

4.47 This total includes a forecast £235k for implementation costs of the new contract commencing in February 2022 for the pensions administration system; which is in line with the budget for this project.

4.48 The remaining balance of forecast capital expenditure is £1,424k for the Oakwell House project; details of which are set out in the table below. This forecast represents an over-spend of £19k compared to budget, which is primarily due to additional costs for the installation of solar (PV) panels on the roof and variations added to the contract sum for costs of fire-stopping enhancements and works on the lift, both of which were essential for health and safety compliance and were only identified during the course of the refurbishment. There have however been some reductions in the forecast totals for legal fees, and miscellaneous costs relating to the actual move. (Albeit the saving shown here is largely offset by the additional costs included in the revenue budgets above for office accommodation).

Item of Expenditure	Budgeted Cost £000	Forecast Outturn £000	Variance £000	Variance %
Acquisition Costs - Legal Fees, Stamp Duty Land Tax, Surveys	20	16	(4)	(20.0%)
Design & Project Management	98	98	0	0.0%
Legal Fees - Tender Contract Documents Preparation	17	5	(12)	(70.6%)
Main Contract Sum	1,054	1,120	66	6.3%
PV Panels	16	30	14	87.5%
AV Fit Out	120	140	20	16.7%
Miscellaneous Move Costs - including: Dilapidations Payment Gateway Plaza, Removals, ICT Installation etc.	60	10	(50)	(83.3%)
Contingency	20	5	(15)	(75.0%)
Total Project Cost	**1,405**	**1,424**	**19**	**1.4%**

4.49 <u>Earmarked Reserves</u>

4.50 The Authority has three earmarked reserves, the Corporate Strategy reserve, the ICT reserve, and the Capital Projects reserve.

4.51 The table at paragraph 4.53 shows the detail of planned transfers from the reserves in 2021/22 to finance the various projects being delivered as part of our corporate strategy. This results in a total of £1,404k being transferred from reserves for this financial year.

4.52 Given that there continues to be a need to ensure the balance of reserves is kept to an adequate level going forward to meet resourcing requirements for specific corporate strategy objectives and for managing risk, it is proposed to transfer the remaining forecast under-spend for 2021/22 into the reserves, in addition to the originally budgeted transfers into reserves, as set out in the following table. This results in a total of £219k being transferred into reserves for the year.

4.53 The result of the above is a net total transfer from reserves of £1,185,160.

Reserves	Balance at 01/04/2021 £	Transfers In £	Transfers Out £	Forecast Balance at 31/03/2022 £
Corporate Strategy Reserve	238,500	106,000	(144,000)	200,500
ICT Reserve	118,300	60,550	0	178,850
Subtotal: Revenue Reserves	**356,800**	**166,550**	**(144,000)**	**379,350**
Capital Projects Reserve	1,254,470	52,760	(1,260,470)	46,760
Total Reserves	**1,611,270**	**219,310**	**(1,404,470)**	**426,110**

4.54 The balance of the revenue reserves following the transfers proposed for the year, would be £379,350 in total which equates to 7.0% of the Authority's total revenue budget.

Financial Services Team – Staffing

4.55 When the restructure of the Financial Services team was approved in September 2020, the new team structure was designed based on 2.0 FTE Senior Finance Officers and up to 3.0 FTE Finance Officers. However, the outcomes from the ring-fenced recruitment process resulted in actual staffing numbers of 1.6 FTE Senior Finance Officers and 3.2 FTE Finance Officers.

4.56 We have worked on this basis since 1 April 2021. However, it is becoming increasingly clear that having only 1.6 FTE at the Senior Finance Officer level is not sustainable going forward as it is preventing us from realising the benefits from the restructure and also the wider changes such as new finance and investment accounting systems and updated ways of working. There is also an issue around sufficient resilience at this senior level in the team for coping with unplanned staff absences.

4.57 A detailed review and consideration of the current situation, and the resourcing requirements of the team that will be necessary to enable us to meet objectives, has led to the conclusion that the only feasible way to achieve this is to increase the headcount by adding 1.0 FTE Senior Finance Officer to the Financial Services team establishment. The rationale for this is as follows.

4.58 The aims of the newly designed team structure included to increase operational resilience by sharing tasks and knowledge, increasing opportunities for skills development and full utilisation, as well as strengthening the supervisory arrangements within the team below Head of Service and Team Manager level.

4.59 A key part of how this was intended to be achieved in practice was to allocate different 'specialisms' to each of the senior finance officers in the team. (Areas such as treasury management, investment accounting, and budgets & financial accounting). The aim being to ensure that these officers are given responsibility to lead on their specialist area – in line with the level of responsibility reflected in the role profile that was subject to independent job evaluation. This ensures appropriate support for the Finance Team Leader – who cannot be expert or involved in the detail of all the various areas of the team's work – and also requires the senior finance officers to supervise and guide the finance officers working in these areas in order to help enhance their knowledge which should then provide the operational resilience referred to above.

4.60 In practice, having one full time senior finance officer and one part-time (who is also currently being supported to undertake a professional qualification requiring study leave one day per week during term time) has meant that it has not been possible to implement this way of working as planned and this in turn is holding up the achievement of the wider aims.

4.61 If an additional full-time post of Senior Finance Officer is created, this will mean that there will be three officers at this level (two of whom will be full time, and one part time) and this will enable us to apply the allocation of the required 'specialist' areas for them to lead on, in a fair way that will be manageable for each of them in terms of workload and will be effective for the overall team in terms of resourcing the work appropriately and, importantly, ensuring that knowledge is shared, the team leader will be adequately supported and there will be improved resilience for cases of unplanned absence or unforeseen spikes in workload pressures. We would also be able to ensure that external specialist training courses to support continuous professional development can be provided and targeted to the relevant individuals.

4.62 Furthermore, in the current financial year, the budget and objectives included hiring an apprentice in financial services as part of the organisation's apprenticeship framework. The aim would also be for one of the senior finance officers to mentor and supervise the apprentice as a way of providing them with some experience and development in relation to people management. This was not possible in 2021/22 due to not having enough resource for this. If a third senior finance officer is appointed early in 2022/23, we should be in a position to fulfil the objective of taking on an apprentice in the team from around September 2022.

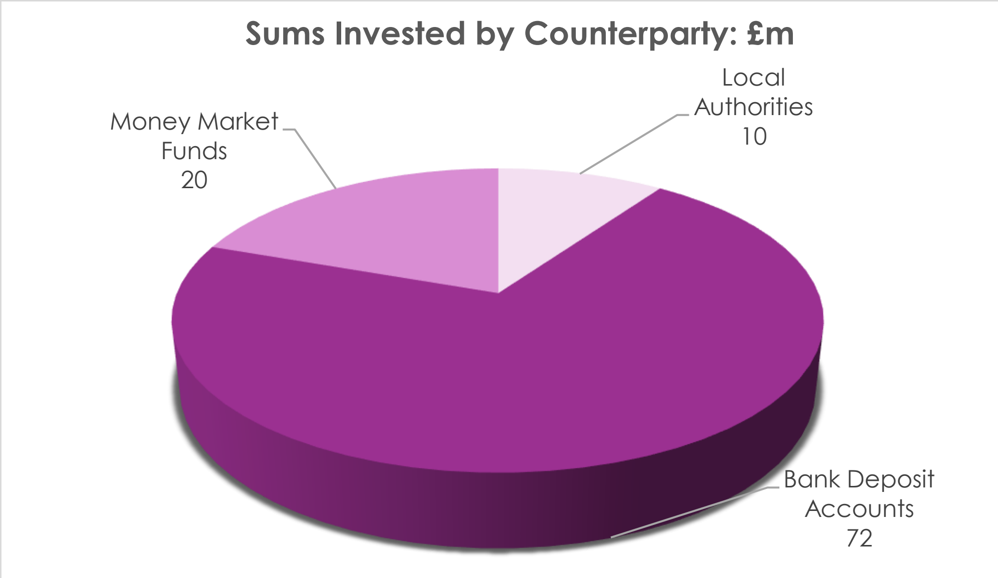
4.63 Financial Implications: The total cost of adding this post to the establishment will be £35k per annum (including salary and on-costs). As the budget for 2022/23 has already been set, this will be financed in the first year by using some of the carried forward under-spend on the 2021/22 salaries budget that will be transferred into reserves. From 2023/24, the cost will be included in the annual budget.

4.64 HR Implications: The proposal will change the staffing establishment in the Finance Team section of Finance & Corporate Services as follows:

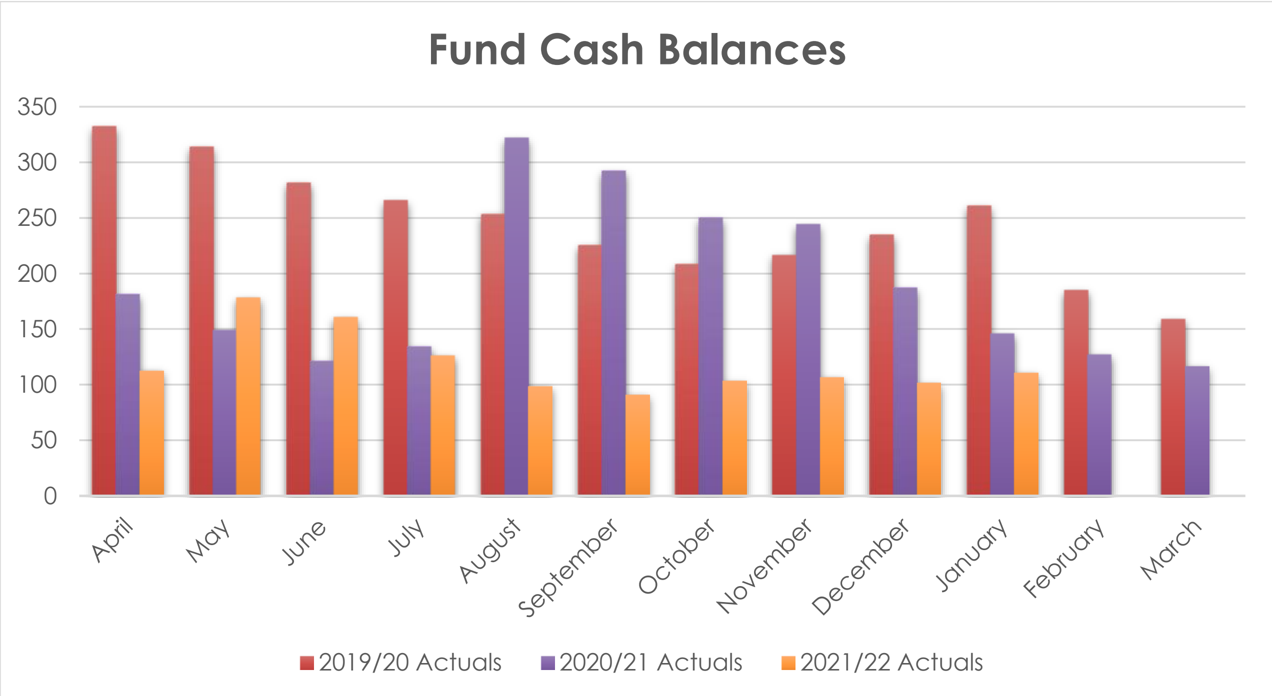
Financial Services - Finance Team	**Current Established FTE**	**Proposed Established FTE**
Finance Team Leader	1.0	1.0
Senior Finance Officers	**1.6**	**2.6**
Finance Officers	3.2	3.2
Apprentice	1.0	1.0
Total FTE	**6.8**	**7.8**

Treasury Management

4.65 The Fund's cash balances at 31 December 2021 stood at £102m. The chart below shows how the balances have been invested with different counterparties in line with the approved treasury management strategy for the year.



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



4.67 Cash is only held pending Fund investment and the balance of cash at the end of the third quarter represents 0.94% of the Fund, compared with 0.87% at 30 September 2021. The cash allocation remains well within the permitted range of 0% to 10% and is below the benchmark of 1.5% at 31 December due to timing of outflows and also the increase in the Fund value from the previous quarter.

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 previous review, undertaken in October, involved a re-basing of the risk register to fully update scores and reflect the current and future risks. As a result, the latest full review undertaken in February has not resulted in any changes to the risk scores.

5.3 Further details and full commentary regarding the review of all the risks on the register is provided 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 2021/22	Received in Q2 2021/22	Received in Q1 2021/22	Received YTD 2021/22	Received in Previous Year: Full Year 2020/21
Complaints	6	5	8	19	17
Appeals Stage 1	0	4	0	4	8
Appeals Stage 2	1	0	2	3	8

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

6.3 Of the six complaints received during the quarter, four were outside of SYPA control as they were a result of delays from employers or third-party providers.

6.4 Of the two remaining complaints, one was an avoidable complaint from a member unhappy with the handling of the recovery of an overpayment. An updated process is now in place which should improve the customer experience.

6.5 The second complaint was from a former member with a refund entitlement who was unhappy with the way she was dealt with by the Customer Centre. The matter is being addressed with the relevant member of staff, though appears to be an isolated incident.

6.6 During the quarter, one appeal at Stage 2 was determined and rejected. This related to a member unhappy that the employer had overstated an estimate and wanted the benefits to be honoured.

6.7 One appeal was partially upheld at Stages 1 and 2 and related to a complex aggregation incorrectly calculated by SYPA which had resulted in an overstated quotation. The member was compensated, though will likely take the case to the Ombudsman. An additional step has been introduced into the process to reduce the risk of this recurring and the systems provider has been tasked with a systematic review of the process.

Breaches of Law and Regulation

6.8 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.

6.9 There were three breaches recorded in the quarter. Two individual breaches occurred where personal details on a schedule of AVC premiums were incorrectly made visible on the online portal and global corrections have been implemented to prevent this recurring. The third breach was a training issue with a new member of staff where a medical report had been sent to an incorrect employer contact (albeit they may have been given access to the report in any event). Training has been completed with the relevant member of staff.

Satisfaction Surveys

6.10 A survey of members retiring showed that of the 137 respondents, 92% were satisfied with the service they received.

South Yorkshire Pensions Authority Risk Register As At
21 February 2022

Key:

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

Risks currently under particular focus are:

Risk No	Risk Type	Risk Title	Current Score	Risk Change at Review
O5	Operational	Focus changed to management of building compliance, H&S and VFM on contracts	9	No change
P1	People	Failure to maintain a suitably qualified and experienced workforce which reflects the community which the Authority serves.	12	No change

Appendix A

SOUTH YORKSHIRE PENSIONS AUTHORITY RISK REGISTER AS AT 20/02/2022

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. Strengthen learning and development strategy ***Comment 21/02/2022:*** ***Limited response to self assessments being followed up. Position to be reviewed in time for annual meeting and new Governance Manager to undertake further mitigation actions.***	Clerk to the Authority Clerk to the Authority Clerk to the Authority / Director		21/02/2022
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.	6	I=M P=M	2	I=L P=VL	Additional learning development opportunities being provided. Self-assessment exercise conducted highlighting areas for improvement ***Comment 21/02/2022:*** ***Limited response to self assessments being followed up. Position to be reviewed in time for annual meeting and new Governance Manager to undertake further mitigation actions. Further information to identify priority needs will arise from the annual effectiveness review.***	Clerk to the Authority / Director		21/02/2022
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	6	I=M 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 21/02/2022:*** ***Progress continues as part of work such as the new financial system implementation. At this stage while the position is stable further mitigation is possible.***	Senior Management Team		21/02/2022

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
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 21/01/2022:*** ***No further actions proposed at this stage. However, the risk remains present.***	Director		21/02/2022
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. Critical review by the Government Actuary as part of their s 13 Valuation.	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 focussed on areas that impact the value of liabilities. ***Comment 21/02/2022:*** ***At this stage the gains in the funding position are being maintained, although clearly market conditions remain a risk and there is no reason to change the score at this point.***	Director/ Head of Investment Strategy		21/02/2022
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 21/02/2022:*** ***No reason to alter the score at this stage. This is likely to require review in the context of the next investment strategy review.***	Head of Investment Strategy		21/02/2022

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
I5	Investment and Funding	Impact of Climate Change on the value of the Fund's investment assets and its liabilities. Changes in the liability profile of the Fund.	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 2030" goal together with improvements in impact reporting to fully understand the scale of emissions. ***Comment 21/02/2022:*** ***Some progress in terms of understanding impact and in the measurement of emissions overall. However, at this stage there remains a significant risk of not achieving the 2030 goal.***	Head of Investment Strategy Head of Investment Strategy Director Director		21/02/2022
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.	6	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 21/02/2022:*** ***The position will continue to be monitored as we emerge from the pandemic but no contribution payment difficulties have been encountered to date.***	Head of Pension Administration		21/02/2022
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 21/02/2022:*** ***The position will continue to be monitored as we emerge from the pandemic but no contribution payment difficulties have been encountered to date.***	Head of Finance and Corporate Services Head of Pension Administration Head of Pensions Administration		21/02/2022

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
O1a	Operational	Failure to ensure the Authority protects the data it owns and the data it handles against inadvertent release	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.	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~~ Reduction of in-house 'manual' mailing of personal data. Additional checking procedures introduced for return of documents to minimise data risk.	**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. Move to secure online communications with members where possible (e.g. Annual Benefit Statements). ***Comment 21/02/22 - The existing control measure in relation to physical security has been updated following move to Oakwell House. As a result of the move retention of paper-based records has significantly reduced.*** ***Review of information sharing agreements, data impact assessments and record retention currently taking place to further assure data handling. As the impact of any personal data breach would be high then the current score remains the same.***	Corporate ICT & Digital Manager Head of Pensions Administration Head of Pensions Administration Head of Pensions Administration		21/02/2022
O1b	Operational	Failure to ensure the Authority protects the data it owns and the data it handles against cyber-security threats.	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	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 (NCSC) 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. An incident response plan to deal with incidents and enable the Authority to swiftly and safely resume operations; An Incident Response Retainer with 3rd party security specialist; An advanced cloud based Anti-Virus/End Point Protection solution; Cyber Security Reporting Policy and Incident Management Policy; New password policies and guidance; Simulated spear phishing campaigns to test users; Utilise MFA for VPN/Cloud accounts; A DMARC (Domain-based Message Authentication, Reporting and Conformance) policy; An automated Vulnerability Scanning service;	**8**	I = H P = L	**6**	I = M P = L	***Comment 21/02/22 -Further mitigation actions since the last review -*** ***Database encryption of sensitive data;*** ***Implement Enterprise Mobile & Security (EM &S) for M365;*** ***Cyber Security training/qualifications for ICT staff***	Corporate ICT & Digital Manager		21/02/2022

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
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. ABS exercise completed in 2021 with 100% compliance following implementation of 'lessons learnt' from 2020 exercise. Responsibility for data preparation passed from Systems to Benefits Team to improve capacity for future.	**6**	I = M P = L	**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 21/02/2022:*** ***Operational workplans for annual ABS exercise and Pension Saving Statements to be issued two months earlier in 2022 than in 2021.***	Head of Pensions Administration		21/02/2022
O3	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 External provider selected to assist with completion of rectification exercise. Eight month project commencing November 2021. ***Comment 21/02/2022:*** ***Rectification project underway with external provider and expected to be completed by August 2022.***	Head of Pensions Administration		21/02/2022

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
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 Management 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.	6	I=M P=L	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 21/02/2022:*** ***Long term absentees have now returned to work but no change to risk due to impact of higher short-term absence following spread of Omicron variant.***	Senior Management Team		21/02/2022
O5	Operational	Disruption to services due to failure to ensure that Oakwell House remains well maintained and safe/compliant under H&S Legislation ~~complete the works required to Oakwell House on time and on budget~~	Staff unable to attend office necessitating extended homeworking Increased annual maintenance costs due to insufficient proactive planned maintenance	Director	Key contract deliverable for the main contractor is aimed to facilitate relocation of the data centre prior to the end of the current lease even if the building works are not completed. Contract documents will be issued with as detailed a price as possible which should have the effect of mitigating the cost risk. Successful relocation of data centre with no downtime. Building complete and formal handover taken place. All staff received full building induction prior to return to office.	9	I=M P=M	6	I=M P=L	Further mitigations will become available when the contract for the main contractor has been agreed at which point the budgetary issues will become clear ***Comment 21/02/2022: Following handover some items are still under discussion following snagging and design issues - Cost effective solutions are being negotiated.*** ***Fully managed FM service contract in place which includes all areas of statutory building compliance and servicing. Further development of service delivery plans and SLAs required to ensure VFM. Sample compliance audits to take place 6 months into contract.*** ***H&S advisor appointed to support SYPA in meeting legislative requirements. H&S audit in progress - action plan to be developed once outcome delivered.***	Director		21/02/2022

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
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.	**12**	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. Further mitigations will be developed as part of the update to the HR Strategy. While these issues seem to reflect wider labour market trends, any solutions will need to be constructed within the constraints applying to the public sector. ***Comment 21/02/2022:*** ***In common with other empoloyers SYPA is being exposed to a significant degree of labour market competition, in particular reflecting some of the changes in the nature of work arising from the pandemic. Work is planned within the HR strategy to consider what we can do to address these challenges.***	Director		21/02/2022

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Objects in the Mirror are Closer than they Appear

2022 didn't exactly start with the bang that many were hoping for - initially. Instead of turning the page, it seemed that the only things turning were stomachs – as sharp stock market volatility took hold early in the year and has not yet subsided at the time of writing. It was definitely the case that "**omicron killed certitude**" as a headline screamed early in the year, and with that certitude went much of the enthusiasm for tech stocks and high growth names.

Inflation concerns moved to top of mind globally, with levels hit not seen in decades, and many dusting off the Stagflation playbook of the 1970s, when high oil prices combined with rising unemployment to choke off growth. Interest rates were on the move too – with two back-to-back hikes by the Bank of England and up to 5 hikes being forecast for 2022 in the US, the first one (or two) expected in March. Supply chain stresses have been erratic, with certain components (e.g. for cars, or new house extensions) in short supply while most staples are still well stocked despite longer shipping times.

Stock markets have been disappointing year to date, with the UK stock market (FTSE 100) a notable exception – until recently in positive territory and the best performing stock market globally (see detailed chart below on page 6). This may be due to its strong defensive and "old economy" orientation – with a heavier emphasis on financial stocks and energy companies than, say, the US NASDAQ.

As we write markets remain on a geo-political knife-edge. The Beijing winter Olympics passed with more than a whiff of scandal around doping, while Russia's invasion of the Ukraine in late February sparked a wave of unprecedented economic sanctions and isolation amid recriminations and a united front against Russian aggression. The might of NATO might well be unified at this juncture, but markets indicated little appetite to shrug off a ruinous confrontation in the region, especially with its impact on already high energy prices. It will likely be a fractious quarter and we will be watching closely.

Highlights since the last quarterly update:

- **Inflation speculation and indicators finally "crossed over" beyond what policy makers could tolerate and with a shift in rhetoric a new "assertive" stance was telegraphed. The Bank of England initiated back-to-back rate rises in January and February, the first time that it has done so since 2004. UK rates now sit at 0.5%.**
- **Gilt yields fell sharply in the middle of February (indicating strong demand) suggesting that the rise of inflation (and interest rates to match) might be short-lived.**
- **This "flat yield curve" phenomenon is also present in the US, and suggests a mediocre medium term and long term outlook for the economy, with inflation expected to level off out of the initial shock levels currently being experienced.**
- **Supply chain issues and labour shortages are persisting, and inflation levels are at at multi-decade highs 7.5% in the US (a 40 year high) and 5.5% in the UK – a 30 year high. Energy prices and anomalies such as used car prices are driving much of the increase, while house prices are also continuing to soar,**
- **Markets closed out the year of 2021 with record highs in the US and lack lustre performance from emerging markets. While new highs were touched in the month of December, there was already a harbinger of volatility ahead as markets lurched away from high tech stocks intermittently during the month. This volatility continued throughout January, with January representing the worst January since 2008 for the tech-heavy NASDAQ and the worst month since 2020 for the Dow and the S&P. The FTSE 100 bucked the global trend by returning 1% for the month after a decent 14% return in 2021.**
- **Geopolitical concerns mounted over the quarter as Covid concerns both kept most of Asia locked down and locked out of international travel and led to a standoff between truckers and authorities in the Canadian city of Ottawa. As Covid restrictions started to fall globally, the "certitude" mentioned above still remains out of reach. The war between Russian and Ukraine remains firmly at the forefront as we write.**
- **In the UK the Prime Minister remained in place despite scandals and cabinet-level departures, and the balancing act of emerging from Covid disruptions was revealed. AN investigation into fraudulent Covid loans revealed that up to £5bn of loans made as part of the government's bounce back loan scheme (which provided 1.1mn small companies with borrowing worth more than a total of £47bn) could have been fraudulently obtained, and the Governor of the Bank of England advised that pay rises might place undue strain on companies that are struggling.**

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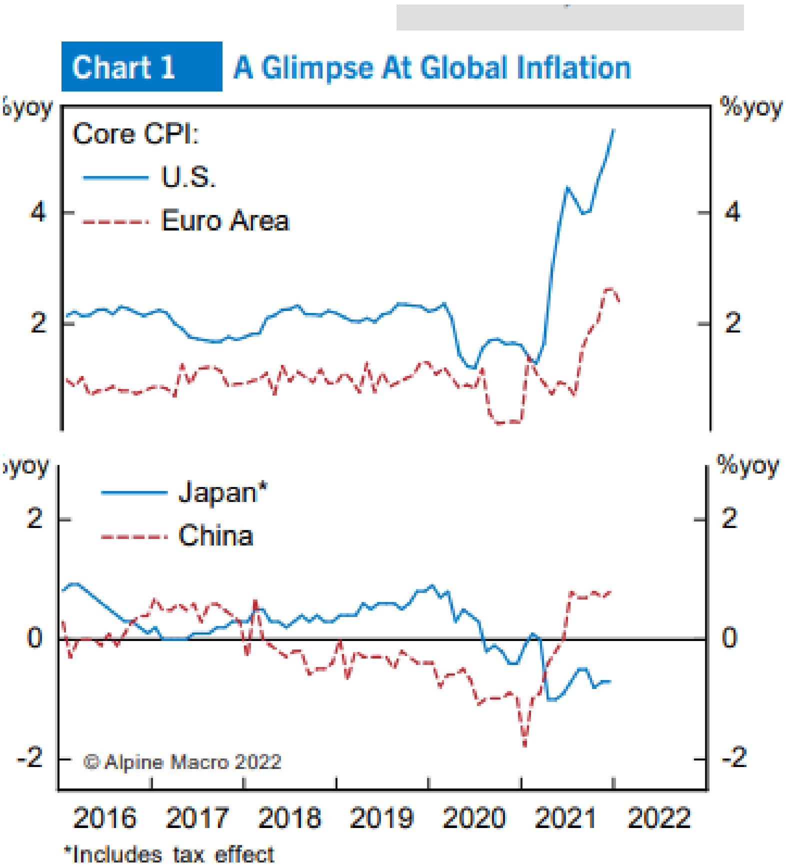
Current Macro Snapshot

Inflation Takes the Reins

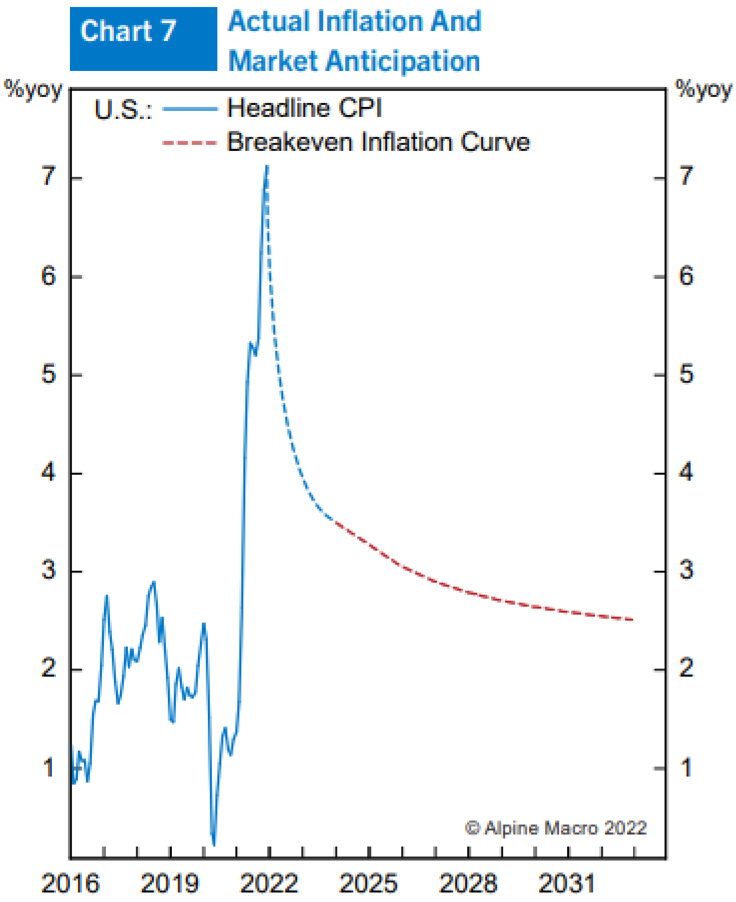
While inflation is often considered something that can be "reined in" or tamed, or controlled, it seemed this quarter that it had the reins. As the chart below shows inflation is a global phenomenon, but by no means uniform. While regions such as Japan and China have also seen rising energy costs, the overall inflation levels remain much below the US the European area – suggesting that a large part of the current surge is due to consumer spending (and the aftereffects of massive stimulus).



Central banks shifted from their "inflation is transitory" rhetoric to taking a far sterner approach and signalled sharper and faster interest rate rises in order to curb spending. While inflation at multi-decade highs did spark fears of the 1970-s style hyper-inflation there was a counter-narrative that the current price spikes would be short-lived. Evidence for this included the flat yield curve, the fact that supply chain shortages could be short-lived and a reaction to an exogenous event – Covid-19 – so similar to the shortages that occur after a war. Interestingly the US dollar remained strong, which would typically be unusual in times of high inflation – see below:

Equally unusually, gold remained lack-lustre in terms of performance, whereas it would typically rise in an inflationary environment. See below:

Finally, the expectations for inflation are quite muted in the medium term, as shown by the chart below:



Interest Rates:

Interest rates are on the march upwards with up to five hikes now expected in the US in 2022 and a further rate hike expected in the UK in March. European rates have stayed stable although now Christine Lagarde has refused to rule out a 2022 rate hike, which some interpreted as a hawkish pivot. It is clear that Europe will remain behind other central banks in raising rates, due to concerns about the sluggish post-Covid recovery and a fear that it could be jeopardized. It is also worth watching whether the ongoing geo-political strife will impact the pace of rate hikes globally.

Brexit Update:

Most news regarding Brexit was focused on individual trading arrangements and protocols relating to matters such as medicine moving from GB to Northern Ireland (where two sets of regulatory regimes apply) as well as arrangements regarding data transfer. The focus has now shifted to the wellbeing of the overall economy as it emerges from Covid restrictions and we have discussed this above.

Individual Asset Class Performance.

- Equities
- Fixed income
- Other asset classes

Equities: A Change of Tune

Equity Index	**Year to date (March 3)**	**1 year**
FTSE 100	-0.23%	10.78%
S&P 500	-7.35%	15.88%
Nasdaq	-12.02%	14.27%
Dax (Europe)	-11.9%	-0.44%
Hang Seng	-4%	-23%
Shanghai Comp	-4.3%	-0.64%

Equity markets had a very mixed start to the year with pronounced weakness among the higher growth names and tech "darlings" that had run up the most in 2021. The older economy indices such as the FTSE and the DAX saw some renewed interest, as did emerging markets, in particular Asia, in recent weeks.

While recent volatility can be unsettling, it is worth returning to the chart below as a reminder as to how frequently markets can actually decline by 5% or more, and what's more how relatively short the time to recovery can be. For now we sit at the top of the chart below. If challenging conditions persist and the drawdown deepens, only then should we start to consider it more than typical market volatility.

Declines in the S&P 500 since 1946

Decline	# Occurrences	Approximate Frequency	Average Time to Recover (in months)
5%-10%	84	~ 1x per year	1
10%-20%	29	~ Every 2.5 years	4
20%-40%	9	~ Every 8.5 years	14
40%+	3	~ Every 25 years	58

Source: Guggenheim

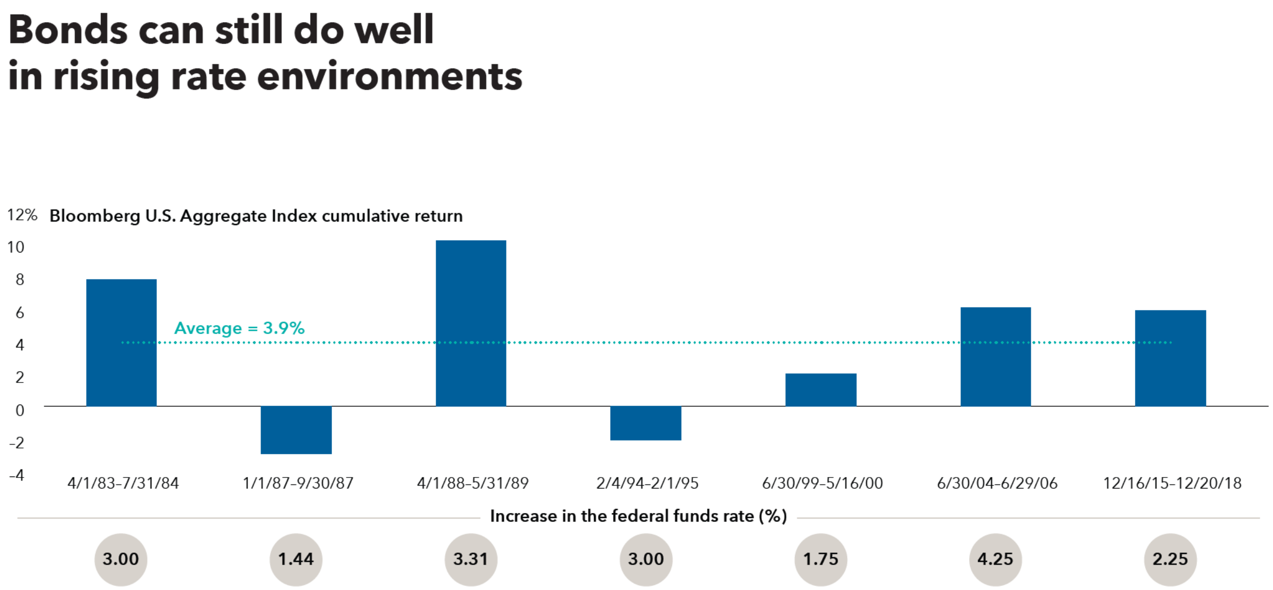
Fixed Income/Credit: the hike we had been waiting for

While last quarter we noted that expectations of a rate hike had "missed the mark" those rate hikes came in the past quarter and look poised to continue as noted above. Performance throughout the fixed income complex has been lacklustre over recent months, with the exception of private credit which has seen returns in line with expectation.

