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Oakwell House
2 Beevor Court
Pontefract Road
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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, 8 December 2022 at 10.30 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 666412
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Distribution

Councillors: J Mounsey (Chair), R Bowser, S Clement-Jones, S Cox, B Curran, A Dimond, D Fisher, M Havard, D Nevett, A Sangar, M Stowe and G Weatherall.

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SOUTH YORKSHIRE PENSIONS AUTHORITY

THURSDAY, 8 DECEMBER 2022 AT 10.30 AM - OAKWELL HOUSE, 2 BEEVOR COURT, PONTEFRACT ROAD, BARNSLEY, S71 1HG

Agenda: Reports attached unless stated otherwise

	Item	Pages
	Business Matters	
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. (For items marked * the public and press may be excluded from the meeting.)	
5.	Declarations of Interest	
6.	Section 41 Feedback from District Councils	
7.	Minutes of the meeting held on	5 - 12
8.	Corporate Performance Report - Q2	13 - 38
9.	Approval of the Levy	39 - 42
10.	Advisers Commentary	43 - 54
11.	Investment Performance Report - Q2	55 - 74
12.	Responsible Investment Update - Q2	75 - 98
13.	Annual Review of Border to Coast Responsible Investment Policies.	99 - 142
14.	Appointment of Monitoring Officer	143 - 144
15.	Governance Update Report	145 - 148
16.	Border to Coast Governance Review **(Exemption Paragraph 3)**	149 - 262
17.	Debt Write Offs **(Exemption Paragraph 3)**	263 - 266

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Agenda Item 7

SOUTH YORKSHIRE PENSIONS AUTHORITY

8 SEPTEMBER 2022

PRESENT: Councillor J Mounsey (Chair)

Councillors: S Clement-Jones, S Cox, A Dimond, D Fisher, M Havard, D Nevett, A Sangar, M Stowe and G Weatherall

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

Investment Advisors: T Castledine and A Devitt

Officers: J Bailey (Head of Pensions Administration), J Garrison (Corporate Manager - Governance), W Goddard (Financial Services Manager), G Graham (Director), G Richards (Governance Officer), S Smith (Head of Investments Strategy) and G Taberner (Head of Finance and Corporate Services)

R Elwell (Border to Coast Pensions Partnership Ltd)

Apologies for absence were received from Councillor R Bowser and Councillor B Curran

1 APOLOGIES

The Chair welcomed everyone to the meeting.

Apologies were noted as above.

2 ANNOUNCEMENTS

The Chair reminded members of the necessity to complete the Hymans Robertson Online Learning Academy modules in a timely manner, emphasising that some were overdue and therefore non-compliant with learning and development requirements.

He also reminded members of the scheduled sessions organised by the Governance Manager which could be attended either in person or virtually. If anyone needed support to complete the modules, J Garrison was happy to support members on site at the members convenience.

The Chair urged members to complete all 6 modules by Christmas at the very latest.

G Warwick, Chair of the Local Pension Board, agreed to pass the message on to members of the Local Pension Board.

Mr G Henshaw asked a question regarding the Authority's investments in South Yorkshire.

The question and response can be found in an appendix to the minutes.

3 URGENT ITEMS

The Director informed members that he had an update regarding a local development loan. This would be taken in the private part of the agenda.

It was noted that Cllr Cox may declare an interest in this item as a member of DMBC's Planning Committee.

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

RESOLVED – That item 15 'Annual Review of Border to Coast Pensions Partnership', item 16 'Independent Advisor's Appraisal' and the Urgent Item mentioned at 3 be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST

None.

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

Members were informed that, at its meeting in July, Sheffield CC had dealt with a question on climate and Net Zero investment and a petition on divestment.

Details can be found as an appendix to the minutes.

7 MINUTES OF THE ANNUAL AND ORDINARY MEETING HELD ON 9 JUNE 2022

RESOLVED – That the minutes of the Annual and Ordinary meeting held on 9th June 2022 be agreed as a true record.

8 MINUTES OF THE STAFFING, APPOINTMENTS AND APPEALS COMMITTEE HELD ON 26 JULY 2022

The Chair welcomed T Castledine, the Authority's recently appointed Independent Investment Advisor, to his first meeting.

T Castledine responded that he was looking forward to working with members for the next three years.

RESOLVED – That the minutes of the Staffing, Appointment and Appeals Committee held on 26th July 2022 be noted.

9 Q1 QUARTER PERFORMANCE REPORT

Members considered the Corporate Performance Report for Quarter 1, 2022/23.

Headlines included:

- Customer feedback remained positive.
- Despite market conditions, a strong funding level was being maintained.
- Costs, including pay pressure, being maintained within the budget
- Cyber security accreditation maintained.

- Small increase in sickness levels.
- Delays to a small number of Corporate Strategy projects which would need to be rephased.
- Administration performance stable but remained below target.

G Taberner informed members that the Team Manager – Programmes and Performance was now in post and would be focusing on performance reporting across the organisation.

Members were reminded that the budget for 2022/23 had been approved by the Authority at its February meeting. Since then, two changes had been made that required virements between budget heads.

The first concerned the TUPE transfer of the Governance Officer from BMBC, and secondly the costs for the management of the agricultural property portfolio being charged directly to the Fund rather than the Authority operating budget. Full details were contained within the report.

In answer to a question from Cllr Dimond regarding the government's consultation on the Task Force on Climate-Related Disclosure regulations, the Director replied that a decision had not yet been made on whether the Authority would respond. The proposed regulations contained nothing unexpected or controversial and the Authority was already virtually compliant.

RESOLVED – That members:

i) Note the report.

ii) Approve the budget virements set out in paragraphs 4.1 to 4.20 of the report.

10 TREASURY MANAGEMENT STRATEGY STATEMENT 2022/2023

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

a. The CIPFA Prudential Code of Practice (2021);
b. The CIPFA Treasury Management in Public Services Code of Practice and Cross-Sectoral Guidance Notes (2021);
c. MHCLG Statutory Guidance on Local Authority Investments (2018); and
d. MHCLG Statutory Guidance on Minimum Revenue Provision (2018).

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

The annual strategy report included:

a) The Treasury Management strategy, including treasury indicators.
b) An Investment Strategy.

c) To the extent that they applied in this Authority, capital plans, prudential indicators and minimum revenue provision policy statement.

RESOLVED – That members:

i) Approve the 2022/23 Treasury Management and Annual Investment Strategy.

ii) Approve the Treasury and Prudential Indicators for 2022/23.

iii) Approve the Minimum Revenue Provision statement as set out in the report.

11 ADVISOR'S MARKET COMMENTARY

A Devitt provided a market commentary on recent events.

Highlights since the last update included:

- Inflation continued to be at the forefront of newspaper headlines and central bank deliberations. Figures remained high globally but it continued to be difficult to understand which would stick and which was more temporary.

- Interest rates continued to rise – the Bank of England raised its rates to 1.75%, its sixth consecutive rate rise and the largest since 1985.

- Employment numbers looked increasingly precarious as job opening fell and hiring slowdowns and layoffs picked up.

- The winter energy surge was awaited. With energy caps expected to reach up to 3x their current levels and expectations for inflation in the UK reaching the teens this was the most critical barometer of consumer sentiment for the next few months,

The following would be watched in the coming months.

- What the winter would bring in terms of energy pricing and consumer sentiment.

- Default watch – with so many businesses still on the edge following Covid, the contraction in consumer spending could send some companies into default.

- Political and currency moves – both the Euro and the Pound had reached new lows in the past quarter and tis fragility could continue for the rest of the year bringing more imported inflation and economic weakness.

The Chair thanked A Devitt for an interesting and informative report.

12 Q1 INVESTMENT PERFORMANCE REPORT

S Smith presented the Quarter One Investment Performance report.

It was noted that after an extremely volatile quarter the Fund was valued at £10.1bn at 30 June 2022.

With regard to asset allocation, the overweight position to listed equity holdings had been reduced by funding an investment in Sterling Investment Grade Credit which reduced the underweight position.

There were now two categories that were outside their tactical range – private equity and index-linked gilts, details of which were contained within the report.

Changes in net investment for the categories were included in the report and showed that the Fund was being de-risked in line with the strategic benchmark.

For the quarter to the end of June, the Fund returned -5.1% against the expected benchmark of -5.7%.

The report also contained details of the performance of Border to Coast funds.

The UK Equity portfolio showed outperformance of its benchmark for the quarter as did the Overseas Developed Market portfolio. The Emerging Market outperformed by 0.3% during the quarter but was still behind the benchmark since inception.

Members discussed the positive and negative effects of inflation and the weak pound on the Fund.

The Chair thanked S Smith for the report.

RESOLVED – That the report be noted.

13 Q1 RESPONSIBLE INVESTMENT UPDATE

Members considered the Quarter 4 Responsible Investment update.

Highlights of the quarter to the end of June included:

- The casting of nearly 6,500 votes at close to 450 company meetings.
- A continued high level of engagement activity running at almost twice the level of the same quarter in 2021.
- Maintenance of high ESG ratings where they are available.
- The setting of the first round of targets towards Net Zero.
- A significant level of stakeholder engagement around various issues but particularly around human rights.

The report contained full details of voting activity, engagement activity, portfolio ESG performance, progress to Net Zero, stakeholder interaction and collaborative activity.

RESOLVED – That members note the activity undertaken in the quarter and endorse the initial targets for reducing carbon emissions from the listed asset portfolios.

14 DECISIONS TAKEN BETWEEN MEETINGS

A report was submitted to inform members of decisions taken as a matter of urgency between meetings of the Authority.

It was noted that two decisions had been required since the last meeting.

Firstly, Border to Coast had circulated a number of shareholder resolutions for approval at the forthcoming Annual Meeting of Shareholders.

Secondly, the Director had, under delegated powers, approved the use of a market supplement to assist in recruiting to a vacant Post in the Finance Team.

Full details of both decisions were contained within the report.

RESOLVED – That members note the decisions taken between meetings of the Authority using the appropriate urgency procedures.

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.

15 ANNUAL REVIEW OF BORDER TO COAST PENSIONS PARTNERSHIP

A report was considered which allowed members to review the performance of the Border to Coast Pensions Partnership and the Authority's arrangement for overseeing and engaging with the work of the Partnership.

Border to Coast's CEO, R Elwell, gave an update on performance, the transition to Net Zero by 2050 or sooner and the culture of Border to Coast.

The Chair thanked R Elwell for attending the meeting.

RESOLVED – That members:

i) Note and consider the views of the Independent Advisor Panel set out in Appendix A.

ii) Approve the recommended actions set out in Appendix A.

16 INDEPENDENT ADVISORS' APPRAISAL

A report was submitted which gave members the opportunity to appraise the performance of the arrangements in place for independent advice in relation to investment matters.

The report gave details of the key areas of focus for the advisors which had been identified previously along with officers' comments on each area.

RESOLVED – That members agreed that they were highly satisfied with the performance of the arrangements in place for independent advice in relation to investment matters.

At this point Cllr Cox left the meeting.

17 URGENT ITEM

The Director gave an update on a recently agreed local development loan.

RESOLVED – That members note the update.

CHAIR

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Delivering for our Customers – Corporate Performance Report

Quarter 2 2022/23

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 second quarter of the 2022/23 financial year. More detailed information on the performance of the Authority's investments and the pension administration service during the quarter are contained in other reports which are available on the Authority's website.

2. Headlines

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

Despite market conditions a strong funding level is being maintained

Costs, including pay pressure being maintained within budget

Review of risk register has provided assurance that mitigation actions are being effective, resulting in reduced current risk scores on some risks.

Customer feedback postive ratings have fallen below 90%

Increase in sickness levels

Delays to a small number of Corporate Strategy projects which will need to be rephased

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 2022-2025 was approved in January 2022 and reflects the continuing journey to build a stronger, more resilient organisation focussed on delivering for our customers and reflects what we have learnt from having to adapt the way in which we operate to the Covid-19 pandemic, and also the fact that we have not been able to make as much progress as we might like on some projects because of the prolonged period during which all of our staff had to work at home. Our strategy over the next three years focuses on delivering improvements to the way in which we do things in order to ultimately improve the service received by our customers and our overall efficiency.

3.3 The detailed objectives and plans have been divided into the following programmes of work.

a) Data – which focuses on a range of data related projects including the valuation and a number of statutory exercises such as GMP rectification and the implementation of the McCloud remedy.

b) Process Improvement – with a particular focus on getting the most out of our investment in technology including automating processes and improving reporting.

c) Investment – which focuses on activity to develop and refine the investment strategy to support the overall funding of the pension scheme.

d) Organisational Infrastructure – which focuses on all those things that make the business work.

3.4 The following tables provide updates in respect of developments that have taken place during the quarter in delivering these programmes of work.

3.5 Key to responsible manager abbreviations:

Dir	Director
HFCS	Head of Finance and Corporate Services
HIS	Head of Investment Strategy
HPA	Head of Pensions Administration
Gov	Corporate Manager – Governance
ICT	Corporate Manager – ICT and Digital
Ben	Team Manager – Benefits
Cus	Team Manager – Customer Services
Fin	Team Manager – Financial Services
INF	Team Manager – ICT Infrastructure
PM	Team Manager – Programmes and Performance
S&E	Team Manager – Support and Engagement
TA	Technical Adviser
G&R	Governance and Risk Officer

Ref	Project / Action	Timescale Start	Timescale Finish	Responsible Manager	Quarter 2 Progress Updates	On Track:
Data						
D01	**Complete Valuation 2022**	**Nov-21**	**Mar-23**	**Dir**		
	Data Submission	*Apr-22*	*May-22*	*TA*	Completed in Quarter 1.	✓
	Funding Strategy	*Nov-21*	*Mar-23*	*Dir / HPA*	Draft Funding Strategy Statement presented to the November Local Pension Board prior to formal consultation with all employers.	✓
D02	**Guaranteed Minimum Pension – Completion of Rectification process**	Nov-21	Apr-23	HPA	As reported in the previous quarter, the target completion date for this objective has been revised to April 2023 to coincide with implementation of the 2023 cost of living increase, it is considered that this could reduce the perception of financial impact on members.	⇔
Process Improvement						
P01	**Implement contractual improvements to the Core UPM Pension Administration System**	**Feb-22**	**Mar-25**	**HPA**		
	Review and updating of processes	*Apr-22*	*Mar-24*	*Ben / Sys*	The 'Death in Retirement' process has been rebuilt and rolled out with updated requirements for co-habiting partner pensions.	✓
	Implement dynamic homepage and improve the log in / sign up process for mypension	*Apr-22*	*Mar-23*	*ICT*	Dynamic homepage utilised for Deferred Annual Benefit Statements.	✓

Ref	Project / Action	Timescale Start	Timescale Finish	Responsible Manager	Quarter 2 Progress Updates	On Track:
P04	**Financial Process Improvements**	**Apr-22**	**Mar-24**	**HFCS**		
	Review of processes following implementation of new financial systems to capture benefits	*Apr-22*	*Mar-23*	*HFCS / Fin*	This will be an on-going process of continual improvement and evolution. During this quarter, training has been undertaken in relation to user administration and the use of a new eProcurement module that will be implemented during a subsequent quarter to enable a more streamlined, user-friendly and well controlled process for purchase ordering across the organisation.	✓
Investment						
I01	**Strategic Issues**	**Apr-22**	**Mar-25**	**Dir**		⇔
	Conduct an Investment Strategy review following the 2022 Valuation and update the Investment Strategy Statement	*Apr-22*	*Mar-23*	*HIS*	Consultant has begun work and a project plan is in place.	✓
	Address systemic risks to the fund's investments resulting from climate change through progressing annual updates to the Net Zero action plan.	*Mar-22*	*Mar-25*	*Dir*	Net Zero has been factored into the Strategy Review brief and a steer as to future policy direction has been provided for inclusion in annual revision of policies.	⇔
	Implement new requirements related to TCFD Reporting	*Apr-22*	*Ongoing*	*Dir / HIS*	Discussions are ongoing with Border to Coast around the provision of data through a single contract with their provider. Scenario analysis has been built into both the investment strategy review and valuation processes.	⇔

Ref	Project / Action	Timescale		Responsible Manager	Quarter 2 Progress Updates	On Track:
		Start	Finish			
I02	**Tactical and Transactional Issues –**	**Apr-22**	**Ongoing**	**HIS**		
	Implement revisions to the Strategic Asset allocation	*Apr-22*	*Ongoing*	*HIS*	Ongoing rebalancing being undertaken to address both cash requirements and the impact of individual portfolio performance.	✓
	Determine the approach to the Border to Coast property proposition and transition assets as necessary	*Mar-22*	*Dec-24*	*Dir / HIS*	Global proposition is now in the pre-launch phase. However, further work and debate with Members is likely to be required for the UK proposition.	⇔
	Conclude Project Chip	*Sep-21*	*Sep-22*	*Dir*	Progress continues with both the due diligence process and the work on legal structuring, with tax advisers now appointed and working on the details. Completion now targeted prior to March 2023.	⇔
	Review legacy portfolios and determine the ultimate exit routes in each case	*Apr-22*	*Dec-22*	*HIS*	No progress so far due to other priorities and this is a lower priority piece of work.	✗
	Continue to develop stewardship reporting in response to regulatory feedback	*Apr-22*	*Ongoing*	*HIS*	Separate Stewardship Code report submitted to the FCA following external review (and available on the website). FRC response expected in Feb or March 2023.	✓
Organisation						
O01	**Governance –**	**Dec-21**	**Mar-25**	**HFCS**		
	Implement new statutory officer arrangements and internalise committee and member support activity	*Apr-22*	*Mar-23*	*Dir / HFCS*	Arrangements in relation to the Monitoring Officer will now change from Jan 2023 as a result of changes at BMBC. Other activities are progressing in line with the plan.	✓

Ref	Project / Action	Timescale		Responsible Manager	Quarter 2 Progress Updates	On Track:
		Start	Finish			
O02	**People –**	**Jan-22**	**Ongoing**	**SMT / HR**		
	Address currently identified recruitment and retention risks	*Jan-22*	*Dec-22*	*Dir / HR*	During this quarter a consultant has been appointed to undertake the Pay and Benefits review, the review itself will take place during quarter 3 with a target of reporting to management in mid-December. Overall review of Organisational Resilience and Sustainability approved by Staffing Committee in October.	✓
O03	**ICT –**	**Jun-21**	**Mar-25**	**ICT**		
	Complete the roll out of Microsoft 365 tools and the migration to 365 infrastructure	*Jun-21*	*Sep-22*	*ICT*	MS Teams telephony business case developed; deployment of additional Microsoft 365 apps for relevant users (including Visio, MS Project, and Planner).	✓
	Implement the updated corporate website	*Nov-21*	*Ongoing*	*ICT*	Website updated to include frequently searched items and promote the retire online process. Self-help videos added.	✓
O04	**Project and Programme Management**	**Jun-22**	**Mar-23**	**Dir / HPA**		
	Determine a stripped down and appropriately scaled programme and project management process	*Jun-22*	*Mar-23*	*PM*	Work has started in specific pilot areas.	✓
	Initiate a clearly defined process for prioritising and agreeing development and other system change requests	*Jun-22*	*Mar-23*	*HPA*	Initial meeting of a new group to provide oversight in this area has taken place.	⇔

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 July to September quarter is as follows.

Measure	Performance				
Days Lost Per FTE	Quarter 2 2022/23	Quarter 1 2022/23	YTD 2022/23	Prior Year: Q2 of 2021/22	Movement Year on Year
Short Term Sickness Absence	1.24	0.73	1.97	0.68	⬆
Long Term Sickness Absence	2.05	0.70	2.75	2.53	⬆
Total Days Lost per FTE	**3.29**	**1.43**	**4.72**	**3.21**	⬆

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, there has been a significant increase in short term sickness absence from the previous quarter, this included twelve employees with a total of 73 days of absence because of contracting COVID-19 – the majority of these occurred in July which saw a 'spike' in the virus.

4.5 There has also been an increase in long term sickness absence due to three additional employees commencing long term absence during this quarter.

4.6 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. Occupational health services are provided by Barnsley MBC and referrals for this service are made as appropriate for individuals, for example, providing assessment reports to advise managers in supporting return to work following long-term absence, and access to additional resources such as counselling for employees. The usage of these services is also monitored and reported quarterly to SMT.