There is some demand for government bonds as equity markets wobble, and the drop in the Gilt yield in recent days in the UK suggests that there is a belief that Bank of England hikes will level out sooner than had previously been thought. The drop in the Gilt yield indicates renewed demand for government debt suggesting both a desire to hold "safe" assets, and a "risk off" mentality as well as a belief that future interest rate hikes will not be too large.

The US 10-year bond has recently seen its yield adjust to 2%, which is the highest it has been in some time, indicating some expectation of interest rate hikes. The fact that it has been fairly range bound also indicate a ceiling on rate rise expectations into the future.

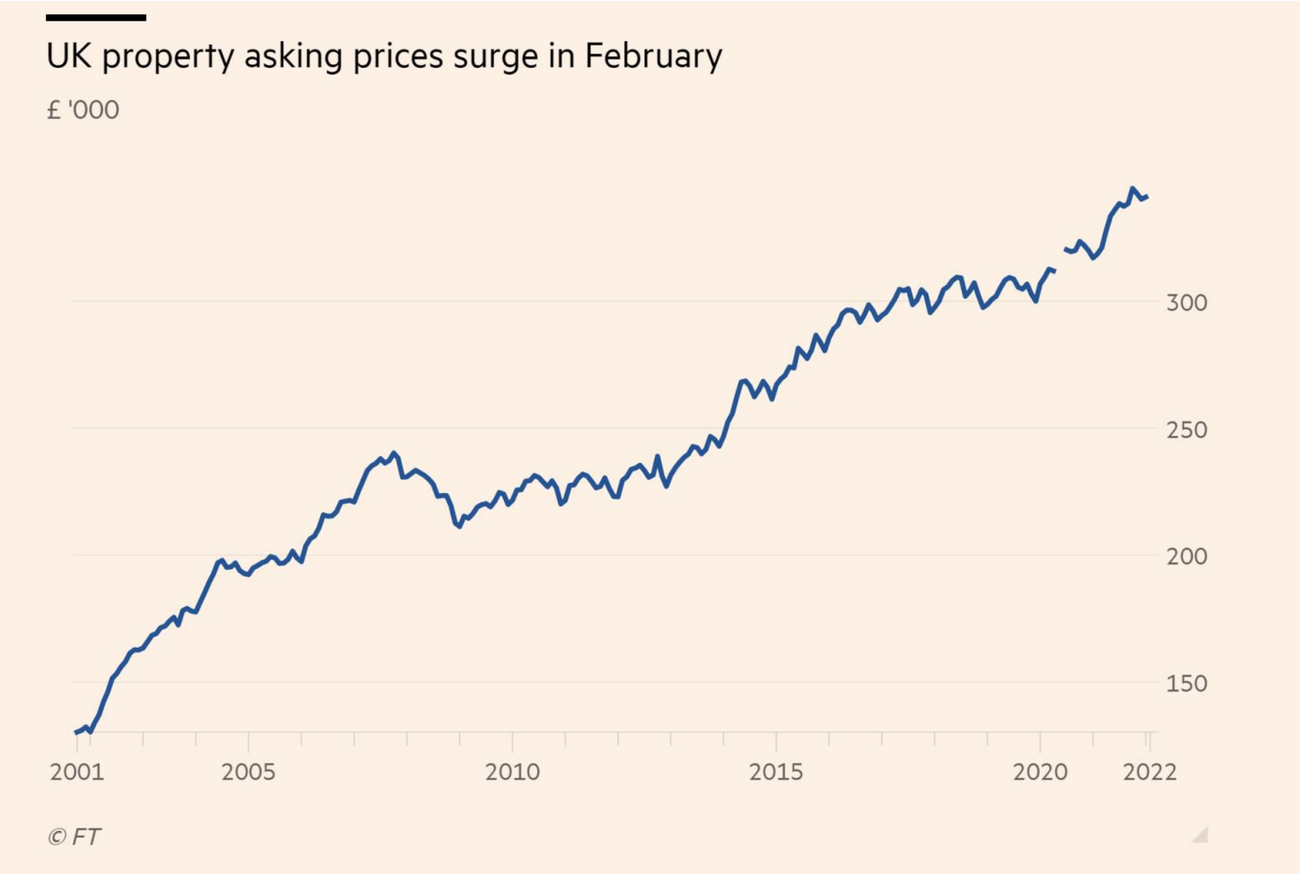
A rising rate environment is often thought of as being poor for bonds, but as the chart below shows (US based) it has been possible to generate decent if not spectacular returns from bonds even in a rising rate environment. This confirms the importance of the role of fixed income in a diversified portfolio.



Other asset classes

Oil prices remained strong (up 22% year to date), as did natural gas, supported in the near term by tensions between Russia and the Ukraine and potential uncertainty around gas prices.

Housing prices remain robust in the UK with asking prices "surging" in February and following an increase of over 10% in 2021, the fastest level in 15 years.



Private equity activity remains robust as does infrastructure and private debt investing.

Spotlight: Levelling Up and What May Lie Ahead

In early February the UK government released its Levelling Up white paper, and some of the highlights are contained below.

The White Paper is focused on ways to transform places and boost local growth, and plans to publish plans for working with local government pension funds to increase local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas. These investments may include investments in housing, transportation systems, urban infrastructure and sustainable energy production, among other areas.

In a recent LGPS forum though the following refinements were noted:

1.‘Local’ investment is in the context of the UK only, not necessarily a local county or region.

2. It will be mandatory only to have a plan, not to invest in a certain way.

3. 5% is not a ceiling so more would obviously be permitted and desirable.

4. The government is looking for ‘new’ investment - i.e. existing LGPS investments that meet the “Levelling up in UK” description don’t count in the 5%

5. A further extensive consultation can be expected in the - which will cover not just the 5%, but also climate change and pooling guidance.

This suggests that infrastructure investing, particularly within the UK, will obtain ongoing support and will be encouraged. It is imperative, however, that such investments are compatible with good portfolio diversification and reaching the overall return objective. This is particularly of concern now that infrastructure investments continue to attract crowding and compressed returns are expected as a result.

We will continue to watch as more detail for the levelling up agenda is published and report on the implications and opportunities for the Fund.

Outlook

We are echoing again our prediction of two past quarters now: **VUCA** - volatility, uncertainty, complexity, and ambiguity. As geo-political tensions mount and markets continue to churn with a volatility that feels somewhat unfamiliar it is clear that emerging from Covid restrictions and their effect on economies will be a marathon and not a sprint. While the disease may become endemic, the initial shocks will take longer to settle. Interestingly despite the chatter in the aftermath of COP26 and the flurry of directional change that seemed to come out of that, the last quarter has had a decidedly old economy feel:

A focus on energy prices, a lookback to the high inflation levels of previous decades, a surge of interest in the “old economy” indices such as the FTSE 100 and a rising rate environment that favours financial stocks – all of this has drowned out much of the post COP26 newsflow.

In coming months we will be watching in particular:

- **Inflation – to the moon or back to earth?** At some stage the “base effect” will start to work with the current inflation figures, in that the already high prices will start to become the base number (the opposite occurred in 2020 when the “base” number was artificially low due to lock-downs). This is simple mathematics – price rises off a higher base won’t look as eye-popping in terms of percentage changes and that may cool the media headlines somewhat. It will be critical to watch how energy prices impact the levels and how supply chain issues get resolved, and no small portion of this may depend on the outcome of the war in Ukraine.

- **All Eyes on Russia/Ukraine.** As the stand-offs, the skirmishes, the diplomatic posturing and the economic threats evolved into full-blown war this situation will be critical in coming days and weeks ahead in what has become the only genuine geo-political news item to move markets in many months.

- **Investment “starts at home”.** As normal operations return and Covid restrictions are lifted we will return to policies and objectives which will receive a renewed energetic push following months (if not years) “on ice”. Some of this attention on LGPS schemes may be unwelcome and may vary from oversight of local investments and the requirement of a plan to increase them, to heightened scrutiny on the high funding levels currently in effect across many underlying Funds. With more consultation also likely on pooling, it is to be hoped that none of these planned policy changes will stymie progress currently underway.

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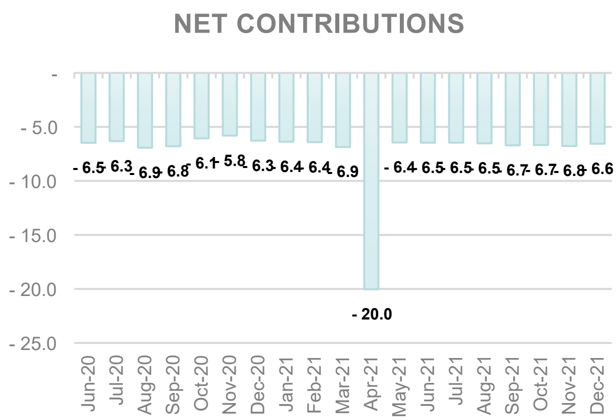
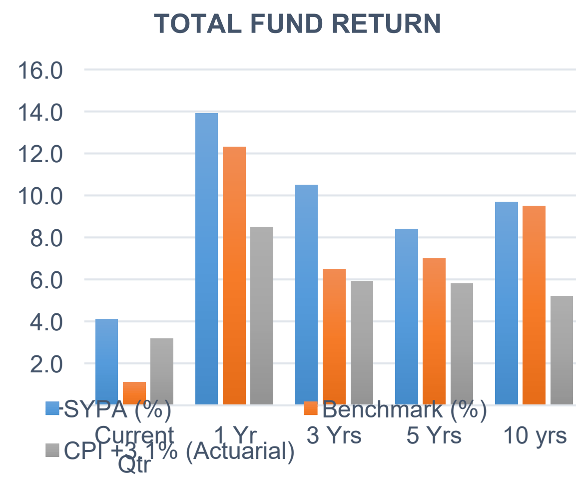
March 3, 2022

SOUTH YORKSHIRE PENSIONS AUTHORITY

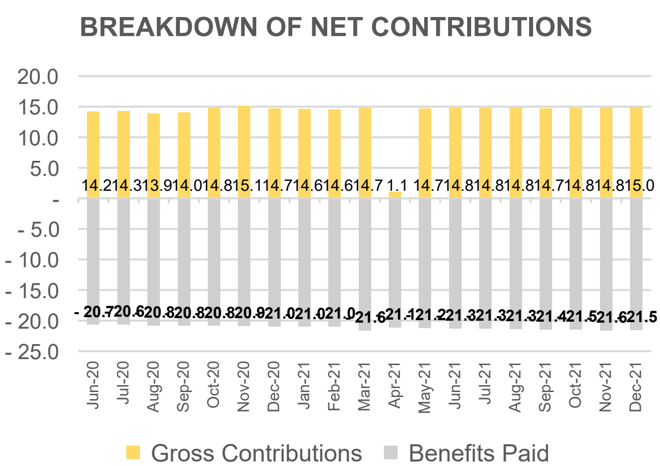
QUARTERLY REPORT
TO 31 DECEMBER 2021



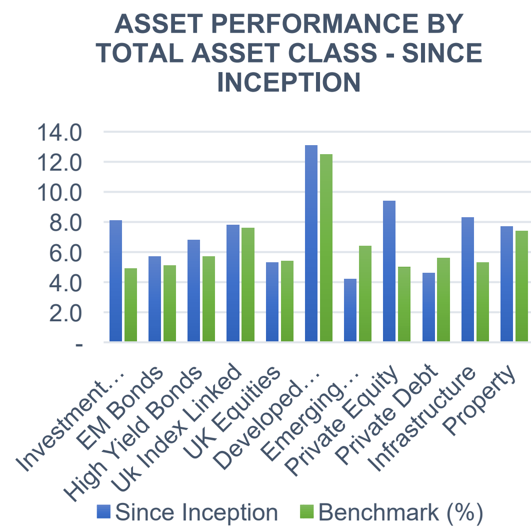
NET CONTRIBUTIONS
-
- 5.0
- 10.0
- 15.0
- 20.0
- 25.0
- 6.5 6.3 6.9 6.8 6.1 5.8 6.3 6.4 6.4 6.9
- 20.0
- 6.4 6.5 6.5 6.5 6.7 6.7 6.8 6.6
Jun-20 Jul-20 Aug-20 Sep-20 Oct-20 Nov-20 Dec-20 Jan-21 Feb-21 Mar-21 Apr-21 May-21 Jun-21 Jul-21 Aug-21 Sep-21 Oct-21 Nov-21 Dec-21



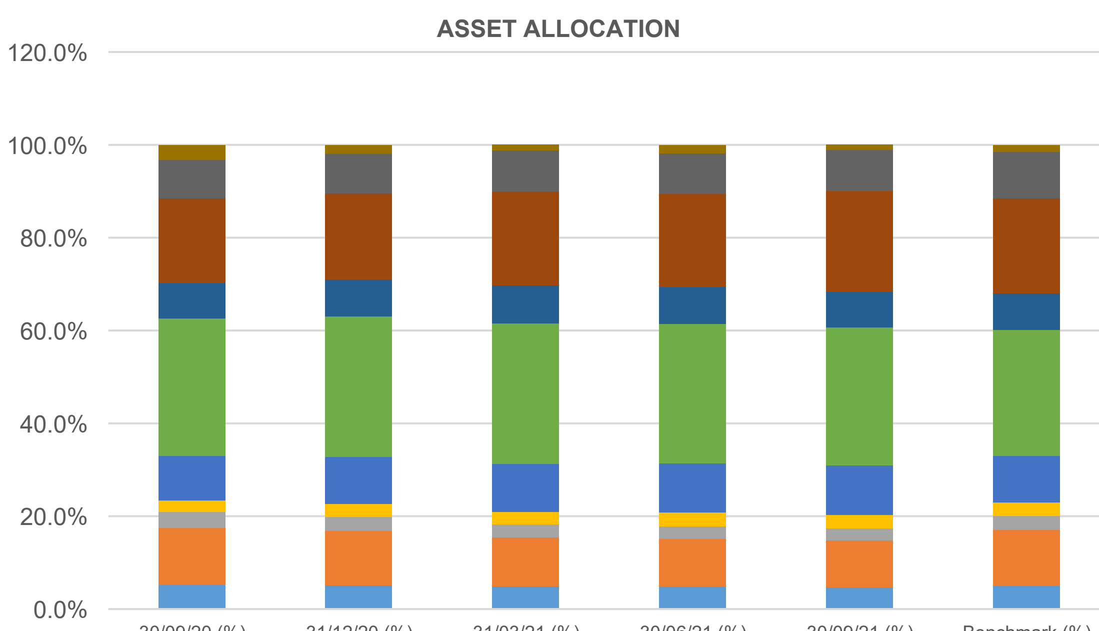
TOTAL FUND RETURN
16.0
14.0
12.0
10.0
8.0
6.0
4.0
2.0
SYPA (%)
Benchmark (%)
CPI +3.1% (Actuarial)
Current Qtr
1 Yr
3 Yrs
5 Yrs
10 yrs



BREAKDOWN OF NET CONTRIBUTIONS
20.0
15.0
10.0
5.0
-
- 5.0
- 10.0
- 15.0
- 20.0
- 25.0
14.2 14.3 13.9 14.0 14.8 15.1 14.7 14.6 14.6 14.7 1.1 14.7 14.8 14.8 14.8 14.7 14.8 14.8 15.0
- 20.7 20.6 20.8 20.8 20.8 20.9 21.0 21.0 21.0 21.6 21.1 21.2 21.3 21.3 21.3 21.4 21.5 21.6 21.5
Jun-20 Jul-20 Aug-20 Sep-20 Oct-20 Nov-20 Dec-20 Jan-21 Feb-21 Mar-21 Apr-21 May-21 Jun-21 Jul-21 Aug-21 Sep-21 Oct-21 Nov-21 Dec-21
Gross Contributions
Benefits Paid



ASSET PERFORMANCE BY TOTAL ASSET CLASS - SINCE INCEPTION
14.0
12.0
10.0
8.0
6.0
4.0
2.0
-
Investment...
EM Bonds
High Yield Bonds
Uk Index Linked
UK Equities
Developed...
Emerging...
Private Equity
Private Debt
Infrastructure
Property
Since Inception
Benchmark (%)



ASSET ALLOCATION
120.0%
100.0%
80.0%
60.0%
40.0%
20.0%
0.0%
30/09/20 (%)
31/12/20 (%)
31/03/21 (%)
30/06/21 (%)
30/09/21 (%)
Benchmark (%)

Market background

Equity markets rallied in October after a jittery end to the last quarter. Volatility then increased as the rise of the Omicron variant emerged and clouded the prospects for economic recovery. However equity markets confounded everyone finishing strongly.

Surprisingly, UK equities performed well but lagged broader global markets by a small margin over the quarter. The UK was one of the first to be impacted by Omicron and extra restrictions imposed impacted the consumer-facing sectors in particular. However, having a high proportion of the population vaccinated and successfully ramping the booster roll-outs along with the milder nature of the Omicron variant meant that we avoided the levels of restrictions of earlier variants. In addition, the Chancellor announced higher taxes in his November budget statement and the Bank of England raised interest rates in December by 0.15% to 0.25% as inflation came in higher than expected and the labour market continued to show tightening.

Global equities showed strong performance with developed markets outperforming emerging markets. Returns from the US were the strongest boosted by its high proportion of technology stocks and Japan was the weakest having been the strongest major market the previous quarter.

Government bond markets were impacted by persistent, elevated inflation, hawkish central bank policy shifts and the emergence of the Omicron variant. Yields fell for most of the quarter before reversing in the final weeks of the year as sentiment improved. Yield curves flattened, with shorter-dated bonds hit as central banks turned more hawkish. Corporate bonds lagged government bonds for the quarter. EM hard currency bonds declined, with high yield significantly weaker.

Commodity indexes rose moderately despite a decline in the price of natural gas. Industrial metals were the driver of performance with strong gains in the prices of zinc, nickel, lead and copper.

Real estate returns were positive with all sectors rising. Industrials were the strongest with hotels the weakest. A faster than expected rebound in retail warehouse pricing contributed to the stronger performance in the overall retail sector.

Fund Valuation

as at 31 December 2021

	Sep-21		Quarterly Net Investment	Dec-21		Benchmark	Range
	£m	%		£m	%	%	%
FIXED INTEREST							
Inv Grade Credit - BCPP	485.4	4.7	0.0	485.6	4.5	5	
UK ILGs - BCPP	897.1	8.6	0.0	952.6	8.8	10	
UK ILGs SYPA	151.9	1.5	-90.4	69.3	0.6		
High Yield Bonds	272.3	2.6	-272.8	0.0	0.0	0	
EM Bonds	303.4	2.9	-302.4	0.0	0.0	0	
MAC - BCPP			618.4	617.9	5.7	6	
TOTAL	**2110.1**	**20.3**	**-47.6**	**2125.4**	**19.7**	**21**	**16-26**
UK EQUITIES	**1101.9**	**10.6**	**0.0**	**1144.1**	**10.6**	**10**	**5 _ 15**
INTERNATIONAL EQUITIES							
Developed Market - BCPP	3066.0	29.5	0.0	3237.6	30.0	27.125	
Developed Market - SYPA	33.6	0.3	-7.0	28.1	0.3		
Emerging Market - BCPP	776.7	7.5	0.0	768.9	7.1	7.875	
Emerging Market - SYPA	5.5	0.1	-2.9	2.4	0.0		
TOTAL	**3881.8**	**37.3**	**-9.9**	**4037.0**	**37.4**	**35**	**30-40**
PRIVATE EQUITY							
BCPP	102.7		29.2	140.4			
SYPA	869.8		-48.2	881.5			
TOTAL	**972.5**	**9.4**	**-19.0**	**1021.9**	**9.5**	**7**	**5_9**
PRIVATE DEBT FUNDS							
BCPP	20.8		11.9	33.8			
SYPA	496.1		-23.0	485.1			
TOTAL	**516.9**	**5.0**	**-11.1**	**518.9**	**4.8**	**5.5**	**4.5-6.5**
INFRASTRUCTURE							
BCPP	61.5		95.8	160.5			
SYPA	723.2		7.7	748.3			
TOTAL	**784.7**	**7.5**	**103.5**	**908.8**	**8.4**	**10**	**8_12**
PROPERTY	**911.5**	**8.8**	**-38.0**	**915.2**	**8.5**	**10**	**8_12**
CASH	**118.4**	**1.1**		**124.6**	**1.2**	**1.5**	**0-5**
TOTAL FUND	**10397.8**	**100.0**		**10795.9**	**100.0**	**100**	
COMMITTED FUNDS TO ALTERNATIVE INVESTMENTS	**1279.1**			**1272.8**			

Asset Allocation Summary

As equity markets continued to be strong we took the opportunity to take further profit. £9.9m was raised from the legacy holdings and these proceeds were used to fund the drawdowns into the alternative funds.

The largest transaction this quarter was the transition of our high yield and emerging market bonds to the new Border to Coast Multi Asset Credit fund. This took place in October. We also added £47.5m cash proceeds to take our weighting towards a neutral weighting. To fund this we sold some of the legacy index-linked gilts.

Within property we completed on four sale transactions during the quarter. Augustin Retail Park in Grantham was sold for £3.8m, Avalon House, Richmond was sold for £15.45m, Go Outdoors, Coventry was sold for £4.5m and 95, New Cavendish Street, London was sold for £20.5m. These were all transactions that were reported earlier in the 2021 strategic plan.

As reported last quarter we did see a significant drawdown of £105m into infrastructure funds which has taken our weighting within the permitted ranges for this asset class.

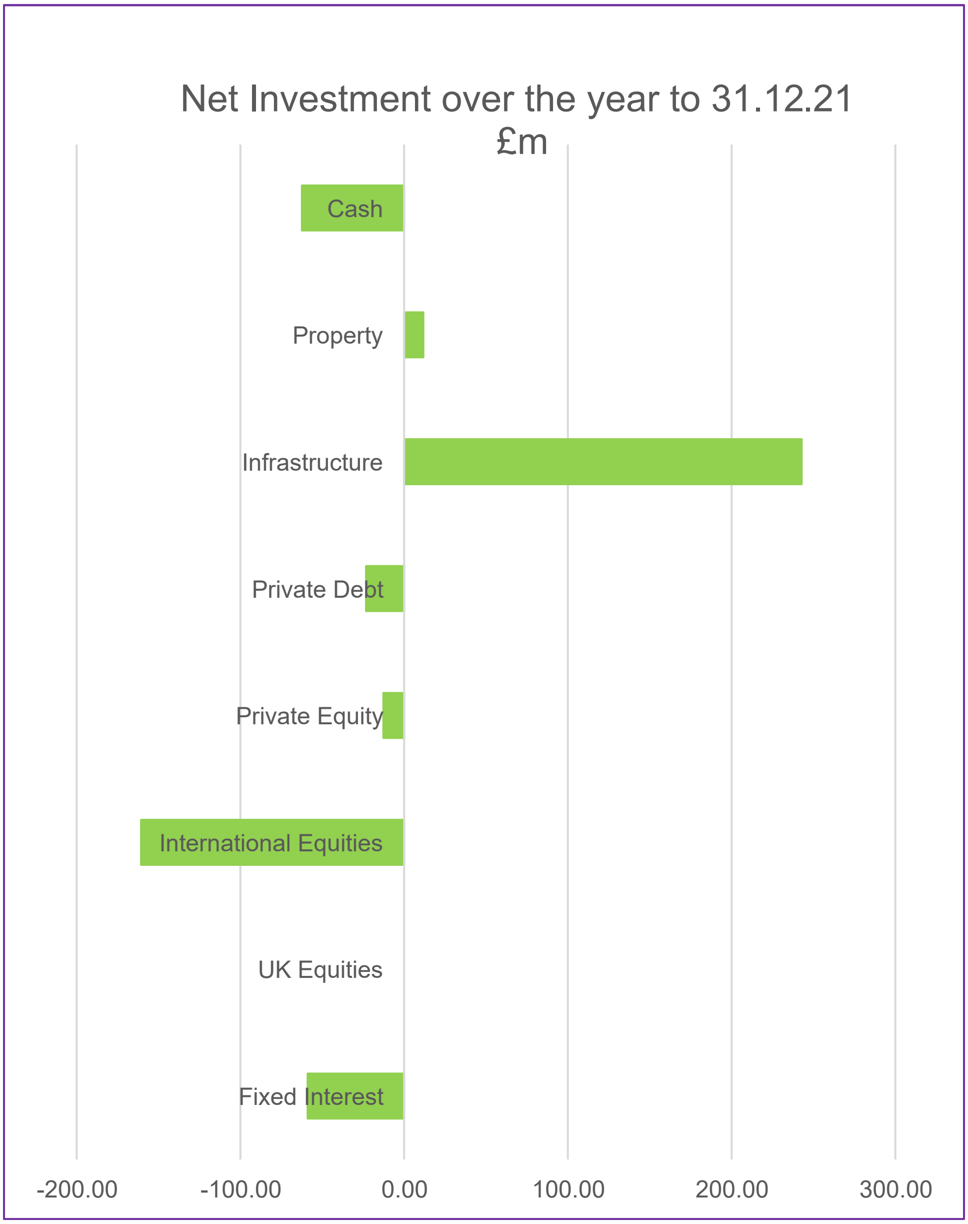
There is now only one category that is outside it's tactical range and that is private equity.

We have seen continued uplift in valuations from our private equity fund holdings and although we had a net £19m realisation over the quarter we actually saw an increase in weighting to this category. We are expecting some realisations to be completed over the next couple of quarters which will hopefully bring the allocation down.

The changes in net investment for the categories over the last year are also shown below. It shows that we have been de-risking the Fund in line with the strategic benchmark

The current Fund allocation can also be seen in the chart below and is shown against the strategic target.

Asset Allocation Summary



Asset Allocation Summary

Strategic vs Current Asset Allocation					
Asset Class	SAA Target	Range	Current Asset Allocation		
	%	%	£m	%	OW/UW
Index Linked Gilts	10	8 - 12	1021.9	9.5	**-0.5**
Sterling Inv Grade Credit	5	3 - 7	485.5	4.5	**-0.5**
Multi Asset Credit	6	4 - 8	617.9	5.7	**-0.3**
UK Equities	10	5 - 15	1144.1	10.6	**0.6**
Overseas Equities	35	30 - 40	4037	37.4	**2.4**
Private Equity	7	5 - 9	1022	9.5	**2.5**
Private Debt	5.5	4.5-6.5	518.9	4.8	**-0.7**
Infrastructure	10	8 - 12	908.8	8.4	**-1.6**
Property	10	8 - 12	915.2	8.5	**-1.5**
Cash	1.5	0 - 5	124.6	1.2	**-0.3**
Total	100		10795.9	100	

OW/UW 'RAG' ratings

Green ratings indicate that current asset allocation is within agreed tolerances

Amber ratings indicate that current asset allocation is beyond 70% of the difference between the maximum/minimum range and the strategic target allocation

Red ratings indicate that current asset allocation is out of range

Performance

as at 31 December 2021

	Qtrly Performance		Financial Y.T.D.	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Investment Grade Credit - BCPP	0.6	0.3	1.8	1.1
UK ILGs	6.0	6.2	13.6	13.7
High Yield Bonds	-0.4	-0.3	2.7	0.4
EM Bonds	-1.3	-1.3	5.8	1.9
Multi Asset Credit - BCPP	-0.1	0.5		
TOTAL	**2.9**	**3.2**	**8.2**	**7.1**
UK EQUITIES	**3.8**	**4.2**	**11.5**	**12.5**
INTERNATIONAL EQUITIES				
Developed Market - BCPP	5.6	5.2	14.1	13.6
Developed Market - SYPA	5.0	5.2	11.7	13.6
Emerging Market - BCPP	-1.0	-1.4	-2.3	-1.3
Emerging Market - SYPA	-3.2	-1.4	-5.0	-1.3
TOTAL	**4.3**	**3.7**	**10.5**	**10.2**
PRIVATE EQUITY	**7.0**	**2.7**	**17.9**	**7.1**
PRIVATE DEBT FUNDS	**2.7**	**2.7**	**10.2**	**7.1**
INFRASTRUCTURE	**2.8**	**2.7**	**10.2**	**7.1**
PROPERTY	**5.7**	**6.1**	**11.3**	**13.1**
CASH	**0.0**	**0.0**	**0.0**	**0.0**
TOTAL FUND	**4.1**	**3.7**	**10.7**	**9.3**

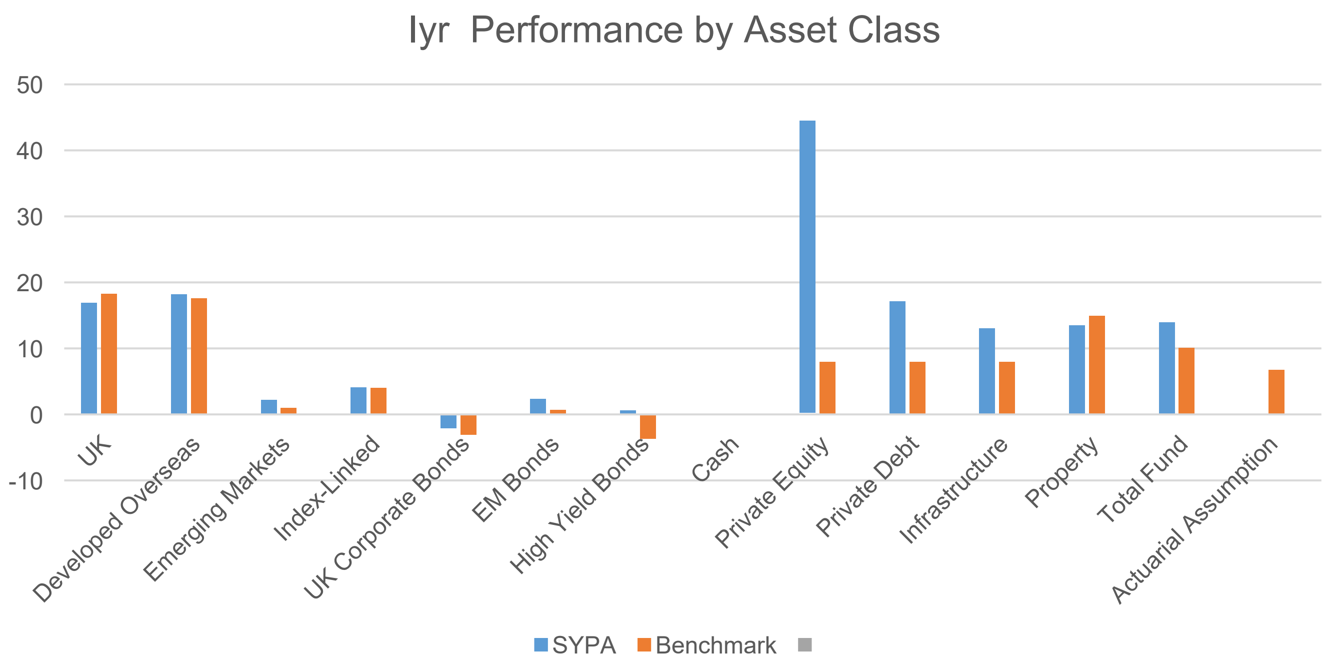
Performance Summary

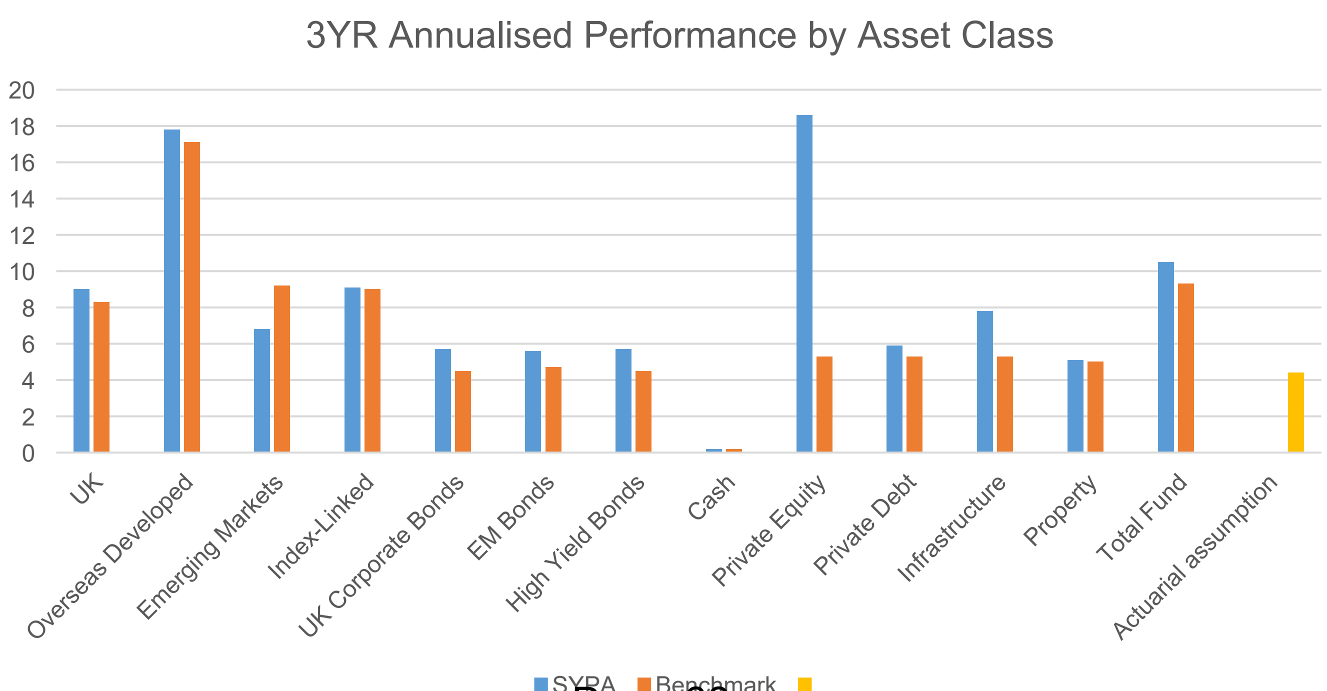
For the quarter to the end of December, the Fund returned 4.1% against the expected benchmark return of 3.7% and for the year to date the Fund has now returned 10.7% against an expected return of 9.3%.

Stock selection was the reason for the outperformance and the breakdown of the stock selection is as follows:-

DM Overseas Equities	0.1%
Total Bonds (transition)	-0.1%
Private equity funds	0.5%
Commercial Property	-0.1%

Performance-Medium term





Performance – Border to Coast Funds

This quarter the UK equity fund continued to show underperformance of its benchmark. The performance was impacted by adverse stock selection in materials and industrials, and conservative positioning against a strong market backdrop.

The Overseas Developed Market portfolio continued it's steady outperformance.

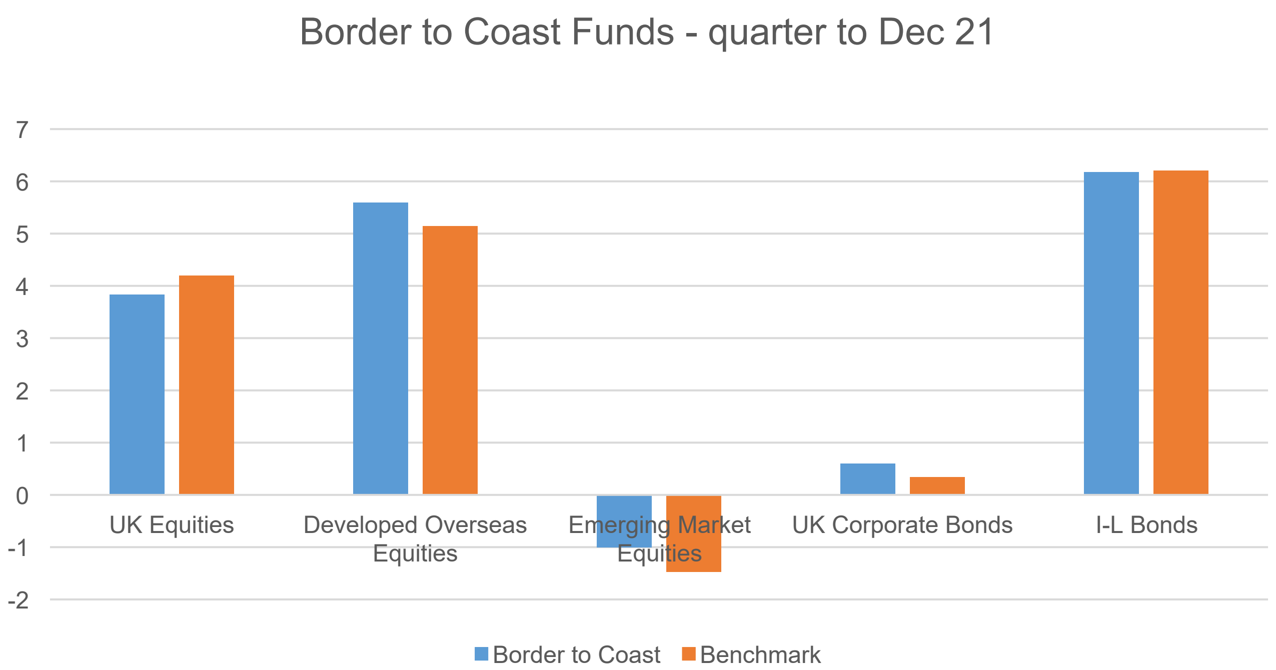
The Emerging Market fund also outperformed its benchmark with both the Chinese managers outperforming strongly. Thus we have seen some recouping of the earlier underperformance.

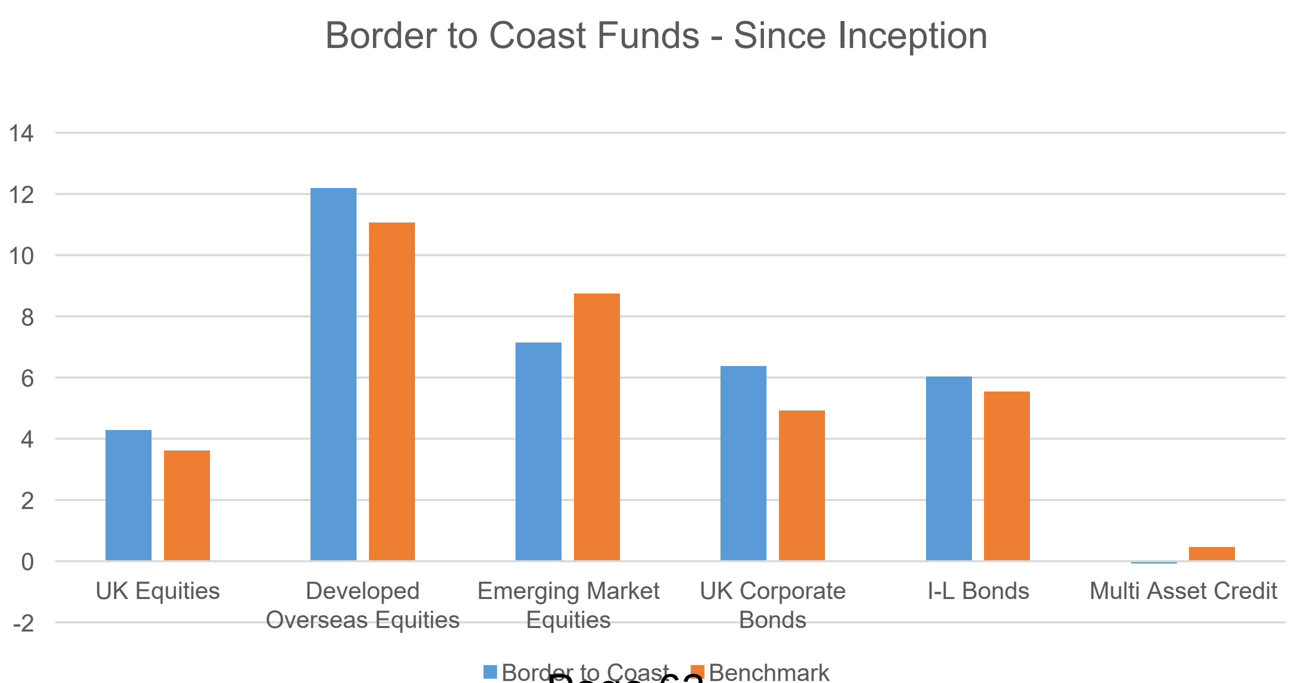
The Multi Asset Credit (MAC) fund showed slight underperformance for the period from 12th November when the portfolio came out of transition. However it is too early to comment on performance.

Both the index-linked bond and sterling investment grade credit portfolios outperformed their benchmark.

The charts below show quarterly returns but also the longer term position of each of the Border to Coast funds that we hold.

Performance-Border to Coast Funds





Funding Level

The funding level as at 31 December 2021 is estimated to be 112%

The breakdown is as follows:

Fund's Assets at 31 December	**£10.795**
Funds estimated Liabilities at 31 December	**£9,635**

Caveat
This estimate is calculated on a rollforward basis. This means that there is no allowance made for any actual member experience since the last formal valuation on 31 March 2019.

Climate Opportunities Fund

As part of out Net Zero target we will consider a range of alternative investment approaches to enable us to manage risks and opportunities related to climate change. These may include active management of carbon risk which results in some reduction of exposure, such as a tit towards low-carbon companies and assets, alongside company engagement and an increased allocation to low carbon opportunities.

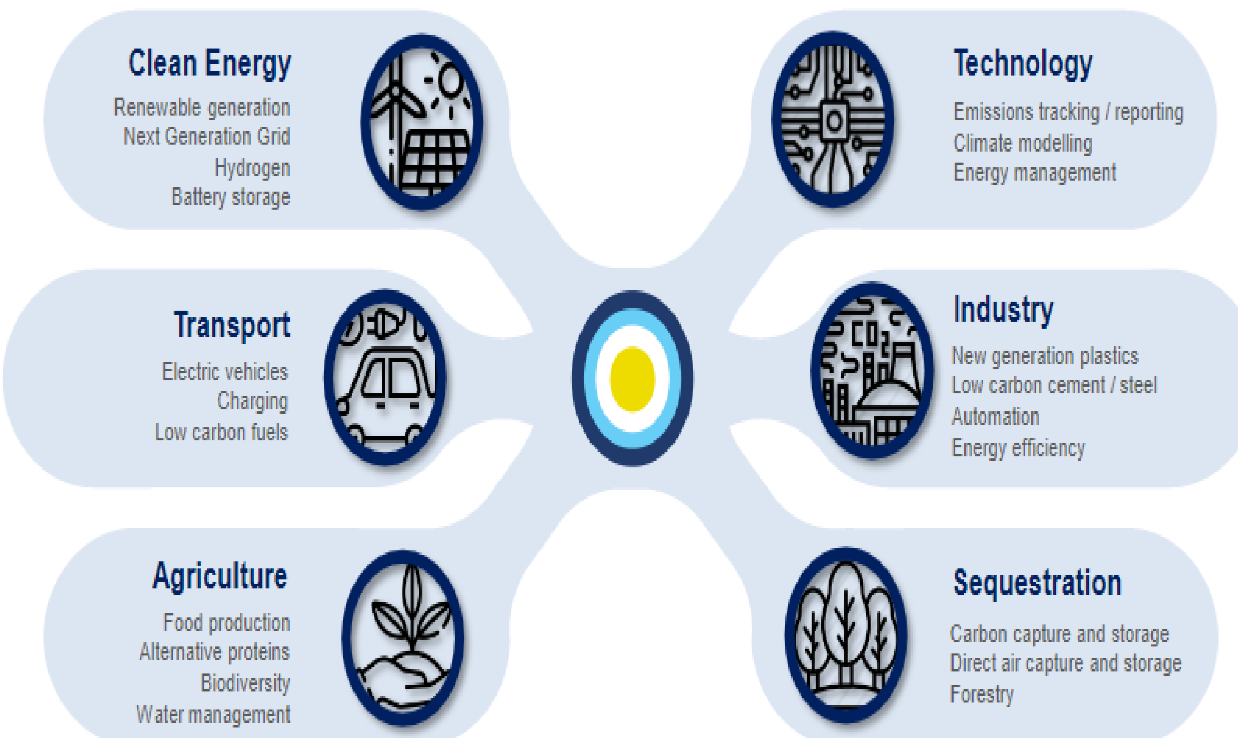
SYPA already has exposure to a range of low carbon investments through its existing strategy in areas such as infrastructure (renewable energy) and private equity (clean tech),and will look at increasing these in the forthcoming strategic review. Within our current investment strategy the Fund has a 10% allocation to global infrastructure and these investments already include a range of renewable energy projects, electric vehicle charging and the manufacture of electric trains and buses. These projects are utilising new technologies to remove carbon emissions and will hopefully lead to widespread adoption of these solutions. Analysis of our current portfolio shows that we have £320m exposure to renewables/climate opportunities (2.97% of total fund, 35% of our current infrastructure exposure).

Border to Coast are currently exploring the possibility of launching a Climate Opportunities fund which SYPA is supportive of. 100% of this portfolio would be carbon and climate aware supporting our Fund commitment to decarbonise and can help SYPA meet its net zero target. It would be differentiated from the main alternative offerings. The investments are expected to be mainly infrastructure or private equity but could also include private debt opportunities. It is anticipated that commitment size of individual investments would be lower than for the main alternative offerings as it is expected that these would be mainly niche managers which tend to launch smaller funds.

The returns will be driven by risk appetite, income requirements and strategy. It would be wider than just clean energy and the funds may have a wider dispersion of returns. They will also target Carbon emissions, WACI, Paris aligned companies. This fund is different to the other alternative funds which are 3 year series which have annual commitments, this will be a single capital raise with a 3 year investment period, ie there will be one opportunity at the beginning of the series to make an allocation which will be drawn down over a 3 year period.

Climate Opportunities Fund

This fund will invest in strategies which support the energy transition and move to a low carbon economy and will have a target return of 8% p.a.. These opportunities are expected to map out over 6 sectors.



Climate Opportunities Fund

The investments will fall into 3 different classification of assets and Border to Coast will seek to diversify across the investment strategy classifications of

- Operating assets – in established technologies or asset classes which contribute to the decarbonisation agenda. Returns from underlying investments would typically be generated through income Expected net returns of 4-6%. Risk profile is similar to core infrastructure assets.

- Developing assets – development in established technologies, operational assets in newer technologies, such as the construction of wind and solar powered generation and investment in assets utilising newer, emerging technologies such as battery storage, electric vehicle charging and hydrogen fuel. Returns would be a mix of income and growth 8-12% net. Risk profile is broadly similar to core plus or value added infrastructure

- New technologies – Venture and growth investments in new technologies in the green economy., focus on capital growth Expected return of 15-20% net with a risk profile in line with private equity

The broad aim of the portfolio will be to construct a portfolio which exhibits lower carbon emissions than the wider private market strategies, delivers carbon reduction/offsetting and supports the transition to a lower carbon economy. Each investment will be assessed regarding the anticipated climate benefits of the investment strategy. Border to Coast are working with the industry to agree standardised environmental reporting metrics with the hope of assessing the benefit at portfolio level but if it is not possible then each individual fund may have different reporting metrics.

The allocation to this fund will be made to start commitment from April 2022 which is before work on our strategy review begins but this fund will help us achieve a target of increased climate positive investments. We are intending to reduce our annual commitments to the current 3 alternative asset classes to accommodate exposure to this fund. Our exposure to fossil fuels at 31 December was £253m which is 2.34% of the total fund valuation so we would like to commit to invest an amount to off-set this current exposure. Also we would expect that this fossil fuel exposure would decrease over time and so our net exposure to positive carbon impact investments would increase.

The amount of commitments from all partner funds exceeded the capacity that Border to Coast had for this fund and as such everyone was scaled back. Our commitment is £245m.

Alternative Fund Commitments

Expected allocations for 2022/23 for the three alternative asset classes based on our benchmark weightings would be

Private Equity	£150m
Private Debt	£145m
Infrastructure	£210m
Total commitment	£505m

To accommodate the climate opportunities fund of c£80m pa we need to reduce the annual commitments

Private Equity	£100m - we are overweight this category so are reducing proportionately more from this category
Private Debt	£140m
Infrastructure	£185m
Climate opportunities	£80m
Total commitment	£505m

SOUTH YORKSHIRE PENSIONS AUTHORITY

Outlook

At the beginning of 2022 geopolitical and monetary risks are higher than we have seen for many years. Inflation risk is the greatest challenge for most investors with concern that higher than expected inflation accelerates the removal of policy accommodation. Hawkish rhetoric by central banks is pointing to imminent tightening.

From an asset allocation perspective, we still prefer equities to bonds as we expect equities to be supported by earnings growth, which should more than offset the impact of higher bond yields. Policy tightening by the Central Banks will lead to higher yields and thus negative bond performance.

UK Equities

UK equities offer attractive valuations relative to history and other developed markets. The positive vaccination situation has meant that economic activity has started to normalise. Although rates are expected to rise policy is likely to still be relatively accommodative. However, strong sterling will weigh on the FTSE 100 given its high exposure to foreign revenues We will reduce weighting to add to the new Border to Coast Listed alternatives fund

Overseas equities

We expect market conditions to remain volatile as higher than expected inflation accelerates the removal of monetary policy accommodation. The first rate hike by the Federal Reserve is likely to occur in March followed by up to two potential further rises during the latter half of the year. The ECB is potentially looking at a first rate increase in over a decade in early 2023. The Bank of Japan is not expected to raise rates in the next two years. The risk to equities is that if rate hikes need to come even faster than currently anticipated. We are still moderately overweight overseas equities as expectations in other asset classes are even more limited. However, we will be reducing this position to add to the new Border to Coast Listed alternatives fund. We also are underweight emerging markets relative to our benchmark weighting and see no reason to adjust this position.

Outlook

Bonds

The expectation of higher rates is negative for nominal government bonds and credit markets but given the outlook for higher medium term inflation we would prefer inflation linked bonds. Index-linked gilts give protection against rising inflation but real yields are very low and likely to rise if nominal yields rise due to higher inflation. They are however a better bet than conventional fixed income.

We are underweight credit against a backdrop of rising rates and high valuations. At the moment we prefer to take the risk in equities ,

Real Estate

In 2021, UK real estate performance reached levels not seen since 2015, with the industrial sector outperforming the all property average by a significant margin, The spread between the best and worst performing sectors reached the highest level on record in 2021. This spread in performance is expected to converge Overseas capital continues to dominate investment, constituting 58% of all transactions in 2021.

It is expected that the industrial sector will remain the key sector call but following a period of sustained yield compression, rental value growth is expected to be the primary performance driver for the sector. Prime industrial and logistics units will be best placed to capture rental value growth.

The office sector was the worst performing sector in 2021 and is expected that with the headwinds facing the sector that it will underperform the wider market in 2022. But it is expected that there will be a clear polarisation in performance between Grade A and secondary office buildings.

Polarisation within the retail sector is expected to continue. Retail warehouses have rebounded strongly with prime yields narrowing. However this has been focussed on assets that are let on affordable rents, and anchored by grocery, discount and DIY occupiers. The outlook for fashion related assets remains more challenging.

Outlook

Real Estate cont
The expectation is that the Bank of England will be looking to increase rates in 2022 but they will still remain at low rates in a historical context and this will continue to support real estate pricing, and in particular, long-let secure income. SYPA's position relative to the sectors mentioned above is positive. We have a relatively strong overweight to industrial and have increased our weighting to supermarkets during 2021 and have actively decreased weightings to riskier offices with imminent lease expiries/voids and peripheral retail assets and the portfolio looks well positioned going forward.

Will look to selectively increase weighting.

Alternatives

The alternative investment market which includes investments within private equity, private debt and infrastructure, have the potential to add value and diversification. They generally generate 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. Within the alternative area Border to Coast are looking to launch a Climate Opportunities fund and we will look to allocate to this from our existing alternative allocation in 2022.

Cash

Cash is now at a level that any further cash requirement will be financed by switching among the asset classes.

Update – market background

The Russian invasion of Ukraine has dominated price action this week (to the 4th March.) Sanctions on Russian entities, and SWIFT restrictions further dominated headlines and the markets became more risk averse.

Global equities have fallen after initial resilience when the invasion began. The worst hit equity market has been Europe, closely followed by UK markets. The best performing market has been Asia Pacific ex Japan due to the strong performance in the materials sector which makes up a significant portion of the index.

The flight to quality in fixed income continued. The market's expectation of the US Fed's tightening declined, although there is still expectation that rates will move higher. (The conflict doesn't change the fundamental pressures facing policy makers.) Emerging market bonds remain volatile with spreads on Russian bonds widening significantly.

Commodities continued their rally as the market worked through the supply and demand impact of the war in Ukraine. Oil finished the week up more than 12%, above $110 per barrel, which is the highest price in a decade. Non-energy commodities also rallied given the geographical concentration of production in commodities such as wheat and palladium in Eastern Europe.

Major equity indices have probably not fallen as significantly as first expected because of the positive impact of the reduction in investors' expectations for monetary tightening in Developed Markets and the associated fall in government bond yields.

The fall in developed market government bond yields since the start of Russia's invasion might seem at odds with the 20% rise in the price of oil. However, the reduction in interest rate expectations (which has pushed down real yields) has been enough to offset the effect of higher commodity prices (which has pushed up inflation compensation)

The situation is fluid and will be monitored closely, Markets are alternating between being focussed on the Fed and possible actions and on the situation in Ukraine. The two themes could keep volatility elevated

Ultimately if a cease fire is agreed, yields, especially those of inflation protected bonds, could potentially rebound a lot more.

SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**SYPA Responsible Investment Policies – Annual Review**	**Status**	For Publication
Report to	Authority	**Date**	17th March 2022
Report of	Director and Head of Investment Strategy		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Fund Director	**Phone**	01226 666439
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

1.1 To present to members for approval the annual review of the Authority's own policies in relation to responsible investment.

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2 Recommendations

2.1 Members are recommended to:

a. Approve the following updated policy documents:

i. The Authority's Responsible Investment Policy (Appendix A)

ii. The Authority's Climate Change Policy (Appendix B)

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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.

While much operational responsibility in relation to Responsible Investment is now exercised by Border to Coast on the Authority's behalf in line with policies agreed collectively by the 11 Partner Funds the Authority remains responsible for the overall policy framework in this important area, as well as remaining responsible for RI activity in relation to investments which have yet to be pooled. It is important that this policy framework is kept up to date and sets a clear direction for officers in their work to influence the development of Border to Coast's collective framework.

4 Implications for the Corporate Risk Register

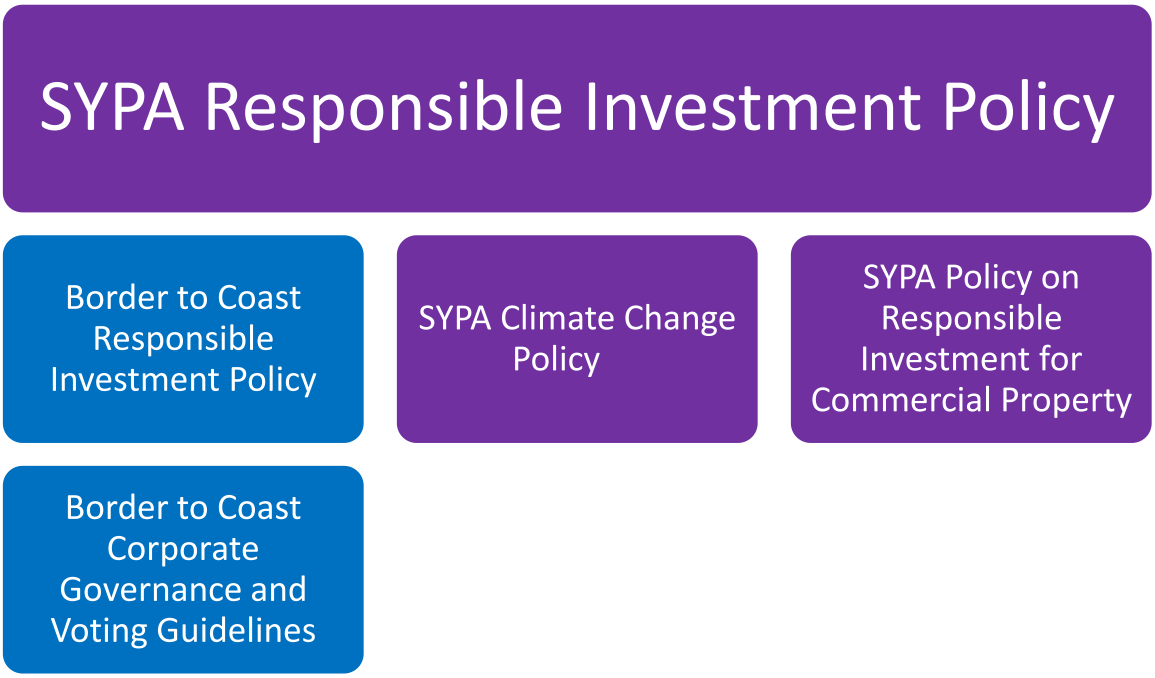
4.1 Maintaining an up to date policy framework in relation to Responsible Investment which sits above the collective framework agreed through Border to Coast ensures that the

Authority is addressing the risk of not meeting its regulatory obligations. In addition Climate Change is highlighted on the Authority's corporate risk register as a very significant risk and as such maintaining an up to date policy framework in this area supported by an annual action plan is one of a number of actions which allow the Authority to demonstrate that it is seeking to address this risk.

5 Background and Options

5.1 Responsible Investment as an approach is central to the Authority's investment beliefs and how it wants to see its money invested. It is therefore important that the policy framework in this area fully reflects members' intentions and is kept up to date. This report presents the annual review of key aspects of this framework for approval, reverting to the previous cycle of a review each March following some disruption due to the pandemic and the additional debate required in the last review cycle around the Net Zero target.

5.2 While pooling, through Border to Coast, changes the way in which the Authority makes investments the Authority retains responsibility for setting out its approach and intentions in relation to responsible investment matters, although now these may well be implemented in different ways. Border to Coast has taken a strongly collaborative approach to the development and implementation of its Responsible Investment approach very much building on its inheritance from its partner funds in particular SYPA. This approach results in an RI policy framework as illustrated below with the colours illustrating ownership of the various aspects of the framework:



5.3 SYPA's own policies are reflected in the Border to Coast policies, but also apply to assets which have not yet transferred into the pool. In addition SYPA's policies set out the direction in which the Authority will seek to influence the other partner funds within Border to Coast to move over the coming years.

5.4 The Climate Change Policy was reviewed in the last review cycle but this is a rapidly developing area and further updating is required to reflect the evolution of the Border to Coast position and to fully reflect the adoption of the Net Zero target. The Commercial Property Policy was reviewed in the last cycle for the first time in some years, and given the timescales involved in making change on the ground in this area further changes at this stage are not considered necessary.

SYPA Responsible Investment Policy

5.5 The latest iteration of the Authority's overarching Responsible Investment Policy is set out at Appendix A. While the general tenor of the policy remains unchanged there has been some development of its presentation, firstly to include the Authority's beliefs in relation to Responsible Investment agreed last year from which all activity in this area should flow and secondly to ensure that some of the emphasis from the Stewardship Code on priority setting and focus is properly reflected within the policy. In this latter area it can be seen that the Authority's priorities for engagement activity are well matched with those of the Border to Coast Partnership and the Local Authority Pension Fund Forum.

5.6 At this stage the Policy does not identify any further priorities for development work or areas on which to influence developments within Border to Coast. This is a recognition of capacity constraints internally given the additional reporting and other requirements in this area and also of the fact that it is in the Authority's wider interest if Border to Coast are allowed to focus on making progress in delivering the commitments set out in their action plan particularly those supporting a the move to Net Zero and the provision of more and better data for partner funds.

SYPA Climate Change Policy

5.7 The proposed revised Climate Change Policy is at Appendix B. This update is very much focussed on bringing the Policy in line with the Net Zero Goal and Action Plan (elsewhere on the agenda for this meeting). The Policy also reflects the intention of the Government to make regulations to mandate reporting in line with the requirements of the Task Force on Climate Related Financial Disclosure (TCFD). The Authority adopted this approach some years ago. However, it is understood that the regulations when they are eventually made will define specific metrics to be used. These will include alignment metrics (e.g., the portfolio is aligned with a 2^{o}C warming scenario) which the Authority does not currently collect and which we will require external assistance to produce. In addition we will need further external support to ensure that we can gather data on areas that are not currently covered and turn data at the level of individual portfolios into data at Fund level which is, unfortunately, not as simple as adding the various metrics together.

5.8 The more specific actions which were previously included in the policy are now, more appropriately include in the Net Zero Action Plan thus making this document more focussed on the broader policy landscape.

Conclusion

5.9 The direction of travel set out in the two policy documents has not changed. However, the content and presentation of the policies has evolved to reflect changes in the external environment, in particular within the Border to Coast Partnership.

6 Implications

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

Financial	The adoption of these policies in themselves has no financial implications. However, the increasing scope and depth of reporting requirements in this area, particularly in relation to climate matters will, as a minimum require additional expenditure on external advice in order to secure the necessary data. This position will be kept under review and reflected in future planning cycles.
Human Resources	None
ICT	None
Legal	The LGPS Investment Regulations require the Authority to clearly state its position in relation to Environmental, Social and Governance issues. The maintenance and review of this policy framework fulfils that requirement.
Procurement	If possible any external assistance required will be commissioned using one of the LGPS National Frameworks. If this is not possible some form of tender process will be required.

George Graham **Sharon Smith**

Fund Director **Head of Investment Strategy**

Background Papers	
Document	**Place of Inspection**

RESPONSIBLE INVESTMENT POLICY

This Policy details the SYPA's approach to fulfilling its responsibilities with regard to responsible investment and stewardship.

Context

This policy is set in the context of the implementation of the Government's agenda for the pooling of the investment assets of the Local Government Pension Scheme in England and Wales. SYPA has chosen to participate in the Border to Coast Pensions Partnership. While SYPA retains responsibility for setting a policy stance in relation to responsible investment issues this will be implemented by Border to Coast, who have developed a collective policy on responsible investment and associated voting guidelines in conjunction with the 11 partner funds.

While endorsing the collective policy adopted by Border to Coast SYPA would like to move further in some areas and this policy sets out where the Authority will seek to influence partners and other organisations, such as the Local Authority Pension Fund Forum, to go further. In this way there will ultimately be greater collective weight behind the achievement of the Authority's responsible investment objectives. However, the Authority, given that it retains responsibility in this area, reserves the right to act alone where the collective view does not coincide with its own in material respects.

Beliefs

Responsible Investment as a concept is fundamental to the Authority's statement of investment beliefs. Thus it is a key part of "how we do investment" (and how we expect those who manage money on our behalf to do it) rather than an add on or overlay. SYPA has adopted the following statement of its Responsible Investment beliefs.

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.

This policy is set within the context of these beliefs.

Stewardship, Responsibility and ESG

The primary objective of any pension fund is to ensure that its assets are able to meet its liabilities when they fall due. In order to achieve this, funds have to produce the required levels of financial return without taking on undue levels of risk whilst also operating within the relevant regulatory framework.

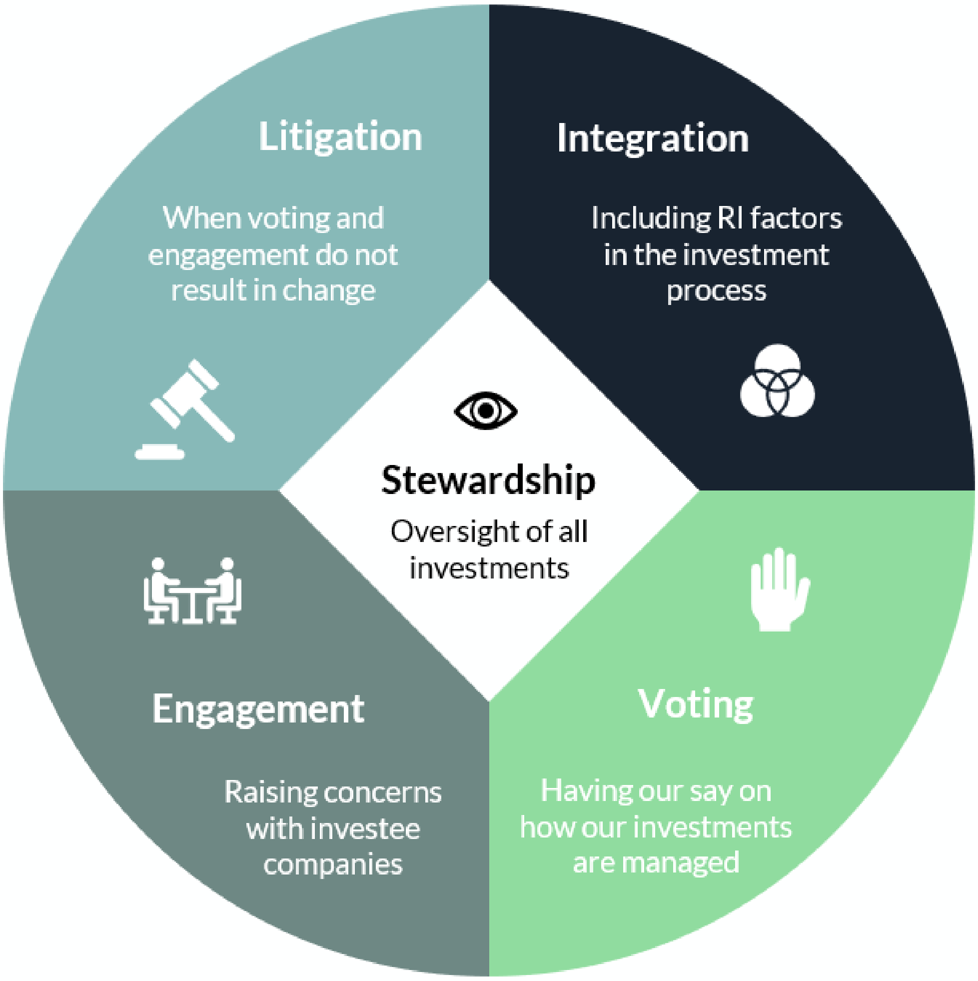
Evidence shows that pension funds which consider how the companies they are invested in behave in relation to environmental social and governance issues, tend to achieve better returns. In other words companies that are well managed and have strong governance are more likely to be successful long term investments. This accords with the expectations in SYPA's beliefs statement and reflects our overall attitude to the stewardship of the Fund. As an active investor working to a long time horizon, we are aware that businesses that operate to high standards of corporate governance along with environmental and social best practice, have the potential to protect and enhance investment returns.

The Authority, though must also consider the views of stakeholders, principally scheme members, in coming to its views in this area. While it is difficult to establish member views with precision this is an area where a great deal of research is ongoing and it is possible to distil a generic member view from this research as wanting to "do no harm" with the funds being invested on their behalf. This provides a broad principle that underpins our beliefs in this area.

There are five major components to our RI approach:

1) **Stewardship**: ensuring the Authority's RI expectations cover all assets and are being met through monitoring
2) **Integration**: ESG factors being included into the analysis process of investments managed by the Authority and its external asset managers
3) **Voting**: using shares to 'have its say' by voting at the meetings of the companies owned
4) **Engagement**: talking to companies in which it invests about issues of concern and encouraging them to adopt better practices
5) **Litigation**: acting against companies where voting and engagement have not solved specific issue(s) of concern, although in the context of pooling any litigation is likely to be undertaken by the pool company.

The way in which these relate together is shown in the diagram below:



Our awareness of ESG issues when making investments means that we have adopted what is known as a responsible investment (RI) approach; incorporating ESG issues into the investment decision making process allows us to better manage risk and to generate sustainable long-term value.

Governance and Implementation
Under the LGPS (Management and Investment of Funds) Regulations 2016, the Authority is responsible for stewardship, which includes shareholder voting. The implementation of policy is delegated to Border to Coast with the Authority undertaking monitoring, scrutiny and challenge to ensure that the objectives of SYPA's policy are delivered. Regular reports to the Authority will aid the process of monitoring the effectiveness of the policy with a review at least annually to feed into the review of Border to Coast's various collective policies.

Skills and competency
Officers at the Authority together with the staff at Border to Coast will maintain appropriate skills in responsible investment and stewardship through continuing professional development, and where necessary take expert advice from suitable RI specialists to fulfil obligations and responsibilities. In addition relevant training will be offered to members of the Authority as part of their learning and development programme.

Integrating RI into investment decisions
The Authority considers, and asks its service providers such as Border to Coast to consider environmental, social and corporate governance (ESG) issues when carrying out financial analysis and investment decision making and encourages companies to improve their practices in these areas. The factors considered are those which can cause financial and reputational risk, ultimately resulting in a reduction in shareholder value.

ESG issues will be considered and monitored in relation to both internally and externally managed assets. Border to Coast is accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	Social	Governance	Other
Climate Change Resource & energy management Water stress Single use plastics Biodiversity	Human rights Child labour Supply chain Human capital Employment standards	Board independence/diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption Political lobbying

Border to Coast directly manages the majority of the Authority's assets (including all its listed assets) and the steps it takes in order to ensure proper stewardship and consideration of ESG issues are set out in the policy endorsed by all 11 partner funds, which is available on the Border to Coast website and is reviewed annually.

Stewardship

The Fund, as a shareholder, has responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers and will practice active ownership through voting, monitoring companies, engagement and litigation to promote and support good ESG practices. In the pooled environment these activities will be exercised through Border to Coast in line with policies and guidelines agreed by the partner funds. The Authority, as an asset owner, seeks to operate in line with the UK Stewardship Code, which aims to enhance the quality of engagement between investors and companies to help improve long-term risk adjusted returns to shareholders. The Authority requires Border to Coast to be a signatory to both the UK Stewardship Code and the UN Principles for Responsible Investment.

Voting

Voting rights are an asset to the fund, and the Authority, in partnership with Border to Coast, will use them carefully to promote and support good corporate governance principles with the aim of voting in every market it invests in.

A specialist proxy voting advisor, Robeco has been appointed by Border to Coast to provide analysis of voting and governance issues and to ensure that votes are executed in accordance with its policies. The proxy voting advisor will implement a set of detailed voting guidelines provided by Border to Coast and agreed by the partner funds, which are available on the Border to Coast website, to ensure that votes are executed in accordance with policies. The voting guidelines are administered and assessed on a case by case basis. A degree of flexibility will be required to reflect specific company and meeting circumstances. A process is available to allow the Authority to vote its proportion of any shareholding in a different way to the other Border to Coast partner funds should there be a difference in interpretation of the voting guidelines between the Authority and Border to Coast and Robeco. While this facility is only likely to be used rarely the Authority will consider its use in the case of shareholder resolutions where the common stance proposed by the operating company fails to meet the Authority's policy objectives, and will only do so if the Chair in consultation with the s41 members agrees.