4.7 The Authority's Health, Safety and Wellbeing Committee continue to promote a range of initiatives to help support staff with their wellbeing.

Investment Measures

4.8 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 2 2022/23	Quarterly Benchmark	Performance YTD 2022/23	2022/23 Benchmark	2022/23 Actuarial Target	RAG Indicator
Investment Return – Whole Fund	-1.10%	-2.50%	-6.10%	-8.10%	2.51%	

4.9 All markets were weak as Central banks confirmed their commitment to fighting inflation and the Federal Reserve, the ECB and the Bank of England all raised rates over the quarter.

4.10 The total Fund value at 30 September 2022 was £9.9 billion.

4.11 The Funding Level at 30 September 2022 is estimated at 154% but it is important to note that the level is significantly impacted by the spike in interest rates on government bonds at this time. These form a key part of the valuation of liabilities and the spike caused a significant decline in the value of liabilities at the end of this quarter. Interest rates have subsequently come back to more normal levels generating a funding level at least in line with that at the valuation date at the end of March or slightly better.

4.12 At the end of the quarter, 67.9% of the Fund's assets were being managed in pooled structures provided by Border to Coast.

Pension Administration Measures

4.14 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 2 2022/23	Quarter 1 2022/23	YTD 2022/23	Previous Year: 2021/22	Target 2022/23	Movement Year on Year
Proportion of priority cases processed on time	82%	82%	82%	85%	100%	⟺
Proportion of non-priority cases processed on time	65%	71%	68%	73%	100%	↓
Proportion of all cases processed on time	67%	72%	70%	74%	100%	↓
Proportion of employer data submissions on time	c. 95%	99%	97%	99%	100%	↓

4.15 There has been a drop in non-priority case completion times which mainly reflects the backlog of aggregations and "early" leavers being processed late. This is an existing backlog situation which was paused during the Annual Statement production and for which overtime is being offered on a limited basis from December to supplement the Project team.

4.16 The proportion of employer data submissions on time has reduced from previously reported figures. Resourcing issues with a couple of payroll providers who provide services for multiple employers have caused some delays. These providers are being supported by our Engagement team and will be escalated if required.

4.17 At the end of the quarter, membership of the Fund stood at 171,648.

4.18 Seven new employers were admitted to the scheme, and no terminations were completed during the quarter.

4.19 There were 555 participating employers with active members at 30 September 2022.

Financial Measures

2022/23 Q2 Forecast Outturn

4.20 The quarter 2 forecast expenditure and variance against the revised budget is as follows. Details of the significant variances are shown beneath the table.

South Yorkshire Pensions Authority Operational Budget	2021/22 Actuals £	2022/23 Revised Budget £	2022/23 Q2 Forecast £	2022/23 Q2 Forecast Variance £	2022/23 Q2 Forecast Variance %
Pensions Administration	2,500,610	2,717,850	2,650,010	(67,840)	(2.50%)
Investment Strategy	565,090	537,340	539,670	2,330	0.40%
Finance & Corporate Services	772,420	858,800	879,220	20,420	2.40%
ICT	635,850	738,710	704,760	(33,950)	(4.60%)
Management & Corporate	423,050	906,570	772,810	(133,760)	(14.80%)
Democratic Representation	124,020	137,090	137,880	790	0.60%
Subtotal - Cost of Services	**5,021,040**	**5,896,360**	**5,684,350**	**(212,010)**	**(3.60%)**
Capital Expenditure Charge to Revenue	1,546,930	0	64,340	64,340	100.00%
Subtotal before transfers to reserves	**6,567,970**	**5,896,360**	**5,748,690**	**(147,670)**	**(2.50%)**
Appropriations to / (from) Reserves	(1,122,370)	(66,360)	(40,850)	25,510	(38.40%)
Total	**5,445,600**	**5,830,000**	**5,707,840**	**(122,160)**	**(2.10%)**

4.21 The forecast outturn for the year before transfers from reserves is an under-spend of (£148k) compared to the forecast underspend of (£211k) at the end of the previous quarter.

2022/23 Corporate Contingency Budget and Local Government Pay Award

4.22 After the proposed transfers from reserves for the year, an under-spend of (£122k) is currently forecast. This amount relates to the balance remaining so far unallocated on the corporate contingency budget that was included this year (within the 'Management & Corporate' budget line) for the purpose of meeting the costs associated with the 2022/23 pay award, outcomes of the pay and benefits review, and also any costs arising in this year from the recommendations to be made by the Director regarding creating a resilient organisation for the future.

4.23 The pay award for 2022/23 was agreed by the National Joint Council (NJC) in November at an amount of £1,925 on all NJC pay points with effect from 1 April 2022.

This has been built into the employee costs forecast for this year and is included in the forecast expenditure within each of the service areas shown in the table above.

4.24 The additional cost arising from this is approximately £219k, equivalent to 5.7% of the budget for employee pay and on-costs. However, as a result of taking longer than planned to recruit to a number of new posts that were included in the budget this year and impact of staff turnover, on current projections, it is anticipated that the costs relating to the pay award – if agreed at the level that has been offered – can be met from the existing pay budgets without having to use any of the corporate contingency budget for this purpose.

4.25 The approved Corporate Strategy and HR Strategy for this year included an objective to commission an independent review of the Authority's pay and benefits structure. This review is currently in progress and expected to report with recommendations in December 2022. At this stage, it is not possible to estimate the value of any additional costs that might arise from this piece of work. Should any such costs fall into 2022/23, these will be met from the corporate contingency budget.

4.26 In addition, the Director presented a set of recommendations regarding building organisational resilience for the medium term and ensuring appropriate succession planning and these were approved by the Staffing, Appointments and Appeals Committee in October 2022. This resulted in the approval of a number of new roles to be established and recruited over a three-year period, with some of these to be recruited during 2022/23 if possible. An estimated £66k additional cost for 2022/23 has therefore been built into the forecast for Management and Corporate in the table above, to be met from the corporate contingency budget, leaving a balance of £122k on this contingency yet to be allocated.

2022/23 Forecast and Explanation of Variances

4.27 The significant variances against budget for each of the service areas are explained below.

4.28 <u>Pensions Administration – Forecast Under-Spend (£68k):</u>

4.29 The employee costs budget included a full year budget for some posts due to be recruited, including a Communications Officer, an additional benefits team Senior Practitioner and 3 FTE Pensions Officers. These posts took longer than planned to recruit, resulting in vacant posts for several months and an under-spend of (£107k) arising from this.

4.30 There has also been some turnover in staffing this year, resulting in a forecast under-spend of (£28k).

4.31 The forecast additional cost for this service area of applying a pay award as detailed in paragraph 4.24, is £111k. This is more than offset by the under-spends above, resulting in a forecast net under-spend on staffing costs of (£24k).

4.32 Costs relating to travel expenses, hotel accommodation etc. are forecast to be (£11k) under budget, reflecting the continued move towards greater use of virtual and remote, online approach for conferences, courses, meetings etc. These budget lines will be reviewed and revised downwards as appropriate when setting next year's budget.

4.33 The training budget is currently forecast to be (£11k) under-spent, based on projecting from previous year actuals, but this will be kept under review with greater encouragement and support for training being provided.

4.34 The rates we are charged for ill health reports have been reviewed and uplifted this year after a number of years without an increase; this has resulted in a forecast over-spend of around £10k on this budget line – the new rates will be built into the budget setting for next year.

4.35 An under-spend of (£28k) is currently forecast on legal, consultancy and corporate subscriptions fees based on the expected activity and requirements for this year.

4.36 <u>Investment Strategy – Forecast Over-Spend £3k:</u>

4.37 The forecast additional cost for this service area of applying a pay award as detailed in paragraph 4.24, is £13k.

4.38 An under-spend of (£2k) is forecast on indirect employee costs relating to travel, training, etc.

4.39 The budget for actuarial and consultancy fees is forecast to be (£8k) under budget for the year, primarily due to the change in charging structure arising from the change in actuary which has meant that fees for dashboard access for funding level forecasting are not charged separately but are instead covered within the main costs for the contract, which are charged to the Pensions Administration budget.

4.40 <u>Finance & Corporate Services – Forecast Over-Spend £20k:</u>

4.41 There is a total net over-spend of £12k forecast on staffing costs which comprises the following items:

a) The forecast additional cost for this service area of applying a pay award as detailed in paragraph 4.24, is £40k.

b) The Authority approved an addition of 1 FTE Senior Finance Officer to the establishment at their March 2022 meeting, after the budget for the year was set. The additional cost for this is £38k.

c) The employee costs budget includes two FTE business support officers. However, following one of these officers being promoted internally, it was decided not to fill the resulting vacancy currently as there was no longer a need for this resource at this level in the team. The second business support officer left in July 2022 and the first attempt at recruitment to this post was unsuccessful so we have decided to keep this vacancy on hold for the time being. There is therefore an under-spend of (£45k) forecast relating to these two posts.

d) There is also a net under-spend of (£21k) forecast on staffing costs in this service area relating to turnover and in particular, delays arising from the difficulty in recruiting to the Finance Team Leader post – which was planned for being in post from May 2022 but in practice took three attempts to recruit successfully and therefore only started in post from September 2022.

4.42 An additional £6k costs are forecast on recruitment due to having required the services of a specialist agency for the Finance Team Leader recruitment. An over-spend of £2k is forecast on the budget for corporate subscriptions which is due to having joined additional CIPFA networks during the year to provide us with access to expert resources and support for a range of activity including Governance, Insurance, and Procurement, as well as discounted prices for training courses run by these networks.

4.43 <u>ICT – Forecast Under-Spend (£34k):</u>

4.44 The forecast additional cost for this service area of applying a pay award as detailed in paragraph 4.24, is £14k.

4.45 There is an under-spend of (£9k) on staffing costs forecast relating to the budget for an apprentice, which is now not going to be used.

4.46 The training budget is forecast to under-spend by (£3k) based on projecting from previous year actuals, but this will be kept under review with greater encouragement and support for training being provided.

4.47 At this stage in the year, a net under-spend of (£36k) is forecast on the budgets for various software systems, and wider IT infrastructure. This includes an under-spend for the pensions administration software system, UPM, where we had budgeted for some potential costs for new developments to the system that are now not likely to be delivered in this year.

4.48 Management and Corporate – Forecast Under-Spend (£134k):

4.49 The corporate contingency budget, as outlined in paragraph 4.26 above, is currently included in the forecast as (£122k) under-spend but this will be reviewed and updated once further details are known regarding the outcomes of the pay and benefits review.

4.50 The forecast additional cost for this service area of applying a pay award as detailed in paragraph 4.24, is £7k.

4.51 The budgets for the new posts of Team Manager – Programmes and Performance and Programmes and Performance Officer are forecast to be under-spent by (£37k) as a result of the time taken to recruit to these posts. The manager post was filled from August 2022 and the officer post from October 2022.

4.52 Accounting standards require us to allocate our lease rental costs for the office building on a straight-line basis over the life of the lease rather than simply charging the annual lease rent paid in year – which in these early years of the lease is at a reduced amount. The cost of this accounting adjustment was omitted when setting the budget so there is a forecast over-spend of £41k for this in year- however this will be met from earmarked reserves.

4.53 The corporate training budget is now being more actively used with various training programmes, LinkedIn Learning, and centrally organised courses going ahead. However, there is an under-spend forecast of (£23k) on this budget for this financial year.

4.54 Capital Expenditure – Forecast Over-Spend £64k:

4.55 The over-spend against the budget for capital expenditure in 2022/23 is really just a timing difference in works being completed. Members may recall that the outturn position for the 2021/22 year included an under-spend on capital expenditure that was due to delays arising from global supply chain issues which meant that the final stage of the AV installation works at Oakwell House could not be completed until May 2022. The cost of this in 2022/23 is £34k, and there is a further £30k relating to some final outstanding pieces of work completed in the first half of this year by the main contractor for the office works. The majority of this spend relates to the installation of fire-safety rated glazing in the windows closest to the fire escape, which was a safety requirement.

Earmarked Reserves

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

4.57 The table below shows the forecast transfers to and from the reserves in 2022/23.

4.58 The planned transfers into and out of the Corporate Strategy reserve are to meet costs associated with areas such as the investment strategy review, which is undertaken every three years based on the triennial valuation, the lease rent accounting adjustment, providing for the costs of the retentions scheme this year, and setting aside funds from under-spends that will be allocated to costs of delivering corporate strategy plans in future.

4.59 The ICT reserve transfers relate to setting aside the income from software sales and funding the costs of developments on areas such as the pensions administration software system.

4.60 The transfer into the Capital Projects reserve is to set aside funds for the hardware replacement programme, and the transfer out of this reserve is to finance the capital expenditure incurred this year.

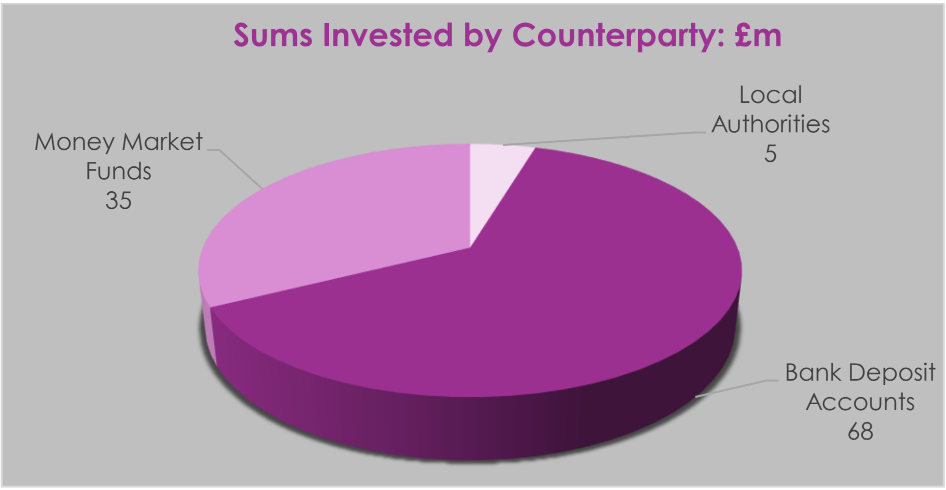
4.61 The result of the above is a net total transfer from reserves of £40,850.

Reserves	Balance at 01/04/2022 £	Transfers In £	Transfers Out £	Forecast Balance at 31/03/2023 £
Corporate Strategy Reserve	143,840	101,510	(99,220)	146,130
ICT Reserve	205,950	12,860	(27,000)	191,810
Subtotal: Revenue Reserves	**349,790**	**114,370**	**(126,220)**	**337,940**
Capital Projects Reserve	139,110	35,000	(64,000)	110,110
Total Reserves	**488,900**	**149,370**	**(190,220)**	**448,050**
Net Total Transfer		**(40,850)**		

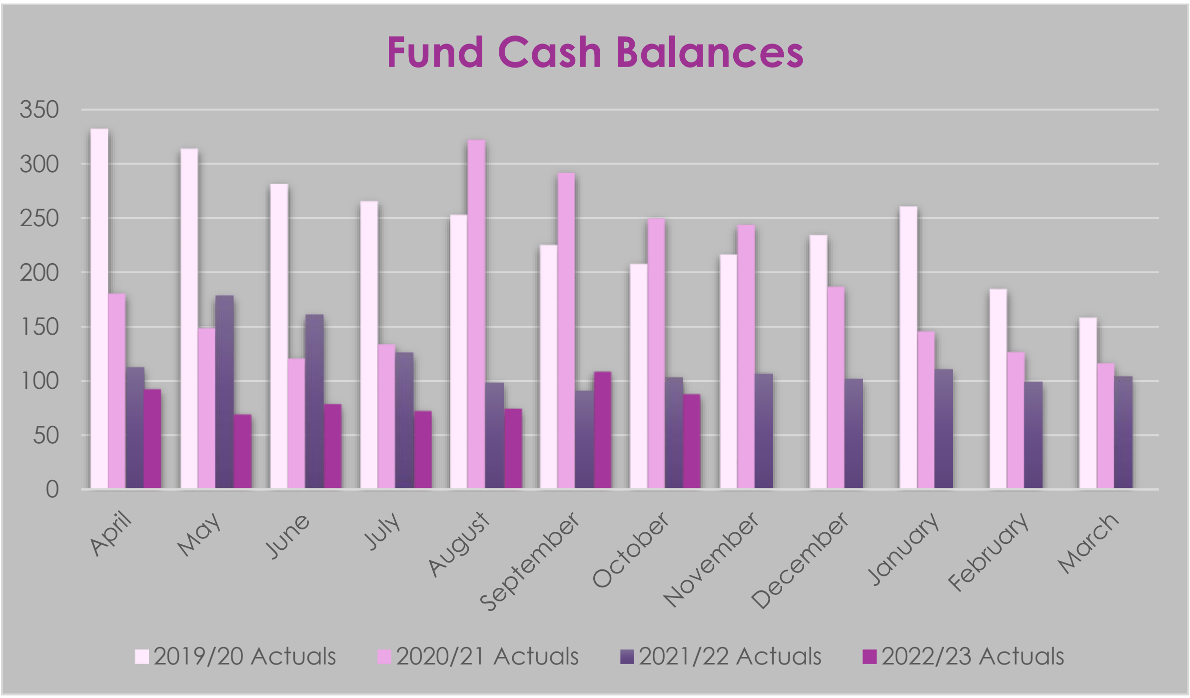
4.62 The forecast balance of the revenue reserves following the transfers proposed for the year, is £338k in total which equates to 5.8% of the Authority's total revenue budget, well within the 7.5% limit we set for ourselves in the Medium-Term Financial Strategy.

Treasury Management

4.63 The Fund's cash balances at 30 September 2022 stood at £108.1 million. The chart below shows how the balances have been invested with different counterparties in line with the approved treasury management strategy for the year.



4.64 The following chart shows the movement in cash balances held for the current year to date and the previous three financial years.



4.65 Cash is only held pending Fund investment and the balance of cash at the end of the quarter represents 1.09% of the Fund, compared with 0.78% at 30 June 2022.

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. A full review was undertaken in November 2022. There following changes were made to risk scores from this review.

5.3 Risk G3 – Breakdown of the control environment.

Current risk score reduced from 8 to 6. Internal audit work in the year and other sources of assurance such as the actuary's review of valuation data, indicate that any potential control failure is unlikely to fundamentally destabilise the organisation. This justifies a reduction in Impact from high to medium.

5.4 Risk G4 – Weak or ineffective project management arrangements.

Current risk score reduced from 16 to 12. The Corporate Strategy has a target date of March 2023 to "Determine a stripped down and appropriately scaled project management process.” The Programmes and Performance Team are currently working on this objective. A tracker for all corporate projects has been compiled and, in addition, the Projects and Performance officer is conducting a mapping exercise of projects, either planned or underway, being undertaken across all teams. Progress against plans will be monitored and the Team Manager - Programmes and Performance will be reporting on this quarterly to SMT. The progress already made in this area warrants the reduction in the risk score.

5.5 Risk I1 – Material changes to investment assets / liabilities due to major market movements.

Current risk score reduced from 15 to 12. Markets remain uncertain and while movement in gilt yields may have a positive impact on liabilities, there remains very considerable downside risk to asset values. The resilience of the fund to recent market events makes it reasonable to reduce the potential impact of significant market fluctuations. In view of this the impact score has been reduced from very high to high.

5.6 Risk I4 – Imbalance in cashflows.

Current risk score reduced from 10 to 5. This risk is now at an even level. Processes are in place for monitoring cashflow, and this is now considered stable, with all mitigations implemented and no further actions that can be put in place. The probability is now very low and the risk score reduced to the target of 5. The risk will however remain on the register as the position can fluctuate.

5.7 The commentary provided on the register attached at Appendix A provides further details regarding each risk, the various mitigation measures in place currently and the progress being made towards the target of reducing the risk scores where possible.