The funds managed by Border to Coast form part of stock lending programmes. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock will be recalled ahead of meetings when:

- There is a contentious resolution on the agenda
- The holding is of a size which could potentially influence the voting outcome
- Border to Coast needs to register its full voting interest
- Border to Coast has co-filed a shareholder resolution
- A company is seeking approval for a merger or acquisition
- Border to Coast deems it appropriate

Lending can also be restricted in these circumstances.

Where appropriate Border to Coast will consider co-filing shareholder resolutions which support the long term economic interests of shareholders and will notify the Authority in advance of doing so. Equally the Authority may encourage Border to Coast to co-file resolutions which support its objectives.

Engagement
The best way to influence companies is through engagement. As a responsible investor, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights. The services of specialist providers may be used when necessary to identify issues of concern. Meeting and engaging with companies is an integral part of the investment process. The Authority expects all those managing its assets, of whatever type, to engage with companies across all markets and to report back on the outcomes of such engagement.

Border to Coast's contract with Robeco provides the principal (but not only) means of engagement with companies across the world, covering environmental, social and governance issues as well as UN Global Compact breaches. The UN Global Compact is a shared framework covering ten principles, recognized worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption.

The Authority (along with the other Border to Coast partner funds and the pool Company) is an active member and supporter of the Local Authority Pension Fund Forum (LAPFF) and encourages LAPFF in its campaigns and initiatives. The Authority will also engage with regulators, public policy makers, and other financial market participants as and when required. It will encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the Task Force on Climate related Financial Disclosures (TCFD) recommendations and other developing initiatives, such as the Workforce Disclosure Initiative (WDI) and Task Force on Nature Related Financial Disclosure (TNFD).

Engagement Themes
The Authority recognises that there are insufficient resources within the system to be able to engage across the whole range of possible issues and therefore it supports both Border to Coast and LAPFF to identify specific themes or areas of focus, based on the key issues identified in the beliefs statement. The Authority endeavors to ensure that each of these two major routes for engageme to some degree focus on different areas. The factors considered in choosing areas of focus are:

- that progress in the themes is expected to have a material financial impact on our investment portfolios in the long-term;
- that ambitious, but achievable milestones can be set through which we can measure progress over the period

These factors mean that the choice of themes is driven by the material ESG risks facing the portfolios and their financial materiality.

In the case of both Border to Coast and LAPFF the views of the various partner funds involved mean a process of discussion is required which results in some degree of compromise.

For the three years from 2021 Border to Coast's key engagement themes are:

- Low Carbon Transition – which is an explicit priority for the Authority within its beliefs statement as part of achieving the Net Zero Goal and links to the priority attached to SDG's 7 and 13.
- Diversity of thought – which is reflected within the beliefs statement in relation to the way in which companies manage their activities and engage with stakeholders
- Waste and water management – which relates to the specific priority attached to SDG 6
- Social inclusion through labour management – which is reflected within the beliefs statement in relation to the way in which companies manage and engage with their workforce.

LAPFF's planning cycle does not fully align with that of the Authority, however the key engagement themes identified in the draft workplan and how they relate to the Authority's priorities are as follows:

- Climate – with themes around "netting" technologies, climate aligned accounts, company resilience, the Just Transition and Electric Vehicles. A number of these themes compliment the Border to Coast priority and this area reflects the priority attached to climate issues and Net Zero within the beliefs statement.
- Employment Standards and Supply Chains – with themes around supply chain standards, Covid risks, Human Rights and diversity. These issues are reflective of the standards of behaviour of companies set out as expectations within the beliefs statement.
- Sustainability and Shareholder Value – with themes around commodities, deforestation, plastics and public health; water security; housebuilders; and water companies and sewerage. Elements of this theme relate to the priority attached to SDG 6 while others have a connection to the priority attached to climate action.
- Good governance – with themse around reliable accounts and cyber security. These are areas where LAPFF has long had a focus and while not directly linked ot the Authority's own priorities are recognised as important areas of work and focus on basic standards of governance that should be expected of any organisation.

Based on this the resources on which the Authority relies for direct engagement are largely focused on the priorities identified in the beliefs statement.

South Yorkshire Pensions Authority

Escalation
The Authority believe that engagement and constructive dialogue with the companies in which it invests is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result escalation may be necessary. A lack of responsiveness by the company can be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, attending a shareholder meeting in person and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken by the relevant fund manager to sell the company's shares.

Litigation
Where assets held by the Authority are subject to individual or class action securities litigation, it will, where appropriate participate in such litigation.

There are various litigation routes available dependent upon where the company is registered. The Authority will use a case-by-case approach to determine whether or not to participate after having considered the risks and potential benefits. The Authority in the past has used industry professionals to facilitate this. Border to Coast follow a similar model to the Authority on the assets it holds on SYPA's behalf.

Due Diligence and Monitoring
Given the degree of reliance which the pooling arrangements mean the Authority has to place on Border to Coast we have to place reliance on the company's controls and processes both within the organisation and for monitoring other providers such as Robeco. We rely on the information provided by the company's auditors in their audit assurance (AAF) control review for assurance as to the effectiveness of the controls and processes in place within the company.

Communicating and reporting
The Authority will report on its RI activities periodically and will keep beneficiaries and stakeholders informed. This will be done by making publicly available RI and voting policies, publishing voting activity on the Authority's website quarterly, reporting on engagement and RI activities to the Authority and in the annual report, and through providing website links to information provided by Border to Coast.

The Authority will engage assistance to develop means of reporting on the impact of its investments across the full range of ESG issues and across all asset classes to supplement the information provided by Border to Coast in relation to the assets which they directly manage on the Authority's behalf. This process will support enhanced reporting under the Stewardship Code.

Training and assistance
Training on RI and ESG issues will be offered by Border to Coast. Where requested assistance will be given on identifying risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

The Authority will also buy in training from other providers to support the learning and development of Authority members and officers in this area.

Conflicts of interest

In an event of any potential conflict of interests, a suite of policies have been drawn up between the Authority and Border to Coast.

Climate Change

The Authority recognizes the global issues and risks arising from climate change and the material impact it can have on the performance of the Fund and has adopted a goal of making its investment portfolio “net zero” in terms of carbon emissions by 2030. As a long term investor the Authority acknowledges its responsibilities and is fully committed to looking at ways in which it can address this situation, by participating with similar-minded investors and partners in initiatives such as Institutional Investors Group on Climate Change (IIGCC), the Taskforce on Climate Related Financial Disclosure (TCFD) and Climate Action 100+. The Authority will also expect Border to Coast to be aware of the investment risks associated with Climate Change and to take appropriate action to identify them and to mitigate their impact, including involvement in appropriate collaborative groups. The specific actions to be taken by the Authority in relation to climate change are set out separately in the Climate Change Policy and Net Zero Action Plan.

March 2022

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Climate Change Policy

South Yorkshire Pensions Authority's primary responsibility is to deliver the returns needed to pay scheme members' pensions, whilst maintaining stable and sustainable contribution rates. The Authority is a long-term investor and as such has to ensure that its investments are sustainable. In doing so it actively considers how environmental, social and governance (ESG) issues can be taken into account when managing investment portfolios.

The Authority has a fiduciary duty to consider ESG issues where it is considered that they could have a material financial impact on the Fund's performance. This is supported by the 2014 Law Commission review which concluded that ESG factors should be taken into account where Trustees think that issues are financially material to the performance of an investment. The applicability of this approach to the Local Government Pension Scheme was confirmed in the Supreme Court's 2020 judgement in the Palestine Solidarity Campaign case. The Pensions Regulator also issued guidance in 2017 for Defined Benefit schemes, stating that ESG factors need to be taken into account if they are deemed to be financially significant and the regulations for trust based pension schemes have been updated to require trustees to set out their approach to ESG issues. The Local Government Pension Scheme Regulations also require the Authority to set out its position in relation to the consideration of ESG issues as part of its Investment Strategy Statement. The greatest potential environmental risk, indeed the greatest single risk, without qualification, to the Authority's investments is climate change, where the associated risks and opportunities may have a material financial impact across all asset classes. The systemic nature of climate change risk has the potential to reduce returns across all asset classes and will have a macro-economic impact that could affect the entire Fund. Equally, however, the need to transition to a low carbon economy and the innovation which that will require presents a number of potential investment opportunities. Risks and opportunities can be presented in a number of ways and include:

- physical impacts,
- technological changes,
- regulatory and policy impacts,
- transitional risk and
- litigation risk.

The Authority will therefore consider climate change issues across the Fund in order to minimise financial risk and maximise long-term opportunities.

In December 2015 the G20 finance ministers and Central Bank governors asked the Financial Stability Board (FSB) to review how the financial sector can take account of climate related issues. Such information is needed by investors, lenders and insurance underwriters in order to be able to assess climate related risks and opportunities. This led to the Task Force on Climate-related Financial Disclosures (TCFD) being established. Its remit was to develop a set of voluntary climate-related disclosures, which would assist in understanding the associated material risks of climate change. The final report with recommendation was published in June 2017, and can be accessed through the TCFD website here:
https://www.fsb-tcfd.org/

Supplemental guidance has been developed for financial and non-financial organisations which includes guidance for asset owners. The recommendations were based around four pillars;

- governance,
- strategy,
- risk management and
- metrics and targets.

The TCFD framework is widely recognised as the best practice guide against which investors' actions will be assessed, and is increasingly becoming part of the regulatory framework for reporting by corporates and asset owners, with regulations applying to the LGPS expected during 2022. This Climate Change Policy will therefore be structured around these four themes, and the Authority will commit to reporting in line with this framework each year as part of its annual report and accounts.

Governance
The Climate Change Policy is owned and approved by the Authority with implementation and oversight of the Policy being by the Director; it will be reviewed as necessary, but as a minimum every two years.

The Authority is required by the LGPS Investment Regulations to invest its assets through one of the LGPS investment pools, in this case the Border to Coast Pensions Partnership , however, the responsibility for strategic asset allocation and for responsible investment and ensuring the appropriate consideration of ESG issues remains with the Authority. The Authority expects Border to Coast to implement this policy on its behalf across all its investments; it will monitor implementation and require reports from the Company at least annually in order to fulfill its obligations under the LGPS Investment Regulations and any additional regulatory requirements.

While the Authority will aim to work collaboratively with the other funds within the Border to Coast Partnership to achieve collectively agreed goals, given that it retains responsibility in this area it reserves the right to act independently should collective action not result in the delivery of its objectives in terms of ESG issues and in the context of this policy climate change in particular.

Strategy
Climate change is an issue of greater significance than other ESG issues. It has the potential to impact returns across all asset classes (not just individual companies or sectors), and therefore has very material financial implications. The Authority will therefore expect Border to Coast to:

- be aware of the investment risks and opportunities associated with climate change;
- incorporate climate considerations into the investment decision making practices and processes; and
- monitor and review fund managers in relation to their climate change approach and

policies.

- engage with companies in relation to business sustainability and climate risk disclosure and to encourage companies to adapt their business strategies to support the transition to a low carbon economy.
- recognise that while active shareholder engagement should be the first option, the Authority encourages Border to Coast (and other fund managers) to consider actively reducing exposure to high-carbon intensity companies that fail to respond to engagement by not demonstrating a decrease in carbon intensity or carbon risk.
- support climate related resolutions at company meetings when deemed appropriate, and
- consider co-filing shareholder resolutions at Annual General Meetings (AGMs) on climate risk disclosure, transition plans, science based targets and related issues, such as trade association lobbying after engagement with its Partner Funds.

The Authority will engage with both the Border to Coast operating company and the other funds within the Partnership to ensure this approach is taken both with internally managed assets and appointed external managers. The Authority will also expect the Border to Coast operating company to apply the same approach to engagement across asset classes, accepting that fixed income assets do not carry voting rights.

The Authority will look to consider climate change and its potential impact on future asset allocation when reviewing its investment strategy. This will include modelling the impact of differing climate scenarios on both the Fund's assets and liabilities.

The Authority expects those managing money on its behalf to actively consider environmental, social and governance factors, and in this context specifically climate change, when selecting stocks in which to invest which is likely to result in investments not being made in companies which are not actively addressing the need to move to a low carbon economy. However, in light of the significant potential financial impacts of climate change, carbon risk and stranded assets, it has made the decision not to invest in pure coal and tar sand companies.

The Authority will encourage Border to Coast to consider how it manages carbon risk and exposure across its various portfolios, and as stated above will seek the agreement of partner funds to reduce exposure to high carbon intensity companies that fail to respond to engagement on climate change related issues and to adopt means to create portfolios structured in a way that supports the low carbon transition.

There are a limited range of low-carbon related investments in quoted markets, with more opportunities existing within the various alternative asset classes. The investment strategy which is being put in place to provide further diversification and reduce volatility of expected future returns, has resulted in a reduction in equities and a move into alternatives. This has therefore increased SYPA's exposure to assets that may be less sensitive to climate change risks, and/or support the transition to a low carbon economy.

The Authority's property allocation is mostly through direct property; and a standalone statement relating to responsible commercial property investing, details the approach taken. It takes into account current best practice regarding social and environmental considerations when managing its property portfolios and determining the selection, retention and realisation of investments. The Authority's aim is to reduce its impact on the environment and maintain a positive relationship with its customers, tenants and suppliers.

Risk Management
The Authority will look to measure and manage the risk of climate change, carbon exposure and stranded assets to the Fund. It will measure and manage climate risk across portfolios by monitoring carbon intensity (where possible) and expects Border to Coast as its principal investment manager to provide data on the carbon intensity of its listed asset portfolios on at least an annual basis, and to develop similar measures in relation to private market investments. It will take appropriate action to identify such risks by increasing internal knowledge and understanding of scenario and risk analysis tools available, and being aware of ongoing climate change policy discourse. The Authority's preferred approach is with Border to Coast to identify ways of structuring the various investment portfolios to secure carbon reduction across portfolios and ensure that they are prepared for the transition to a low carbon economy.

The Authority believes that collaboration with other like-minded investors leads to greater shareholder power to influence company change and behaviour. It will therefore, look to work in partnership with Border to Coast and other groups such as LAPFF, the Institutional Investors Group on Climate Change (IIGCC) and Climate Action 100+ to ensure there is appropriate engagement with companies on climate related issues, including business sustainability and disclosure of climate risk, in line with TCFD recommendations.

Governments' climate change policies are unpredictable leading to public policy uncertainty. Investors are lobbying policymakers to accelerate the development of a realistic carbon price. Carbon pricing is vital for businesses and investors to properly incorporate climate related risk into investment decision-making. The Authority will, therefore, actively engage with policy makers through its membership of IIGCC.

Metrics and Goals
The Authority's Goal is that it's investment portfolios should be "net zero" in terms of carbon emissions by 2030. The Authority recognises that this is an ambitious goal, with a significant risk of non-achievement and is not in line with the ambitions of the wider Border to Coast Partnership. As such the Authority will need to rely on a combination of strategic asset allocation and the achievement of positive impacts from the legacy and non-pooled portfolios to support achievement of this goal.

The Authority will, where possible, report progress in line with TCFD recommendations; this Climate Change Policy has been structured around the TCFD's reporting themes. The TCFD believes that asset managers and asset owners, including public- sector pension funds, should implement its recommendations with disclosures made in annual public financial reports.

The Authority will measure its portfolios' exposure to carbon-intensive companies, where possible through requiring Border to Coast to provide as a minimim annual carbon data in line with the TCFD recommendations and any regulatory requirements. However, the Task Force recognises the challenges and limitations of current carbon footprinting metrics, but sees it as a move towards developing investment decision-useful, climate-related risk metrics. This information will be used to highlight specific risks and inform company and fund manager engagement.

The Authority will seek to use its influence within the wider Border to Coast Partnership to secure the agreement of appropriate goals for reducing the carbon intensity of portfolios and the identification of ways of structuring the various portfolios so that they are prepared for the transition to a low carbon economy.

It will also report on additional metrics which will include company engagement meetings, both direct and collaborative. It will request that Border to Coast integrates climate risk and opportunities into the investment decision making process for both internal and external mandates, and for the private market structures.

March 2022

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Net Zero Action Plan Update**	**Status**	For Publication
Report to	Authority	**Date**	17th March 2022
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Director	**Phone**	01226 666439
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1 Purpose of the Report

1.1 To secure agreement to the first annual update to the Net Zero Action Plan

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2 Recommendations

2.1 Members are recommended to:

a. Approve the update Net Zero Action Plan

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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.

Scheme Funding

To maintain a position of full funding (for the fund as a whole) combined with stable and affordable employer contributions on an ongoing basis.

Failing to address the challenge of climate change effectively within the Authority's investment strategy risks a significant negative impact both on asset values and on the funding level (and hence contribution rates). The Net Zero Action Plan is a central part the Authority's approach to managing its investments through the climate transition and as such it impacts all the investment related corporate objectives.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report address the identified corporate risks related to the impact of climate change on the investment portfolio. However, they also address some of the other investment risks around market volatility and the availability of suitable investment products the first being a potential consequence of failure to effectively address wider environmental risks by market participants and the second a potential brake on the Authority's ability to address these climate risks.

5 Background and Options

5.1 In March 2021 the Authority approved its first Net Zero Action Plan following the agreement in September 2021 of a goal to make the investment portfolios Net Zero in terms of carbon emissions by 2030. This report presents for approval the first update to that action plan.

5.2 While the last 12 months have seen significant progress on climate issues in a number of areas not least the setting of a Net Zero target by Border to Coast the achievement of the Authority's goal remains extremely challenging and currently it needs to be recognised that there is a high risk that it will not be achieved. The forthcoming valuation and the associated review of the Investment Strategy provide the opportunity to test how far it is possible to progress to the Goal based on the Authority's current approach to "doing investment" reflected in its investment beliefs, in particular those related to active management and internal management.

5.3 The context provided by CoP 26 in Glasgow and the greater acceptance by the whole world community of the need for action in relation to climate change, although the nature and scope of action remain a matter of debate, has resulted in the wider recognition of the investment opportunities presented by the climate transition as well as a ramping up of the expectations of investee companies, together with the development of new regulation and reporting requirements. All of this is positive and supportive of the direction of travel the Authority wishes to see.

5.4 The updated Net Zero Action Plan set out in the Appendix reflects the progress that has been made in the last 12 months and sets out the further steps required in this stage of the Authority's journey. These will require a significant input of officer time and other resource to meet the additional more prescriptive reporting requirements and to identify how the investment strategy needs to be adapted to achieve the Net Zero goal within the constraints of the Authority's investment beliefs and the available investment products.

6 Implications

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

Financial	The Authority will need to provide additional resources to undertake the measurement of further elements of portfolio emissions and produce additional metrics which are not currently available. These resources are likely to be greater in the first cycle and will be provided from the Corporate Strategy Reserve and then incorporated in future budgets.
Human Resources	There are learning and development needs for existing staff in this area which will need to be factored into individual learning plans. This area will also be addressed in the member learning and development strategy.
ICT	None apparent
Legal	In seeking to achieve its Net Zero Goal the Authority must also ensure that it achieves a return at least equivalent to the actuarial assumption in order to demonstrate that it is complying with its fiduciary duty.
Procurement	Where it is necessary to procure external advice procurement will if possible be undertaken using existing frameworks in order to reduce the timescales and costs of the process.

George Graham

Director

Background Papers	
Document	**Place of Inspection**

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Action Plan for Delivering the Net Zero Goal

Update
March 2022

Contents

Introduction

At its meeting in March 2021 the Pensions Authority agreed its first Action Plan for Delivering the Net Zero Goal. 12 months later this first update on that action plan reflects on the progress that has been made and identifies a revised set of actions flowing from that progress and wider developments in the wider environment including the evolution of regulation.

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, rather than simply creating portfolios with no emissions. 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.

There remain significant gaps in both our knowledge and the data available to us and while we will need to continue to address these. However, we will need to take specific actions in parallel with this so as 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 continue to be developed further on at least an annual basis as we better understand our current position and the progress we are making.

Defining the Goal

It is important to understand what we mean by the goal of net zero and 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."

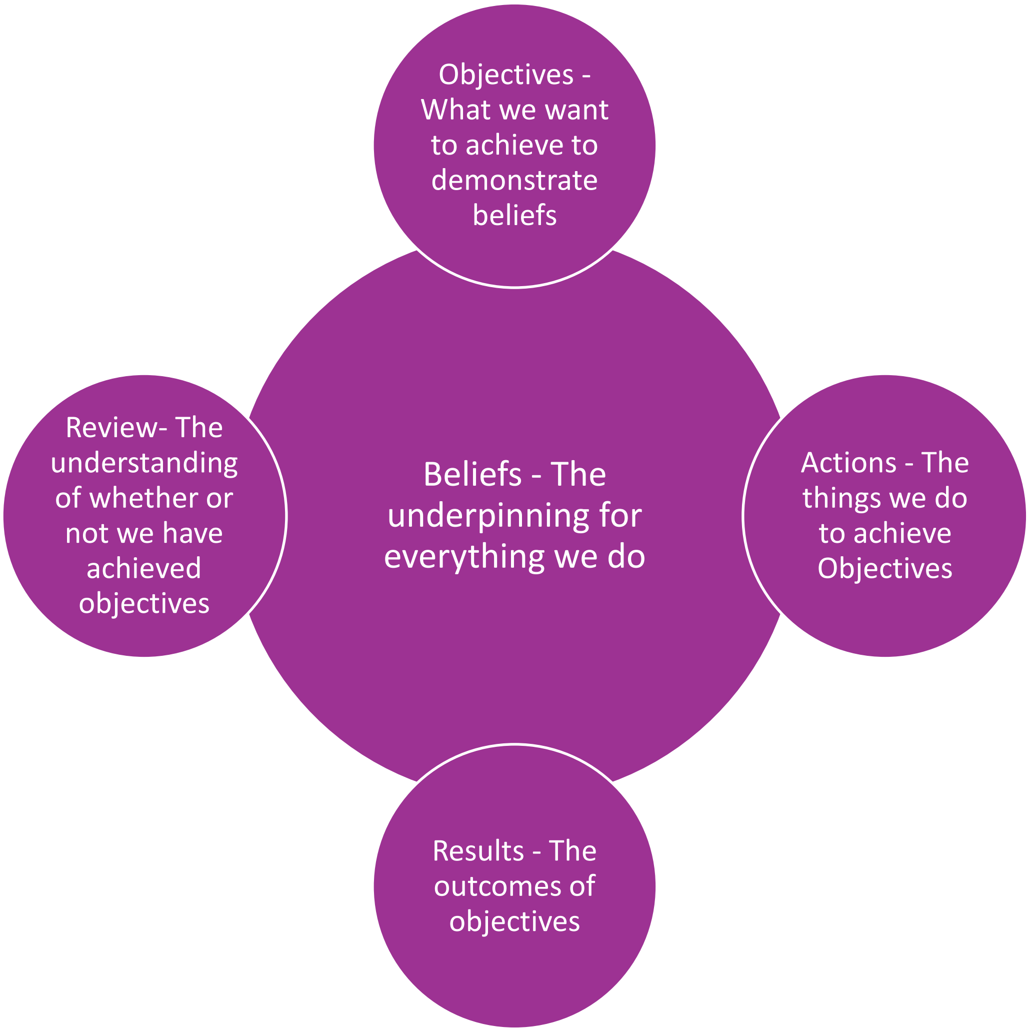
While concentrating on scope 1 and 2 emissions allows the Authority to set targets which are comprehensible and where data is likely to be available, this position will need to be kept under review as more data becomes available and the investment impacts of using specific measures becomes clear. Measurement 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.

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, for example utilising renewable energy in our office, reducing the generation of waste and setting policies which promote the use of electric vehicles.

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.

In the last 12 months we have agreed a statement setting out our beliefs in the broader area of Responsible Investment with particular reference to Net Zero and established an ongoing dialogue with Border to Coast on these issues. Border to Coast have also in the last 12 months taken significant steps in this area including making their own net zero commitment and developing a climate opportunities product within their alternatives offering.

Work has begun on the ongoing review of investment performance and on reporting progress towards Net Zero, however, further work is needed before these processes can be regarded as complete. This work will be supported by the work that is required from external consultants to support the review of the Investment Strategy during 2022.

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	Completed
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	Completed Now part of ongoing dialogue with Border to Coast

The Authority has already commissioned some work from Minerva to understand the impact of its investments more generally. However, while valuable in itself, this is, at this stage, only able to point out whether impacts are likely to be positive or negative rather than achieving the level of quantification necessary to support the reporting that is increasingly required by regulations.

The work to be commissioned to support the investment strategy review needs to include the production of an alignment metric which will indicate how the portfolio is aligned with a particular temperature increase pathway (for example 1.5^{O}C), providing a forward looking metric to complement the backward-looking emissions data. The regular updating of this metric will allow a judgement to be made about the broad effectiveness of the strategy adopted.

Setting Targets Objectives and Reporting

Measurement and reporting are 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 the establishment of a 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 in total 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. We have already begun to report publicly on our progress towards the net zero goal and also on the specific steps we have taken towards that objective.

We will also need to identify a number of specific measures that will form a core part of our reporting under the forthcoming LGPS Regulations addressing the need to report in line with TCFD requirements. The measures we will adopt, subject to any change to reflect the final regulations and being able to agree a common position across the Border to Coast partnership are:

- An emissions metric
- A carbon intensity metric
- A weighted average carbon intensity metric (WACI)
- A data quality metric indicating the proportion of the portfolio covered by the relevant metrics
- An alignment metric providing a forward-looking measure

The aim will be to produce the first four of these at both asset class and whole portfolio level while the alignment metric is only meaningful at whole portfolio level.

Over the last 12 months Border to Coast has agreed its own Net Zero Goal and the approach to be taken to achieving the decarbonisation of the equity investment products in which we are invested, alongside an interim target for these portfolios. These are supportive of the Authority's direction of travel but insufficient in themselves to achieve the Net Zero Goal.

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	Agreement to make changes to the investment process. Detailed work now in hand
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. This update is the first such review

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 farmland 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, and if we wish to make changes which would impact the investment universe we need to get agreement with other investors.
- 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.

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 keep them under review to ensure that they remain compatible with achieving both our return and net zero objectives.

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. The Pool has now agreed its own Net Zero objective (setting a goal of 2050) and while this is not the same as the Authority's the setting of the objective requires the setting of targets and the reporting of metrics. In themselves these will support the Authority's work while the ability to alter the asset mix through the Strategic Asset Allocation and to manage the legacy portfolio (the assets not yet pooled or not to be pooled at all) provide potential levers for accelerating or reducing the pace of movement to Net Zero.

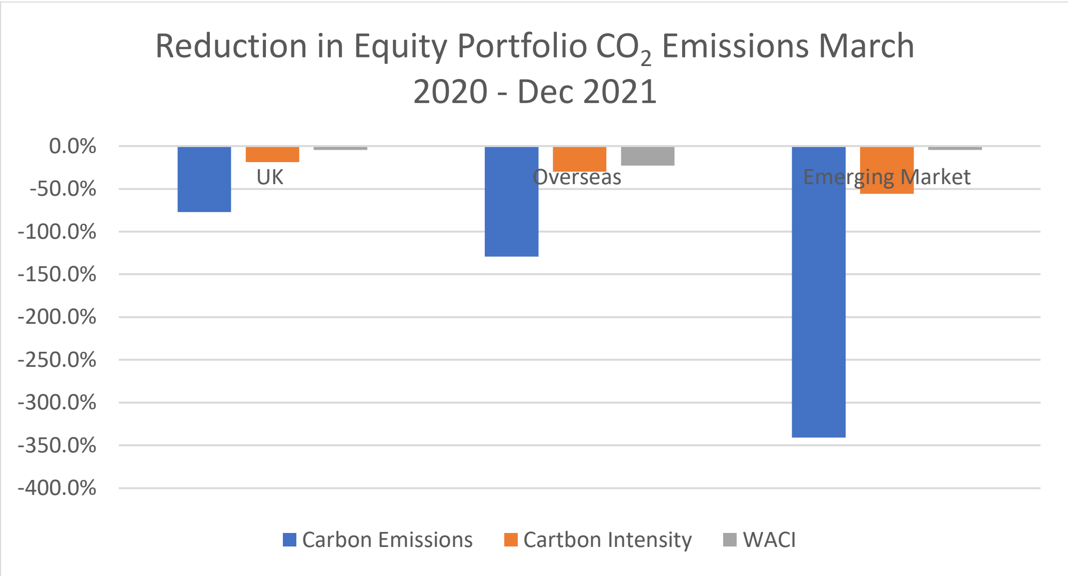
The following sections deal with each asset class in turn.

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.

Border to Coast have identified a series of changes to the investment process which will make it more sensitive to the scale of climate risk posed by individual companies. These are in the process of being implemented with a target to reduce emissions from these funds by 45% - 50% by 2030 from 2020 levels.

Over the last 12 months emissions from all three equity funds have reduced, with a particularly marked reduction in the Emerging Market Fund due to the restructuring of the Fund to accommodate specialist managers for the China portion of the Fund. Some of the reduction experienced may be pandemic related and there remains a risk of some rebound in emissions as economies recover. This is illustrated in the chart below:



Listed equities are the single largest asset class in which the Pension Fund is invested and in order to achieve SYPA's ultimate goal, it will be necessary to reduce the contribution to aggregate emissions from these portfolios in total by at least 50% by 2025. Beyond the impact of the changes in the process outlined above this can be influenced by the weight of assets held in the different products which will be reviewed as a matter of course as part of the Investment Strategy review.

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. Border to Coast has updated and strengthened the voting guidelines on climate change for the 2022 proxy voting season. As well as voting against the reappointment of board members where companies are not making progress towards net zero as assessed by the Transition Pathway Initiative (TPI), votes against the Chair will also be cast where a company fails the first four indicators of the Climate Action 100+ Net Zero Benchmark. 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). During 2021 two additional engagement themes around the Net Zero themes were added, “acceleration to the Paris Agreement”, and “climate transition of the financial sector”. An additional theme covering this area will also be launched during 2022, “net zero emissions”, this expands on current engagements focussing on high carbon emitting companies that are lagging in their transition to net zero. 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. Climate issues continue to represent a very significant proportion of the engagement activity which we support and we report on this each quarter.

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.

Fixed Income

These portfolios 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. Border to Coast will be beginning to examine options for a product in this space and the Authority will be positively supporting this work as it may provide the opportunity provide funding for a more rapid transition to Net Zero, however any investment will depend on successful due diligence being undertaken.

Given Border to Coast’s Net Zero commitment they will need to produce metrics and set targets for fixed income products. The combination of products provides an opportunity for the Authority to set its own targets for the asset class as a whole once such data is available.

At this stage until data is available we are to a great degree “flying blind” therefore the immediate actions alongside encouraging managers to engage more actively and consideration of any “green bond" product, are to gather relevant data so the baseline can be established which will allow a move to setting of targets.

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 and through the introduction of new regulatory requirements on asset owners which give leverage with fund managers to secure data. While this is helpful it is likely to be some time before data is comprehensive and it will also take some time to achieve the necessary quality of data, although starting later may allow some of the mistakes made in the early stages within other asset classes to be avoided.

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 offsetting 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". 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.

In order to achieve diversification, it would not be unreasonable to seek to emphasise low carbon or transition supportive investments within the alternatives portfolio. To support this Border to Coast are proposing to launch a Climate Opportunities sleeve within the alternatives platform. We are in active dialogue with Border to Coast about this product and are likely to make a commitment of up to £300m (over 3 years, subject to any scaling) at the first closing. Our discussions with them are focusing on how these solutions can be measured in terms of their offsetting characteristics and thus how they can be used in our net zero calculations. When coupled with the investments in the core alternatives products this provides the bias to climate positive investments which the Authority is seeking while maintaining the diversification that is necessary for good portfolio construction.

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.

Over the last 12 months Abrdn as the Fund Manager have made significant progress in creating action plans at the individual asset level. This should result in improved data feeding into the next GRESB process which should improve the overall GRESB score for the portfolio. This should allow the development of an agreed programme of work to improve the sustainability of the portfolio 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. While a start has been made on this other activity associated with Project Chip has resulted in a delay to this work, which will be recommenced once Project Chip has concluded.

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	Nature of changes agreed detailed work in hand
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 and whether they are achievable given SYPA's current product mix and other investment beliefs.	Head of Investment Strategy	By December 2024 to contribute to the 2025 Strategy Review
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	Annually as part of Border to Coast Policy Review.
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	A more structured approach is evident as a result of the need to meet the requirements of the UK Stewardship Code. This will continue to evolve but the action is completed.
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	This action will now be undertaken during 2022/23
AC5	Initiate a discussion with Border to Coast about the place of "green bonds" within the Fixed Income Portfolios	Director	Completed – Identified in the Border to Coast Strategic Plan

AC6	**Identify through the work being carried out on data any particularly carbon negative alternative investments and consider whether any action is possible**	**Director**	**This action will now be taken as part of a deep dive into the legacy alternatives during 2022**
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	Completed – Climate Opportunities Fund being provided in 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	Completed property level action plans in place and being reported.
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	Some work undertaken but deferred due to Project Chip

Targets and Direction of Travel

Based on the data we have available for the equity portfolios and the initial work carried out by Border to Coast in relation to their interim targets in order to achieve a 2030 goal we will need to achieve a trajectory of emissions reduction which:

- Reduces emissions by between 67% and 75% by 2025 compared to the 2020 baseline
- Accelerates the rate of emissions reduction significantly beyond that set out in Border to Coast's interim targets.

The current direction of travel is positive and if maintained would on a straight-line basis result in achieving net zero between 2045 and 2048. Thus, it is clear that a significant increase in the rate of reduction is necessary.

By the end of 2022 we expect that at least 2/3rds of the portfolio will be covered by regular emissions data and as part of the work to be carried out during 2022 on the revision of the investment strategy we will undertake a detailed estimate of the level of emissions from the remainder of the portfolio. This will need to be updated regularly until alternatives managers begin to regularly provide TCFD standard data and therefore it is likely that additional resources will be required to undertake this work. The expectation is that it will be possible by the end of 2023 to estimate whole portfolio emissions with the level of estimation reducing over time thereafter.

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. Similarly when Scope 3 emissions are examined Apple's emissions increase by 475x whereas Shell's only increase by 12x which might appear counter intuitive.

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. This action plan highlights the need for these fundamental conversations to take place as part of the 2025 Strategy Review.

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.

Regulation is supporting the Authority's direction of travel in relation to data. However, this is likely to be a long road and there will be resource implications from securing and analysing data.

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 has occurred as a result of the restructuring of the China allocation which was 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.

Success and Embedding of Process Changes

In order to deliver their own net zero goal Border to Coast have committed to changes in the investment process for the equity funds in which SYPA invests. These changes are intended to reduce emissions so as to achieve a 2050 target. However, it remains to be seen how these changes will interact with the overall approach to these portfolios of taking small "active bets". This risk will remain until there is evidence of the impact of the changes proposed by the Company and the Authority will need to focus on the impact of these changes as part of its overall oversight process.

Lack of Integration

The Authority's investment strategy has one overriding goal which is to ensure that the required returns are delivered to ensure pensions can be paid. Given that Climate Change is the largest systemic risk to the value of the Fund's assets (and hence the long-term achievement of return targets) it is important that delivering the Net Zero Goal is regarded as a key part of the overall investment strategy rather than something separate which is overlaid on the strategy at a later stage, otherwise either one or both of the return objective or the Net Zero Goal will be compromised. This will be addressed in the scope of work commissioned to support the review of the investment strategy following the 2022 valuation.

Conclusion

The actions set out in this Action Plan 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. Significant progress has been made during 2021 in engaging with Border to Coast and Robeco, in analysing a specific approach by asset class, engaging with third parties such as Abrdn and planning a climate solutions strategy. These building blocks are essential to enable proper governance and oversight as we continue along the road to net zero

In these initial stages 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.

SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Understanding the Impact of Our Investments**	**Status**	For Publication
Report to	Authority	**Date**	17th March 2022
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Director	**Phone**	01226 666439
E mail	ggraham@sypa.org.uk		

1 Purpose of the Report

1.1 To allow members to consider the Authority's first attempt to asses the impact of its investments and the Authority's review of its adoption of the Impact Investing Principles for Pension Funds.

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2 Recommendations

2.1 Members are recommended to:

a. **Consider the Authority's first impact report and determine whether any specific actions should be undertaken in relation to the information contained.**

b. **Note the review of the Authority's first year of adoption of the Impact Investing Principles for Pension Funds.**

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3 Link to Corporate Objectives

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

Listening to our stakeholders

To ensure that stakeholders' views are heard within our decision-making processes.

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.

Effective and Transparent Governance

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

The Authority has long championed responsible investment. Understanding the impact of our investments on people and planet gives us a deeper understanding of where we should focus engagement activity to reduce negative impacts and also of the areas where there is the potential for us to achieve positive benefits beyond our required investment return. The Impact Investing Principles provide a framework within which we can consider opportunities of this sort.

4 <u>Implications for the Corporate Risk Register</u>

4.1 The actions outlined in this report are intended to increase understanding of the wider systemic risks to which the investment portfolio exposes the Authority and to highlight the additional opportunities that may be available.

5 <u>Background and Options</u>

Reporting on the Impact of Our Investments

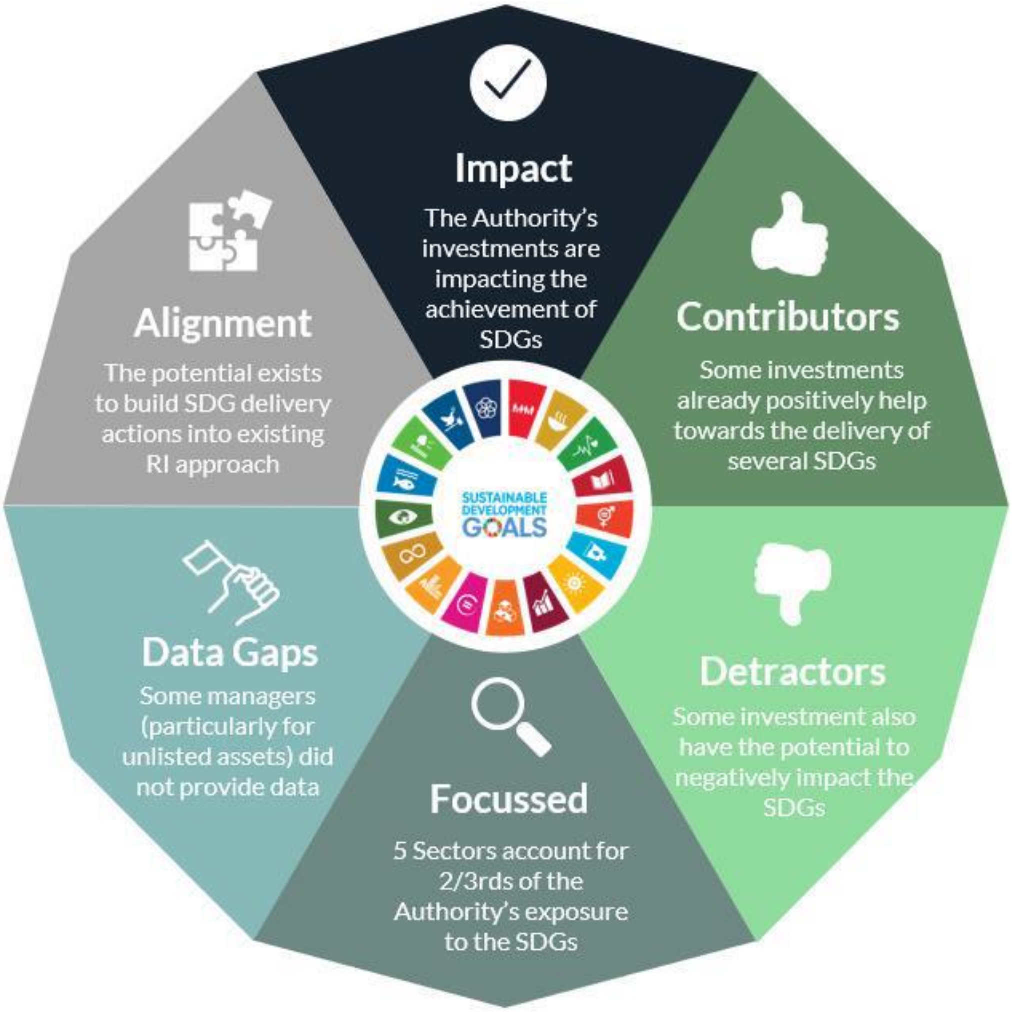
5.1 Last September the Authority agreed to undertake work to gain a more complete understanding of the impact of all of its investments on people and planet using the UN Sustainable Development Goals as a framework for analysis. The intention was to go beyond the ESG scoring of portfolios and the emissions data for the listed portfolios and to understand whether there were significant hidden risk exposures of which we were not aware and similarly whether there are unrecognised opportunities and/or positive impacts.

5.2 This is a very significant piece of work and Minerva were commissioned using the LGPS National Framework for Stewardship activities to undertake it. The contract awarded is to produce reports over 3 years with an increasing amount of activity being undertaken in house in each year and eventually it being possible to undertake the work entirely in house. As set out below the experience of this first year and wider developments in relation to stewardship reporting may mean that this was an optimistic assumption.

5.3 Minerva's first report is set out in Appendix A. The report has been produced somewhat later than all involved would have wished due to the difficulty in securing data from some fund managers, although the report does address the vast majority of holdings.

5.4 Given this is, of necessity, a top-down exercise there is not much granular detail here and as has been regularly reported there are significant challenges with data in this area. However, the report does highlight some areas where the impact being created by our various investments might be more negative than might have been assumed. The heat map contained in the report particularly draws attention to our impact on SDG 14 (Life Below Water) and SDG 15 (Life on Land). While the former seems to relate to exposure to shares in mining companies (which represent a disproportionate share of the UK index to which we are relatively over-exposed) the second is a bit more complex but related to the propensity of various industries to make use of natural resources in unsustainable ways. The first case relates to one of Border to Coast's chosen engagement themes for the coming three years, while the second is addressed through a number of different routes, for example engagement with companies around sustainable packaging, support for work on Nature Related Financial Disclosure and elements of engagement around climate issues. This analysis will help focus the Authority's own priorities for engagement and other activity in this area in coming years.

5.5 The diagram below summarises the conclusions drawn by Minerva:



5.6 This shows that given the concentration of sectoral exposure it should be possible to achieve benefits through fairly focussed activity.

5.7 This work has proved far more difficult than anticipated and it has not been possible to achieve much in terms of specific measures, however it is a start and a significant contribution to developing understanding, which will only increase in further reporting cycles. This deeper understanding will help frame priorities within our overall stewardship approach which is a positive benefit in terms of adherence to the Stewardship Code. One of the member learning sessions in the next municipal year will be dedicated to this report and what we can learn from it as part of shaping future policy.

Impact Investing Principles for Pension Funds

5.8 In March 2021 the Authority agreed to adopt the Impact Investing Principles for Pension Funds. Some 12 months later it is appropriate to review what we have done in relation to complying with the principles and recommit to them. Appendix B sets out what has been done and intentions for the future in relation to each of the principles. This is the area of work for which the Authority received an award last December.

5.9 It is important to understand that we are taking what might be regarded as a broader view of impact. Everything we do involves investing *with* impact, some of which as set out in Minerva's work is negative, while we choose within a limited part of the portfolio to specifically invest *for* impact in addition to the required investment return. In all the work we are doing we aim to look at the whole portfolio, rather than the relatively small part where we are intentionally seeking to make an impact.

6 Implications

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

Financial	None specifically the work commissioned from Minerva is being funded within existing resources
Human Resources	None
ICT	None
Legal	None
Procurement	Minerva have been commissioned using a compliant framework.

George Graham

Director

Background Papers	
Document	**Place of Inspection**

MINERVA ANALYTICS

South Yorkshire Pensions Authority

Impact Reporting Project

March 2022

Table of Contents

1 Foreword

South Yorkshire Pensions Authority is strongly committed to being a responsible investor, and has been a long-term supporter of a number of initiatives in this area, including the Institutional Investors Group on Climate Change ('IIGCC'), being a Tier 1 signatory to the previous version of the Financial Reporting Council ('FRC') Stewardship Code, and being a member of the Local Authority Pension Fund Forum ('LAPFF') since its creation. The Authority also reports in line with the Financial Stability Board's ('FSB') Taskforce on Climate-related Financial Disclosures ('TCFD') recommendations as part of its Annual Report and Accounts.

The Authority is now committed to its investment portfolios being 'Net Zero' in terms of carbon emissions by 2030, has signed up as a supporter of Make My Money Matter, and is also committed to demonstrating the greatest possible degree of compliance with - and support for - the objectives of the new 2020 Stewardship Code. For asset owners such as SYPA the key aspect of Make My Money Matter and the 2020 Stewardship Code is to ensure that investments and organisational values are aligned, as well as being transparent with scheme members over how their money is invested and the impacts which it creates. We realise that if we are to achieve either of these things, we need to better understand how the assets in which we are invested interact with society. This understanding will allow us to engage with our partners within the Border to Coast Pensions Partnership (a Local Government Pension Scheme - 'LGPS' - investment pool) and with others managing our assets in order to seek changes which will ensure the achievement of our objectives, such as to achieve net zero by 2030.

At the beginning of 2021, the Authority appointed Minerva Analytics to produce this first 'Impact Report' on the whole of the Authority's portfolio. The intention behind this report was that, in addition to placing significant amounts of valuable information into the public domain and encouraging the development of reporting within the LGPS, such a report will be used to facilitate engagement with scheme members to gain greater insight into their views about how their pension savings should be invested.

This latter element of wider engagement with scheme members and the soliciting of views represents work in progress, and scheme members will hear more from us on this shortly. However, we hope that this initial 'Impact Report' represents an important disclosure step, as it seeks to illustrate how the totality of the Authority's investments may impact the achievement of the UN Sustainable Development Goals ('SDGs').

George Graham

Director – South Yorkshire Pensions Authority

March 2022

2 Introduction

In early 2021 the South Yorkshire Pensions Authority, as the administering authority of the South Yorkshire Pension Fund ('the Fund'), appointed Minerva Analytics ('Minerva') to create this Impact Report, with the key objective being to consider the potential impact – both positive and negative – that the Fund's existing investments may have on the successful delivery of the United Nations Sustainable Development Goals.

In carrying out this work, we followed the project approach set out below, which we determined would best deliver the Authority's requirements:

Step	Details	Status
Examine	Collect quantitative and qualitative information relating to the Fund's investments managed internally, those held within the Border to Coast pool and those managed externally by third party asset managers	Completed
Benchmark	Review the information gathered and undertake assessment of alignment of the existing investments with the SDGs	Completed
Inform	Hold a meeting with Officers where our initial findings were delivered and discussed	Completed
Deliver	Take on board feedback, refine any proposals, and create a final Impact Report	Completed
Influence	Present and discuss the findings with key stakeholders to answer questions and gain buy-in	Current

In this Impact Report, we begin with an Executive Summary, before restating the Authority's full requirements and then detailing the approach we took to meet these requirements. We set out the steps taken to illustrate how the totality of the Authority's investments have impacted on the achievement of each of the UN Sustainable Development Goals.

The findings in this report have both a **qualitative** (the results of a questionnaire) and a **quantitative** (assessment of investment data gathered) perspective of the Fund's potential impact on the delivery of the SDGs, and we conclude our report with some suggestions as to how the Fund could best use this work going forward, in terms of helping to deliver the SDGs through its investment activities.

Minerva Analytics

March 2022

3 Executive Summary

Key objective of the project – assessing impact of all investments against the SDGs – has been achieved

We contacted all 128 investment managers and collected data on 266 different portfolios containing 7,817 individual investments

SYPA's asset managers provided data for c.89% / £8,756m of the Fund's total assets that could be used in this exercise

72 of the Authority's asset managers completed an online questionnaire, covering £6,902m worth of assets

63 of the Authority's asset managers managing £6,859m have heard of the SDGs – but only 29 have tried to integrate them into their investment process

We successfully created a link between the sectors where the Authority is invested and their potential impact on individual SDGs

Sectors in which SYPA is invested can be both CONTRIBUTORS and DETRACTORS in terms of their impact on individual SDGs

2/3rds of the Authority's investments are found in just 5 sectors, potentially helping focus on specific SDG-impacting issues

SYPA can relatively easily extend its existing approach on RI matters to include the SDGs, for almost all asset classes

Not all of the Authority's investment managers were able to provide the data requested for this exercise

A number of risk and opportunities were identified, in terms of the impact of the Authority's investments on the delivery of the SDGs

Almost all of the Authority's investments have the potential to support the delivery of the SDGs by 2030

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4 What are the SDGs?

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

UN Office for Sustainable Development

Whilst the SDGs were originally interpreted for use at the state level to assist policymakers, they have rapidly moved beyond that sphere of influence, and are becoming of increasing interest and relevance to organisations such as the Authority. They provide a comprehensive, easy to understand framework that sits neatly with the concept of responsible, sustainable stewardship and fiduciary duty. The SDGs are effectively a lens through which investments can be viewed to assess their contribution towards – or detraction from – the delivery of the 'shared blueprint'.

There are 17 SDGs, covering a range of issues and themes:

SDG #	Goal Description	Objective of Goal
SDG1	No Poverty	End poverty in all its forms everywhere
SDG2	Zero Hunger	End hunger, achieve food security and improved nutrition and promote sustainable agriculture
SDG3	Good Health and Wellbeing	Ensure healthy lives and promote well-being for all at all ages
SDG4	Quality Education	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
SDG5	Gender Equality	Achieve gender equality and empower all women and girls
SDG6	Clean Water and Sanitation	Ensure availability and sustainable management of water and sanitation for all
SDG7	Affordable and Clean Energy	Ensure access to affordable, reliable, sustainable, and modern energy for all
SDG8	Decent Work and Economic Growth	Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all
SDG9	Industry, Innovation and Infrastructure	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
SDG10	Reduced Inequalities	Reduce inequality within and among countries
SDG11	Sustainable Cities and Communities	Make cities and human settlements inclusive, safe, resilient and sustainable
SDG12	Responsible Consumption and Production	Ensure sustainable consumption and production patterns
SDG13	Climate Action	Take urgent action to combat climate change and its impacts
SDG14	Life Below Water	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
SDG15	Life On Land	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
SDG16	Peace, Justice and Strong Institutions	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
SDG17	Partnership for the Goals	Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development

As can perhaps be deduced from the list, not all the SDGs immediately lend themselves for use as investment themes; however, most of them can be impacted in one way or another by the investment activity of institutional investors such as the Authority.

The 17 SDGs are in turn supported by 169 targets, which add specificity to the SDGs: for example, targets supporting **SDG 1 – No Poverty** range from eradicating extreme poverty for all people everywhere, to creating sound policy frameworks at the national, regional and international levels, based on pro-poor and gender-sensitive development strategies, to support accelerated investment in poverty eradication actions.

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For the 17 SDGs to be delivered by 2030, there needs to be a **'Decade of Action'**:

Decade of Action to deliver the Global Goals

Today, progress is being made in many places, but, overall, action to meet the Goals is not yet advancing at the speed or scale required. 2020 needs to usher in a decade of ambitious action to deliver the Goals by 2030.

The Decade of Action calls for accelerating sustainable solutions to all the world's biggest challenges — ranging from poverty and gender to climate change, inequality and closing the finance gap.

In September 2019, the UN Secretary-General called on all sectors of society to mobilize for a decade of action on three levels:

1) global action to secure greater leadership, more resources and smarter solutions for the Sustainable Development Goals;

2) local action embedding the needed transitions in the policies, budgets, institutions and regulatory frameworks of governments, cities and local authorities; and

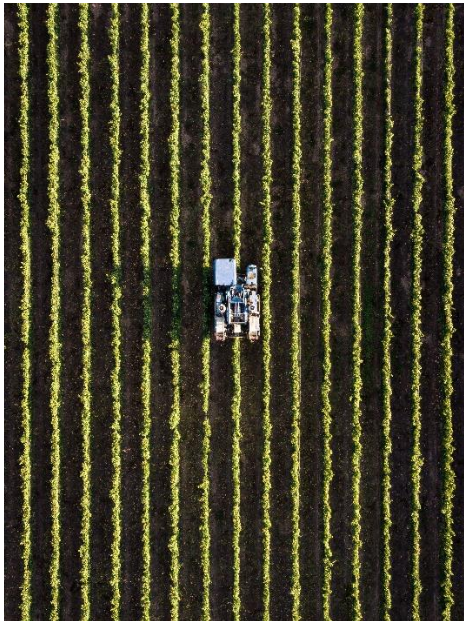
3) people action including by youth, civil society, the media, the private sector, unions, academia and other stakeholders, to generate an unstoppable movement pushing for the required transformations.

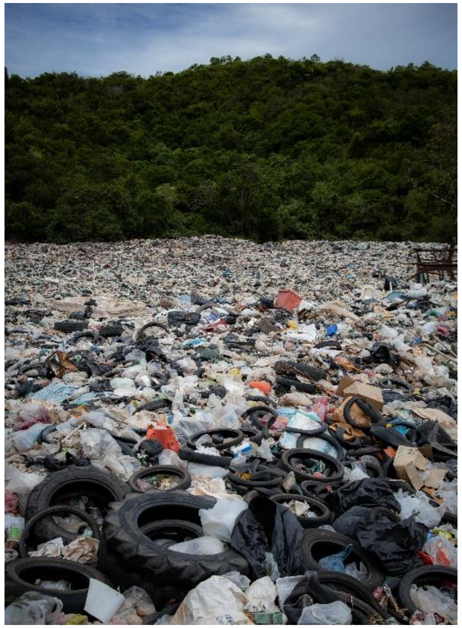
The COVID-19 pandemic and its impact on all 17 SDGs has shown that what began as a health crisis has quickly become a human and socio-economic crisis. While the crisis is imperilling progress towards the SDGs, it also makes their achievement all the more urgent and necessary. It is essential that recent gains are protected as much as possible. A transformative recovery from COVID- 19 should be pursued, one that addresses the crisis, reduces risks from future potential crises and relaunched the implementation efforts to deliver the 2030 Agenda and SDGs during the Decade of Action.

Source: United Nations SDG Website

Given the Authority's position and the nature of the Fund's investments, we believe it can support all three levels of action:

- **Global** – in terms of engaging with multinational investee companies to promote more sustainable and responsible practices;
- **Local** – in terms of its statutory role, and in terms of its stewardship of any local investments; and
- **People** – in terms of engaging with scheme members on alignment with the principles behind the Sustainable Development Goals.



5 SDG Contributors and Detractors

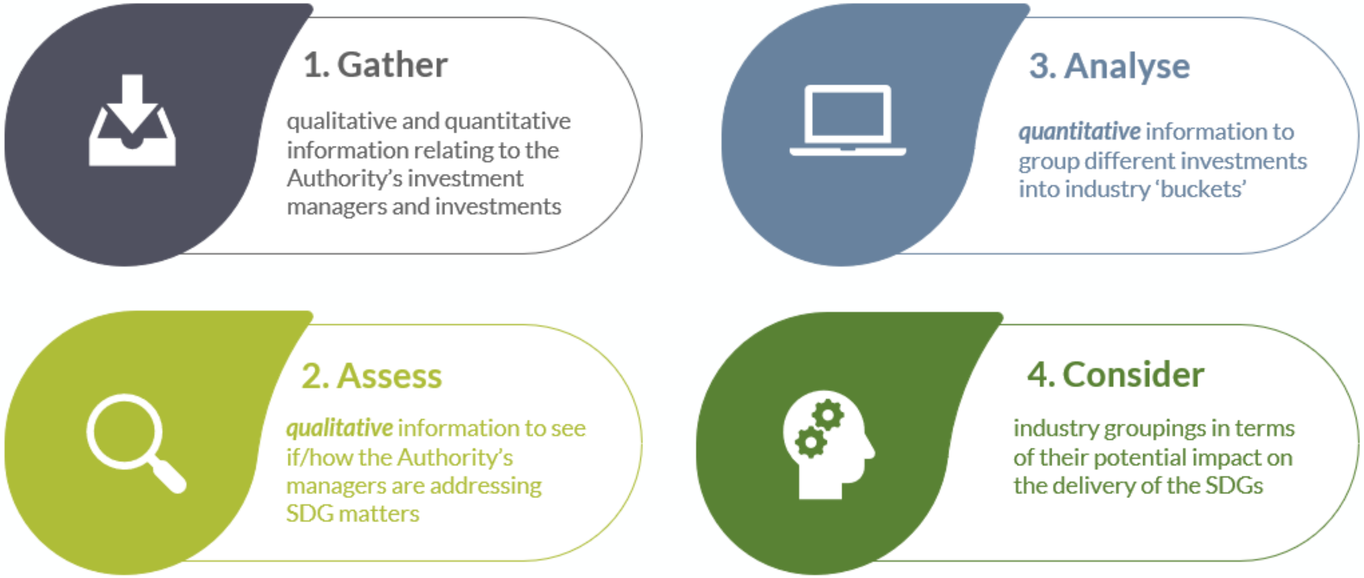
In seeking to play its part towards the delivery of the SDGs, the Authority identified the core activity of its 'Impact Reporting' project as being able to demonstrate as clearly as possible '*…how the totality of the Authority's investments has impacted on the achievement of each of the UN Sustainable Development Goals*'.
To better understand how institutional investors might impact the delivery of the SDGs, Minerva considered the issue from two sides, in terms of investments that are effectively:

SDG CONTRIBUTORS	Operations that may positively interact with the SDGs (supportive actions, behaviours and factors).
SDG DETRACTORS	Operations that may negatively interact with the SDGs (detrimental actions, behaviours and factors).

From the Authority's perspective, we think this concept of **Contributors** and **Detractors** affecting delivery of the SDGs ties neatly into existing work that it does in paying close attention to ESG factors associated with their investments (the Authority has a dedicated section on its website where it publicly discloses its approach towards Responsible Investment, with specific mention given to ESG factor consideration).

Minerva's Approach

Minerva's approach to this exercise was comprised of four key steps:



Later in this report we talk more about the assessment of the qualitative and quantitative information – but the relative success of this whole exercise relies upon grouping disparate investment assets into sector 'buckets' to see how these industries might positively or negatively impact the delivery of the SDGS.

The interoperability and accessibility of data has been a significant consideration in this project. The approach we took needed a standardised way of grouping assets, and it is our view that the Statistical Classification of Economic Activities in the European Community NACE code system[1] provides the required standard classification. There are other industry classification systems used in the investment industry, for example the Industry Classification Benchmark (ICB) and Global Industry Classification Standard (GICS), however they are both proprietary solutions that require licences. NACE on the other hand is open source, free to use and aligned with emerging ESG regulation. A further benefit for the Authority is that NACE categories are already in use in their service procurement activity which uses the NACE categorisation for goods and services.

There are 21 NACE sectors covering all areas of economic activity, and by using this taxonomy we were able to group together assets from across the Fund's range of investments including equities, bonds, property, private equity, private debt and infrastructure assets, with assistance from the Authority's managers.

1 More information on the NACE system is set out in the Appendices to this report

The next step was to assess the potential positive and negative impacts of each of the 21 industry groupings in relation to the SDGs themselves. To do this, Minerva's stewardship team looked at the underlying targets of each individual SDG and used their ESG experience and expertise to consider the potential impacts of each high-level industry on these specific SDG targets. The key above shows the broad assessment approach taken when looking at each industry and individual SDG target, in terms of impact.

	Sector activity CONTRIBUTES towards targets assigned to an individual SDG
	Sector activity is NEUTRAL towards targets assigned to an individual SDG
	Sector activity DETRACTS from targets assigned to an individual SDG

Through using this 'net of Contributors and Detractors' assessment approach, we were able to combine the 21 NACE sectors with the 17 SDGs to create an Impact Heat Map:

		No Poverty	Zero Hunger	Good Health & Wellbeing	Quality Education	Gender Equality	Clean Water & Sanitation	Affordable / Clean Energy	Decent Work/ Economic Growth	Industry, Innovation, & Infrastructure
Code	Sector	SDG1	SDG2	SDG3	SDG4	SDG5	SDG6	SDG7	SDG8	SDG9
A	Agriculture, Forestry and Fishing									
B	Mining and Quarrying									
C	Manufacturing									

This heat map uses colour to show the net effect of each NACE sector grouping on each individual SDG. Red means that the net effect of this sector detracts from the delivery of the SDG, and green means the sector broadly contributes towards the delivery of the SDG. Yellow means that the sector is broadly neutral, in terms of its impact on the delivery of the specific SDG. Given that there are a different number of underlying targets for each SDG, a colour range was used to capture the overall assessment of the impact of each sector on the underlying targets. The darker red/green means the more detracting/contributing the sector, and lighter colours means a less defined outcome.

As can be seen from the table extract above, sectors can be both positive and negative, in terms of their impact on certain SDGs. For example, when looking at the Mining and Quarrying sector, it can be said to be a:

Contributor to the delivery of **SDG1 No Poverty** – by providing employment opportunities;

Detractor to the delivery of **SDG6 Clean Water & Sanitation** –potential problems caused by mine tailings runoff and water table contamination.

> Minerva's approach has **successfully created a framework** for the consideration of the impact of the totality of Authority's investments against the delivery of the SDGs. It has also demonstrated that **investments can be both contributors and detractors** to different SDGs.

6 Current Investment Strategy

Asset Class	£m Value at 31/03/21	Target Allocation %	Tolerance +/- %	No. of Managers
UK Equities	1,025.9	10.0	5	1
Global Equities	3,778.2	35.0		2
Private Equity	880.6	7.0	2	69
Total 'Growth' Assets		52.0		72
Multi Asset Credit	539.1	6.0	2	1
Infrastructure	634.2	8.0	3	19
Private Debt	487.9	5.5	1	29
UK Property	861.9	10.0	2	4
Total 'Income' Assets		29.5		53
UK Index Linked Gilts	1,029.9	12.0	3	1
£ Investment Grade Credit	487.3	5.0	1	1
Cash	116.5	1.5	1	1
Total 'Protection' Assets		18.5		3
Total	9,841.5	100.0		128

The Authority's investment strategy covers a range of asset classes and assets and seeks to target an appropriate investment return that will see the pension liabilities fully funded over the longer term. The strategy is set following consultation with the Authority's investment consultant, actuary and independent advisors, and is currently structured as shown in the table above.

Assets are grouped into three categories of 'Growth', 'Income' and 'Protection', highlighting the different characteristics of each and which set out the rationale behind the decision made to invest. It is through a mixture of capital growth, income generation and liability-like investments that the Authority seeks to deliver long term success.

Strategy Implementation

The Authority manages some of these investments in-house and has in place a number of third-party asset managers to manage the remainder of the assets, with the total number of managers per asset class also shown in the table above. The Authority is also a founding member of the Border to Coast Pensions Partnership, which manages assets on behalf of several LGPS Funds and which will over time manage almost all the assets of the Fund.

Investment Strategy and the SDGs

The specific objective of this Impact Reporting exercise is to attempt to assess '…how the totality of the Authority's investments has impacted on the achievement of each of the UN Sustainable Development Goals'. To do that, we have had to consider the fundamental nature of the different kinds of investments that the Authority holds, and how they might each be assessed to consider their potential to impact (positively or negatively) on the achievement of the SDGs:

Asset Class	Nature of Investments	Potential to Help Deliver a Range of SDGs	Availability of Information to Assess SDG Impact	Location of Information to Assess SDG Impact	Ability of SYPA to Influence Behaviour to Help Deliver the SDGS
UK Equities	Publicly Listed Companies	HIGH	GOOD	PUBLIC	HIGH
Global Equities	Publicly Listed Companies	HIGH	GOOD	PUBLIC	HIGH
Private Equity	Privately Listed Companies	HIGH	POOR	PRIVATE	HIGH
Multi Asset Credit	Publicly & Privately Traded Instruments	MEDIUM	MIXED	BOTH	MEDIUM
Infrastructure	Publicly & Privately Traded Instruments	HIGH	MIXED	BOTH	MEDIUM
Private Debt	Privately Traded Instruments	HIGH	POOR	PRIVATE	HIGH
UK Property	Publicly & Privately Traded Instruments	HIGH	GOOD	BOTH	HIGH
UK Index Linked Gilts	Publicly Traded Instruments	HIGH	GOOD	PUBLIC	MEDIUM
Corporate Bonds	Publicly Traded Instruments	HIGH	GOOD	PUBLIC	HIGH
Cash	Bank Deposits / Publicly Traded Instruments	MEDIUM	MIXED	BOTH	MEDIUM

In the table above, we've set out our assessment of the potential that exists within the Authority's existing investments to help deliver the SDGs, which in summary is:

- Almost all investments held by the Authority have the potential to help deliver the SDGs – with the possible exception of Government Bonds (due to the lack of leverage over the Government issuer when it comes to standard Government debt) and Cash (due to the typically short-term nature of the asset class);
- Some asset classes have more (and more easily accessible) information available to facilitate discussions and assessments about the impact of the assets on the achievement of the SDGs (typically publicly listed investments);
- Some asset classes (Private Equity and Private Debt in particular) are not as well advanced in terms of making relevant information available to their investors; and
- Most of the Authority's investments provide the Authority with an opportunity to have an active say in how they are being managed.

The vast majority of the Authority's assets are invested in such a way as to allow it to 'have its say' as a responsible owner, in terms of how individual investments have the potential to help achieve the SDGs. Some areas, however, currently have informational challenges to overcome.

7 SYPA's RI approach

The way the Authority will help support the delivery the SDGs is primarily through its Responsible Investment (RI) approach. RI is the practice of incorporating Environmental, Social and Governance (ESG) issues into the investment decision-making process and practising investment stewardship, to better manage risk and generate sustainable, long-term returns. Financial and ESG-factor analysis together identify broader systemic risks, leading to better informed investment decisions that can improve performance, as well as risk-adjusted returns.

Investment stewardship covers a broad range of interconnected activities. It not only includes being active owners (i.e., using voting rights and engaging with investee companies), but also influencing regulators and policy makers, and collaborating with other investors to improve long-term performance. SYPA has for many years adopted a proactive stance in relation to addressing RI and ESG issues and its approach is set out in a number of policy documents which can be found on the Authority's website at www.sypensions.org.uk.

The Authority's RI Approach comprises five elements:

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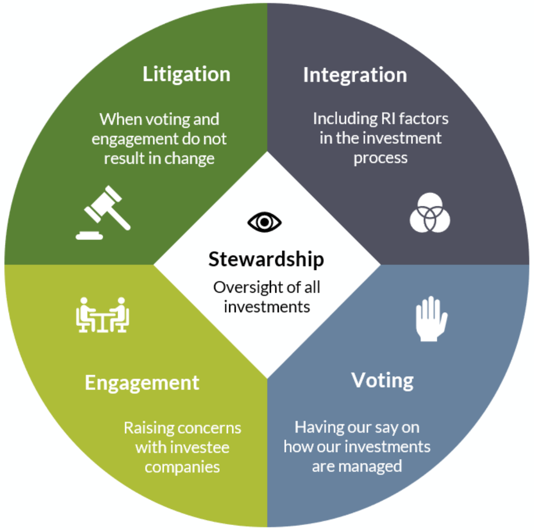
Stewardship	Ensuring the authority's RI expectations cover all assets and are being met through monitoring
Integration	ESG factors being included into the analysis process of investments managed by the authority and its external asset managers
Voting	Using shares to 'have its say' by voting at the meetings of the companies owned
Engagement	Talking to companies in which it invests about issues of concern and encouraging them to adopt better practices
Litigation	Acting against companies where voting and engagement have not solved specific issue(s) of concern

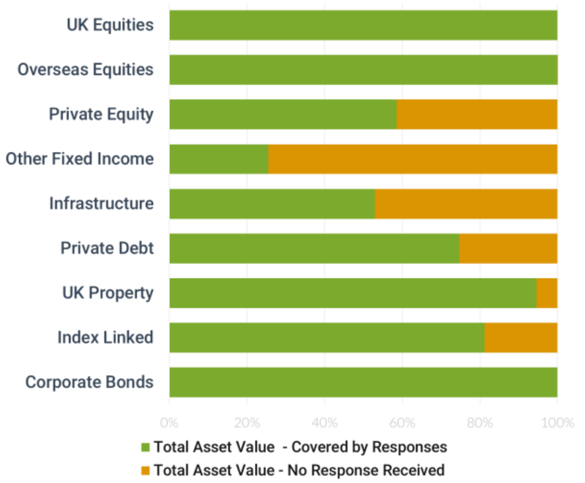


The Authority's existing RI approach is well suited to accommodate some additional stewardship focus on the investments in the context of helping with the delivery of the Sustainable Development Goals.

8 SYPA Managers and Impact

As part of our project work, we asked each of the Authority's managers to complete an online questionnaire. The primary purpose of the questionnaire was to gather information on their current approaches to the SDGs, but we also took the opportunity to ask some wider questions about their approaches to ESG and RI matters. Set out below are some key outcomes from the questionnaire that relate to the Authority's managers' approaches to the SDGs:

72 of the Authority's asset managers submitted a completed questionnaire, covering £6,902m worth of assets



Responses received covered almost all equities, but the responses were less comprehensive for Private Equity, Private Debt and Infrastructure assets

63 firms managing £6,859m have heard of the SDGs

29 firms managing £518m have tried to integrated the SDGs into their investment process

13 firms managing £178m are planning on doing so within the next 12 months

18 firms have prioritised one or more SDGs in their investment approach

11 firms managing £304m have prioritised engagements based on one or more SDG

Of the 18 asset managers that said they prioritised one or more SDGs in their investment approach, the top 5 individual SDGs are shown above

We noted that whilst almost all the respondents were aware of the SDGs, relatively few of them had tried to integrate the SDGs into their investment approach. Clearly, most of the Authority's investment managers are also at the start of their SDG 'journey'.