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 Q2 2022/23	Received in Q1 2022/23	Received YTD 2022/23	Received in Previous Year: Full Year 2021/22
Complaints	4	7	11	24
Appeals Stage 1	1	1	2	4
Appeals Stage 2	2	2	4	4

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

6.3 There has been a reduction in overall complaints from the previous quarter, and only two of the four received was attributable to SYPA. One was from a member who was unhappy with the delay in processing his aggregation – this is a known issue that is being dealt with as a backlog project. The second was a retirement delay which was caused by an incorrect workflow set-up – the training issue with the individual member of staff has been addressed.

6.4 Three Stage 1 Appeals were determined during the quarter. All three were awarded compensation, though were not fully upheld. The first was a member who had incorrectly been provided with a transfer value quotation when they were not eligible due to their age. The other two cases were retirements where they had been overquoted estimates of their benefits due to incorrect information provided – one was information from the employer and the other was relating to working hours which had not been updated in a timely manner by SYPA.

6.5 There were no Stage 2 Appeals determined in this quarter.

Breaches of Law and Regulation

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

6.7 There was one breach recorded in the quarter. This breach occurred because the Authority's external post box had been broken into and members' correspondence tampered with. The breach was reported to the Information Commissioner's Office (ICO) and the police, and all members known to be impacted have been contacted.

Satisfaction Surveys

6.8 A customer centre survey found that 89% of the 480 respondents were satisfied with the service they received.

6.9 A survey of members retiring during May to July 2022 showed that of the 105 respondents, 89% were satisfied with the service they received.

6.10 The results of the satisfaction surveys have been the subject of a more detailed report to the Local Pension Board, including actions being taken, and this was discussed at the Board's November meeting.

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Appendix A

South Yorkshire Pensions Authority Risk Register As At 16 November 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

IMPACT	1 Very Low	2 Low	3 Medium	4 High	5 Very High
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

PROBABILITY

Risk Score

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

Risk scores changed since last review:

Risk No	Risk Type	Risk Title	Prev Score	New Score	Risk Change at Review
G3	Governance	Breakdown of the control environment	8	6	
G4	Governance	Weak or ineffective project management arrangements	16	12	
I1	Investment and Funding	Material changes to the value of investment assets and/or liabilities due to major market movements	15	12	
I4	Investment and Funding	Imbalance in cashflows	10	5	

SOUTH YORKSHIRE PENSIONS AUTHORITY RISK REGISTER

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Risk Change at Review	Last Review Date
G1	Governance	Failure of members of the Authority to maintain adequate levels of knowledge and understanding	Poor decision making not supported by appropriate advice. Regulatory criticism/action Insufficient challenge being provided to officers	Corporate Manager - Governance	Member Learning and Development Strategy and associated mandatory requirements. Provision of on-line learning resources and knowledge assessment tools. Provision of internal seminars programme. Support for attendance at appropriate external events. Additional support to complete knowledge assessments for all members. Examination of additional bite size learning options.	12	P=M I=H	6	P=L I=M	Provide further internal seminars and examine options for more individualised "tuition". Members to have completed the majority of mandatory training required by December 2022. ***Comment 16/11/2022 :*** *Significant progress made against members mandatory training. 7/12 Authority members and 5/10 Local Pension Board members have completed all six modules.* *Remaining module training is scheduled for 10/11/2022 and 06/12/2022 to ensure all modules completed and full compliance achieved by 16/12/2022.* *Further training has been delivered in the following areas: Risk,Investments, Actuarial Matters/Valuations and Climate Change* *Additional activity will commence in January 2023 to develop individual performance and learning plans for members to identify bespoke training requirements.* *At this stage there is no justification for any change in risk score however once all members are compliant this will be reviewed.*		16/11/2022
G2	Governance	Failure of members of the Local Pension Board to maintain adequate levels of knowledge and understanding	Poor decision making not supported by appropriate advice. Regulatory criticism/action. Insufficient challenge being provided to officers.	Corporate Manager - Governance	Member Learning and Development Strategy and associated mandatory requirements. Provision of on line learning resources and knowledge assessment tools. Provision of internal seminars programme. Support for attendance at appropriate external events. Additional support from the Board's Independent Adviser	9	P=M I=M	6	P=L I=M	Additional support to complete knowledge assessments for all members Examination of additional bite size learning options Provide further internal seminars and examine options for more individualised "tuition". ***Comment 16/11/2022:*** ***Si** gnificant progress made against members mandatory training. 7/12 Authority members and 5/10 Local Pension Board members have completed all six modules.* *Remaining module training is scheduled for 10/11/2022 and 06/12/2022 to ensure all modules completed and full compliance achieved by 16/12/2022.* *Further training has been delivered in the following areas: Risk,Investments, Actuarial Matters/Valuations and Climate Change* *Additional activity will commence in January 2023 to develop individual performance and learning plans for members to identify bespoke training requirements.* *At this stage there is no justification for any change in risk score however once all members are compliant this will be reviewed.*		16/11/2022
G3	Governance	Breakdown of the control environment	Exposure to the risk of loss due to fraud or error. Critical external audit reports leading to regulatory action.	Head of Finance and Corporate Services	Documented internal controls. Senior Management review of controls to provide assurance as part of the process for developing the Annual Governance Statement. Effective Internal Audit service to provide assurance to management in relation to the control framework. Ongoing replacement of aging systems which require manual controls with more modern systems which allow controls to be automated	6	P=L I=M	4	P=L I=L	Completion of system replacement and upgrade programmes. Extension of management assurance process to Team Managers. Adoption of Governance Assurance Framework suggested by Internal Audit ***Comment 16/11/2022:*** *Internal audit work in the year and other sources of assurance such as the actuary's review of valuation data indicate that any potential control failure is unlikely to fundamentally destabilise the organisation.* *This justifies a reduction in Impact from high to medium with a revised risk score of 6 down from 8.*		16/11/2022

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Risk Change at Review	Last Review Date
G4	Governance	Weak or ineffective project management arrangements	Failure to deliver key projects included within the Corporate Strategy	Director	Some project management training delivered for key staff. Limited project management support. Appointed to redefined role of Project / Programme Manager.	**12**	P=M I=H	**6**	P=L I=M	Provide all managers responsible for leading and delivering projects with a standard toolkit to follow to ensure consistent planning and delivery. Institute a more formal and documented process of reporting on the progress of projects. ***Comment 16/11/2022:*** *The Corporate Strategy has a target date of Mar 23 to "Determine a stripped down and appropriately scaled project management process" The Programmes and Performance Team are currently working on this.* *A tracker for all corporate projects has been compiled and, in addition, the Projects and Performance officer is conducting a mapping exercise of projects, either planned or underway, being undertaken across all teams. Progress against plans will be monitored and the Team Manager - Programmes and Performance will be reporting on this quarterly to SMT.* *The progress already made in this area has resulted in the risk score reducing to 12.*	↓	16/11/2022
I1	Investment and Funding	Material changes to the value of investment assets and/or liabilities due to major market movements	Sharp and sudden movements in the overall funding level	Head of Investment Strategy	Investment Strategy focussed on relatively lower risk and less volatile investments. Element of inflation protection built into the asset allocation both through specific assets (such as index linked gilts) and proxies such as property and infrastructure.	**12**	P=M I=H	**9**	P=M I=M	Ability to implement protection strategies if market circumstances indicate they are appropriate. ***Comment 16/11/2022:*** *Markets remain uncertain and while movement in gilt yields may have a positive impact on liabilities, there remains very considerable downside risk to asset values* *The resilience of the fund to recent market events makes it reasonable to reduce the potential impact of significant market fluctuations. In view of this the impact score has been reduced from very high to high.*	↓	16/11/2022
I2	Investment and Funding	Failure to mitigate the impact of climate change on the value of the Fund's investment assets and liabilities	Significant deterioration in the funding level	Director	Climate Change Policies and Net Zero Goals adopted by both the Authority and Border to Coast. Asset allocation tilted to favour more climate positive investments. Reporting in line with the requirements of TCFD and regular monitoring of the level of emissions from portfolios, with outline targets for reductions. Work commenced to provide more comprehensive data on private market investments.	**20**	P=H I=VH	**12**	P=H I=M	Review of Investment Strategy following the 2022 Valuation to integrate the achievement of Net Zero within the Strategic Asset Allocation. Clear targets for emission reduction to be set for all portfolios. Additional engagement with Border to Coast to identify potentially climate positive investments. Analysis of end of year climate data to gain a detailed understanding of the current emissions trajectory. ***Comment 16/11/2022:*** *There remains no basis for adjusting this score down however, in line with the last update, in the last quarter targets for the main listed portfolio have been set and the latest estimated trajectory for the achievement of net zero in these indicates a date of around 2045. Whilst not in line with the 2030 goal this does represent an improvement on our previous position.*		16/11/2022
I3	Investment and Funding	Failure to manage the key risks identified in the Border to Coast Strategic Plan	Decline in investment performance. Increased costs as a result of the need to move to more expensive products. Potential changes in the risk and volatility levels within the portfolio	Director	Process of engagement between the Company and stakeholders to agree the Company's Strategic Plan and Budget containing appropriate mitigations. Succession and contingency planning arrangements in place within the Company Programme of specific risk mitigations agreed as part of the 2022 - 2025 Strategic Plan and Budget	**9**	P=M I=M	**6**	P=L I=M	Ongoing monitoring of Programme of specific risk mitigations set out in 2022 - 2025 strategic plan. ***Comment 16/11/2022:*** *Further proposals are to be considered by shareholders over the period up to February when the next version of strategic plan is to be approved. There continues to be evidence that the mitigations already put in place are having some positive impact however there is no justification for a reduction in the risk score at this stage.*		16/11/2022
I4	Investment and Funding	Imbalance in cashflows	Inability to pay pensions without resorting to borrowing or "fire sale" liquidation of investments. Potential negative impacts on individual pensioners.	Head of Investment Strategy	Maintenance of "cash buffer" of liquidity sufficient to cover more than one monthly payroll. Process for monitoring and forecasting cashflows	**5**	P=VL I=VH	**5**	P=VL I=VH	Further improvements in cashflow forecasting,. Implementation of strategies to more regularly harvest income from investments. ***Comment 16/11/2022:*** *This risk is now at an even level. Processes are in place for monitoring cashflow and this is now considered stable, with all mitigations implemented and no further actions that can be put in place.* *The probability is now very low and the risk score reduced to the target of 5. The risk will however remain on the register as the position can fluctuate.*	↓	16/11/2022

Risk No	Risk Type	Risk Title	Risk Consequences	Risk Owner	Existing Control Measures	Current Score	Probability & Impact	Target Score	Probability & Impact	Risk Mitigation Action	Risk Change at Review	Last Review Date
I5	Investment and Funding	Affordability of contributions	Negative impact on employer financial viability. Default on the making of contributions by employers.	Director	Investment strategy focussed on less volatile investments. Focus in the valuation process on delivering longer term stability in contribution rates. Retention of elements of any surplus to manage the risks to contribution stability.	9	P=M I=M	6	P=M I=L	Adjustments to balance of the investment strategy between growth and protection according to market circumstances ***Comment 16/11/2022:*** There is no *justification for reduction of the risk score at this stage. The triennial valuation results will be issued to employers in November and could potentially give affordability issues, primarily for the academy sector.*		16/11/2022
O1	Operational	Failure to maintain effective cyber defences	Significant disruption to the provision of services. Loss / unauthorised release of key data.	Corporate Manager - ICT & Digital	Regularly updated firewalls and other protections. Regular refresher training on cyber security for all staff with a requirement to achieve a minimum level of pass. Regular penetration testing. Cyber Security Essentials Plus Certification	16	P=H I=H	12	P=M I=H	Additional testing of disaster recovery arrangements ***Comment 16/11/2022:*** *There is no justification for reduction in the risk score at this stage however additional measures have been taken in relation to phishing.* *A phishing protection review was undertaken in October 2022 and following this a new phishing attack prevention solution is to implemented in December 2022*		16/11/2022
O2	Operational	Impact of poor data quality on operational project delivery	Failure to deliver key projects such as McCloud rectification on time. Provision of inaccurate information to members such as Annual Benefit Statements. Inaccurate data impacting the valuation of liabilities during the triennial valuation.	Head of Pensions Administration	Ongoing data improvement plan. Projects Team put in place to resource specific exercises to address data improvement. Implementation of front end validation of employer data submissions.	12	P=M I=H	6	P=M I=L	Additional actuarial validation checks undertaken on an ongoing basis ***Comment 16/11/2022:*** *The valuation and annual benefits statement projects have been completed but data issues linked to the system provider remain. An overriding review of system provision will be completed in February 2022.* *There is no justification for a change in risk score at this stage.*		16/11/2022
O3	Operational	Data Protection and GDPR	Unauthorised release of personal data. Action by the Information Commissioner.	Head of Pensions Administration	Review process built into processes involving the release of information. Secure e-mail facility used where personal information involved. Mandatory staff training in relation to data protection issues repeated on a regular basis. Regular internal audit work to review and test controls.	12	P=M I=H	6	P=M I=L	Increase in the volume of member correspondence managed through the member portal **Comment 16/11/2022:** *Data Protection Training is now complete.* *The DPIA and ISA are drafted and with Internal Audit for review with the expectation of SMT approval December 2022.* *The Information Governance action plan has been developed and agreed with Internal Audit.* *Work has commenced on enhancements to data breach process with a view to completion in December 2022. Work will commence on DSAR enhancements during December 2022 along with the review of the Data Protection Policy.* *There is no change in the risk score at this stage however it is likely that the next review will see a reduction following the completion of elements of the action plan.*		16/11/2022
O4	Operational	Regulatory Compliance	Enforcement action by relevant regulatory authorities	Senior Management Team	Reporting of compliance with relevant standards. Ongoing process of awareness raising and training for staff in relation to operational matters such as TPR Scams requirements. Basic assessment of compliance with TPR CoP 14 in place.	12	P=M I=H	8	P=L I=H	More detailed assessment of compliance with emerging TPR Single Code and other regulatory requirements with associated action plan and enhanced regular reporting. Additional training for Authority and Pension Board Members to enable improved oversight. ***Comment 16/11/2022:*** *There is no justification to change the risk score at this stage. TPR Single Code continues to be delayed and will be reviewed once received*		16/11/2022
P1	People	Ability to recruit and retain an appropriately skilled and qualified workforce	High level of vacancies	Director	Pay and benefits package with emphasis on employee wellbeing. Career grade scheme in place for Pensions Officers.	12	P=H I=M	6	P=M I=L	Review of pay and benefits package. Introduction of additional personal development opportunities. Introduction of a structured approach to succession planning. ***Comment 16/11/2022:*** *The work on the pay and benefits review has commenced and the staffing committee has approved proposals which when implemented should significantly reduce the number of areas where there is a potential single point of failure. The score remains unchanged until the actions contained within resilience plan have been implemented.*		16/11/2022

Subject	**Levy 2023/24**	**Status**	For Publication
Report to	Authority	**Date**	8 December 2022
Report of	Treasurer and Director		
Equality Impact Assessment	Not Required	Attached	N/a
Contact Officer	Will Goddard, Financial Services Manager	**Phone**	01226 666421
E Mail	wgoddard@sypa.org.uk		

1 Purpose of the Report

1.1 To approve the Levy for 2023/24 under the Levying Bodies (General) Regulations 1992.

2 Recommendations

2.1 Members are recommended to:

a. **Approve a total levy of £324,612 for 2023/24 in accordance with The Levying Bodies (General) Regulations 1992, to be allocated to the District Councils in proportion to their approved council tax base shares.**

3 Link to Corporate Objectives

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

Effective and Transparent Governance

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

The approval of the Levy ensures the Authority demonstrates transparency and complies with regulations in the recovery of costs associated with the former South Yorkshire County Council and South Yorkshire Residuary Body.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report have no direct implications for the Corporate Risk Register.

5 Background and Options

5.1 Responsibility for early retirement compensation payments awarded by the former South Yorkshire County Council and South Yorkshire Residuary Body passed to the Pensions Authority when it was created in 1988. The statutory instrument under which the Authority was created (*The Local Government Reorganisation (Pensions etc.) (South Yorkshire) Order 1987*) made provision for the four District Councils to reimburse the Pensions Authority for the cost of those payments on a proportional basis according to the size of their population. The Levy is the mechanism by which that reimbursement is achieved.

5.2 The Levy is calculated in November each year based on an estimate of the costs of these payments in the following financial year. The total Levy amount is allocated to each district in proportion to their council tax base for the year.

5.3 Previously at the end of each financial year, the actual costs for that year are confirmed and any difference to the amounts paid on account by the four districts is refunded or invoiced as required.

5.4 Going forward, in line with generally agreed accounting principles (GAAP), and best accounting practice, the over or underpayment of the levy will be accrued for in the Authority's accounts rather than being refunded. The districts will be informed of any accrual taken, with the balance due being applied to the calculation of the following year's Levy.

5.5 The forecast total cost for 2022/23 as of November 2022 is £321,612 – which results in an estimated balance of £28,388 owed to districts at 31 March 2023, apportioned pro-rata to their 2022/23 tax base shares.

5.6 The costs for 2023/24 have been estimated as £353,000; the estimation methodology takes account of actual movements in the costs during the current financial year and applies the inflationary increase expected to take effect in April 2023, which is forecast as 10.1% based on September 2022 CPI.

2022/23 Levy	£350,000
2022/23 Forecast Actual Charges	£321,612
Forecast Balance as at 31 March 2023 [Owed (to)/from Districts]	**(£28,388)**
2023/24 Estimated Charges	£353,000
2023/24 Levy Total	**£324,612**

5.7 The estimated apportionment of the 2023/24 Levy, based on 2022/23 Council Tax Base shares, is shown in the table below. Please note the actual apportionment of the 2023/24 charges will be re-calculated to reflect the approved 2023/24 Council Tax Base figures for each district as soon as this information is available.

	Balance Brought Forward 1 April 2022	Forecast Balance 31 March 2023	Estimated 2023/24 Charges	Total Levy 2023/24	Proportion
Barnsley MBC	0	(5,165)	64,228	**59,063**	18.19%
Doncaster MBC	0	(6,563)	81,607	**75,044**	23.12%
Rotherham MBC	0	(5,543)	68,925	**63,382**	19.53%
Sheffield City Council	0	(11,117)	138,240	**127,123**	39.16%
Total	**0**	**(28,388)**	**353,000**	**324,612**	**100.00%**

6 Implications

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

Financial	The issuing of the levy to the four districts enables the Authority to recover costs relating to the former SYCC / Residuary Body.
Human Resources	None
ICT	None
Legal	The Levy approval as outlined in this report ensures that the Authority complies with The Levying Bodies (General) Regulations 1992.
Procurement	None

Neil Copley **George Graham**

Treasurer **Director**

Background Papers	
Document	**Place of Inspection**
None	

November 2022 – Investment Context

Table of Contents

Pride and Prejudice; Terror and Turpitude

Last quarter we spoke about the cold front that moved into markets in September, which undid much of the positive sentiment of the summer. It proved to be a sign, as the season of Autumn was more terror and turpitude than "mists and mellow fruitfulness".

It is hard to avoid a UK-centric piece this quarter, as this was where the attentions of global markets were turned at least for a few critical days in late September. As a calamity played out in UK government bond markets and markets decisively rejected a maverick "mini-budget" and its consequences, leaders stepped down and markets held their breath. The wheels of government ground more quickly for a spell as emergency measures were unleashed to avoid a DB pension fund debacle. Meanwhile central banks globally continued to hike interest rates although conviction wavered.

Employment, Energy and Elections dominated global headlines. While the war in Ukraine intensified in parts, the US saw a Mid-Term election result that was more of an endorsement of the current Biden administration than pundits had been expecting and less of a landslide for Republicans. Brazil saw a shift in power from the right to the left with the election of Luiz Inácio Da Silva "Lula" and in China, Xi Jinping consolidated his power by securing an appointment for a third term (we cover this in more detail in the spotlight section below). The upheaval in geopolitics follows a phase when Covid dominated news headlines. The pent-up geopolitical tensions now unleased have led to terms like the "new world order", "spheres of influence" and "de-globalization". As the war in Ukraine becomes bogged down and new alliances harden, many investors are starting to question what they always assumed about the direction of geo-politics.

In equity markets the same volatility that we have seen all year persisted. We saw a strong month of October followed by gyrations caused by Fed statements and a mixed outlook. Fixed income volatility persisted too as bond yields continued to rise in response to rising base rates.

"Highlights" (or "low lights") since the last quarterly update:

- **Inflation remains at the front and centre of government and household concerns**, and in September rose to a 40 year high, rising 10.1% (CPI). As levels stay around high single digits or even double digits in Europe and the US, there are nevertheless some signs of it faltering. These are signs that the unemployment rate in the US rose slightly (although is still historically low) while supply shocks seem to have played out and there is evidence that the supply of goods is not still seeing price hikes.
- **Interest rates continued to rise,** with the US Fed raising rates for the sixth time this year (75 bps) in November while the Bank of England raised its rates to 3%, its eighth consecutive rate rise and the largest (75 bps) since 1989. As noted earlier, some central banks are "blinking" in the lights of economic strains and not raising by as much as expected.
- **UK employment figures remain robust,** with unemployment numbers at multi-decade lows and at numbers not seen since 1974. This was partially driven by a lower participation rate, particularly as older workers stayed out of the work force and students choosing not to work.
- **GDP growth in the UK has been flatlining** – falling by 0.6% in September and 1% in August but after growth of only 0.1% in July.
- **The political environment remains fraught,** although the new Conservative government seems less wracked with drama than the previous one and there is clearly a strong desire for stability, from fellow politicians, the general public and market participants.

***

Current Macro Snapshot

The UK as a Petri dish (once more?)

The UK became the unfortunate focus of global market attention as an alarming chain of events sparked fears of global contagion, or at least interested onlookers keen to spot the "canary in the coalmine" for other countries. One of the first experiments under the microscope was the maverick "mini-budget" which presented a sharp contrast to the stern and restrictive Bank of England's tighter monetary policy. Only days after the country wowed the world with the dignified pageantry after the death of Queen Elizabeth II, the Bank of England returned to normal operations and raised rates by 50bps. This was then followed by the promised mini-budget which contained a slew of tax cuts and trickle down economic policies designed to stimulate growth. Unfortunately it only stimulated a loss of confidence in the disconnect between monetary and fiscal policy, and the UK government that had sparked it.

What followed in the next few days was the stuff of legend – UK government bonds collapsed in price sparking sharp increases in yields and a capital flight of the sort more commonly seen in Emerging Markets. The government received a rebuke from the IMF (on September 27) and the currency slumped, even after the Bank of England had raised rates – which is rare. Only the stock market (FTSE 100) remained solid (0.9% year to date) due to the heavy export orientation, which benefits from a weaker Pound.

The next phase of the crisis sparked concerns of systemic risk, which was the fact that a large percentage of UK defined benefit schemes became stuck in the stranglehold of the Gilt market crash. Due to the fact that many of them owned large portfolios of long-dated GILTS to match their liabilities and guard against inflation, and the fact that many of these schemes had applied leverage in levered LDI investments, the swift fall in GILT values led to rapid rises in collateral calls and a liquidity crisis for these pension funds. After a few days of chaos in which the Bank received direct appeals from pension fund staff and consultants alike, it intervened for a limited amount of time to support the GILT market through market purchases.

This crisis was noteworthy for many reasons – first it underscored the dangers of leverage, derivative use and crowding in popular trades, such as LDI (Liability Driven Investing) solutions. Second, it revealed the dangers of "groupthink" and the speed with which "100-year events" can occur and wreak havoc. Third, it was evidence of some of the better lessons learned of 2008 – although that crisis featured financial system fragility and was, in that sense "the last war", it did teach the importance of swift and concerted action by institutions to prevent the unimaginable. In this case it was hard to imagine a scenario that would lead to the failure of a broad swathe of UK pensioner's retirement security, but as it seemed to be inevitable, the government institutions worked together to do what it needed to do.

That debacle may well have been the final straw for the government, and within days a replacement administration under Rishi Sunak as Prime Minister was in place. Markets have calmed somewhat since then, perhaps still reeling from the volatility of recent weeks. The Pound gained some ground after the change of administration and as we write has stabilized at around 1.17/1.18 to the USD.

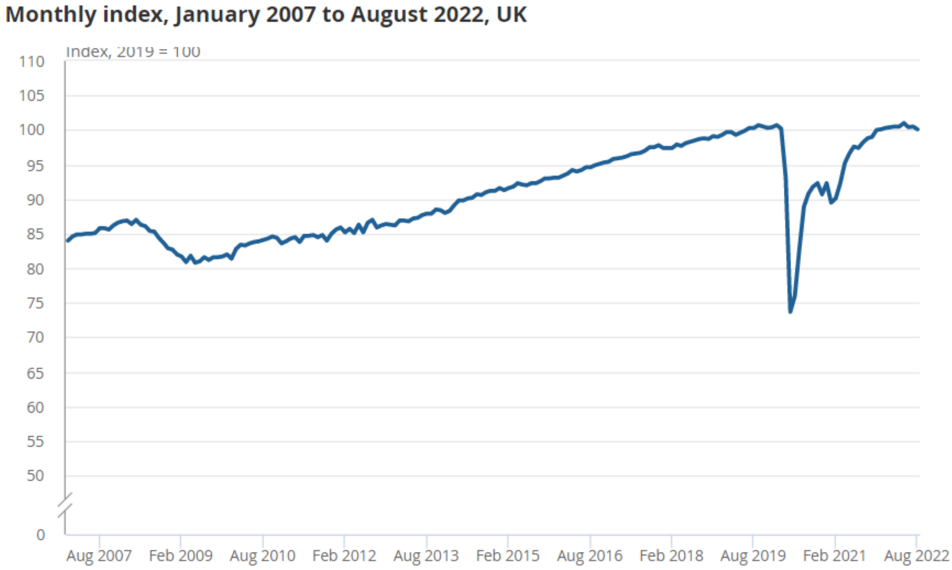
All eyes on the Central Bank Pivot – but sometimes the message is between the lines . . .

Markets were briefly excited at the prospect of a "deceleration" in the pace of central bank rate rises towards the end of October. Canada had started the anticipation, by raising by only 50 bps and not 75 bps in late October (which, notably, led to an instant drop in the Canadian Dollar – a sign that the US dollar is vulnerable to a similar fall whenever the US Fed does eventually slow down) and the Norwegian central bank also came in below expectations. When it came to the US and the UK though, both banks provided a 75 bps raise, although the messaging was starkly different. In the case of the US Fed the raise was its fourth of that magnitude that year, and Chairman Jerome Powell was quick to pour cold water on expectations of a pivot or slowdown.

The Bank of England had slightly different mood music behind its 75 bps hike. It was sober in its assessment of the state of the economy, slowing growth and also the impact that higher mortgage rates would have on the British consumer in particular. There was some suggestion between the lines that rates would not go much higher and also that it was not the market rate expectations "tail" that should wag the Central Bank dog.

This leaves us with decoupling – and, for now, the likelihood that dollar strength will persist, at least until the Fed slows rate rises and decelerates. As can be seen below the dollar/Sterling relationship has been particularly fraught over recent months, which perhaps speaks more than any other visible sign to the extent of the fall in UK fortunes globally.

As can be seen, in the UK GDP is still being supported, but only barely!

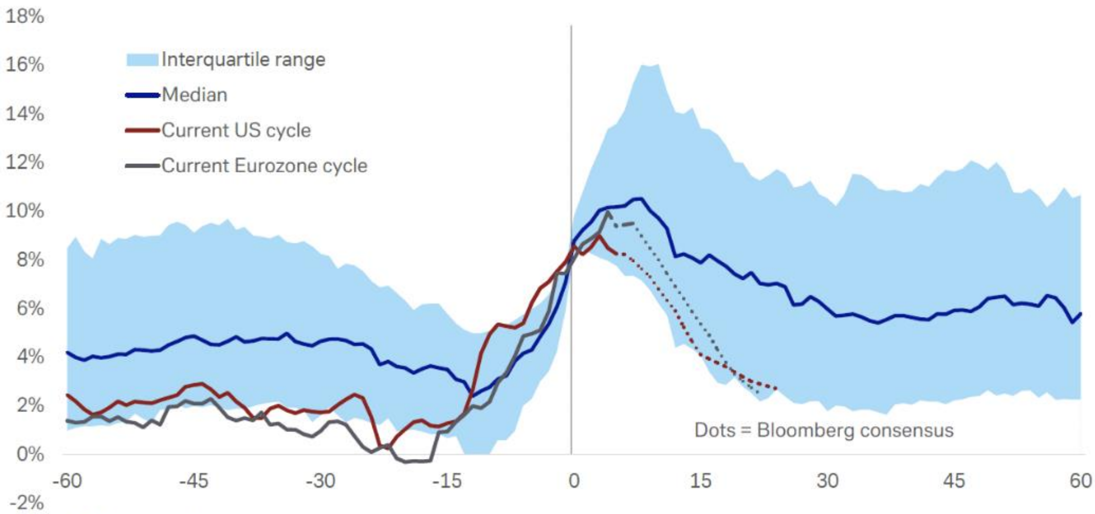


Inflation: Variations on the Theme

Inflation remains high globally, but as we noted before it is sharply divergent by region (say, within Europe and Emerging Markets) and drivers. Popular wisdom would suggest that in the US inflation is largely demand driven, while in Europe and the UK it is driven by imported inflation (due to having weak domestic currencies, especially v. the US dollar) and supply side forces such as higher energy costs.

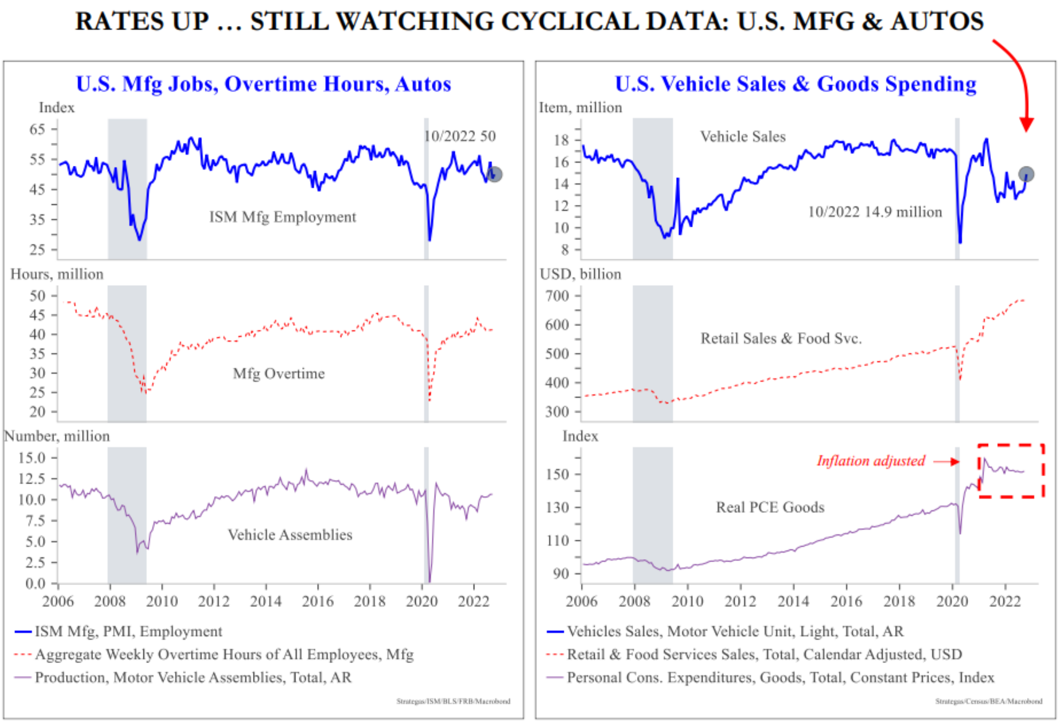
As this chart suggests, though, there is some evidence that inflation does not hover around this level for very long.

Figure 2: All sample countries from 1920 (318 observations)



Source : GFD, Bloomberg Finance LP, Deutsche Bank

Recent releases have shown some interesting variation under the headline level such as the lower contribution of shipping costs and the general absence of significant supply chain woes. Currently evidence of real price compression in the US housing markets suggests that the higher rates are having their desired effect, while the chart below shows that on an inflation adjusted basis demand is actually flat for certain goods/services. This is notable, as the only power Central Bank tightening can have is to reduce demand, and it seems that may be eventually be achieving “transmission”.



Source: Strategas

Geopolitics –Pride and Prejudice

As if the turmoil in the UK were not enough, on the global stage geopolitics continued to be stormy. In Italy a new Prime Minister, Giorgia Meloni, came to power riding a wave of far-right populism, but was quick to denounce “fascism” when she was elected. She seems less inclined to play happy families with her European counterparts though, and did exchange some scathing words with Emanuel Macron on France in one of her first post-election speeches.

In Ukraine, indications of a Ukrainian advance were met with what Zelensky has deemed a wave of energy terrorism – and as the winter approaches both sides seem to be entrenched with tensions rising. The ramifications of this remain important for global energy supplies, and are also a test of fragile global alliances and “spheres of influence” as other potential flashpoints loom.

The single biggest one of these is the consolidation of power in China by Xi Jinping. His ongoing commitment to zero Covid, the elimination of "reformers" within his cabinet and his apparent disregard for some of the economically forward policies of his predecessors has triggered fears of whether China is entering another era – which we might call "post-modernism". This is featured in the Spotlight section on page 9. Finally, ongoing demand for oil supplies has created a laser focus on OPEC and posturing there.

Individual Asset Class Performance.

- Equities
- Fixed income
- Other asset classes

The chart below shows recent performance in our measured equity and fixed income indices (at November 25, 2022)

Equity Index	Year to date (November 25)	1 year
FTSE 100	1.21%	5.12%
S&P 500	-16.6%	-14.17%
Nasdaq	-28.72%	-29.34%
Dax (Europe)	-9.45%	-5.87%
Hang Seng	-26.07%	-27.48%
Shanghai Comp	-15.42%	-13.59%

Equities: A tech rout, and sell-off in China.

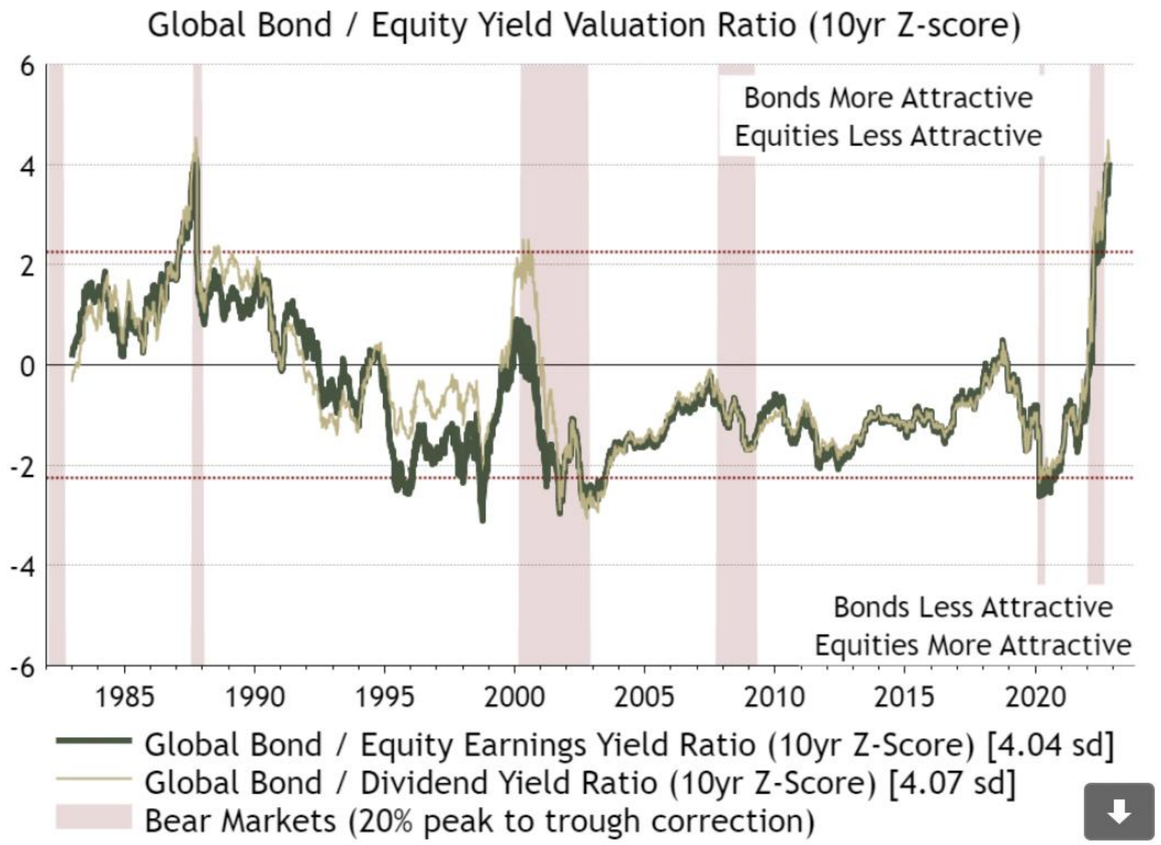
Equity markets remained in varying degrees of negative territory, but there were some subtle changes in fortunes. Europe was slightly stronger over the period as there was some hope that the energy crisis would not be as devastating as previously feared – at least this quarter. The UK saw some slight weakness due to the catastrophic economic fallout, but it was nowhere near as severe in equity markets as it was in the bond market.

Within the US September's weakness was undone in October and overall the stock market continued to experience meaningful intra-day volatility with 85% of the trading days to date in the year seeing moves peak to trough of more than 1%. The tech-heavy Nasdaq displayed more weakness than the broad-based indices, which coincided with announcements of tech retrenchments and lay-offs. All global markets saw a relief rally in early November as the October CPI numbers in the US came in at lower than expected, sparking hopes of a pivot in central bank policy and the beginning of the end of rising rates. Markets immediately rallied sharply, only to be rapped on the knuckles at the weekend for "getting ahead of themselves". That same weekend news broke of an implosion and possible fraud at the digital asset exchange FTX, which led to a widespread crisis of confidence in digital assets, cryptocurrencies and their ilk.

Within emerging markets China saw massive outflows as we discuss later, and this resulted in a challenging environment for Hong Kong too.

Fixed Income: Vicious and Volatile, but starting to look interesting?

Bond markets continued to display unusual volatility with UK government bonds still evidencing weaker demand, selling pressure and higher yields than historically. In the US too government bond yields jumped as investors responded to rising rates and the yield curve remained inverted, pointing to concern about the outlook for the economy. The current state of bond yields means that they are looking quite attractive relative to equity yields as the chart below shows, and with the current yields available bonds alone represent a solid return, which makes a change from the asset allocation assumptions of recent years.



So It can be seen that while, for years, while There (Was) No Alternative to equities (TINA) we are now in a world where TARA (There are Reasonable Alternatives) prevails.

Other asset classes – For Every Action . .

There is an equal and opposite reaction. We have, for some months now, highlighted the risk to private assets if and when valuations are adjusted to reflect the new public market reality. The areas that might be particularly vulnerable to this are venture capital investments (due to the sharp repricing in many tech stocks discussed above) and other areas such as real estate and infrastructure that may have been priced off a much lower risk free rate (and deemed attractive relative to that) or were dependent on cheap borrowing. While some valuations have taken place we have not yet seen this *en masse*, but we will be watching carefully.

Another risk to the area is capital outflows, as investors rethink the percentage of illiquid assets that they wish to have in a portfolio. The recent crisis in UK DB pensions is likely to give rise to a "new normal" in LDI investing of higher collateral levels and lower leverage, which may force these plans to cut back on new allocations and even try to exit existing ones. This is going to have repercussions for all investors, particularly in quarterly real estate funds, where we have already seen a rush for the doors and some gating of redemptions in place. Similarly, it could lead to a wave of secondary private asset volume (although there is no indication of this yet) and overall less demand for assets in private capital.

As noted above, a weaker IPO market and higher levels of borrowing place a strain on private strategies as they hamper exit routes and slow down the pace of cash distributions. Winter may very well actually be coming for these strategies.