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9 Assessing Impact

Data Gathering and Cleansing

As part of the impact assessment process, we needed to understand how the Authority's investments were split across different NACE sectors, to then be able to consider those sectors' potential when it came to the delivery of the SDGs. To do that, we needed to collect information on all the Authority's individual investments, from each of the Authority's 128 managers on the 266 portfolios or funds that they manage. This challenging task started in April 2021 and seemed to present some logistical challenges for a not insignificant number of asset managers. As a result, it took a considerable amount of time to collect, verify and then analyse the data.

Despite some differences in terms of the date of valuation information provided by some of the Authority's managers, the value of information provided for inclusion in the exercise was **£8,755.9m** – which is approximately **89%** of the Fund's total value at 31 March 2021. We think that this is a good result, given the challenges experienced in the data collection.

Asset Categorisations Provided	Value (£m)
GICS	734.6
ICB	6,231.1
Govt Bonds	962.7
Cash, Derivatives and Forward Currency	-54.9
No Categorisation Provided	882.4
Total	8,755.9

Grouping Assets

The next step in the data management process was to allocate the individual investments across all asset classes to specific NACE sectors. Since none of the Authority's managers use NACE codes as standard, we created mappings to convert the more commonly used GICs and ICB codes into their correct NACE counterparts. This process relied in part on the asset managers providing accurate ICB or GICS codes that could be converted, and not all managers met this challenge. This table shows the categorisation of the data that we received. From this result, we then sought to convert the data labelled with GICS, ICB and the Government Bonds (which don't 'fit' into GICs or ICB categories) into appropriate NACE codes. The next table shows the results of the NACE mapping process:

	UK Equities	Overseas Equities	GBP Inv. Grade Credit	Index Linked Gilts	Other Fixed Income	Private Equity	Private Debt	Infrastructure	Property	Cash, Derivs. & FFX	Total
Assets successfully attributed to a NACE sector (£m)	1,012.3	3,755.7	115.1	889.4	159.8	348.2	83.1	320.7	788.6	-	7,472.9
Assets not successfully attributed to a NACE sector (£m)	7.1	4.7	366.5	139.9	473.2	113.4	141.5	91.5	-	-54.9	1,283.0
Total asset values (£m)	1,019.4	3,760.5	481.6	1,029.3	632.9	461.6	224.7	412.2	788.60	-54.9	8,755.9

Overall, **85%** of the data we received from the Authority's managers was successfully mapped over to NACE sectors. However, some of the Authority's Fixed Income, Private Equity, Private Debt and Infrastructure managers each had material levels of assets that could not be mapped.

Having generated NACE codes for 85% of the data we received, we were then able to create a table showing NACE sector exposure vs asset class:

NACE Code	NACE Level 1	UK Equities	Overseas Equities	GBP Inv. Grade Credit	Index Linked Gilts	Other Fixed Income	Private Equity	Private Debt	Infrastructure	Property	Cash, Derivs. and FFX	Total Exposure (£m)	Total Exposure %
A	Agriculture, forestry & fishing	-	-	-	-	0.8	0.7	-	-	182.0	-	183.5	2.1
B	Mining and quarrying	77.2	131.7	-	-	3.1	4.6	0.7	2.1	-	-	219.3	2.5
C	Manufacturing	313.8	1,448.2	7.3	-	13.2	75.5	31.4	20.3	-	-	1,909.6	21.8
D	Electricity, gas, steam, and air conditioning supply	100.6	146.4	-	-	9.6	0.5	-	184.3	-	-	441.5	5.0
E	Water supply; sewerage; waste management and remediation activities	3.7	16.6	-	-	2.5	2.2	-	1.1	-	-	26.1	0.3
F	Construction	19.6	83.9	7.8	-	4.4	3.2	7.9	-	-	-	126.8	1.4
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	49.4	277.8	-	-	2.8	65.2	0.1	0.0	-	-	395.2	4.5
H	Transportation and storage	7.1	69.3	18.7	-	6.3	10.3	4.7	22.0	-	-	138.5	1.6
I	Accommodation and food service activities	24.9	19.6	-	-	6.3	3.1	-	-	-	-	54.0	0.6
J	Information and communication	51.6	412.0	-	-	15.1	111.8	11.7	21.6	-	-	623.7	7.1
K	Financial and insurance activities	262.3	812.7	-	-	83.9	26.8	7.6	32.8	-	-	1,226.2	14.0
L	Real estate activities	18.9	77.9	8.0	-	6.1	0.6	1.8	33.9	606.6	-	753.7	8.6
M	Professional, scientific, technical activities	10.4	18.0	-	-	0.1	9.9	4.8	-	-	-	43.1	0.5
N	Administrative & support service activities	52.4	102.8	-	-	2.7	15.3	1.5	-	-	-	174.7	2.0
O	Public administration and defence	11.4	33.9	73.3	889.4	-	-	-	-	-	-	1,008.0	11.5
P	Education	-	-	-	-	-	2.5	-	0.1	-	-	2.5	0.0
Q	Human health and social work activities	-	11.0	-	-	1.4	12.1	8.0	2.4	-	-	34.8	0.4
R	Arts, entertainment, and recreation	2.5	49.6	-	-	0.4	2.1	-	-	-	-	54.7	0.6
S	Other service activities	6.7	44.2	-	-	1.0	2.0	3.0	0.1	-	-	57.0	0.7
T	Activities of Households as Employers	-	-	-	-	-	-	-	-	-	-	0.0	0.0
U	Activities of Extraterritorial Organisations	-	-	-	-	-	-	-	-	-	-	0.0	0.0
#N/A	Assets not mapped to NACE	7.1	4.7	366.5	139.9	473.2	113.4	141.5	91.5	-	-54.9	1,283.0	14.7
	Total Value (£m)	1,019.4	3,760.5	481.6	1,029.3	632.9	461.6	224.7	412.2	788.6	627.0	8,755.9	100.0%
	% Assets	11.6%	42.9%	5.5%	11.8%	7.2%	5.3%	2.6%	4.7%	9.0%	-0.6%	100.0%	

This table shows the Authority's biggest exposures – for all asset classes - in terms of the different NACE sectors. **Manufacturing** represents the largest overall investment of the Fund, followed by **Financial and Insurance Activities**, then **Public Administration and Defence**. In terms of the smallest exposures, there are four NACE sectors where the Authority has few (or no) allocations, which is in part due to the nature of some of the sectors.

Grouping Assets

Having identified the Authority's investment allocation to each NACE sector and having created a NACE sector/SDG heat map showing the impact of each NACE sector on the individual SDGs, we could then bring them together. The following tables represent the core output of this Impact Reporting project

NACE Code	NACE Level 1	Total Exposure (£m)	1 NO POVERTY	2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING	4 QUALITY EDUCATION	5 GENDER EQUALITY	6 CLEAN WATER AND SANITATION	7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
A	Agriculture, forestry & fishing	183.5									
B	Mining and quarrying	219.3									
C	Manufacturing	1,909.6									
D	Electricity, gas, steam, and air conditioning supply	441.5									
E	Water supply; sewerage; waste management and remediation activities	26.1									
F	Construction	126.8									
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	395.2									
H	Transportation and storage	138.5									
I	Accommodation and food service activities	54.0									
J	Information and communication	623.7									
K	Financial and insurance activities	1,226.2									
L	Real estate activities	753.7									
M	Professional, scientific, technical activities	43.1									
N	Administrative & support service activities	174.7									
O	Public administration and defence	1,008.0									
P	Education	2.5									
Q	Human health and social work activities	34.8									
R	Arts, entertainment, and recreation	54.7									
S	Other service activities	57.0									
T	Activities of Households as Employers	0.0									
U	Activities of Extraterritorial Organisations	0.0									
#N/A	Assets not mapped to NACE	1,283.0									
	Total Value (£m)	8,755.9									

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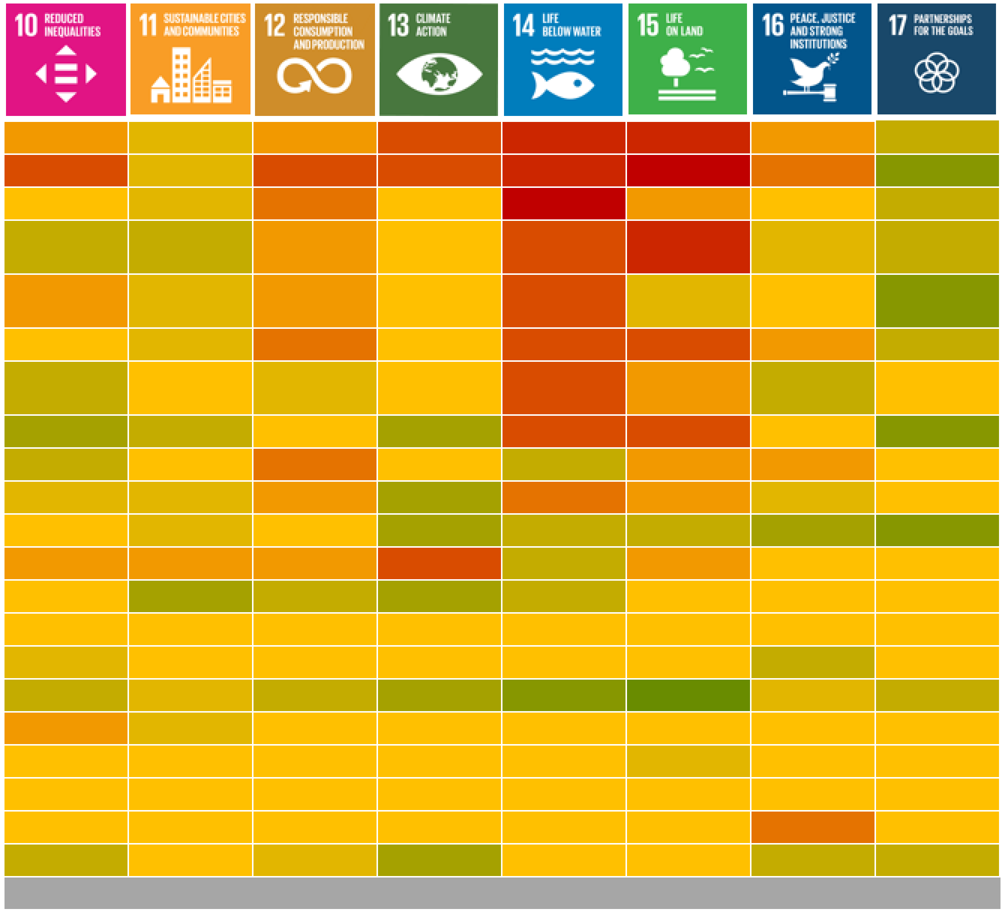
NACE Code	NACE Level 1	Total Exposure (£m)
A	Agriculture, forestry & fishing	183.5
B	Mining and quarrying	219.3
C	Manufacturing	1,909.6
D	Electricity, gas, steam, and air conditioning supply	441.5
E	Water supply; sewerage; waste management and remediation activities	26.1
F	Construction	126.8
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	395.2
H	Transportation and storage	138.5
I	Accommodation and food service activities	54.0
J	Information and communication	623.7
K	Financial and insurance activities	1,226.2
L	Real estate activities	753.7
M	Professional, scientific, technical activities	43.1
N	Administrative & support service activities	174.7
O	Public administration and defence	1,008.0
P	Education	2.5
Q	Human health and social work activities	34.8
R	Arts, entertainment, and recreation	54.7
S	Other service activities	57.0
T	Activities of Households as Employers	0.0
U	Activities of Extraterritorial Organisations	0.0
#N/A	Assets not mapped to NACE	1,283.0
	Total Value (£m)	8,755.9



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These tables show the net effect of each NACE sector grouping on each individual SDG, along with the Authority's investments in each sector. Red means that, on balance, the sector detracts from the delivery of the SDG, and green means the sector broadly contributes towards the delivery of the SDG. Orange means that the sector is broadly neutral, in terms of its impact on the delivery of the specific SDG. It is important to remember that there will be investments within each Sector that the Authority holds that are more positively – and negatively – dispositioned towards the delivery of each individual SDG.

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Assessing Largest Potentially Detracting Impacts

Having identified the Authority's largest NACE sector exposures – **Manufacturing, Financial & Insurance Activities, Public Administration & Defence, Real Estate Activities and Information & Communication** – we then sought to establish the combined potentially negative impact that these sectors might have on the delivery of individual SDGs. To do that we weighted the size of the Authority's investment in the largest 5 NACE sectors against the potential negative impact of each sector on the individual SDGs, to come up with the following analysis:

The relative size of the box in the diagram above relates to the amount of Fund investments that have the potential to negatively impact the delivery of each individual SDG – the bigger the box, a larger proportion of the Authority's assets have the potential to detract from the delivery of the specific SDG. The point of this analysis is that it helps the reader visualise the relative importance of the Authority's current investment against specific SDGs. This also allows the Authority to consider focussing on how the assets invested in the top 5 NACE sectors are being 'stewarded' in terms of their potential impact on specific SDGs.

Cleary there is a lot of information contained in the core outputs from the exercise. We seek to summarise what we believe are the key takeaways as follows:

The exercise has confirmed that – to a greater or lesser extent depending on the specific asset and sector - the Authority's investments are currently impacting the delivery of the SDGs.

Specific investments in the Authority's strategy – such as the renewable energy assets in the Electricity sector – can be shown to be demonstrably positive influences helping towards the achievement of specific SDGs such as SDG 13 Climate Action.

However, there are also some sectors in the Authority's strategy – such as Manufacturing – that can also be shown to be net negative influences slowing the delivery of specific SDGs such as SDG 14 Life Below Water.

Given that most of the Authority's investments are held in just 5 NACE sectors, the opportunity exists to prioritise assessing the contributing and detracting issues affecting these sectors, in terms of their impact on the SDGs.

Whilst small in terms of overall percentage of assets, some of the unlisted asset managers had problems in terms of both providing investment information, and of helping to categorise these investments prior to NACE sector allocation.

The opportunity exists to effectively incorporate SDG impact considerations into the Authority's existing Responsible Investment (RI) approach, to engage with asset managers on them to promote contributing factors and to identify and address detracting factors in the way the Fund's investments are made and run.

The analysis has shown that a link exists between the sectors in which the Authority has investments, and the SDGs. However, the heat map analysis shows net impact at sector level – the underlying individual investments in each sector will also differ in terms of whether they are net contributors or detractors in terms of the achievement of individual SDGs.

10 SYPA and Sustainable Stewardship

Set out in the following table are some example investments from each of the Authority's asset classes, showing 3 key potential positive and negative SDG detractors of each investment's sector. For Equities, Bonds and Property directly held by the Authority we have provided a short description of some stewardship activity undertaken by, or on behalf of, the Authority (either directly, via Border to Coast, or working with the Local Authority Pension Fund Forum). For the Private Equity, Private Debt and Infrastructure asset classes we have added examples of specific investments the Authority has made alongside other investors in vehicles that have a specific sustainable purpose:

Asset Class	NACE Sector	Company	Key Potential SDG Contributors of Sector	Key Potential SDG Detractors of Sector
UK Equities	K – Financial & Insurance Activities	Barclays	1 NO POVERTY; 13 CLIMATE ACTION; 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	5 GENDER EQUALITY; 10 REDUCED INEQUALITIES; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Stewardship Activity: Voting				
At the 2020 AGM management and shareholders put forward separate climate proposals, an unprecedented occurrence. Having engaged with Barclays Chair and the proponents of the shareholder resolution we supported the management resolution (99.9% support) and abstained on the shareholder resolution (24% support) to give management time to implement their proposals.				
Overseas Equities	J – Information & Communication	Alphabet Inc	4 QUALITY EDUCATION; 8 DECENT WORK AND ECONOMIC GROWTH; 13 CLIMATE ACTION	6 CLEAN WATER AND SANITATION; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 15 LIFE ON LAND
Stewardship Activity: Engagement				
The benefits of artificial intelligence ('AI') are promising. However, various social issues have surfaced showing that AI's ethical development and deployment cannot be guaranteed unless these concerns are appropriately addressed by users. As a leading technology company, Alphabet Inc. is exposed to financially material risks from its development and use of AI. The objective of the engagement was to promote strong governance and human rights practices to mitigate undesirable social impact from AI. Companies that have clear policies, risk management systems and strong structures of accountability are less likely to be adversely impacted by incoming regulations. Following persistent efforts to enter a constructive dialogue with the company, engagement remained challenging. In escalation, Robeco co-led the filing of a shareholder proposal at Alphabet's AGM asking for a human rights risk oversight committee to be established, comprised of independent directors with relevant experience. Some 16% of shareholders voted in favour of the resolution, which is a substantial part of the non-controlling shareholder votes. In response, Alphabet announced an update of its Audit Committee Charter, which now includes the review of major risk exposures around sustainability and civil and human rights. This is in line with the request to formalise board oversight and is a first step towards getting this in place on specific sustainability related issues, such as human rights.				

Asset Class	NACE Sector	Company	Key Potential SDG Contributors of Sector	Key Potential SDG Detractors of Sector
Sterling Investment Grade Credit	E - Water Supply; Sewerage, Waste Management & Remedial	Yorkshire Water Finance 3.625% Redemption 01/08/2029	1 NO POVERTY; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 17 PARTNERSHIPS FOR THE GOALS	5 GENDER EQUALITY; 13 CLIMATE ACTION; 14 LIFE BELOW WATER
Stewardship Activity: Engagement				
Following conclusions drawn from the performance assessment conducted by the Environment Agency (EA) in 2019, Yorkshire Water was identified as an outlier within the water utilities sector in the UK and was among the lowest scoring. This, coupled with the increasing pressures that ever-changing weather patterns bring, as a result of climate change, means that through investments in such companies, portfolios are potentially exposed in the medium-long term to the impacts of climate risk. Engagement was needed to better understand the reason for the company's weak performance within the water utilities sector in pollution, leakage and meter rates, and determine whether its current strategy is strong enough to ensure improvement in its management of climate risk. Engagement has been driven by both information discovery of Yorkshire Water's specific climate-related risk exposure to understand the relative investment position (and re-evaluate if necessary) and to encourage change and influence improvements in pollution, leakage and meter rates, which were among some of the worst in the industry according to the EA's report. Research revealed that the unusually low performance from the company had been somewhat influenced by extreme weather during the EA's reporting year (2018). Cognisant of extreme weather events likely to occur over the coming years, Yorkshire Water appears to be investing significant amounts into data-driven systems and physical infrastructure that combat leakages and limit pollution. The company are also investing in bio-resource plants which will help them to increase self-generated renewable energy, applying a more circular and energy efficient approach to the business structure. The company is taking serious steps to significantly improve performance, which will ultimately strengthen credit ratings. Monitoring of the progress will continue and further investigation around pollution levels may be required.				
Index Linked Bonds	G – Wholesale & Retails Trade	Tesco IL 24/03/2036	1 NO POVERTY; 3 GOOD HEALTH AND WELL-BEING; 10 REDUCED INEQUALITIES	6 CLEAN WATER AND SANITATION; 7 AFFORDABLE AND CLEAN ENERGY; 14 LIFE BELOW WATER
Stewardship Activity: Voting (at Parent Company AGM)				
The Annual General Meeting saw Tesco receive a significant vote against its advisory vote on pay, which we voted against, with 67% of shareholders voting against the resolution. The defeat of the advisory vote is one of the largest shareholder revolts in UK corporate history. The main concern was amendments made by the remuneration committee and the exclusion of online grocer Ocado from peer benchmarking, boosting the long-term incentive pay out for both the CEO and finance director.				

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Asset Class	NACE Sector	Company	Key Potential SDG Contributors of Sector	Key Potential SDG Detractors of Sector
Other Fixed Income	K – Financial & Insurance Activities	HSBC Plc Variable Rate Bond Redemption 27/06/2023	1 NO POVERTY; 13 CLIMATE ACTION; 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	5 GENDER EQUALITY; 10 REDUCED INEQUALITIES; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Stewardship Activities: Engagement

Like many major financial institutions HSBC continues to provide funding for the development of fossil fuel extraction projects with a life beyond 2050, which is the Paris Agreement target for the ending of fossil fuel dependency. This creates a risk that HSBC and others are investing in projects that will not be able to repay the loans made to them. This is clearly a risk to shareholder value. The objective of the engagement was to secure agreement to a shareholder resolution seeking the publication of a strategy with short-, medium- and long-term targets to reduce the Company's exposure to fossil fuel assets on a timeline aligned with the goals of the Paris Agreement.

The Company were open to meeting with collective groups of shareholders including the Local Authority Pension Fund Forum. These meetings and discussions included the company's CEO and Chair, so the issue received attention at the highest level. The Company engaged positively, and the proposed shareholder resolution was adopted by the Board. The company has acknowledged that 'expansion of coal-fired power is incompatible with the goals of the Paris agreement, and has committed to phasing out coal-fired power and thermal coal mining in the EU and OECD by 2030 and other regions by 2040. Further, in line with the resolution, HSBC has committed to set, disclose, and implement a strategy with short- and medium-term targets to align its financing across all sectors with the goals of the Paris climate agreement. It will use 1.5C pathways that are not overly reliant on negative emissions technologies. Commitments made by the company are set out in a special resolution tabled by the bank for its 2021 AGM. The bank committed to publishing a new coal policy by the end of 2021.

Asset Class	NACE Sector	Company	Key Potential SDG Contributors of Sector	Key Potential SDG Detractors of Sector
Private Equity	K – Financial & Insurance Activities	Bridges Sustainable Growth Fund III	1 NO POVERTY; 13 CLIMATE ACTION; 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	5 GENDER EQUALITY; 10 REDUCED INEQUALITIES; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Stewardship Activities: Targeted Sustainable Investment

Bridges are thematic investors, whose investment strategy is based on analysis of 4 key impact themes which are closely aligned with the SDGs. By examining the key trends and challenges within these four themes, the manager has developed a thesis about the sectors or business models best suited to developing scalable commercial solutions. The four themes are:

1) Sustainable Planet – investing in solutions that will help reduce emissions and decarbonise the economy
2) Healthier Lives – investing in solutions that improve physical and mental health and well-being
3) Future Skills – investing in solutions that help people to fulfil their potential, while building the workforce of the future
4) Stronger Communities – investing in solutions that improve access to quality goods, services and opportunities

Asset Class	NACE Sector	Company	Key Potential SDG Contributors of Sector	Key Potential SDG Detractors of Sector
Private Debt	K – Financial & Insurance Activities	Sustainable Growth Management – Sustainable Growth Fund	1 NO POVERTY; 13 CLIMATE ACTION; 16 PEACE, JUSTICE AND STRONG INSTITUTIONS	5 GENDER EQUALITY; 10 REDUCED INEQUALITIES; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Stewardship Activities: Targeted Sustainable Investment				
Sustainable Growth Management (SGM) provides growth capital in the form of Convertible Loan Notes (CLN) to aide in the expansion of growth capital companies that are addressing pressing global challenges in the energy generation, water, waste management, recycling, waste clean-up and efficiency industries. The investment philosophy identifies companies which have the greatest chance of impact and hence returns, while maintaining environmental, social and governance (ESG) issues coupled with sustainability as a key focal point.				
Infrastructure	D - Electricity, gas, steam, and air conditioning supply	Quinbrook Low Carbon Power Fund	7 AFFORDABLE AND CLEAN ENERGY; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 11 SUSTAINABLE CITIES AND COMMUNITIES	3 GOOD HEALTH AND WELL-BEING; 14 LIFE BELOW WATER; 15 LIFE ON LAND
Stewardship Activities: Targeted Sustainable Investment				
Quinbrook's Low Carbon Power Fund employs a differentiated investment strategy involving the creation of low carbon and renewable energy infrastructure assets in the US, UK and Australia and the acquisition and remediation or growth of what Quinbrook perceived to be impaired or undervalued energy assets and businesses. The Fund is guided by Quinbrook's commitment to environmental, social and governance principles as a core feature of its investment philosophy and has completed a diverse range of investments in onshore wind power, utility and distributed scale solar photovoltaic and battery storage, peaking power and grid support infrastructure, green electricity retailing, distributed energy solutions (including Virtual Power Plants) and flexible dispatch and demand response solutions.				
Property	A - Agriculture, Forestry & Fishing	Waldersey Farm	13 CLIMATE ACTION; 14 LIFE BELOW WATER; 15 LIFE ON LAND	1 NO POVERTY; 2 ZERO HUNGER; 17 PARTNERSHIPS FOR THE GOALS
Stewardship Activity: Direct Ownership				
Waldersey Farm is located in the Norfolk and Cambridgeshire Fens and has been an active farm for over 40 years. Under the ownership of the Authority, the farm operates in a sustainable manner. Wheat is the farm's main crop, and 20,000 tonnes is grown every year – enough to produce 50 million loaves of bread. One of the crop's harvesting by-products, straw, is baled as fuel for local power stations. The farm also grows 18,000 tonnes of potatoes each year, and 8,000 tonnes of onions which are harvested, dried and cured on site. Precision farming and crop-production techniques form part of the farm's sustainable approach – satellite GPS directed planting, live camera feeds and crop-area measurement are used, with constant data transfers between the farm office and operations in the field. The use of technology allows the farmers to be certain that the use of resources is accurate, measured and justified.				

11 Risks and Opportunities

When thinking about the Authority's investments in the context of the SDGs, there are four levels where these issues can be addressed:

Fund	Setting an overarching policy, generated from core Investment Beliefs, that shapes the direction of travel;
Asset Allocation	Directing capital at deliberate strategies to maximise sustainable outcomes;
Portfolio	Setting explicit SDG expectations at the investment manager mandate level; and
Individual Investment	Understanding whether an investment manager has the competence to incorporate consideration of the SDGS into their everyday investment selection, monitoring and engagement processes.

Carrying out this Impact Reporting exercise has already revealed a number of investment risk and opportunity issues. In the following table we have summarised several key issues emerging from our analysis, together with what we believe to be their associated investment risks and opportunities in relation to the Authority's objective of assessing impact on the SDGs:

Issue	Why Investment Risk?	Why Investment Opportunity?
Potential insufficient detail/rigour in the Selection, Appointment and Monitoring process on SDG/RI/ESG issues by the Fund	Greenwashing and grade inflation are significant issues across the investment industry, while there is still a large spread in the quality and sincerity of approaches by asset managers. Failure to uphold a high standard could encourage lacklustre approaches by managers and expose the Authority to the investment and reputational risk of being 'absentee'.	Having a well-considered process for assessing asset managers' approaches – across all asset classes - to sustainability has the potential to result in more risk-aware managers being appointed, investing in better run companies who should deliver better long-term investment returns.
Incorrect or missing application of the stated process in the Selection, Appointment and Monitoring process on SDG/RI/ESG issues by Border to Coast	Whilst our assessment of Border to Coast's approach to appointing and monitoring investment managers is good, there remains a risk that their stated process for assessing potential investment managers in terms of how they approach ESG factors is not applied, or not consistently applied.	By using – and demonstrating the use of – the stated policy, Border to Coast stand a good chance of ensuring any investment managers appointed will be ESG-factor cognisant and should therefore be a positive contributor towards the delivery of the SDGs.
The NACE sector SDG heat map shows areas where the Authority's investments are potentially negatively influencing the achievement of the SDGs	The analysis has identified sectors in which the Authority is invested that are net negative when it comes to the delivery of the SDGs. With a greater focus on ESG issues, in addition to the SDGs themselves, companies that are negatively impacting	By identifying 'net negative' areas, the opportunity now exists for the authority to look more closely at the issues associated with these sectors, and to in turn look more closely at any investments it has in these areas, to see what can be done to

Issue	Why Investment Risk?	Why Investment Opportunity?
	the delivery of the SDGs may face increased costs to improve their position, which may impact investment returns.	improve such investments to secure or enhance sustainable long term investment returns.
Most of the Authority's asset managers do not have a clearly defined position regarding the SDGs	Without considering the potential interaction between the SDGs and their investment approaches, some of the Authority's investment managers may be missing a potentially important driver of sustainable long-term investment returns.	The asset managers could add an additional important influencer of sustainable long term investment returns to their investment approaches by incorporating the recognition, and consideration of, the SDGs in what they do.
Some of the Authority's managers have been unable to provide the requested data for this exercise	The lack of information hinders the creation of a picture of the totality of the Authority's investments. This blind spot might contain investments that are detractors to the achievement of the SDGs, and which remain so due to their invisibility.	An opportunity exists to engage with these asset managers, to secure the missing information and to ensure that they are aware of the SDGs, and the needs of their clients to access basic portfolio information to assist them with their own objectives, which may include SDG alignment and Net Zero commitments.
Opportunity to implement new benchmarks aligned to SDGs	Limited experience with SDG investing due to relative youth of concept.	Incorporating SDGs into investment strategy can help to overcome "ethical subjectivity" often associated with ESG investing; new investment opportunities becoming available with pivot towards SDGs/Low Carbon transition.

By seeking to understand how the existing investments are impacting the SDGs, several investment risks and opportunities have been identified. This very process of SDG impact analysis has added more information to the Authority's risk approach, which can be developed further as the Authority continues to develop its approach towards helping achieve the SDGs.

12 Conclusions

Set out below are what we believe to be the key conclusions to draw from this first 'Impact Reporting' exercise:

- We have been able to establish that the Authority's investments are impacting on the achievement of the SDGs – in both a positive and a negative way
- It is possible to group the different investments held by the Authority into common sectors using the NACE taxonomy – which allows for a direct mapping between the sectors and the 17 individual SDGs
- The 21 NACE sectors can be net Contributors and Detractors to different SDGs at the same time – in coming to this conclusion we considered the impact of each Sector on the underlying Targets of each individual SDG
- The mapping that we have created looks at Sectors as a whole, in terms of their net impact on the individual SDGs – the Authority has lots of individual investments in the Sectors that may themselves be net positive or net negative contributors towards the SDGs
- Given that 2/3rds of the Authority's investments are held in just 5 NACE sectors, the opportunity exists to focus on those sectors in terms of what the underlying SDG Contributing and Detracting factors are, to help deliver the SDGs for these key sectors
- We believe that it should be relatively straightforward to extend the Authority's existing RI approach to include reference to the SDGs, and to work with its third parties to embed SDG considerations into the investment/reporting/voting/engagement process
- One main challenge during this exercise has been the lack of data from some of the Authority's asset managers – this will need to be rectified if future Impact Reports are to cover as much of the Authority's investments as possible

Having now completed this first 'Impact Reporting' exercise, and set out our findings, we suspect the main question from the Authority will be:

'How do we take the results of this exercise forward?'

We have some suggestions:

1) Engage with the external asset managers who did not provide data or complete a questionnaire response to ensure their inclusion in future Impact Reporting exercises;

2) Consider spending some time exploring the Contributors and Detractors associated with the Authority's top 5 NACE Sectors; this can then be used in discussions with asset managers, inclusion in voting activity, and form part of engagement activity undertaken on specific assets;

3) Share the results of this exercise with the external asset managers, for three main reasons:

    a. to emphasise the importance of their provision of data for future exercises

    b. to open the dialogue on how they themselves can help the Authority include SDG considerations into their investments

    c. to prepare them for the start of the Authority's 'Net Zero' data gathering exercise (which will need manager support);

4) Use the findings to explore prioritising certain SDGs that fit in with the Authority's wider RI focus;

5) Work with Border to Coast on the findings to see what they can do to include the SDGs into their investment process;

6) Share the findings with the Authority's stakeholders.

This list is not exhaustive but is intended to start the conversation in terms of considering next steps. We hope that this report does indeed answer the original question that was posed, and that the information contained within it is helpful in terms of establishing a starting point on the SDGs.

Minerva Analytics

March 2022

13 Appendix 1: Glossary

Border to Coast	Established in 2018, Border to Coast Pensions Partnership is one of the largest pension pools in the UK. One of eight national Local Government pools, Border to Coast oversees the investment of pensions assets, bringing together c.£55 billion investments of 11 like-minded Local Government Pension Scheme (LGPS) funds which includes SYPA.
Engagement	The process through which an asset stewards (such as SYPA or asset managers) communicate any issues or concerns they have identified relating to any specific investment they hold, to the appropriate management body.
Equities (Global)	Publicly listed companies traded on stock exchanges across the world, in which SYPA is invested.
Equities (UK)	Publicly listed companies traded on the UK Stock Exchange, in which SYPA is invested.
ESG	Environmental, Social and Governance – usually used in reference to ESG 'factors' or 'characteristics', in the content of a Fund's, portfolio's or investee company's approach to sustainability issues or risks.
FRC	Financial Reporting Council - regulates auditors, accountants and actuaries, and sets the UK's Corporate Governance and Stewardship Codes.
GICS	Global Industry Classification System - is a method for assigning companies to a specific economic sector and industry group that best defines its business operations, launched by MSCI and S&P Dow Jones Indices in 1999.
ICB	Industry Classification Benchmark - an industry classification taxonomy launched by Dow Jones and FTSE in 2005. It is used to segregate markets into sectors within the macroeconomy.
IIGCC	Institutional Investors Group on Climate Change - is the European membership body for investor collaboration on climate change and the voice of investors taking action for a prosperous, low carbon future. IIGCC has more than 375 members, mainly pension funds and asset managers, across 23 countries, with over €51 trillion in assets under management.
Index Linked Gilts	Index-linked gilts represent bonds with borrowing rates and principal payments linked to changes in the inflation rate.
Infrastructure	Refers to investment in physical and organizational structures and facilities (e.g., buildings, roads, power supplies) needed for the operation of a society or enterprise.
Investment Grade Credit	Refers to investments with an investment-grade rating that signals whether a corporate or municipal bond has a relatively low risk of default.
LAPFF	Local Authority Pension Fund Forum – an organisation comprised of LGPS funds whose aim is to promote the highest standards of corporate governance to protect the long-term value of local authority pension funds.

LGPS	Local Government Pension Scheme - the LGPS is a statutory pension scheme for employees of local authorities.
MMMM	Make My Money Matter - is an organisation campaigning for a world where pension scheme members know where their pension money goes, and where they can demand it is invested to build a better future.
Multi Asset Credit	Refers to a diversified investment discipline that aims to invest in a range of geographies, asset classes and credit instruments such as bank loans, high yield corporate debt, emerging market debt, and mortgage-backed securities.
NACE	"Nomenclature statistique des Activités économiques dans la Communauté Européenne" - NACE codes are a European Industry-standard classification system similar in function to GICS and ICB and are used primarily for classifying business activities.
Private Debt	Refers to the investment of capital to acquire the debt of private companies (as opposed to acquiring equity).
Private Equity	Refers to the investment of capital in companies that are not listed on a public exchange. Private equity is composed of funds and investors that directly invest in private companies, or that engage in buyouts of public companies, resulting in the delisting of public equity.
RI	Responsible Investment – a broad term used to cover sustainability issues in investment management
SDGs	Sustainable Development Goals – refers to the United Nations Sustainable Development Goals, which recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth. For further information see: https://www.un.org/sustainabledevelopment/
Stewardship	Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.
Stewardship Code	Created by the FRC, the UK Stewardship Code sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them.
SYPA	South Yorkshire Pensions Authority – is responsible for administering the Local Government Pension Scheme in South Yorkshire. The Authority was created in 1988 and is made up of 12 Councillors drawn from the 4 districts in the County.
TCFD	Task Force on Climate-related Financial Disclosures - created by the Financial Stability Board in 2015 to improve and increase reporting of climate-related financial information. For further information see: https://www.fsb-tcfd.org/
UK Property	Refers to investment in property assets in the UK primarily covering commercial, retail, office and industrial property assets. In SYPA's case this asset class also refers to agricultural investments.
Voting	The process through which an asset stewards (such as SYPA or asset managers) undertake stewardship by voting on resolutions at investee company meetings. This is the primary annual method through which asset stewards communicate their views of the effectiveness of the management of their investee companies.