Spotlight: China and Emerging Markets

The appointment of Ji Xinping for a third term as leader of China in late October, marked a turning point in his consolidation of power and sparked a further wave of negative market sentiment around China. Some of the rhetoric accompanying his re-appointment was similar to what has previously been seen in China such as his commitment to eliminating inequities between different members of society and a solid focus on growth, but some of it was new, including a renewed emphasis on national security, both in terms of borders, energy supply and public health. This is a justification for any manner of policies – from the zero-Covid policy to which he has recently doubled down to a hardline approach on the claim on Taiwan, to a tough stance on international trade.

Time will tell as to whether this represents a reversal of much of the last two decades in terms of economic growth and development in China, but for now it can be seen that markets have reacted negatively – expressed in massive outflows from China as well as poor stock performance. The chart below shows that the MSCI China has delivered a 0% return in the nearly 30 years since inception, while the chart below that shows a steady reduction in the level of transparency offered into official statistics.

These two factors combine to make the case for investing in China less compelling, and currently the country represents 30% of major Emerging Market Indices, a number which rises to close to 45% when Taiwan and Hong Kong are added. A persistently strong US dollar together with a slowing global economy also are headwinds for this region.

Outlook . . Calling Time

Last quarter we talked about the concept of a "*New New Normal*" – in which investors seem to have quickly adjusted to a reality of inflation in high single digits and in the US markets actually rallied when it looked as if the Fed would introduce merely a 50 bps rate rise in September, as opposed to the 75 bps one that had been expected. This thesis still holds – as we can see in the case of the market response to the Canadian central bank "decelerating" its pace of rate rises. It is an environment where a rate rise of less than 75 bps may be seen as dovish.

The market reaction to the UK "mini-budget" was also instructive. Markets clearly displayed little tolerance for contradictory fiscal and monetary policy and displayed concern re rates of borrowing, and little belief in a "magic money tree". Finally, the lack of a Democrat rout in the US Mid-Terms tells us what is really on voter's minds this season. While inflation is challenging, it was not at a pain-point that would lead to a desire for change. Perhaps this an appreciation of the complexity and challenge of dealing with this problem – it is not something a silver bullet will fix, as, now, six Fed meetings and eight Bank of England meetings have taught us through their rhetoric. When the economy faces such diverse perils that are essentially "challenging needles to thread", there is a preference for stable government, for cooperation and not division and for "grown ups" in the room to handle it.

In coming months we will be watching in particular:

- **A Measure of Winter Cheer.** As we noted last quarter, it is critical to see what the winter brings in terms of energy pricing and consumer sentiment. With mortgage rates in the UK set to rise sharply, this will place extreme stress on certain consumer segments, and the pending more austere fiscal climate will also present challenges. How this translates into retail sales, real estate demand and corporate health will be critical.

- **Tech as a Canary in the Coal Mine?** During the recent layoffs, may tech executives noted with chagrin their recent overly exuberant hiring and growth expectations. It is true that they did contribute to a particularly frothy employment climate. It will be key to see if they have over-steered now, or only scratched the surface, and whether other industries follow suit. With the apparent shortage of labour in some areas and a challenge in hiring, how this all settles with respect to employment will be very interesting to watch.

- **The end of zero-Covid?** As we discussed in the spotlight on China section, there is so much still pending on the direction that Xi Jinping's united front of a government takes with respect to opening up China's economy and relaxing some of the zero-Covid restrictions that are incompatible with that. Visibility as to this, their position on trade and their aspirations with respect to Taiwan will be key to seeing how one of the world's largest economies plays its part in the years ahead.

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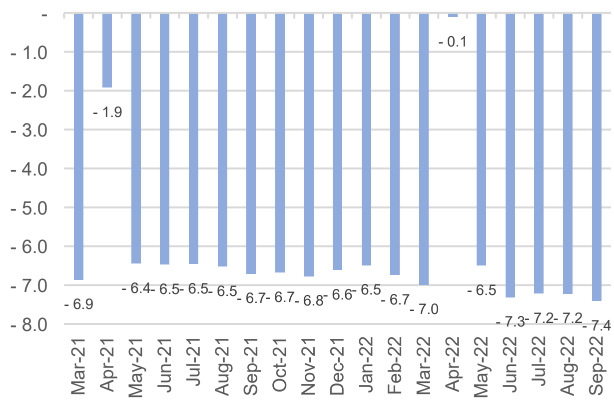
November 29, 2022

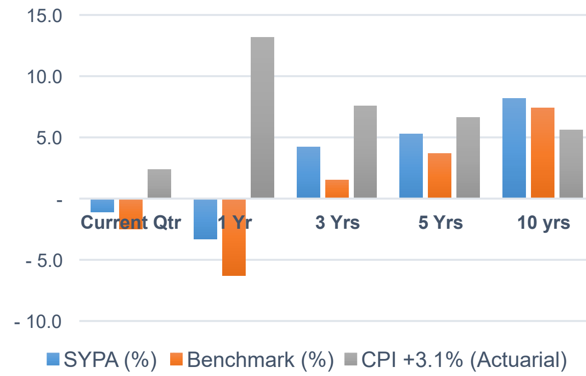
SOUTH YORKSHIRE PENSIONS AUTHORITY

QUARTERLY REPORT
TO 30 SEPTEMBER 2022

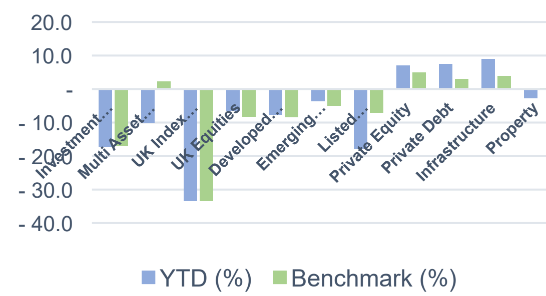
NET CONTRIBUTIONS



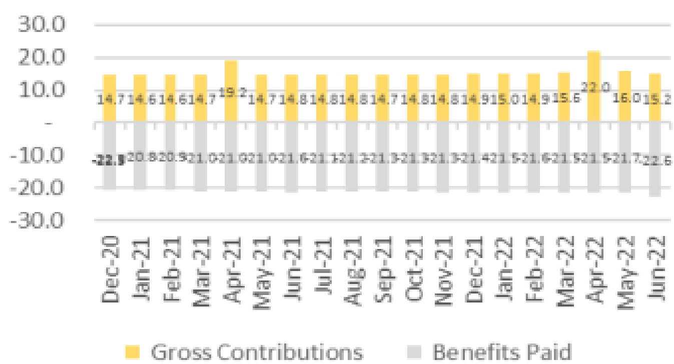
TOTAL FUND RETURN



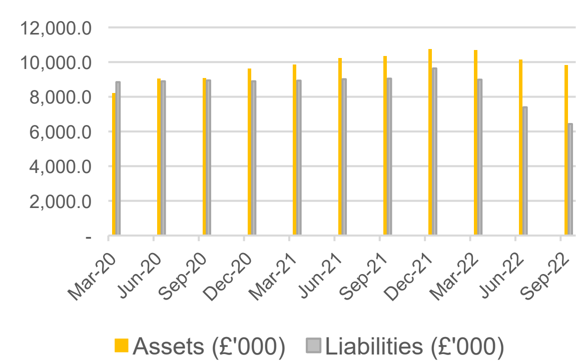
ASSET PERFORMANCE BY TOTAL ASSET CLASS- YEAR TO DATE



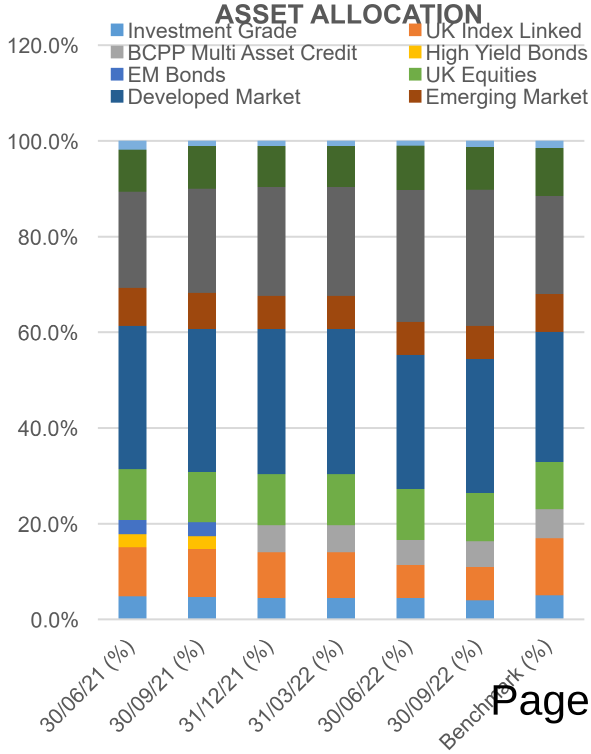
BREAKDOWN OF NET CONTRIBUTIONS



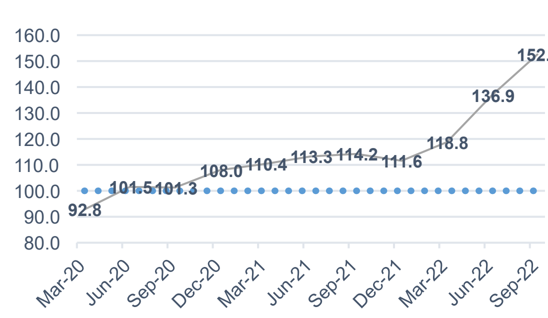
ASSET LIABILITY RATIO SINCE MARCH 2020



ASSET ALLOCATION



FUNDING LEVEL %



Market background

After rallying in July, both bonds and equities fell over the remainder of the quarter. Central banks confirmed their commitment to fighting inflation with the Federal Reserve, the ECB and Bank of England all raising rates during the quarter. Volatility in markets was heightened as investors were concerned about persistent inflation and a slowing growth environment. The Bank of England also announced that they would start Quantitative Tightening (QT) in October.

A key event in the UK was the election of Liz Truss as Prime Minister. The new government announced a fiscal package on September 23rd which contained £45bn of unfunded tax cuts. This was poorly received by the markets and sent sterling to an all time low against the dollar. Gilt yields moved markedly higher and caused problems for liability-driven investment funds (these use derivatives linked to gilt yields to hedge their liabilities). They were forced to sell gilts to raise cash to pay margin calls on their derivative exposures. This led to a vicious cycle, as LDI funds sold gilts, yields and volatility continued to move higher, margin calls increased and LDI funds had to sell more gilts. By late September the index-linked market was becoming dysfunctional and the Bank of England had to intervene by buying gilts directly and delaying the start of QT. This intervention forced yields down but not enough to prevent another quarter of negative returns.

This quarter was another difficult quarter for markets. Developed market equities, emerging market equities, credit and sovereign bonds all fell as investors priced in further interest rate rises and an increased risk of recession. Although as a sterling investor we saw a flat return on our overseas portfolio due to sterling weakness.

Asian markets suffered the worst losses hurt by substantial falls in Chinese stock markets against the backdrop of a weak economy as China continued with its zero Covid policy with many cities completely locked down. Emerging markets underperformed developed markets against the background of slowing global growth and deteriorating global trade outlook.

Globally, government bond yields were generally higher and credit spreads were wider. Credit spread is the difference in yield between bonds of a similar maturity but with different credit quality. Credit spreads widened on fears that tighter monetary policy would undermine future economic growth .

Sterling investment grade and high yield were the worst performers with European investment grade and high yield as well as well as emerging market credit performing relatively better, but were still negative performers.

Market background

Commodity indexes fell over the quarter driven lower by weaker prices for energy, industrial metals and precious metals. Within agriculture, higher prices for wheat and corn helped to offset price falls for cotton, sugar, coffee and cocoa.

Real estate returns started to show weakness over the quarter with industrials in particular showing negative returns as a weakening UK economy began to weigh on the sector. Capital value declines have been the principal driver in slowing performance as yields have begun to move out, in particular in lower yielding areas of the market. Industrial capital growth fell 8.1% in Q3 2022, with south east industrials reporting the steepest monthly capital value decline since December 2008.

Fund Valuation

as at 30 September 2022

	Jun-22		Quarterly Net	Sep-22		Benchmark	Range
	£m	%	Investment	£m	%	%	%
FIXED INTEREST							
Inv Grade Credit - BCPP	450.1	4.5	0.0	396.6	4.0	5	
UK ILGs - BCPP	652.8	6.5	60.0	656.5	6.6	10	
UK ILGs SYPA	47.3	0.4	0.0	40.2	0.4		
MAC - BCPP	537.5	5.3	-3.8	520.9	5.3	6	
TOTAL	1687.7	16.7	56.2	1614.2	16.3	21	16-26
UK EQUITIES	1068.4	10.6	-20.0	1017.6	10.2	10	5 _ 15
INTERNATIONAL EQUITIES							
Developed Market - BCPP	2817.5	27.9	-60.0	2770.9	27.9	27.125	
Developed Market - SYPA	19.6	0.2	-20.5	0.0	0.0		
Emerging Market - BCPP	703.5	7.0	0.0	694.7	7.3	7.875	
Emerging Market - SYPA	1.0	0.0	0.0	1.0	0.0		
TOTAL	3541.6	35.0	-80.5	3466.6	34.9	35	30-40
LISTED ALTERNATIVES - BCPP	180.2	1.8	0.0	172.2	1.7	0	
PRIVATE EQUITY							
BCPP	169.2		18.8	207.4			
SYPA	910.8		-23.8	910.5			
TOTAL	1080.0	10.6	-5.0	1117.9	11.3	7	5_9
PRIVATE DEBT FUNDS							
BCPP	56.4		16.9	77.0			
SYPA	504.9		-12.3	504.1			
TOTAL	561.3	5.6	4.6	581.1	5.9	5.5	4.5-6.5
INFRASTRUCTURE							
BCPP	228.0		13.5	235.8			
SYPA	719.5		-23.4	721.7			
TOTAL	947.5	9.4	-9.9	957.5	9.6	10	7_13
PROPERTY	940.5	9.3	3.2	878.0	8.8	10	8_12
CASH	98.3	1.0		130.3	1.3	1.5	0-5
TOTAL FUND	10105.5	100.0		9935.4	100.0	100	
COMMITTED FUNDS TO ALTERNATIVE INVESTMENTS	1503.7			1685.8			

Asset Allocation Summary

We reduced our overweight position to listed equity holdings by £100.5m, £20m from UK equities and £80.5m from overseas developed equities to fund a £60m investment into Index-Linked Gilts which reduced the underweight position and to fund further drawdowns into private equity, private debt and infrastructure funds.

Gilt yield volatility continued with inflation concerns being the main driver. The Bank of England raised interest rates by 0.5% in August and 0.5% in later September to end at 2.25% and also announced that quantitative tightening would start in October. We used this volatility to reduce our underweight position to index-linked gilts.

Within the commercial property portfolio we sold two small holdings, a retail unit at St Peter's Street in St Albans and Castle Hill House, an office in Maidenhead. There was also a liquidating redemption made from the SL Retail PUT. However, this was offset by drawdowns on the CBRE loans that we have and into the residential funds that we hold.

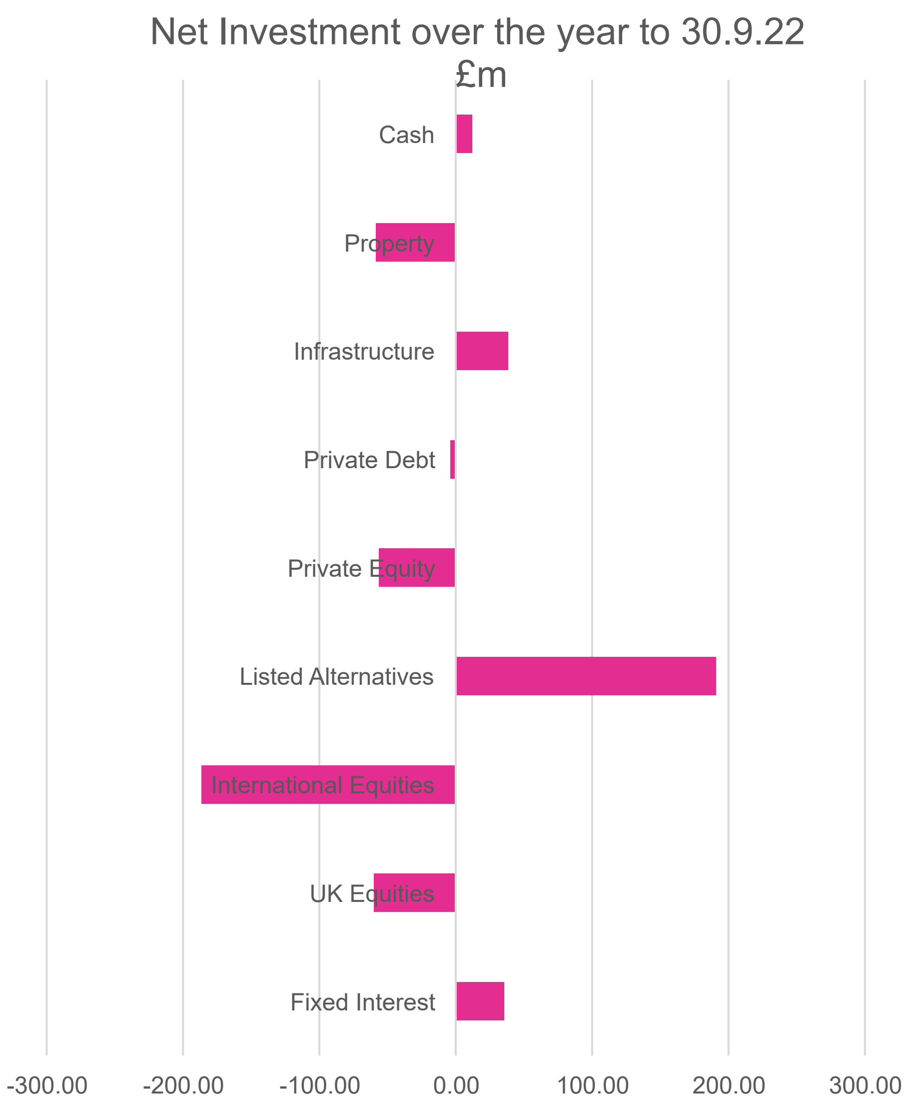
After the trades mentioned above there is now only one category that is outside its tactical range and this is private equity.

Our private equity fund holdings have started to show the first signs of topping out in terms of valuation but due to the relative under-performance of other asset classes we actually saw an increase in weighting to this category. We have been reducing our annual commitment to this category over the last few years and as realisations come through the overall weighting should reduce.

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	7 - 13	696.7	7.0	**-3.0**
Sterling Inv Grade Credit	5	4 - 6	396.6	4.0	**-1.0**
Multi Asset Credit	6	4 - 8	520.8	5.2	**-0.8**
UK Equities	10	5 - 15	1017.6	10.2	**0.2**
Overseas Equities	35	30 - 40	3466.6	34.9	**-0.1**
Private Equity	7	5 - 9	1117.9	11.3	**4.3**
Private Debt	5.5	4.5-6.5	581.1	5.8	**0.3**
Infrastructure	10	7 - 13	957.5	9.6	**-0.4**
Listed Infrastructure	0	0-2	172.2	1.7	**1.7**
Property	10	8 - 12	878	8.8	**-1.2**
Cash	1.5	0 - 5	130.3	1.3	**-0.2**
Total	100		9935.3	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 30 September 2022

	Qtrly Performance		Financial Y.T.D.	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Investment Grade Credit - BCPP	-11.2	-11.0	-17.4	-17.0
UK ILGs	-11.2	-11.1	-33.4	-33.4
Multi Asset Credit - BCPP	-2.4	1.2	-10.1	2.3
UK EQUITIES	**-2.9**	**-3.4**	**-6.5**	**-8.3**
INTERNATIONAL EQUITIES				
Developed Market - BCPP	0.5	0.2	-7.7	-8.4
Developed Market - SYPA	5.1	0.2	-4.7	-8.4
Emerging Market - BCPP	-1.3	-2.3	-3.7	-5.0
Emerging Market - SYPA	-1.6	-2.3	4.0	-5.0
TOTAL	**0.2**	**-0.3**	**-6.9**	**-7.6**
PRIVATE EQUITY	**4.0**	**2.4**	**7.0**	**4.9**
PRIVATE DEBT FUNDS	**2.8**	**1.5**	**7.5**	**3.0**
INFRASTRUCTURE	**5.7**	**1.9**	**9.0**	**3.9**
PROPERTY	**-5.0**	**-2.5**	**-2.8**	**0.4**
CASH	**0.4**	**0.4**	**0.6**	**0.6**
TOTAL FUND	**-1.1**	**-2.5**	**-6.1**	**-8.1**

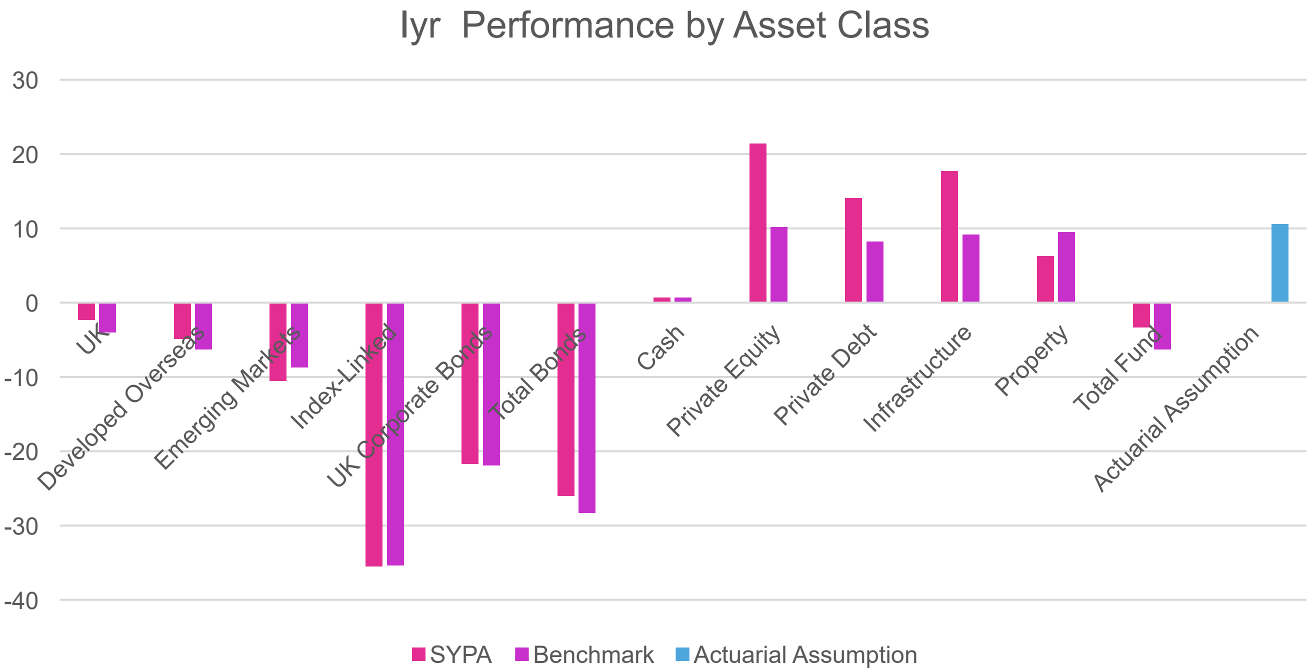
Performance Summary

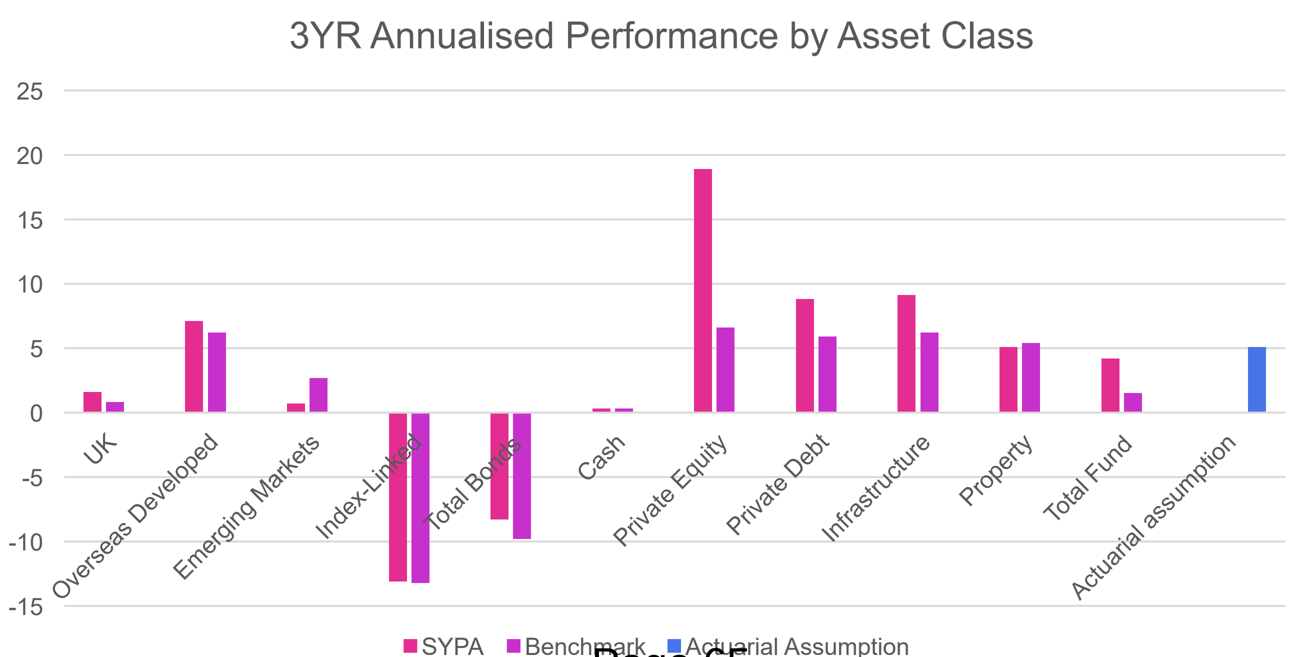
For the quarter to the end of September, the Fund returned -1.1% against the expected benchmark return of -2.5%. Asset allocation decisions taken together added 0.6% and stock selection added 0.8%

The breakdown of the stock selection is as follows:-

UK Equities	**0.1%**
Overseas Equities	**0.2%**
Total Bonds	**0.5%**
Listed Alternatives	**-0.2%**
Private Equity funds	**0.2%**
Infrastructure funds	**0.2%**
Property	**-0.2%**

Performance-Medium term





SOUTH YORKSHIRE PENSIONS AUTHORITY

Performance – Border to Coast Funds

The UK equity portfolio showed outperformance of its benchmark this quarter and is now achieving its target return since inception. The portfolio benefited by being underweight consumer discretionary which was impacted by falling consumer confidence in the face of rising inflation, by being underweight real estate where the sharp rise in yields negatively impacted property valuations.

The Overseas Developed Market portfolio continued it's steady outperformance with stock selection in Europe ex-UK in particular adding to performance as well as strong stock selection within industrials across most regions, together with relatively low exposure to Real Estate and Utilities. .

The Emerging Market portfolio out-performed the benchmark this quarter by 1.4%, with all three managers outperforming their target index, but is still behind the benchmark since inception.

Gilt yield volatility increased significantly as inflation continued to rise and the Bank of England raised interest rates twice, from 1.25% to 1.75% in August and by a further 0.5% to 2.25% in September and also announced that quantitative tightening (QT) would start in October. Events worsened after the mini budget on the 23rd September as £45bn of unfunded tax cuts were announced. This caused glit yields and volatility to lurch higher. As the market became dis-functioning the Bank of England had to intervene by buying gilts directly and delaying the start of QT. This forced yields down but it still resulted in a total return for the benchmark index of -11.1%. The portfolio outperformed by 0.2% by being overweight to ultra-long linkers which were the better performers.

Credit spreads only moved slightly over the quarter but the Sterling Investment Grade credit portfolio underperformed its benchmark by 0.25% with all managers underperforming. As we expect the long-term outperformance to be primarily generated through security selection, through incremental yield and the compression of credit spreads it is not unexpected that at periods of stress, there will be occasions where the portfolio underperforms. M&G as the most defensive manager is the only manager that is showing excess returns on a year-to date basis. RLAMs higher sensitivity to changes in credit spreads means that in the short term they have lagged their peers. From inception all the managers have achieved outperformance.

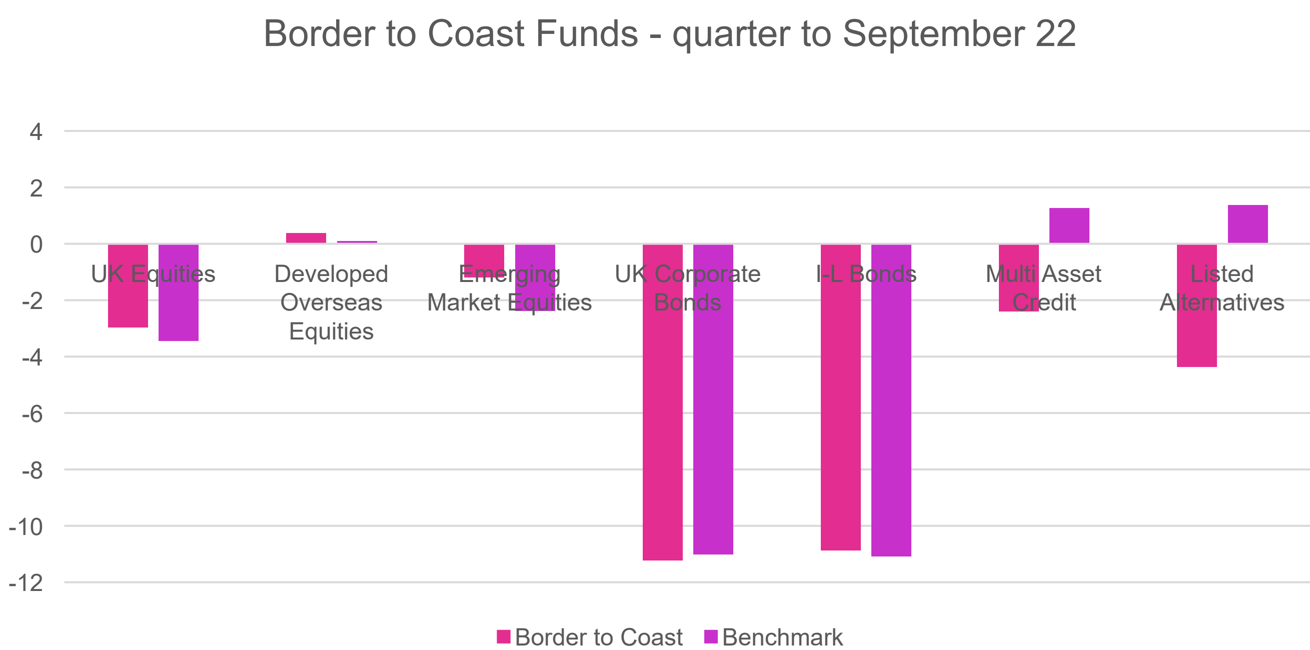
Performance – Border to Coast Funds

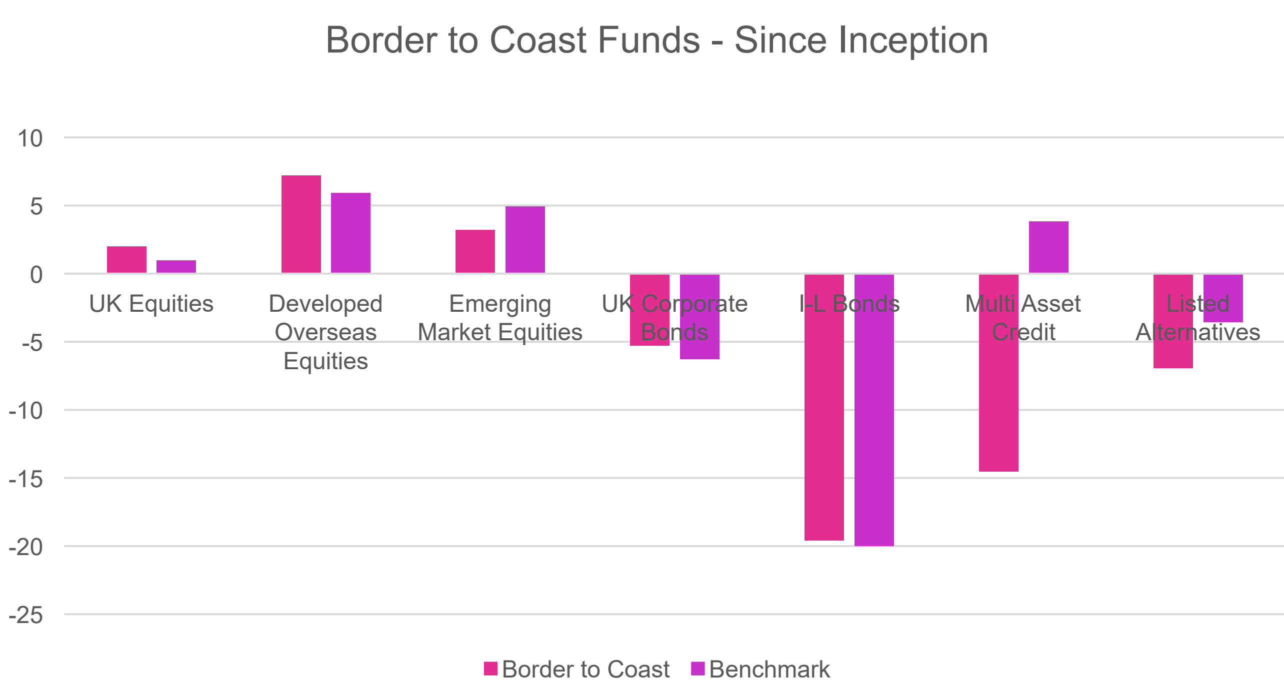
The Multi-Asset Credit fund has an absolute return benchmark and this quarter all the underlying fixed income asset classes experienced weak performance and thus led to underperformance. They only slightly underperformed their secondary benchmark (-0.4%) in totality although Ashmore (local currency EM bonds) and Barings (Leveraged loans) relatively underperformed the most.

The Listed Alternatives fund showed underperformance for the quarter and is now also underperforming since inception. The portfolio has a diversified portfolio which includes listed assets in infrastructure, specialist real estate, private equity and alternative credit. Assets with high interest rate sensitivity were adversely impacted as rates rose sharply. The fund also has a structural overweight to UK listed assets and the weakness of sterling caused underperformance relative to broader global benchmarks.

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 30 September 2022 is estimated to be 154%

The breakdown is as follows:

Fund's Assets at 30 September	**£9,935**
Funds estimated Liabilities at 30 September	**£6,430**

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 2022

Please note that the discount rate to calculate the liabilities was at its peak on the 30th September. This has since fallen back and the funding level will be somewhere between 119% (March 2022 level) and the figure shown above.

Outlook

Risks of a global recession have intensified. High inflation and monetary tightening by central banks are leading to slowing growth. Recession risk is rising but central banks are focused on fighting inflation which has lead to higher real yields, flatter yield curves and tighter financial conditions which has also given rise to greater market volatility.

Valuations have become more attractive but the background has become more challenging for credit and equities and looks to be skewed toward downside risks. From an asset allocation perspective, equities face headwinds but will still be supported by some earnings growth even if it is lower than in 2022.

UK Equities

The UK market has performed relatively better than other developed equity markets this year due to relatively high exposure to defensive stocks and commodities but it is accepted that we are already in recession and we will be looking to take profits as necessary. Would like to have a fairly neutral weighting

Overseas equities

We expect market conditions to remain volatile as higher than expected inflation accelerates the removal of monetary policy accommodation. We are now only moderately overweight overseas equities although we are underweight emerging markets relative to our benchmark weighting. We see no reason to adjust this position as although valuations for emerging markets do not look expensive the market outlook has deteriorated, especially for China. Will look to continue rebalancing total overseas weighting towards neutral.

Outlook

Bonds

Valuations are looking more attractive than in recent months. The expectation of higher rates is negative for nominal government bonds and credit markets but some of this expectation is already reflected in market prices. Index-linked gilts give protection against rising inflation but real yields are very low (negative) and likely to rise if nominal yields rise due to higher inflation. We have benefited from being underweight bonds as rates have been increasing but we now see better value in bonds so will be rebalancing into bonds, with preference for index-linked bonds given our very underweight position.

Real Estate

UK real estate is now in the midst of a broad repricing and performance over the remainder of the year and into 2023 are expected to deteriorate. Capital value impacts are expected to be greater on secondary assets which do not meet current occupational and investor demand.

Construction cost inflation has been rising throughout 2022 and has resulted in the number of development projects falling across most sectors, as investors struggle with the financial viability of new developments. This will further reduce the supply of UK real estate.

So, although the repricing of UK real estate will continue the income resilience which UK real estate should provide as a result of the current positive occupational environment, is likely to soften the impact on performance through the anticipated economic downturn.

Although our portfolio performance is expected to be hit in the short term due to lower yielding core industrial stock being repriced as the margin between prime yields and the risk free rate narrows, over the medium term the fundamentals for the sector remain positive. Low exposure to offices is a positive but diversification by increasing the exposure to residential (student accommodation in particular), retail warehousing, supermarkets and potentially other alternatives sectors such as healthcare would be recommended.

Will look to selectively increase weighting.

Outlook

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. The allocations are being weighted more towards private credit which tend to benefit from the linkage to floating rates in a period of rising rates and to infrastructure investments that have a particularly high level of linkage to inflation and have secure income characteristics.

Cash

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

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Responsible Investment Update Quarter 2 2022/23

November 2022

Contents

Highlights and Recommendations

Highlights over the quarter to the end of June include:

- A reduced level of voting activity following the passing of peak voting season
- A similarly reduced level of engagement activity following the passing of peak voting season although with continuing focus on the priority environmental and social issues.
- The broad ESG performance of the equity and corporate bond portfolios is consistent with previous periods and at least matches the position of the benchmark index.
- Significant reductions in market values have distorted some of the carbon emission metrics for the quarter.
- Achieved 3 Stars in the latest GESB assessment of the Commercial Property portfolio, reflecting the significant improvement in data gathering in this area.
- The Authority has disclosed its first round of emissions reduction targets through the IIGCC's Paris Aligned Asset Owner Initiative.

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

Background

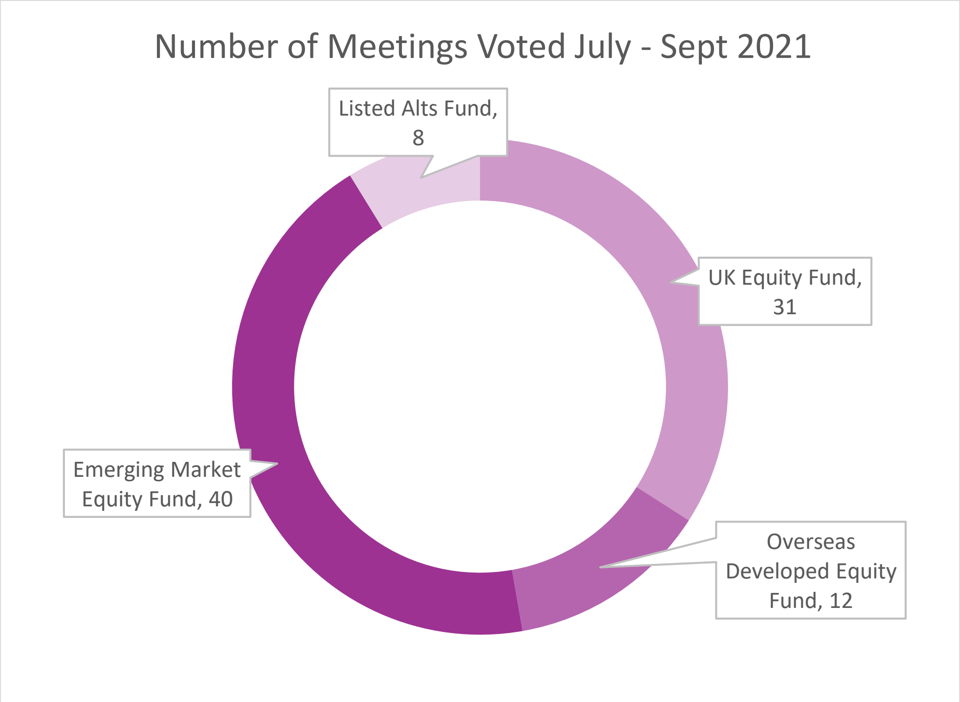
The Authority has developed a statement which sets out what it believes Responsible Investment is and how it will go about implementing it within its overall approach to investment. This statement is set out in the Responsible Investment Policy which is available on the website here.