14 Appendix 2: Details on NACE Codes

What Are NACE Codes?

NACE codes are a European Industry-standard classification system similar in function to GICS and ICB and are used primarily for classifying business activities. The acronym NACE designates the various statistical nomenclatures of economic activities developed since 1970 in the European Union. NACE codes are an open-source system used by the UK and all of the members of the EU, and provide a framework for the collection and presentation, based on economic activity, of a wide range of statistics in economic fields such as production, employment, national accounts, and others.

NACE codes have four levels:

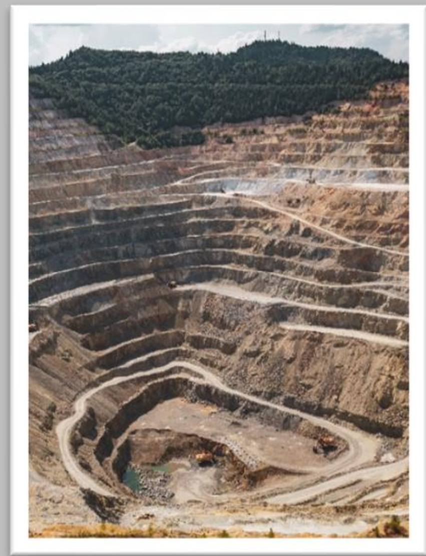
- Level 1: 21 sections identified by alphabetical letters A to U;
- Level 2: 88 divisions identified by two-digit numerical codes (01 to 99);
- Level 3: 272 groups identified by three-digit numerical codes (01.1 to 99.0); and
- Level 4: 615 classes identified by four-digit numerical codes (01.11 to 99.00).

For the purposes of this impact reporting exercise, we determined that Level 1 is a sensible place to start, to provide the ability to group investments across different asset classes without too much additional complexity. Set out in the following table are the 21 NACE Sections, which we refer to in the report as 'Sectors':

NACE Level 1 Sections			
A	Agriculture, Forestry and Fishing	L	Real Estate Activities
B	Mining and Quarrying	M	Professional, Scientific and Technical Activities
C	Manufacturing	N	Administrative and Support Service Activities
D	Electricity, Gas, Steam and Air Conditioning Supply	O	Public Administration and Defence; Compulsory Social Security
E	Water Supply; Sewerage, Waste Management and Remediation Activities	P	Education
F	Construction	Q	Human Health and Social Work Activities
G	Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	R	Arts, Entertainment and Recreation
H	Transportation and Storage	S	Other Service Activities
I	Accommodation and Food Service Activities	T	Activities of Households as Employers; Undifferentiated Goods and Services Producing Activities of Households for Own Use
J	Information and Communication	U	Activities of Extraterritorial Organisations and Bodies
K	Financial and Insurance Activities		

15 Appendix 3: Mining and Quarrying Sector and the SDGs

NACE Section Code & Description
B
Mining & Quarrying



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Positive Contributing Factors

1 NO POVERTY

Mining and quarrying activities usually occur in less developed countries (LDCs) and therefore encourage the economic growth of LDCs which indirectly results in poverty reduction, as well as providing jobs for locals - hence indirectly contributes to Targets 1.1. and 1.2.

Mining generates significant revenues through taxes, royalties and dividends for governments to invest in economic and social development, in addition to opportunities for jobs and local businesses.

4 QUALITY EDUCATION

Mining can contribute to quality education through technical, vocational and educational training programmes for the current and future mining workforce. Mining companies can also invest in schools and teacher training and collaborate with government and communities to improve the quality and availability of educational opportunities. However, bringing in skilled workers from other areas without investing in upskilling local workers could marginalize community residents contribute to economic and educational inequities

8 DECENT WORK AND ECONOMIC GROWTH

Mining can positively contribute towards SDG8 as it can deliver economic growth for certain areas. Mining can generate new economic opportunities for citizens and members of local communities, including jobs, training, and business development relating to mining operations, associated support service providers, or new local economies linked to the mine.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Many mined products are used to construct basic infrastructure and can therefore be indirectly linked to the development of sustainable and resilient infrastructure, therefore contributing to Targets 9.1, and 9. 4.. Mining can help drive economic development and diversification through direct and indirect economic benefits and by spurring the construction of new infrastructure for transport, communications, water and energy contributing to Target 9.3

17 PARTNERSHIPS FOR THE GOALS

Through paying taxes, deploying environmentally sound technologies in their operations, employing people and inducing broader economic activity or in partnering with governments in shared infrastructure arrangements or public-private partnerships (PPPs), mining companies have a role to play in helping meet Targets 17.7 and 17.16.

Negative Detracting Factors

The dwindling access to productive land and exploitation of natural resources (e.g., minerals) in an area can add pressure to traditional livelihoods and populations living in rural communities where natural resources have been depleted by colonialism are often displaced from their land which they rely on for food and money. Detracting from Target 1.4.

The methods used to mine materials can often be labour intensive, and methods such as artisanal mining put the miners at risk due to exposure to damaging chemicals. Mining itself produces lots of waste products which can run off into water supplies (acid mine drainage), which if used by local communities can affect the health and wellbeing of such communities. This detracts from Target 3.9 and 3.c

Mine development requires access to land and water, presenting significant adverse impacts on land and natural resources that can't always be mitigated or avoided. Mining of natural resources can lead to the contamination of water which can affect local communities' water supplies. Acid mine drainage is the primary source of water pollution from mining: this acidic wastewater is carried off the mine site by rainwater or surface drainage and deposited into nearby streams, rivers, lakes and groundwater. As a result, acid mine drainage severely degrades water quality, and can kill aquatic life and make water virtually unusable. This issues links to Targets 6.1, 6.3, 6.4 and 6.6.

Small scale mining often employs women and children in developing countries and can be linked to forced labour and labour rights issues. This type of mining often uses dangerous techniques to extract the mineral. For example, artisanal mining directly exposes the worker to injury, detracting from Targets 8.7 and 8.8. Although this aspect of small-scale mining seems dangerous, most mining occurring in LDC is this type of mining and therefore makes up a significant proportion of employment in such areas.

Many mining-dependent nations struggle with economic inequality. Much research exists examining the relationship between mining activities, poverty, income equality and government reinvestment of mining revenues, among other factors. Therefore, this industry generally detracts from Target 10.1, 10.2 & 10.3

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Mining is one of the most energy intensive industries and contributes towards the continued depletion of finite resources such as coal. Therefore, it is negatively affecting achieving targets 12.1 and 12.2. The harmful waste generated from the mining process such as acid drainage or wastewater with large amounts of metal in it detract from 12.4 and 12.5 which aim to reduce waste generation and achieve sound management of waste substances. It indirectly detracts from 12.c through encouraging the use of mined fossil fuels.

13 CLIMATE ACTION

This sector involves the mining and drilling for coal and natural gas. If done unconventionally, this process can be damaging to the surrounding environment, and so therefore indirectly detracts from 13.1. Mining activities are energy and emissions intensive, presenting opportunities for greater efficiency as well as expanding access to energy.

14 LIFE BELOW WATER

The mining of metals produces acid mine drainage (AMD) resulting in metals being released into the surrounding environment and result in surrounding waters having a lowered PH. AMD run off into surrounding marine ecosystems could result in them being devoid of living creatures and also the biological degradation of the environment. Therefore, this sector detracts from Targets 14.1, 14.2 and 14.3.

15 LIFE ON LAND

Mining degrades ecosystems and harms biodiversity in surrounding areas. Mining makes the economic development of an area dependent on the degradation of the environment due to the large amounts of pollution and waste produced from such sites. Things such as acid mine drainage can negatively impact the surrounding biodiversity. Therefore, it detracts from Targets: 15.1,15.2,15.3,15.4 and 15.5.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

The mining and quarrying of materials have strong connections to forced labour and child labour in their extraction process. This exposes children to extreme conditions and harsh chemical and exploits their size to crawl through narrow makeshift tunnels. This detracts from Targets 16.1, 16.2.

About Minerva Analytics

Minerva Analytics helps investors and other stakeholders to overcome data disclosure complexity with robust, objective research and voting policy tools. Users can quickly and easily identify departures from good practice based on their own individual preferences, local market requirements or apply a universal good practice standard across all markets.

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Impact Investing Principles for Pensions – Annual Statement of Recommitment

Adopting the Impact Investing Principles for Pensions requires that SYPA commit on an annual basis 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.

The Authority undertakes to continue to follow these principles and in the last 12 months has undertaken the following activity:

Advice on an Impact Investing approach for our Pension Fund

The Authority does not retain an investment consultant but uses independent advisers to assist it in shaping and delivering its investment strategy. The advisers have been instrumental in supporting the following during the year:

- The initial adoption of the Impact Investing Principles
- The identification of need to understand the Fund's impact more generally as part of gathering data to support the achievement of the Net Zero goal
- The development of a responsible investment beliefs statement to amplify what SYPA means by responsible investment, which encompasses understanding the impact of our investments.

Review of environmental, social and governance impacts across our investment portfolio

The Authority has commissioned and published work by Minerva to begin to develop an understanding of the environmental, social and governance impacts, of the whole portfolio using the UN Sustainable Development Goals as a framework for analysis. The intention is to develop this work further and to produce an annual impact report as part of the Authority's accountability framework.

Consider available impact investment strategies

In relation to the element of the portfolio intentionally held to achieve an impact as well as a return the Authority has during 2021/22:

- Continued to develop out its portfolio of local development loans with a further 4 loans being agreed with a value of £30.7m and the development of a pipeline of further transactions of £62m
- Committed funds to continuation investments with 2 Fund Managers in the impact space.
- Is undertaking initial due diligence on 4 further funds with a view to commitments to one or more before the end of financial year.
- Agreed as part of the scheduled review of the Investment Strategy that any future strategic asset allocation should carve out a specific allocation for impact funds and the local development allocation.

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Responsible Investment Update Quarter 3 2021/22

March 2022

Contents

Highlights and Recommendations

Highlights over the quarter to the end of December include:

- The casting of more than votes at different company meetings.
- A continued high level of engagement activity
- The agreement of the annual update to Border to Coast's voting guidelines which will be implemented from the next quarter.
- Equity portfolios continuing to demonstrate strong ESG performance relative to benchmark.
- Property
- progress towards Net Zero of the equity portfolios
- A continuing high level of collaborative and policy development activity,

The Authority are recommended to note the activity undertaken in the quarter

Background

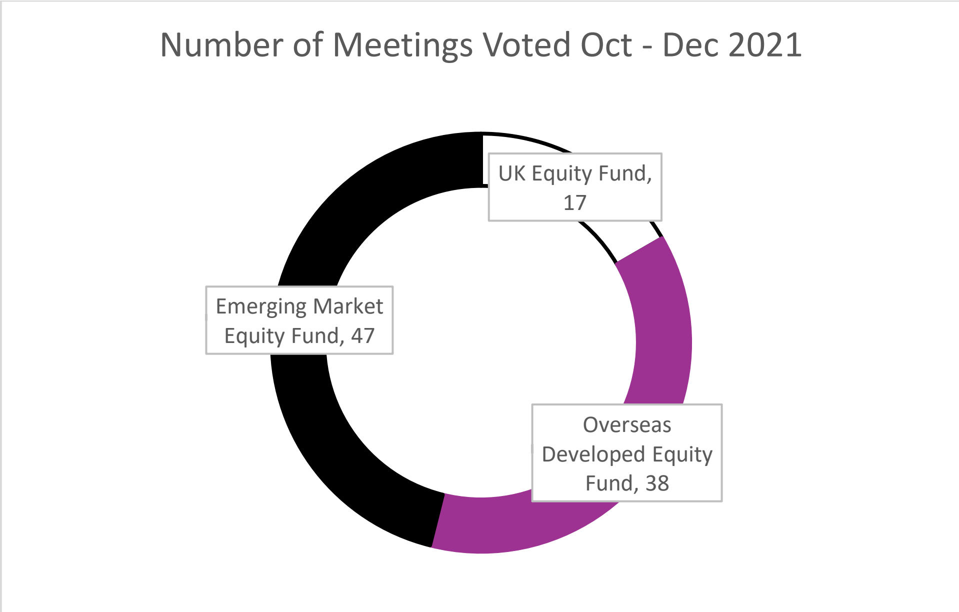
The Authority has developed a statement which sets out what it believes Responsible Investment is and how it will go about implementing it within its overall approach to investment. This statement is set out in the Responsible Investment Policy an updated version of which appears elsewhere on the Authority's agenda.

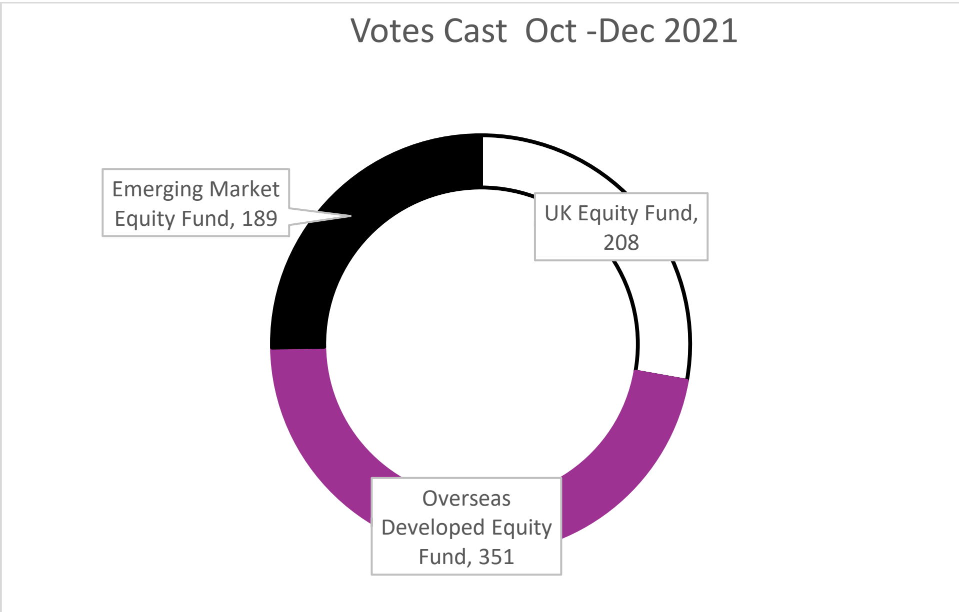
Our approach is largely delivered in collaboration with the other 11 funds involved in the Border to Coast pool. This report provides an update on activity in the last quarter covering:

- Voting – Information on how the voting rights attached to shareholdings have been used over the period to influence the behaviour of companies to move in line with best practice.
- Engagement – Information on the volume and nature of work undertaken on the Authority's behalf to engage in dialogue with companies in order to influence their behaviour and also to understand their position on key issues.
- Portfolio ESG Performance – Monitoring the overall ESG performance of the various products in which the Authority is invested, and on the commercial property portfolio.
- Progress to Net Zero – Monitoring the carbon emissions of the various portfolios where data is available in order to identify further actions required to support progress to Net Zero.
- Collaboration – Working with others to influence the behaviour of companies and improve stewardship more generally.
- Policy Development – An update on broader policy developments in the Responsible Investment space some of which directly involve the Authority and others which are of more general interest.

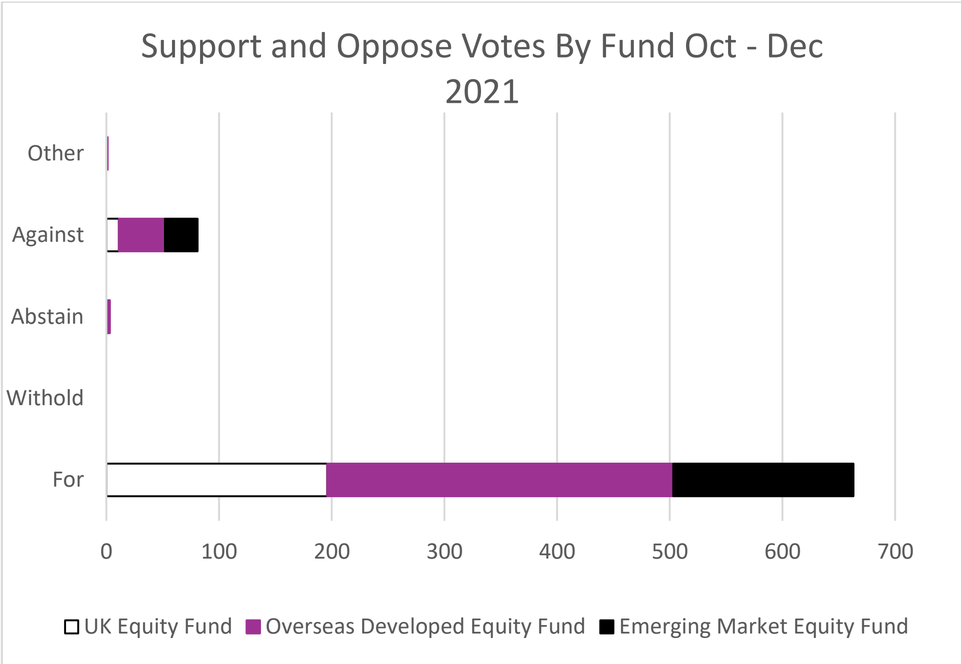
Voting Activity

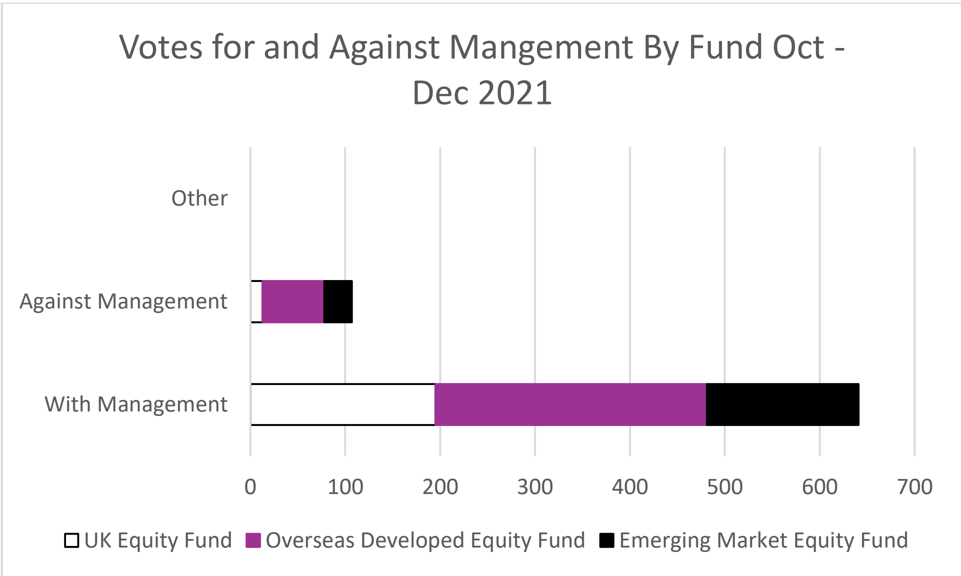
The level of activity this quarter, as would be expected was significantly lower than in the previous period with just over votes cast at meetings compared to over at over meetings last quarter. The charts below show how the Authority's holdings in listed equities were voted in the period to the end of December 2021. Detailed reports setting out each vote are available on the Border to Coast website here .





The pattern of support and oppose votes and votes for or against management, shown in the charts below shows





This quarter was the peak voting season in Asia Paccific and Oceania, hence a greater number of meetings were voted within the Emerging Markets fund than previously. Most votes against management were related to individual nominations and remuneration followed by ESG related shareholder resolutions.

In relation to remuneration there is a welcome trend to rewards the achievement of ESG goals within remuneration policies. However, we believe companies should clearly define those metrics that have a meaningful impact in their business strategy, by conducting a materiality assessment. The outcome of this assessment should be transparently disclosed, and the metrics used in the compensation scheme should have a measurable impact on stakeholders and a financial materiality for shareholders. Our expectation around this is a principle in our Corporate

Governance & Voting Guidelines and informs our decision when voting on company remuneration policies.
Notable votes in the quarter are illustrated in the graphic below.

BHP -This is a mining company held in bothe the Overseas and UK funds. In this case we voted against the Climate Transition Action Plan as despite positive aspects to the plan we had concerns about the level of ambition of emissions reduction targets and the lack of clarity about the proposed use of offsets. The plan received 85% support which is substantially lower than comparable plans. The company has been and remains open to constructive engagement on the issue

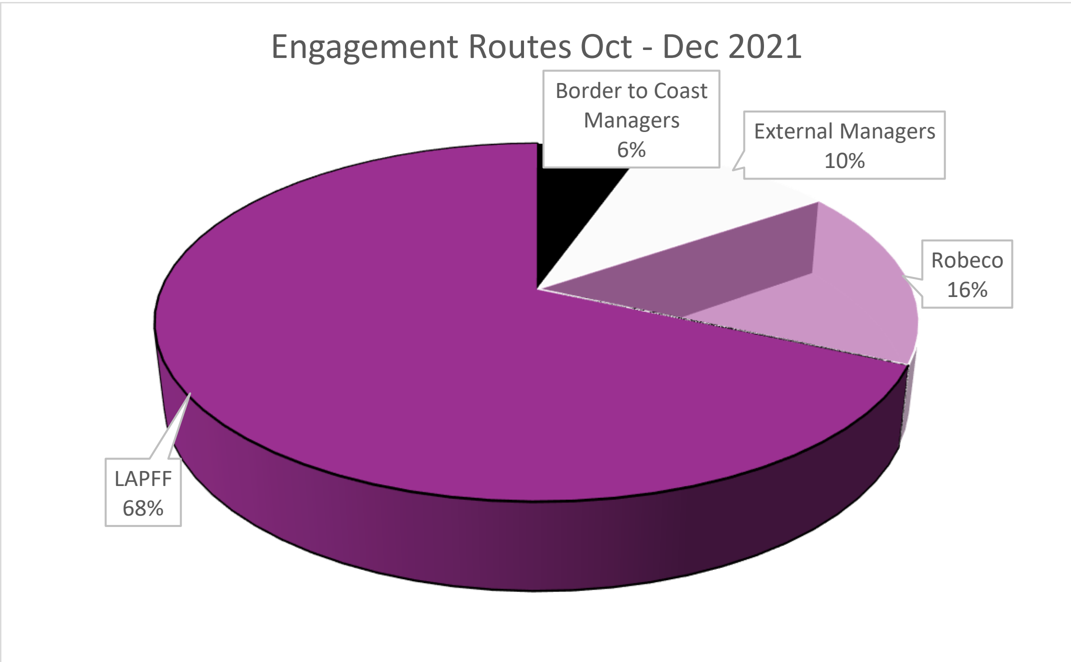
Microsoft - This stock is held in the Overseas Fund. We supported a resolution supporting the reporting of median pay gaps across gender and race. While the company is disclosing the steps it is taking to promote pay equality without measurement there is no clarity on their success. This proposal recieved 40% support. A further proposal aksing for trnasparency reporting on the effectiveness of workplace sexual harrassment policies recieved 78%. In both cases we will continue to monitor progress.

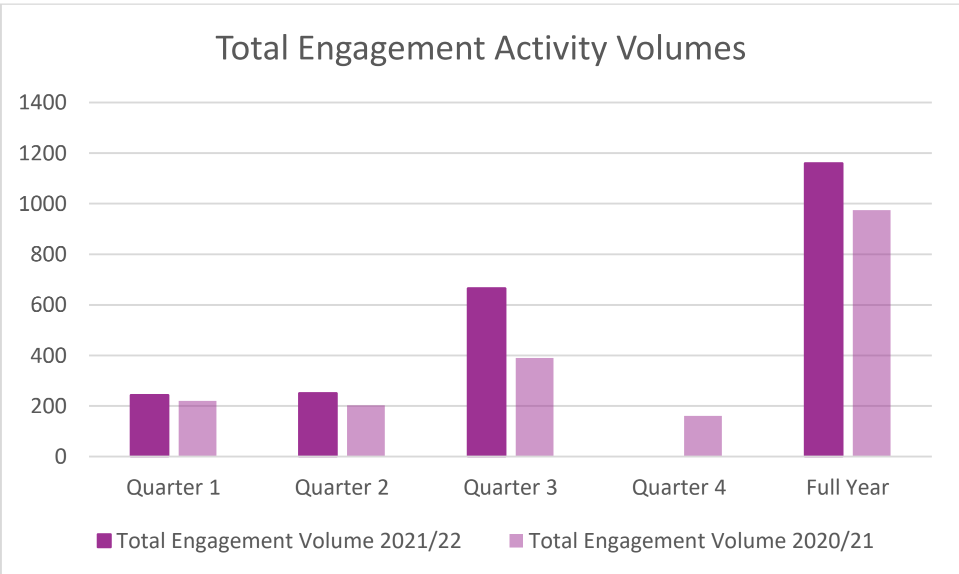
HCL Technologies - This is an ICT and business process outsourcing company held in the Emerging Markets Fund. We voted against a share option plan which because it focussed on one year targets did not align incentives with the interests of long-term shareholders. In addition the plan did not give clear descriptions of the performance hurdles in relation to share awards. Ultimately the plan was approved

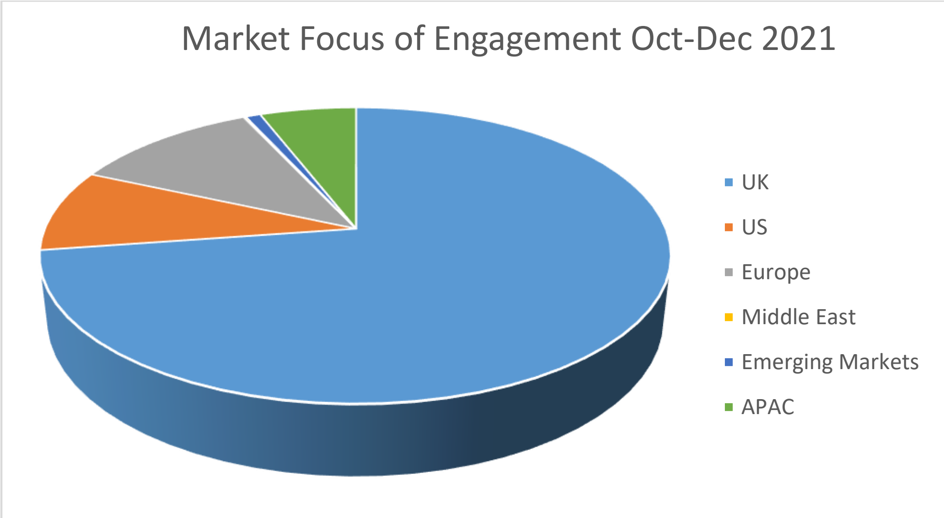
As is evident from the above examples and the following information on engagement the welcome trend for companies to publicly disclose their climate transition plans has continued. While in a number of cases we have voted against these plans on the grounds that they lack ambition or are insufficiently robust we also recognise the significant movement from companies both to produce and publish such plans.

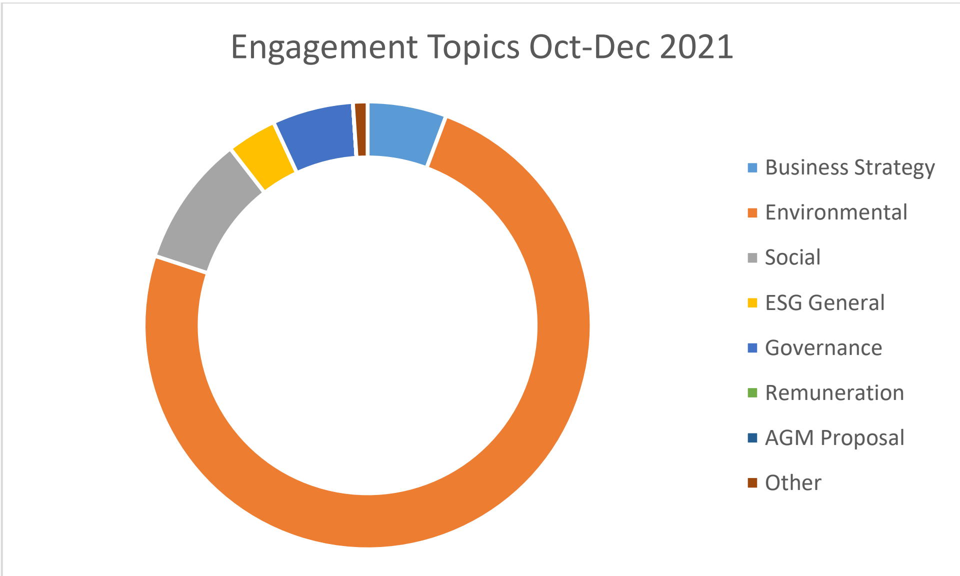
Engagement Activity

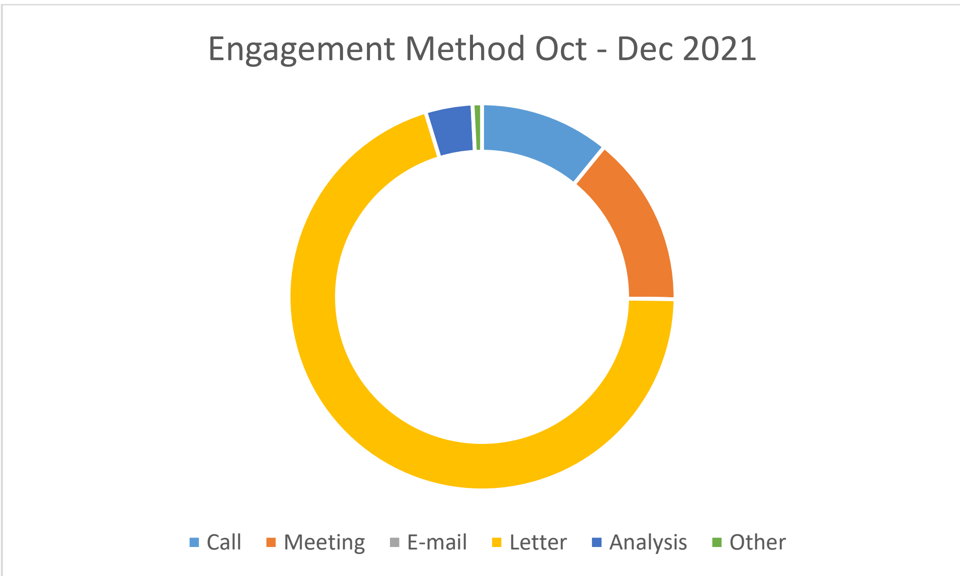
Engagement is the process by which the Authority working together with other like-minded investors seeks to influence the behaviour of companies on key issues. Engagement (in distinction to voting) is an ongoing process and is undertaken by those directly managing money for the Authority such as the investment team at Border to Coast and the external managers in the Investment Grade Credit fund together with Robeco who act on behalf of Border to Coast and the Local Authority Pension Fund Forum which acts on behalf of all its member funds. The graphs below illustrate the scale (in terms of the total number of pieces of engagement activity), the route for and the focus of engagement activity undertaken in the quarter, as well as the method of engagement undertaken.






Market Focus of Engagement Oct-Dec 2021
UK
US
Europe
Middle East
Emerging Markets
APAC


Engagement Topics Oct-Dec 2021
Business Strategy
Environmental
Social
ESG General
Governance
Remuneration
AGM Proposal
Other


Engagement Method Oct - Dec 2021
Call
Meeting
E-mail
Letter
Analysis
Other

Activity this year does appear to be materially ahead of the previous year, which is likely to have been driven between work around CoP26 although it is important not to read too much into short term figures. Overall, however, since the transition of assets to Border to Coast the volume and depth of engagement activity has increased very significantly.

More details of the engagement activity undertaken by Border to Coast and Robeco in the quarter is available here. Significant aspects of this work in the quarter include:

- The closing out of a three-year engagement around living wages in the garment industry. Five companies were engaged focussing on how companies uphold the payment of living wages across the business and how this is supported by responsible purchasing practices. Significant progress was achieved by companies in a number of areas including transparency around supplier lists and on risk assessment processes, the introduction of independent complaints processes with disclosure of results and a strengthening of social dialogue and collective bargaining agreements.
- The commencement of a new engagement theme around Acceleration to Paris. This focuses on triggering climate action at companies with a large carbon footprint and which are assessed as lagging in their efforts to transition to a low carbon business model. Initial contact was made with 170 companies during the quarter and targets will be narrowed down in successive quarters.
- Work continued on a collaborative project being led by Royal London Asset Management which is seeking to engage companies around the growing risks in relation to cybersecurity. In the initial phase of the work 65% of target companies have been formally engaged with as part of a process of gaining a fuller understanding of the issues and identifying best practice. The next phase will target companies where cybersecurity is seen as a material risk factor for investor portfolios and where there have been known breaches and/or a low level of disclosure. The process will involve articulating investor expectations and best practice. This phase is expected to conclude and report within one year of formal commencement.

More details of the activity undertaken by LAPFF in the quarter is available here. The Forum has continued its engagement activity across a wide range of areas with specific updates around the activities of mining companies which have been a long running issue for the Forum across a number of streams of work, but particularly environmental and human rights issues and the fallout from the various tailings dam disasters. A number of engagements were undertaken to further the work of Climate Action 100+ seeking to encourage companies to take action to address gaps identified in their climate stances by the CA100+ assessment process. LAPFF has also continued to support a range of collaborative activities and while many of these focus on climate issues of particular note in this quarter were activity around human rights due diligence, conflict minerals and the opioid and pharmaceutical crisis in the US. LAPFF have also now begun to use the UN Sustainable Development Goals as a framework for analysing the focus of their engagement work which provides and interesting perspective and emphasises the focus of the Forum on climate risk.

Portfolio ESG Performance

Equity Portfolios

Each of the equity portfolios is monitored by Border to Coast in terms of its overall ESG performance with data reported quarterly. This section of the report provides a summary of performance and of changes over time. The full reports are available for members in the on-line reading room, but this summary provides a high-level indication of the position.