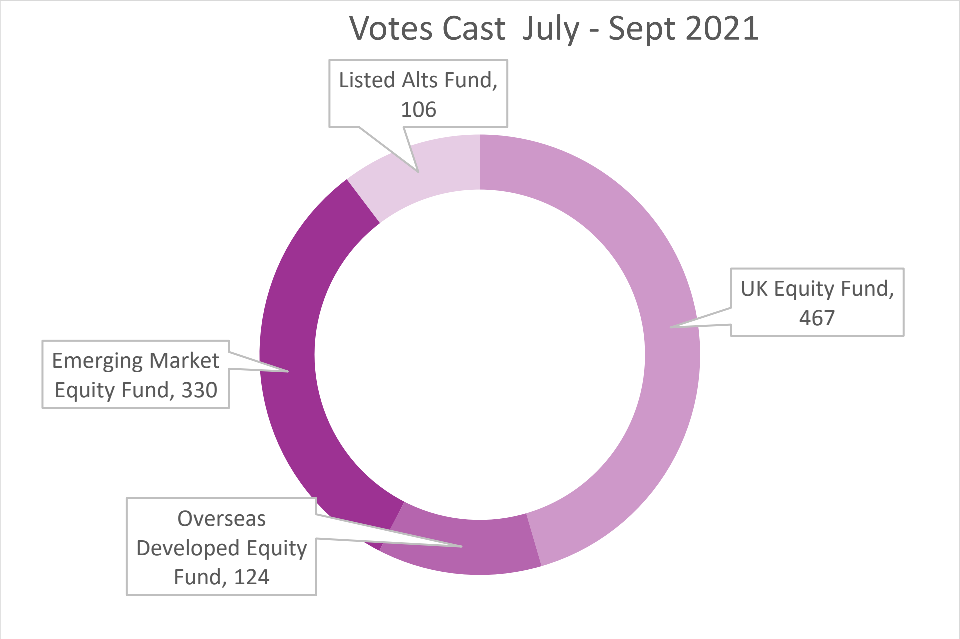
Our approach is largely delivered in collaboration with the other 10 funds involved in the Border to Coast pool. This report provides an update on activity in the last quarter covering:

- 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.
- Stakeholder Interaction – There is considerable interaction between the Authority and stakeholders around responsible investment issues which is summarised for wider accountability purposes.
- 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

This quarter saw a significant reduction in both the number of meetings and votes cast as we move past peak voting season, with the number of votes cast being around 16% of the level seen in the last quarter. Detailed reports setting out each vote are available on the Border to Coast website here.





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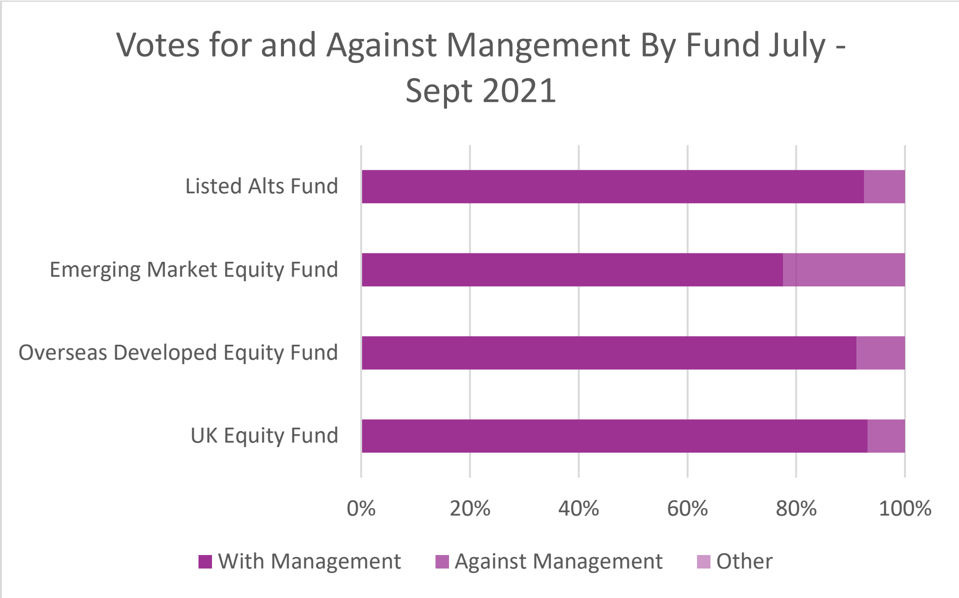
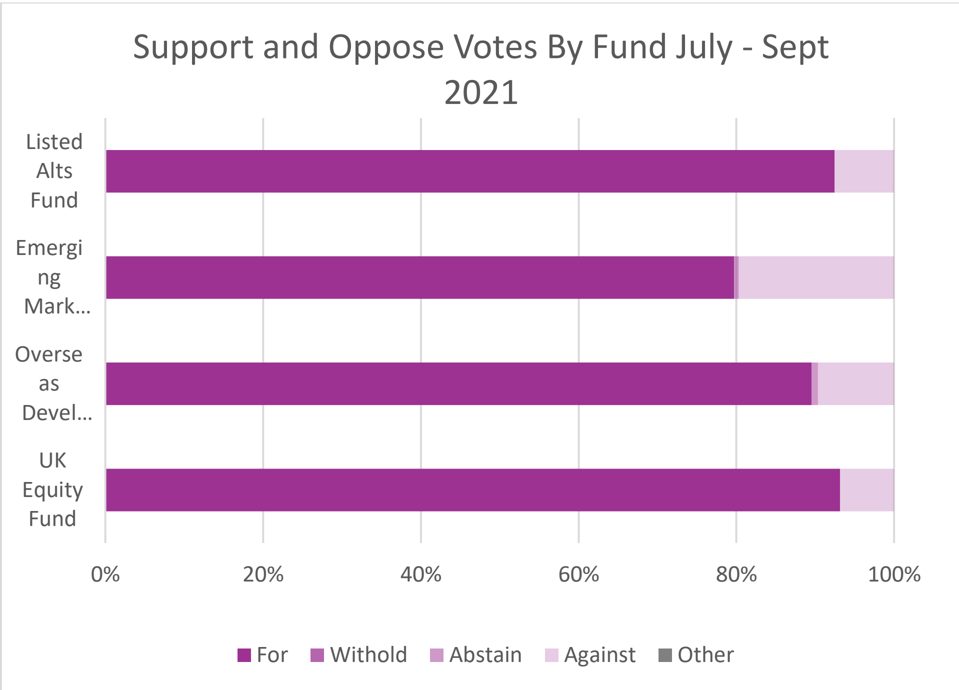
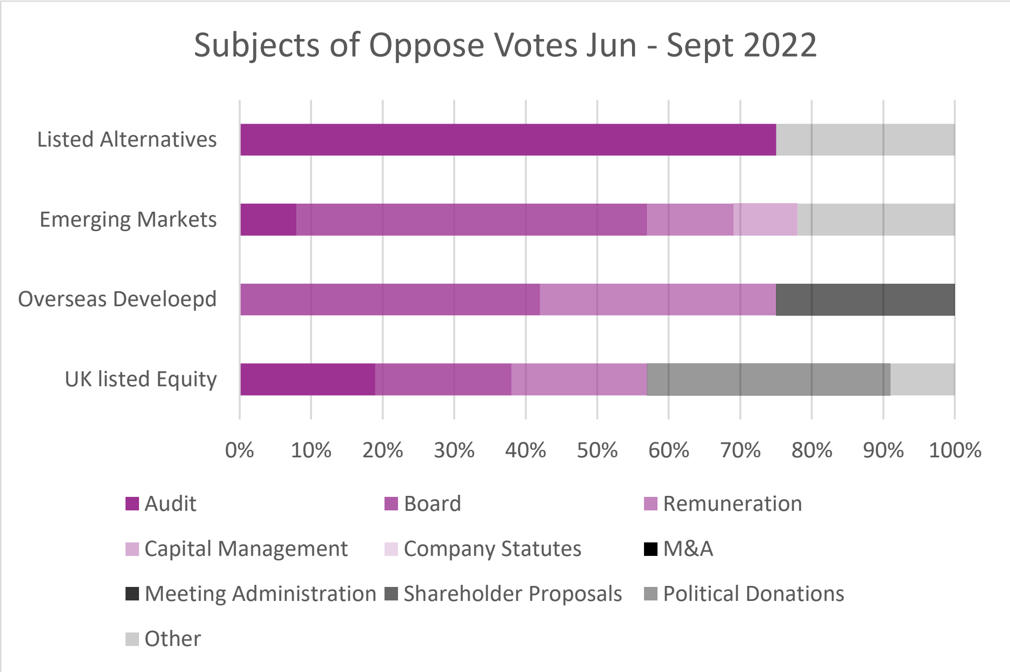
The pattern of support and oppose votes and votes for or against management is shown in the charts below.





This shows a continuing slight increase in the number of votes cast both against resolutions and against the line taken by company management. As has been previously reported this reflects the “ratcheting up” of the voting guidelines in a number of areas, as can be seen from the analysis below of the subjects of oppose votes.



This indicates that votes against are more evenly distributed across topics in the developed markets than in the emerging markets as listed alternatives funds. In some cases this will be because shareholder proposals are not allowed in some markets. The three largest areas where we have opposed management relate to Board composition, Auditor appointments and remuneration, and it is worth rehearsing the reasons why this is the case.

- In the case of Board composition there are a number of things which under the voting guidelines automatically trigger an oppose vote. These include insufficient independence, insufficient diversity within the Board, and insufficient progress in terms of adapting the business to the risks posed by climate change.
- Auditor appointments are automatically opposed if reappointment would result in an unduly long term which is viewed as compromising the auditor's independence.
- In the case of remuneration votes against are triggered by executive pay packages which are either excessive in absolute terms and/or where incentive packages are not aligned with shareholder interests and/or the performance targets are poorly defined or too easily achieved.

Shareholder resolutions as can be seen from the information on notable votes in these reports can cover a whole range of issues but in the last year the focus other than on climate issues has tended to be on diversity and human rights issues particularly for US companies. The voting policy does not automatically support such resolutions and analysis is undertaken of both the company's and proponents positions before votes are decided by Border to Coast on the advice of Robeco.

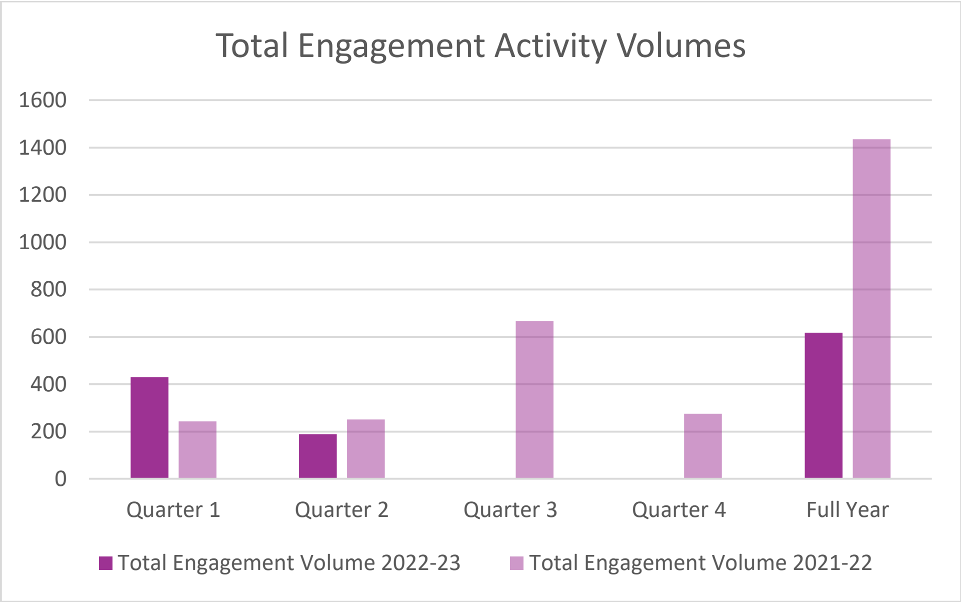
Notable votes in the quarter are set out in the box below.

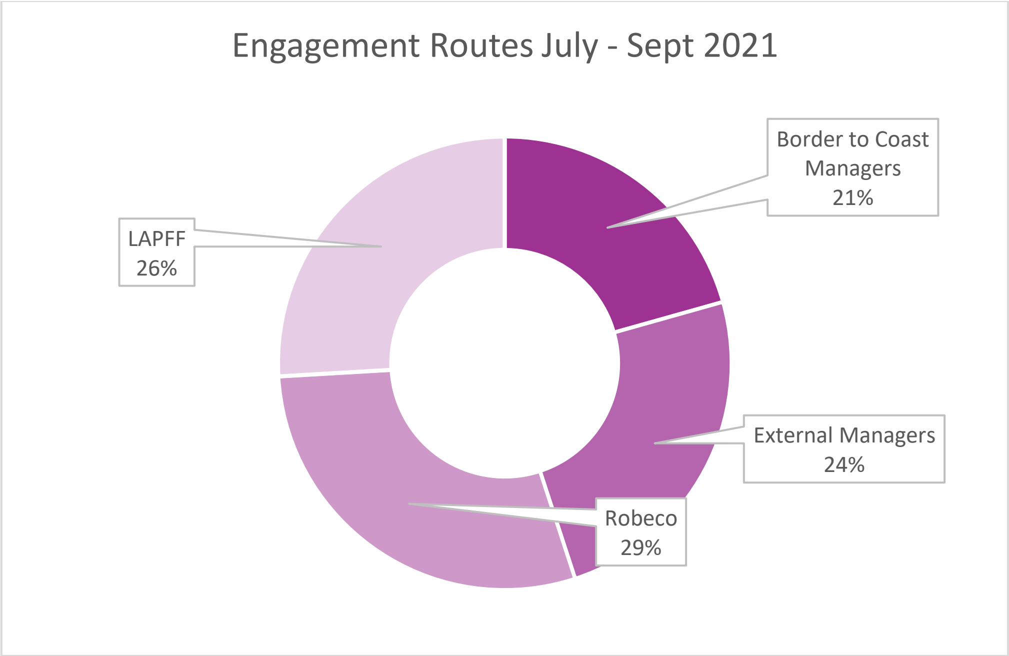
Alibaba Group is held in the Emerging Market Fund and is viewed as the "Chinese Amazon". The focus at the AGM was on the election of directors where the Founders of the Company are able to nominate a majority of the Board, which is not in line with the governance principles in our voting guidelines. We voted agains both the Chair and Chair of the Nomination Committee on the grounds of lack of Board diversity and independence. This was intentded to spur the Company to further improvement as it looks to move its primary listing to Hong Kong

Nike is held in the Overseas Developed Fund and is a global manufacturer of sportswear. THe 2022 AGM saw two particularly significant resolutions. The first was "Say on Pay" which once again drew significant opposition (up to 35% from 28% last year) based on the magnitude and structure of executive pay and incentive schemes. The second resolution sought to pause the sourcing of raw materials from China in light of current US Government advice. We abstained on this resolution as while we consider that the risks relating to China should be addressed a pause of this nature is not the only route to achieve this.

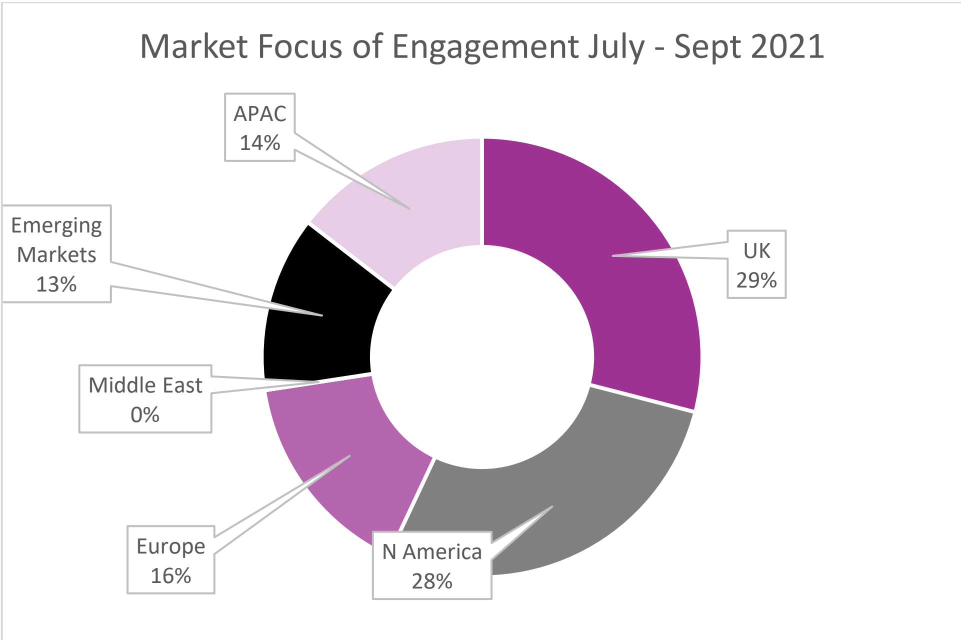
Engagement Activity

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.



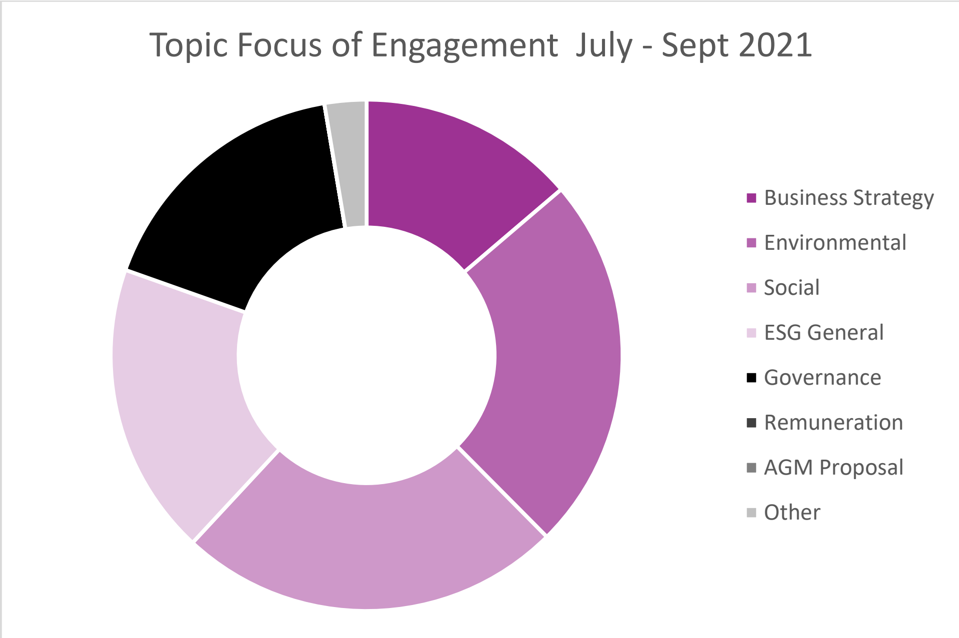


As can be seen the level of engagement activity in the quarter has reduced compared to the previous quarter with the passing of peak voting season, while there has been an increase compared to last year in the proportion of activity being carried out by Border to Coast, Robeco and the external managers with the proportion of activity being carried out by LAPFF reducing following the peak associated with CoP 26 in Glasgow.