Overseas Developed

- Weighted ESG Score above benchmark (6.9 v 6.7)
- 39.4% of portfolio ESG leaders above benchmark
- 2.6% of portfolio ESG laggards below banchmark.
- 6.3 % of portfolio not covered mainly pooled funds
- Worst scoring companies 1.8% of portfolio
- Emissions below benchmark on all metrics.
- Greater weight of fossil fuel holdings than in benchmark
- All 5 top emitters rated on the Transition Pathway with one scoring 4*, with the largest emitter reducing carbon intensity by c30% in the quarter

United Kingdom

- Weighted ESG Score above benchmark (7.8 v 7.7)
- 68.3% of portfolio ESG leaders above benchmark
- 0% of portfolio ESG laggards below benchmark
- 7.8% of portfolio not covered mainly pooled vehicles
- Worst scoring companies 4.9% of portfolio but all ESG Average companies
- Emissions below benchmark on all metrics
- Lower weight of fossil fuel holdings than in benchmark.
- Top 5 emitters all rated 4 or 4* (highest ratings) on the Transition Pathway but represent <50% of total portfolio emissions

Emerging Markets

- Weighted ESG score above benchmark (5.5 v 5.3)
- 20.9% of portfolio ESG leaders above benchmark
- 14.6% of portfolio ESG laggards above benchmark
- 5.2% of portfolio not covered mainly pooled vehicles
- Worst scoring companies 5.2% of portfolio.
- Emissions significantly below benchmark on all metrics
- Marginally greater weight of fossil fuel holdings than in benchmark.
- 3 of the top 5 emitters engaged with the Transition Pathway with one scoring 4.

In general, this shows a broadly positive picture, with an ongoing trend of improvement.

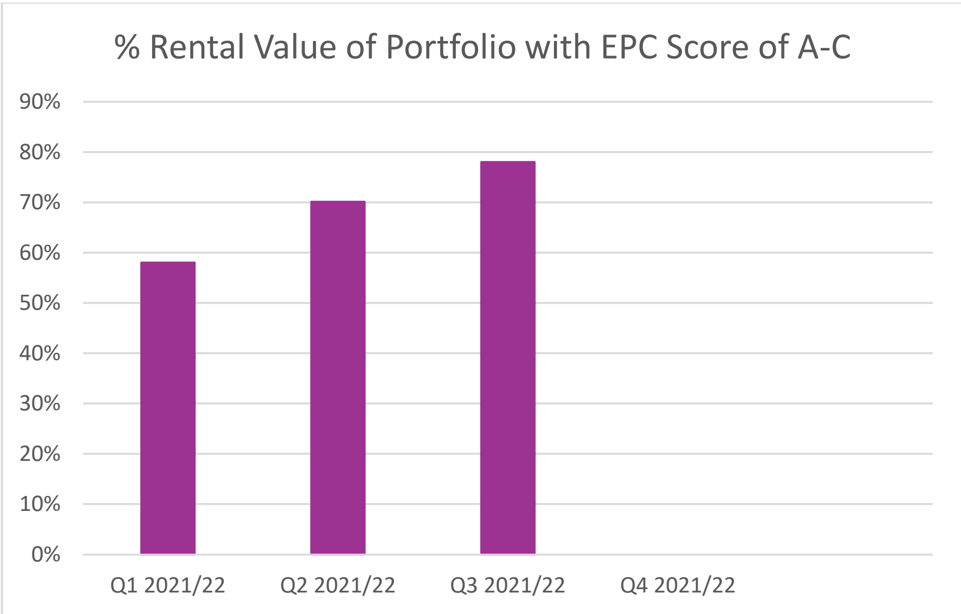
The most significant movements in the quarter were:

- Hyundai Mobis was downgraded to a laggard within the overseas fund as a result of its ownership structure which was described in the context of votes against the Board in the last RI update.
- A significant improvement in the weighted ESG score for the UK fund due to a large number of upgrades including four of the previously lowest graded companies.
- An upgrade in the overall MSCI score for the Emerging Market fund to A as a result of the better than benchmark position in terms of ESG Leaders and Laggards.

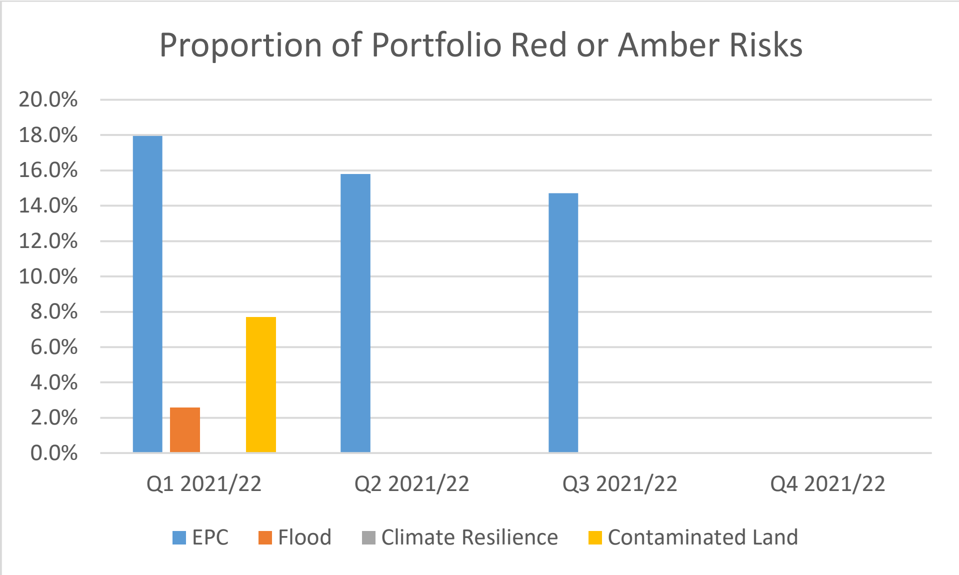
The carbon metrics are addressed later in this report.

Commercial Property Portfolio

The work being done by Aberdeen Standard to improve the ESG performance of the Commercial property portfolio is now leading to the availability of additional data for this portfolio, although full emissions data will not be available until the end of the financial year. The restructuring of the portfolio to remove smaller units and units with less long term potential has also had an impact on the overall energy performance of the portfolio as shown below:



The portfolio restructuring process has also reduced the proportion of assets where specific environmental risks have been identified as shown below. Action plans are being developed for each property where such risks are identified to ensure they are addressed within a reasonable timescale.



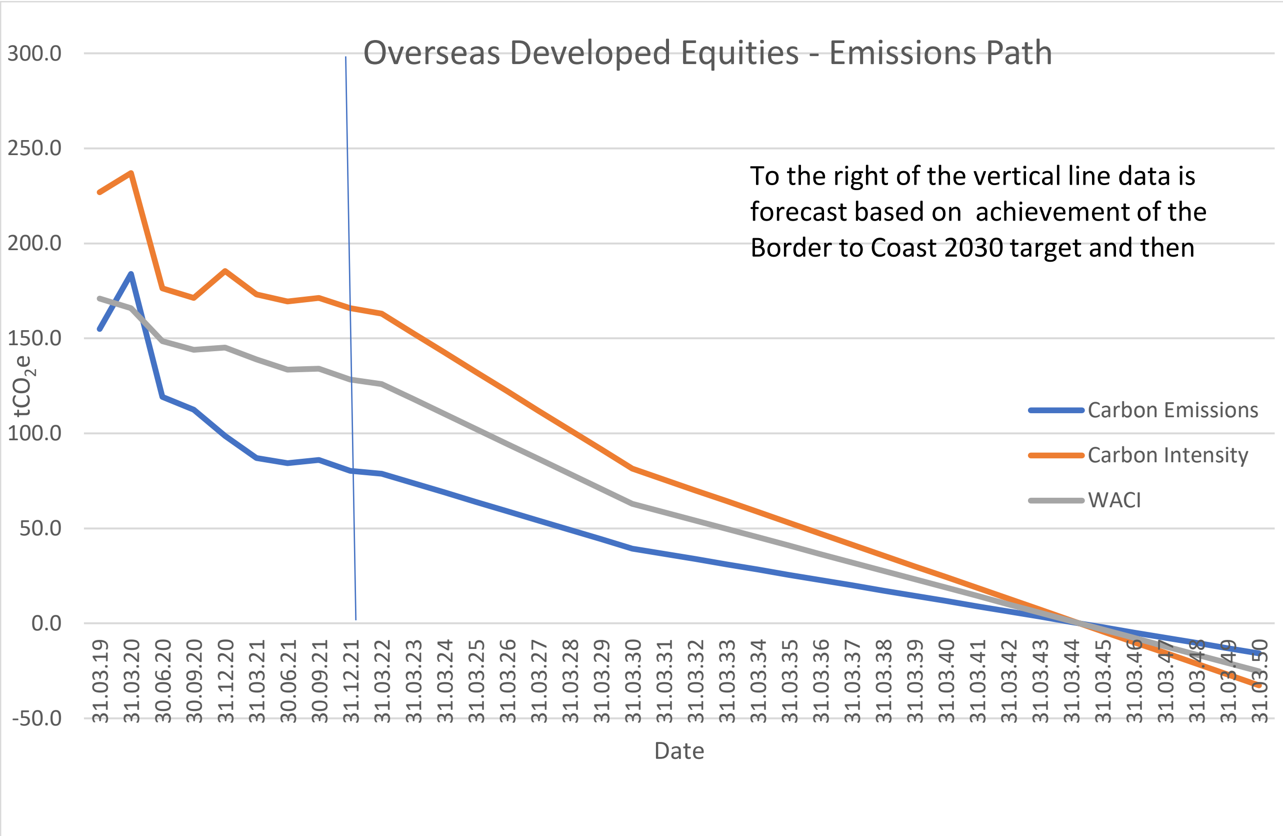
Progress continues to be made at individual properties with the installation of solar PV

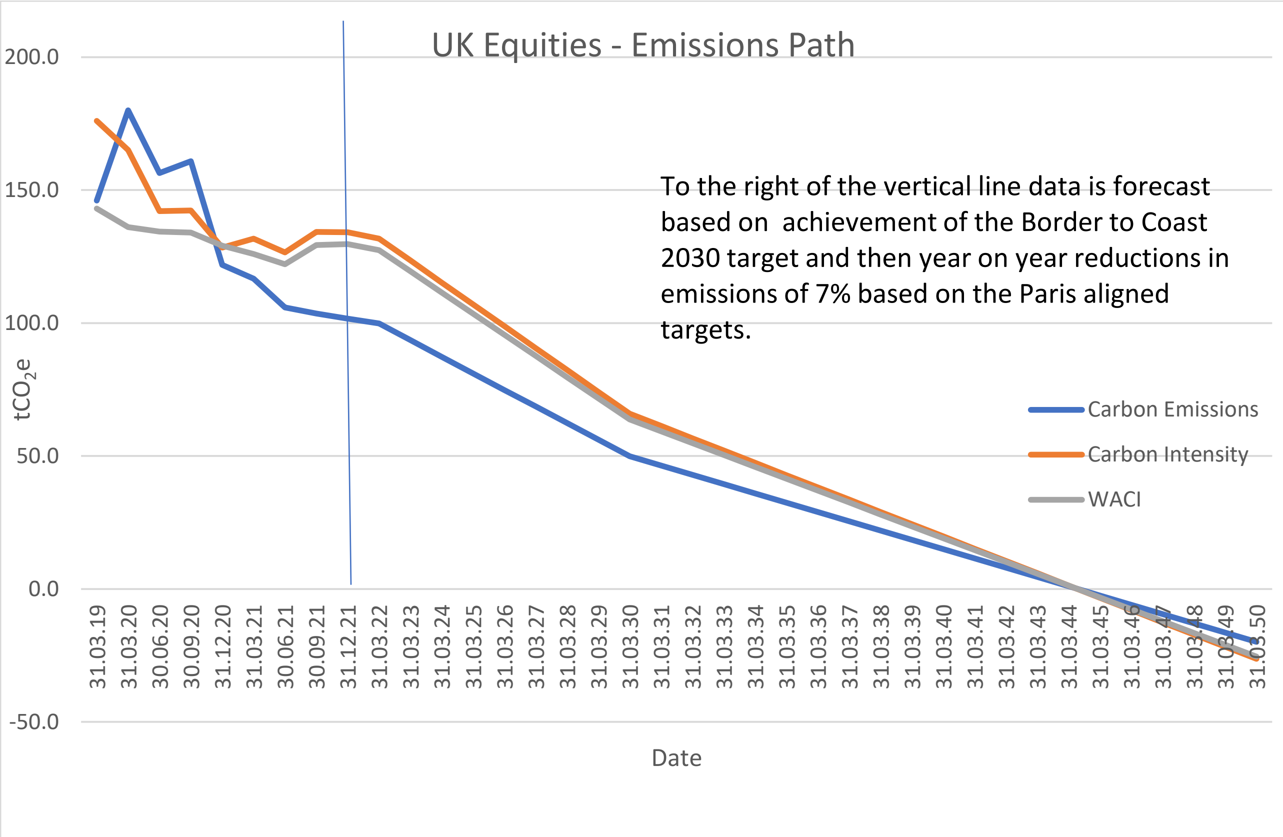
Another measure of the overall sustainability of the portfolio comes through sustainability certification. The most common type of certification is BREEAM and the Authority aspires through its agreed policy for its portfolio to achieve an overall level of Very Good or if built without certification which is often the case to be of an equivalent standard. Currently two properties representing 10% of the value of the portfolio are certified as BREEAM Very Good. This is likely to increase over time as further certified properties are added to the portfolio. There will remain a judgement for the Authority to make about whether it wishes to achieve “in use” certification for other buildings in the portfolio, but this is not currently a priority and would need to be cost justified.

Broadly progress is being made in this area in relation to the commercial property portfolio and these issues are taking a higher priority in terms of both ongoing asset management and the review of potential new investments.

Progress to Net Zero

This section of the report considers the progress of the three equity portfolios towards Net Zero using the emissions data provided on a quarterly basis by Border to Coast and projects progress forward. The projection incorporates Border to Coast's interim (2030) emissions reduction target set out in their climate policy followed by a 7%pa year on year reduction required for Paris alignment. This is not scientific and as can be seen from the earlier parts of the graphs progress is unlikely to be linear, however, it does give a sense of the scale of the challenge we face in achieving Net Zero across this significant element of the portfolio.




UK Equities - Emissions Path
200.0
150.0
100.0
50.0
0.0
-50.0
tCO_2e
To the right of the vertical line data is forecast based on achievement of the Border to Coast 2030 target and then year on year reductions in emissions of 7% based on the Paris aligned targets.
Carbon Emissions
Carbon Intensity
WACI
31.03.19
31.03.20
30.06.20
30.09.20
31.12.20
31.03.21
30.06.21
30.09.21
31.12.21
31.03.22
31.03.23
31.03.24
31.03.25
31.03.26
31.03.27
31.03.28
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31.03.41
31.03.42
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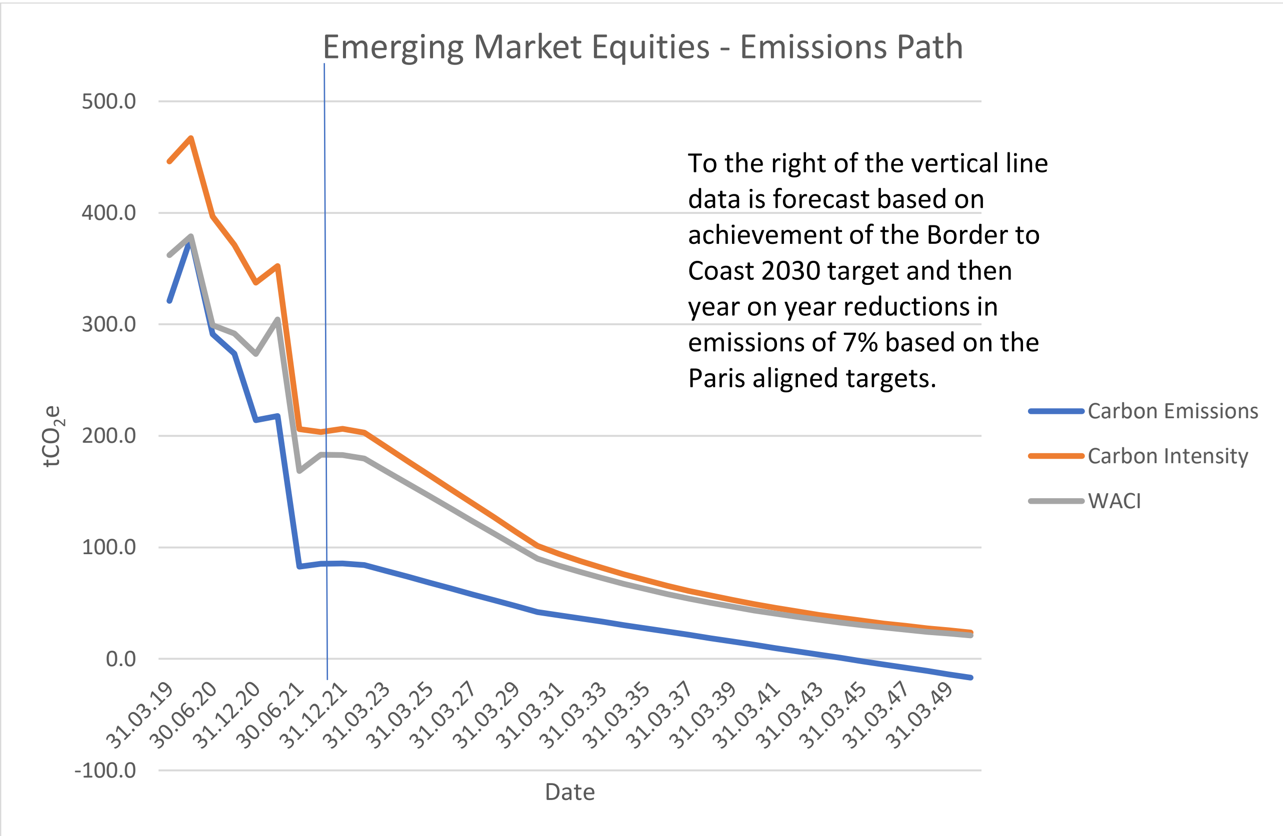
31.03.48
31.03.49
31.03.50
Date


Emerging Market Equities - Emissions Path
500.0
400.0
300.0
200.0
100.0
0.0
-100.0
tCO_2e
To the right of the vertical line data is forecast based on achievement of the Border to Coast 2030 target and then year on year reductions in emissions of 7% based on the Paris aligned targets.
Carbon Emissions
Carbon Intensity
WACI
31.03.19
30.06.20
31.12.20
30.06.21
31.12.21
31.03.23
31.03.25
31.03.27
31.03.29
31.03.31
31.03.33
31.03.35
31.03.37
31.03.39
31.03.41
31.03.43
31.03.45
31.03.47
31.03.49
Date

While the broad trajectory remains positive, and the increases seen last quarter have stabilised it is clear that despite the achievement of very substantial reductions in the level of emissions from these portfolios that achieving a 2030 Net Zero Goal for these portfolio may not be achievable unless there is some other change in approach in relation to these portfolios. These issues are addressed in the update to the Net Zero Action Plan which is on the Pensions Authority agenda.

As previously reported work is being one on understanding the rest of the portfolio and the scale of possible offsets within these other areas and these data will be incorporated when possible.

Collaborative Activity

This section focuses on the activity undertaken in the quarter through the various collaborations in which the Authority is either directly involved or indirectly involved through Border to Coast.

LAPFF recently held its regular business meeting with an agenda that included the final conclusions of the work undertaken on mining and human rights, an examination of the use of joint ventures by some companies to potentially reduce their liability in key areas, an examination of water companies and sewage, a look at the differences between engagement in relation to bonds (an increasing focus for investors) and equities, and the proposed work plan for the coming year.

LAPFF continues to grow with the Isle of Wight Fund being the latest to join meaning that 85 of the 98 LGPS funds across the UK are members, and work is continuing to bring the remaining funds into membership.

Climate Action 100+ was initiated in 2017 to engage some of the world's highest corporate emitters. The initiative recently shared their timeline for the March 2022 assessments, noting limited changes to the Benchmark assessment criteria. Preliminary analysis began in September, with companies invited to provide additional disclosure by 31 December. Company assessments will be finalised during January and February 2022 and publicly released in March.

TPI published its analysis of major energy companies' transition plans, the first using the TPI's 1.5°C benchmark. This found that only 10% of companies were aligned with a pathway to keep global warming to 1.5°C. As shown elsewhere in this report TPI provides a key input into the assessment of companies' progress against their goals for reducing carbon emissions and in particular in relation to the credibility of their plans.

The Workforce Disclosure Initiative recently published details of the level of response to the 2021 survey. This was completed by 173 companies globally including 50% of the FTSE 100 companies. This is 23% increase on the previous year and has been accompanied by and increase from 52 to 62 in the number of investors supporting the initiative. The information provided in responses to this survey allows investors to engage with companies based on specific evidence. A number of large firms which have been identified from media reports as having some specific labour issues such as Boohoo and Amazon have yet to sign up. While this is disappointing the increased response by peers leaves companies such as this looking like laggards and creates a pressure to respond and provide appropriate levels of transparency.

Policy Development

This section of the report highlights a number of the key pieces of policy related activity which have taken place during the quarter.

Levelling Up White Paper
The Government's White Paper on Levelling Up which was published on 2nd February includes a statement that
"The UK Government will….work with Local Government Pension Funds to publish plans for increasing local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas."

Whether this directly reflects a response from Government to the work on Place Based Impact Investing to which the Authority contributed is unclear. However, further information from the Government indicates that in this case local is the UK rather than in a fund's own local area. This will form part of a consultation later in the year that will encompass this area, the delayed climate reporting regulations and the much-delayed pooling guidance and regulations. The Authority will need to build the development of a plan of this sort into the process involved in the investment strategy review, which will be undertaken over the next year. Any plan will need to be rooted in the Authority's investment beliefs and policy driven.

Disinvestment Boycotts and Sanctions
The Government intend to introduce a bill preventing LGPS funds and other public sector institutions with investment portfolios from using investment decisions in a way that is counter to UK foreign policy. For example, this might have caught institutions which disinvested from Barclays Bank during the 1970's and 1980's due to their engagement with the apartheid regime in South Africa.

The proposed legislation has not yet been introduced. However, the Government accepted an amendment to the Bill implementing the McCloud remedy that requires the Secretary of State to issue guidance on this issue. At this stage it is not clear how such guidance would be framed or how it will interact with other aspects of the consideration of ESG issues when making investment decisions.

UK Government Roadmap to Sustainable Investing
The UK Government released a document setting out its roadmap for aligning the financial system with its net zero commitment. The roadmap outlines three phases to achieving this:

- Informing: Focusing on the provision of sustainability-related information.
- Acting: Ensuring this information is being used in business and financial decision making.
- Shifting: Encouraging financial flows to align with a net zero economy.

The document focuses on the first phase, to be delivered through the new Sustainability Disclosure Requirements, which will require enhanced sustainability-related disclosures from market participants including corporate entities, investment product providers, asset managers and asset owners.

Impact Reporting
The final report from Minerva has now been received and is included on the Authority's agenda. This report is very much a starting point helping us to understand broadly where our impacts are. Over time the information we can provide in this type of whole portfolio reporting will become more granular and specific. However, it is likely that we will only ever be able to provide comprehensive impact information on a small portion of the portfolio.

Place Based Impact Investment Reporting
Following on from the work in this area to which the Authority contributed last year work is being undertaken to develop a granular reporting framework for investments of this sort. The Authority will be piloting this in relation to its local development loans which are managed by CBRE. If all goes well some output from this will be available to contribute to the Annual Report.

Scheme Member Correspondence and Campaigns
The Authority continues to receive correspondence from scheme members in relation to specific issues. In the last quarter this has included:

- Further correspondence about investments in the Occupied Palestinian Territories. The Scheme Advisory Board and Local Authority Pension Fund Forum have now met with the UN Special Rapporteur and begun a process of dialogue over the issues raised in relation to the list of 112 companies operating in the territories. The Authority's investments covered by the UN list are in bonds issued by 4 of the companies valued at c£4.2m, which is not material in the context of the Fund as a whole. The Director has held a meeting with a group of scheme members concerned about this issue.
- Correspondence (and a question in Council at Sheffield CC) related to investments in "big agriculture" which can make a significant contribution to carbon emissions through the generation of methane. This follows the publication of research by a lobbying group. The level of investment by SYPA identified in the research by a lobbying group on this is around £9m probably in the equity portfolios, which is not material in the context of the Fund as a whole. Given that we have not previously engaged on this issue with the relevant companies to immediately move to considering disinvestment would not be appropriate in terms of our policy approach. A template response has been provided for councillors through the District Council Democratic Services Teams.
- Ongoing questions related to investment in fossil fuel emitters such as oil and gas companies.
- Correspondence about resolutions at Apple's AGM, where stakeholders were supporting resolutions which promote greater transparency and support for international human rights standards. Border to Coast's analysis and voting policy support both the resolutions concerned.

While at the time of writing we have not received member correspondence with regard to the war in Ukraine and investments in Russian companies we do expect correspondence of this sort and are in discussion with Border to Coast about the position, although the overall level of holdings in Russian companies appears significantly less than would be implied by the benchmark weight.

As the data provided by Border to Coast in relation to ESG scores and carbon emissions is provided by an external third party the following legal wording is required to be included within this report.

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Valuation 2022 – Initial Assumptions and Delivery Plan**	**Status**	For Publication
Report to	Authority	**Date**	17th March 2022
Report of	Director and Head of Pensions Administration		
Equality Impact Assessment	Required	Attached	No
Contact Officer	George Graham Director Jason Bailey Head of Pensions Administration	**Phone**	01226 666439 01226 666431
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1 Purpose of the Report

1.1 To gain agreement to the initial assumptions to be used in the valuation process and to provide an update on the planned process for the valuation.

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2 Recommendations

2.1 Members are recommended to:

a. **Approve the valuation assumptions set out in the body of this report.**

b. **Note the plan for the valuation process.**

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3 Link to Corporate Objectives

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

Listening to our stakeholders

To ensure that stakeholders' views are heard within our decision making processes.

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.

Effective and Transparent Governance

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

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report impact the risks around the affordability of employer contributions and the level of investment risk set out in the Corporate Risk Register.

5 Background and Options

5.1 The triennial valuation of the pension fund which sets employer contributions (for the three years beginning 1 April 2023) takes place this year and is based on the value of the fund's assets and liabilities as at 31st March 2022. This is the first valuation that will be undertaken by Hymans Robertson as the Fund's actuary. This report sets out the initial assumptions which it is proposed should feed into the Funding Strategy Statement and the overall plan for the process. The Fund's actuary will be present at the meeting and will be able to answer members' questions.

Overall Objective

5.2 While there remains significant uncertainty in financial markets (not least due to the war in Ukraine) this valuation is being conducted from a more favourable starting point than previous ones due to the investment returns achieved over the last three years. Given this it is appropriate to consider the Authority's overall objective in the valuation process. Given the risk environment the Fund faces and the pressure on employers it is suggested that the overall objective should be framed in the following terms.

The objective of the Authority is to achieve medium to longer term stability in employer contribution rates taking account of the different starting points and membership profiles of individual employers.

5.3 This reflects the fact that employers within the Fund start in significantly different places in relation to their overall funding level and level of employer contributions relative to what might be regarded as a longer-term stable contribution rate for a given membership profile. Importantly in this context stability does not mean rates will never change simply that they parameters within which they will change are defined as a range.

Prudence

5.4 All actuarial processes reflect a degree of prudence, but different actuaries do this in different ways. The Hymans Robertson approach is to be very explicit about this with prudence being expressed as a given combination of contributions and investment returns having an x% likelihood of achieving or maintaining full funding. This makes it easier for employers to understand the degree of downside risk which they are taking with any given level of contributions. For the 2022 valuation it is proposed that 70% be set as the acceptable likelihood of success for any contribution plan. While expressed slightly differently this is not inconsistent with the level of prudence at previous valuations.

Key Financial and Demographic Assumptions

5.5 Any actuarial process requires the actuary to make estimates (or assumptions) about how key factors which influence the value of the Fund's assets and liabilities will behave over a very long timescale. The following sections set out the key assumptions proposed by Hymans Robertson for this valuation. It should be borne in mind that where figures are provided these are annual averages over a 50 plus year timescale and do not necessarily reflect the situation today.

Assumption	Recommended approach	Comments
Future investment return assumption	Based on Hymans Robertson economic model updated to latest market calibration	Asset class return expectations are generally higher than in 2019
Discount rate	Adopt a prudence level of 70%, resulting in a long-term discount rate assumption of 2.3% p.a. above risk-free rate	Adopting a prudence level of 70% is broadly equivalent to your current funding strategy and is appropriate as a result of no significant change in environment to suggest an increase or decrease.
CPI inflation	Based on Hymans Robertson economic model	Inflation expectations are slightly higher (c.0.2-0.3% p.a.) than 2019 due to current economic outlook
Salary increases	0.6% above CPI inflation	2022 proposed assumption in line with 2019 short-term salary increase expectations. Given subsequent increases in National Living Wage and reduced impact on pension liabilities from short-term pay expectations, recommend that no separate allowance is made for any short-term pay restraint. However an allowance for incremental progression is proposed
Baseline longevity	Based on Club Vita analysis updated to reflect non-Covid related experience	Longevity assumptions are tailored to the Fund's experience and membership
Future improvements in longevity	Updated to CMI 2021 model with no weight on 2020/21 data with long term improvement of 1.5%	Latest version of CMI model is best practice but avoid projections being affected by short-term Covid-19 experience
Other demographic assumptions including ill health, death in service, age at retirement.	Fund specific assumptions or assumptions based on an LGPS data set where there is insufficient Fund data.	All demographic assumptions have been reviewed against LGPS wide experience with some adjustment to reflect Fund's own experience

5.6 Club Vita is a longevity analysis organisation that supports the development of more fund specific demographic assumptions.

5.7 Where appropriate employer specific assumptions around for example pay may be used if justified by objective evidence provided by the employer.

5.8 These assumptions continue to maintain an appropriate level of prudence and are likely to withstand external scrutiny from the Government Actuary as part of the Section 13 review that will take place following the valuation.

Surpluses and Deficits

5.9 Beyond these assumptions the Authority has to agree its position on the impact on employer contributions of its current funding position (i.e. any deficit or surplus at the valuation date). It is proposed that in relation to this the following position be agreed.

I. That the starting point be the current contribution rate and the employer's existing time horizon (previously referred to as its "deficit recovery period" at the 2019 valuation). The actuary will test the likelihood of this rate being sufficiently likely to allow the employer to be fully funded within that time horizon. Where that likelihood is too low, contribution increases will be proposed to the employer.

II. Where an employer is heading to a cessation date, that its time horizon reduces by 3 years from that used at the 2019 valuation, and its contributions set to achieve a suitable likelihood of full funding within that time horizon.

III. That employers with a deficit will not be allowed to reduce the cash level of contributions expected over the valuation period as compared to the previous period. All other things being equal this will allow a quicker improvement in funding position.

IV. That employers with a surplus will generally not be permitted to reduce their contribution rate below the Primary rate (the cost of ongoing accrual for current active members), unless there are specific reasons for doing so and the resulting contribution rate provides a sufficient likelihood that the employer will be fully funded within the time horizon. All other things being equal this builds in an additional buffer against volatility for employers not heading to cessation.

V. That the Fund retain discretion to amend contribution rates for employers facing material increases in contributions where affordability is constrained.

5.10 Overall these rules are designed to achieve some acceleration of the recovery of remaining deficits, while retaining some element of surpluses to assist in managing the downside risk to future contribution rates. Consequently, these rules support the overall objective of stabilising contributions.

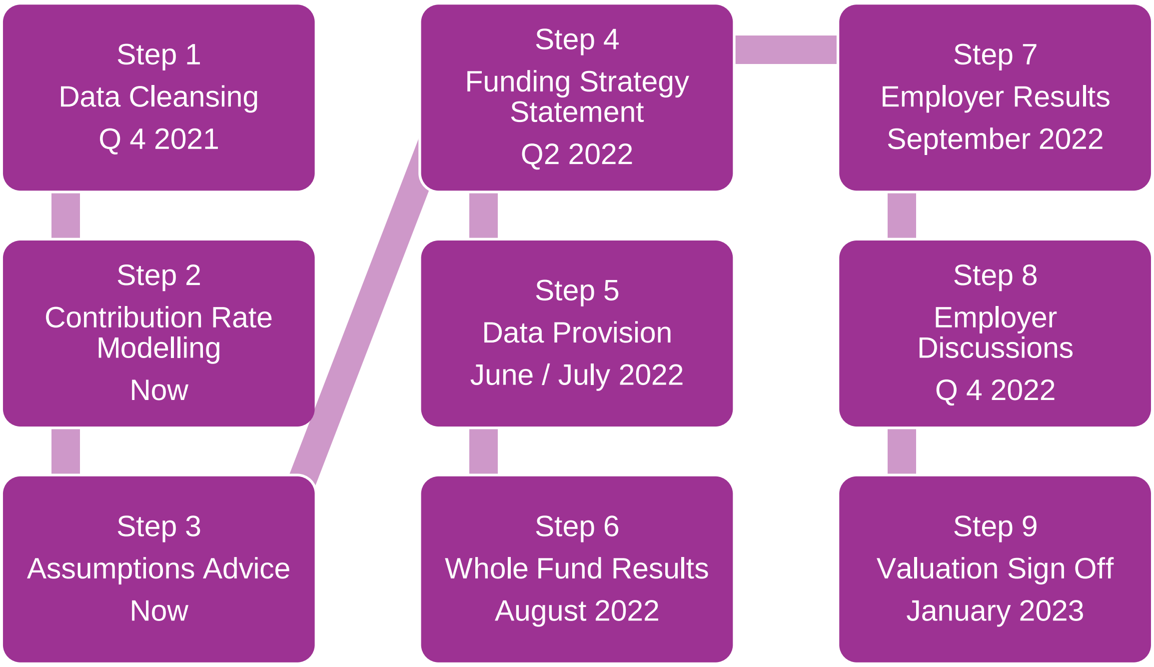
Contribution Stabilisation

5.11 The Hymans Robertson methodology seeks to stabilise future contributions for employers such as the Councils, Police, Fire and colleges. This is achieved through modelling the impact of future contribution increases or decreases on the likelihood of successfully maintaining full funding. Generally, the long term +/- corridor for this employer group's analysis is0.5% or 1% of pay change in contribution rates from one year to the next. Initial analysis indicates that different corridors may be appropriate for different groups of employers (and in the short term may need to be higher than 1%

of pay annual steps) so at this stage it is not proposed to make a decision at this stage, other than to acknowledge the need to make a decision in due course.

The Planned Process

5.12 The planned process for the valuation is outlined below:



5.13 The first column within this chart is complete and initial discussions have been held with the local authorities and further and higher education institutions as the largest employers within the Fund. The process as outlined provides the opportunity to use the member seminar planned for September to consider the whole fund results and also discuss identified problem areas, if any, with members. This plan also delivers the completion of the valuation earlier than has been achieved previously although this is highly dependent upon the data provision stage of the process, which at previous valuations has proved to be a not particularly easy process.

5.14 There remains significant opportunity for dialogue with employers throughout this process and it is anticipated that a series of on line and in person events will support the release of individual employer results, as well as the opportunity for employers to meet with officers and discuss the implications of the results.

6 Implications

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

Financial	The costs of undertaking the valuation process are contained within the budget approved by the Authority.
Human Resources	None
ICT	None
Legal	The undertaking of the valuation and the determination of the Funding Strategy Statement of which the assumptions set out in this report form part are legal duties of the Authority.
Procurement	None

George Graham	**Jason Bailey**
Director	**Head of Pensions Administration**

Background Papers	
Document	**Place of Inspection**

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

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