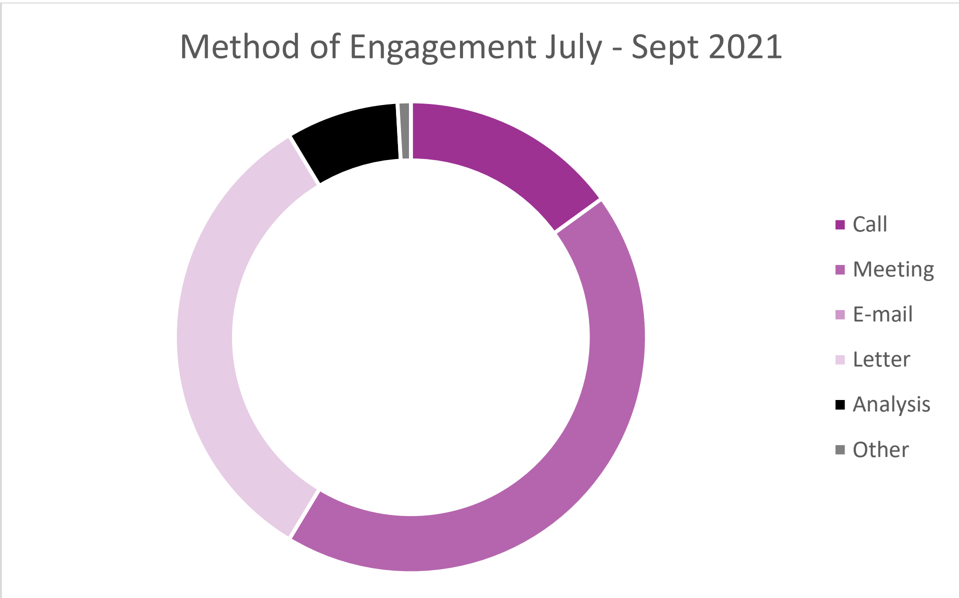


The market focus of engagement continues to normalise following last year's disproportionate focus on the UK in the lead up to CoP 26 with the distribution now better reflecting the geographic distribution of holdings, although the UK continues to be overrepresented as our home market where it is easier to engage with companies.

The range of topics covered through engagement is set out in the chart below with a continuing strong focus on environmental and climate issues although social issues continue to receive a significant degree of focus. Again, following the CoP 26 peak there is a more even spread of focus across issues although given the passing of peak voting season remuneration was not a topic of any engagement this quarter.



The method by which companies are engaged is important. Letters and e mails are much more easily ignored or likely to generate a stock response from companies whereas calls or meetings allow for genuine interaction with the company.



This shows the continuation of the positive trend of the previous quarter towards forms of engagement which allow genuine interaction with the Company.

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:

- Work on natural resource management in particular addressing the negative impacts of intensive water use and waster generation (reflecting one of the priorities for engagement identified by SYPA) focussing initially on six companies with high water consumptions and operating in areas of water stress.

- Ongoing engagement with financial institutions around the financing of the climate transition, where initial assessments have indicated that alignment of plans with credible net zero trajectories is relatively low, in part due to the lack of disclosure of emissions data throughout loan books but also due to insufficient target setting. The next stages of this work include setting clear expectations for financial institutions which should, for example, include specific policies on the financing of new fossil fuel exploration. While there has been some progress particularly in the area of governance future work will push for improvements in scenario analysis and sector decarbonisation strategies.

During the quarter a new engagement theme on Diversity and Inclusion (D&I) was launched by Robeco focused on increasing diversity within the workforce. The intention is for this engagement to run continuously, rather than for the usual three-year period, gradually increasing coverage.

This engagement theme will support our priority theme of Diversity of Thought which is running for the next three years.

Why is this important?
The COVID-19 pandemic and a renewed focus on racial injustices have brought a heightened emphasis on diversity and inclusion within companies, institutions, and society more generally. Diversity of thought and experience on boards is significant for good governance, it reduces the risk of 'group think' leading to better decision making. There can be a positive impact on corporate performance, where benefits can be seen from recruiting and retaining talent, enhancing corporate reputation, and improved decision-making. Building an inclusive and diverse workplace creates a positive impact on the workforce leading to enhanced productivity. Therefore, human capital management strategies, which include diversity and inclusion, are important in determining a company's underlying quality and value and factors that investors should integrate into their investment decisions making.

How will companies be assessed for engagement?
Insufficient data is the main challenge identified by investors when assessing companies' efforts on diversity and inclusion. This can be an additional challenge due to the regulations in different jurisdictions where it is not permitted to gather certain types of data due to privacy restrictions. To determine which companies to consider as potential engagement cases, industries were identified that were seen as laggards in disclosing data on diversity. Then the Principle Adverse Impact (PAI) indicators, which are part of the EU sustainability reporting requirements, were assessed using third-party data. The 20 industries with the lowest levels of disclosures were prioritised for engagement.

What are the objectives?
Five engagement objectives have been formulated to facilitate engagement and dialogue with companies. These include:

- Developing a D&I policy with time-bound goals
- Defining and aligning strategies for talent management, covering recruitment, development, performance, and succession planning
- Disclosing workforce diversity data
- Undertaking pay equity audits
- Promoting an inclusive culture

More details of the activity undertaken by LAPFF in the quarter is available here. Key issues being worked on include:

- Continued engagement over the impact of tailings dam collapses over communities in Brazil which was furthered through direct engagement with both the affected communities and Vale during a visit to Brazil by the Forum's Chair. This visit also provided the opportunity to develop relationships with local asset owners and asset managers who will be more able to maintain consistent pressure on the companies than LAPFF can from a distance.
- Power Companies – The Forum noted significant progress with the transition plans of both National Grid (in the UK) and SSE with both companies adopting genuine science-based targets for the achievement of Net Zero.
- Electric Vehicle Manufacturers – The Forum has engaged with manufacturers around the responsible sourcing of minerals for batteries, which has the potential to negatively impact the Just Transition.
- Extending the work of the 30% Club on diversity on to a global stage where a process of engagement with three companies has begun.
- Joining in with and supporting work by the Australian Strategic Policy Institute (ASPI) on Uyghur forces labour in China.

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 Authority members in the on-line reading room, but this summary provides a high-level indication of the position.

Overseas Developed

- Weighted ESG Score 7.2
- 42.0% of portfolio ESG leaders v 43.0% in the benchmark.
- 1.5% of portfolio ESG laggards v 2.2% in the banchmark.
- 5.1% of portfolio not covered all of which are investment trusts etc higher than benchmark
- Worst scoring companies 1.1% of portfolio
- Emissions below benchmark on all metrics.
- Weight of fossil fuel holdings greater than benchmark
- All 5 top emitters rated on the Transition Pathway with 2 scoring 4

United Kingdom

- Weighted ESG Score 7.9
- 71.4% of portfolio ESG leaders v 69.1% in the benchmark
- 0% of portfolio ESG laggards v 0.1% in the benchmark
- 7.9% of portfolio not covered mainly investment trusts marginally less than benchmark
- Worst scoring companies 6.5% of portfolio but all Average companies
- Emissions belpw benchmark on all measures
- Less weight of fossil fuel holdings than in benchmark.
- Top 5 emitters all rated 4 or 4* (highest ratings) on the Transition Pathway and all engaged through Climate Action 100+

Emerging Markets

- Weighted ESG score 5.5
- 24% of portfolio ESG leaders v 18.8% in the benchmark
- 16.6% of portfolio ESG laggards v 16.0% in the benchmark
- 5.0% of portfolio not covered largely investment trusts etc
- Worst scoring companies 2.8% of portfolio.
- Emissions materially below benchmark on all metrics
- Greater weight of fossil fuel holdings than in benchmark.
- 4 of the top 5 emitters engaged with the Transition Pathway with one scoring 4

In general, this shows a broadly positive picture, with all funds continuing to score better than the benchmark overall. There have been no significant movements in individual company ratings in the quarter and movements for larger holdings tend to reflect previously agreed engagement activity in particular in far eastern markets where complex cross-holdings and lack of board independence (which are common in these markets) result in governance concerns relative to the standards which are expected.

The carbon metrics are addressed later in this report.

Investment Grade Credit Portfolio

Similar information is now available for the Investment Grade Credit portfolio as is available for the equity portfolios. It is important to note that while the availability and quality of ESG data has been improving in recent years, there can still be material gaps across the fixed income market. This is particularly prevalent where a debt-issuing entity does not also issue publicly listed equity, which, in most cases, the fixed income issuer maps to. The highlights from this report are set out below:

Weighted ESG score 7.4 which is less than benchmark

24.4% of portfolio ESG leaders compared to 39.5% in the benchmark

0.5% of portfolio ESG laggards compared to 0.4% In the benchmark

55.0% of portfolio not covered of which 49.6% is companies not covered and 5.4% collective vehicles

Lowest rated issuers represent 1.7% of the portfolio

Emissions below benchmark on two of the three metrics but somewhat above on carbon intensity

Materially below benchmark weight of companies with fossil fuel reserves.

2of top 5 emitters being engaged by Climate Action 100+ and both rated on the Transition Pathway

The ESG score was stable over the quarter and the below benchmark score is driven by the active positioning of the Fund holding “leader” stocks. Despite this the Fund is rated AA which is classed as Leader.

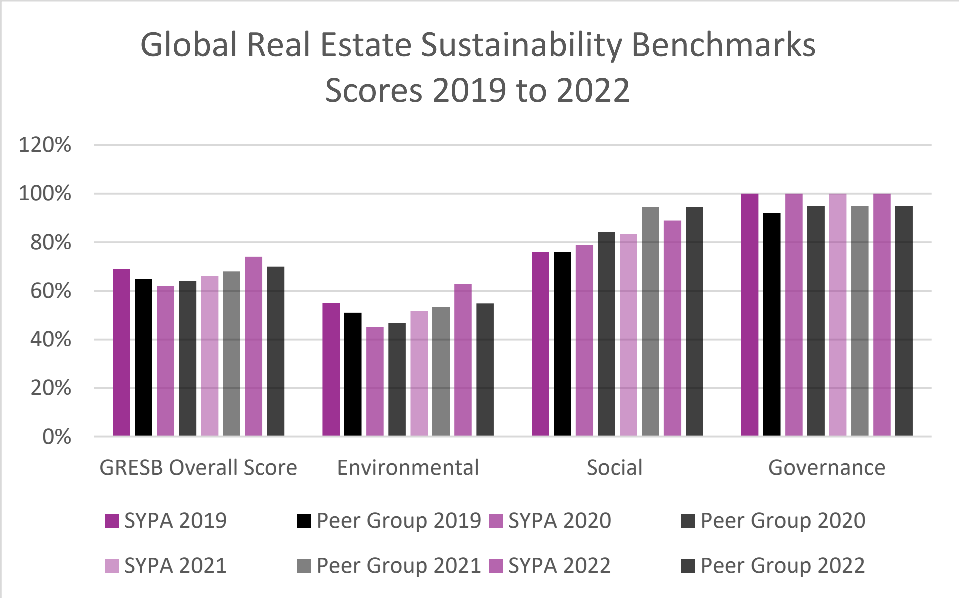
No one holding dominates emissions within the portfolio.

Commercial Property Portfolio

The latest assessment of the Fund’s commercial property portfolio using the Global Real Estate Sustainability Benchmark (GRESB) is now available. This shows significant improvement on the previous year with the portfolio now having achieved a 3 Star rating in line with the target set by abrdn as the fund manager.

GRESB assesses property portfolios through a number of lenses to provide a composite assessment, these include management, performance and ESG. In previous years the lack of data for some properties has reduced the performance score. The graph below shows the way in which

SYPA's performance has developed since 2019 in terms both of the overall score and the individual ES and G scores, compared to a peer group of around 80 similar portfolios constructed by GRESB.

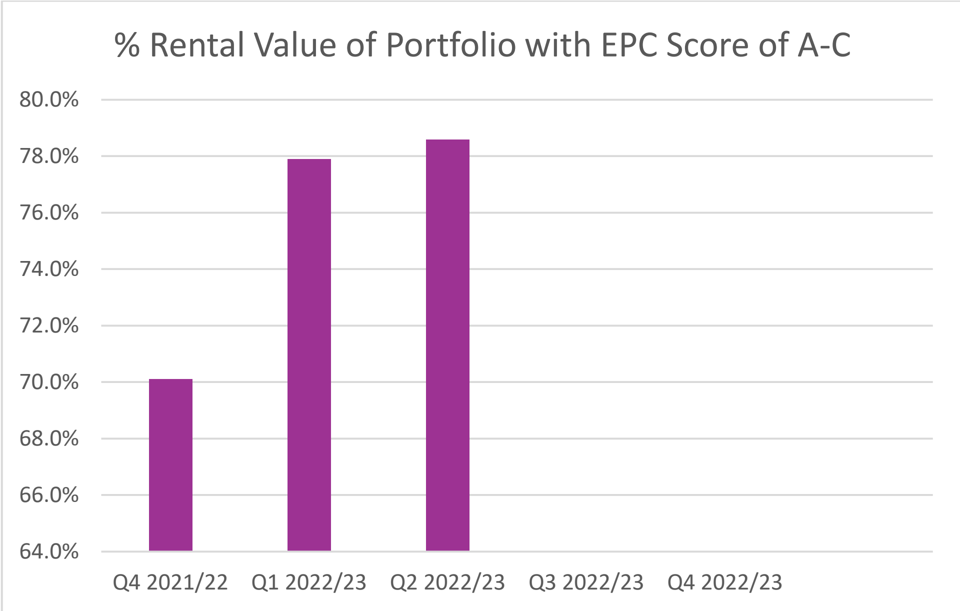


The broad trend shown in this graph is of improvement with better than peer group performance on all measures apart from Social in 2022, with an overall performance that ranks 22nd of the 80 funds within the peer group.

The Social score reflects a reasonable score of 8.5/11, but this compares to an average of 9.5. This area covers engagement with tenants and the community which while important and certainly of significance in multi-let office buildings and industrial estates is not as great a priority as other areas where efforts to secure improvement have been focussed in recent years.

The performance score which is not shown above as the full time series is not available has improved and is now above the benchmark average although still below the global average of all GRESB participants. This reflects the improvements in data which allowed the provision of emissions data at 31st March although there is much further to go in securing complete data which will, in part, be achieved through the inclusion of data provision requirements in new leases and the installation of automatic data collection technology where it is cost effective to do so. However, in general terms the portfolio is performing at least as well as the peer group in most areas.

In terms of the regular indicators produced the key metric is the proportion of the portfolio with Energy Performance Certificates rated as A-C. As shown in the graph below this has increased by nearly 1% in the quarter with some specific further work targeted at Scottish properties where new legislation will require further improvements in energy efficiency. Further improvements will come through a number of planned solar installations across the portfolio which have already been agreed.

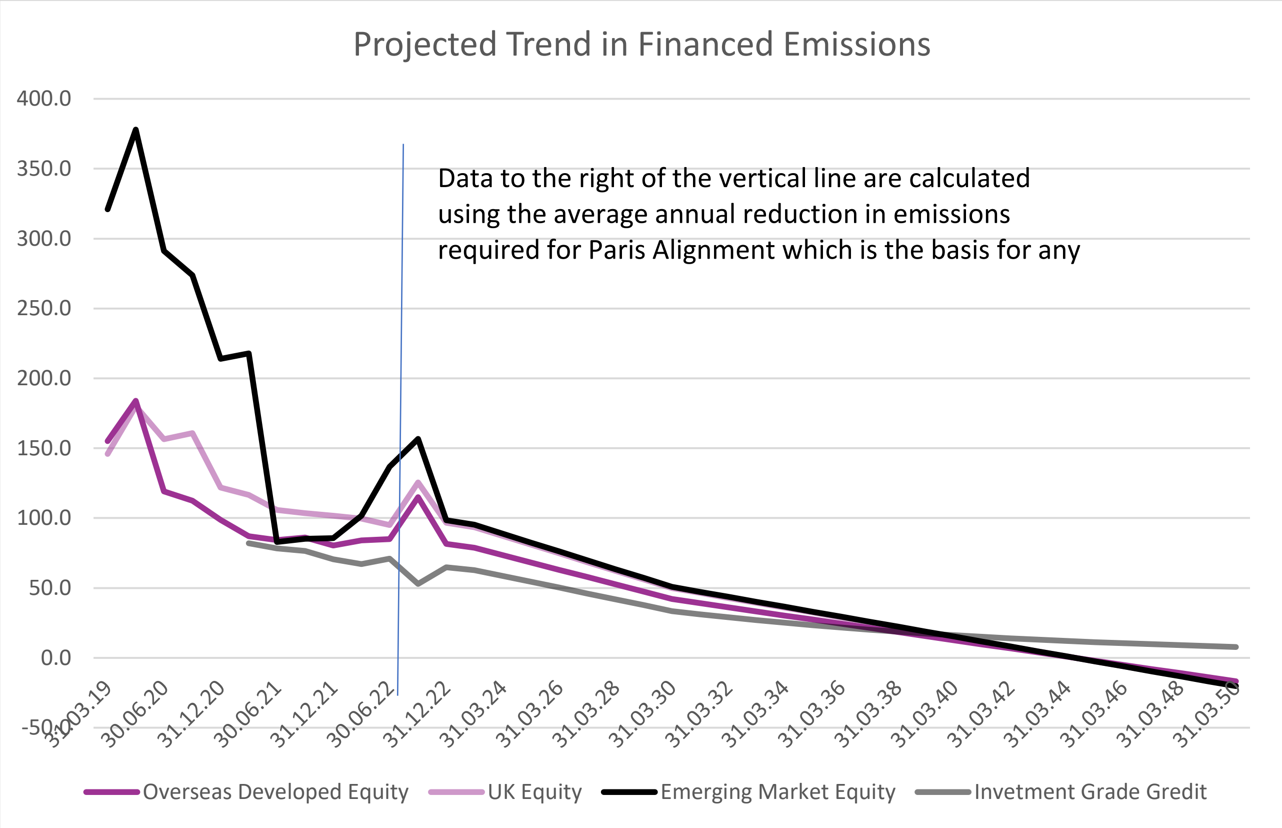


A further significant indicator of progress in this area is the proportion of the portfolio's asset value which is covered by sustainability certification (in this case BREEAM) which currently stands at 32% compared to 10% last year. This reflects some impact from the disposals within the portfolio, and it should be remembered that SYPA has, as yet, not looked at the option of in use certification which would probably increase this further but which has a cost which needs to be justified in comparison to investment in things such as solar panels which have a direct impact on the performance of buildings and on the level of emissions from the portfolio.

Abrdn as our fund manager have commissioned work to establish the changes that will be necessary to set the portfolio properly on the road to Net Zero. This will be reported to officers before Christmas and an update will be provided in the next report.

Progress to Net Zero

This section of the report considers progress towards Net Zero using the emissions data provided on a quarterly basis by Border to Coast. The graph below shows the trend for what is now termed financed emissions (i.e. absolute carbon emissions) which is the main indicator for which targets have to be set. This covers the four portfolios for which emissions data are available.



There has been a spike in all the measures over the last quarter largely due to the turmoil in markets impacting the $ invested element of the metric, i.e., at a time of falling asset values the same absolute volume of carbon emitted results in a larger measure in terms of tCO_2e/$m invested. Some post-September recovery in markets will address this, while the recession forecast by some commentators may also result in a reduction in absolute emissions.

As has been made clear previously the forecast reduction in emissions shown is dependant upon Border to Coast delivering the targets set out in their own Net Zero Strategy which depend on changes within the investment process as well as on the actions of individual companies. Officers will be engaging with Border to Coast in the coming months to further understand both the nature of the changes being made to the investment process and their likely impact and will be seeking in the forthcoming review of the Authority's own responsible investment policies to look for a further ratcheting up of pressure on companies to adapt their behaviour.

Beyond this the investment strategy review may result in changes to the mix of assets that reduce the level of emissions from the portfolio but this process is at too early a stage to determine whether this is likely to be the case. Following the conclusion of Project Chip rapidly moving the agricultural portfolio into the position of being a positive contributor will also assist in improving the overall position. However, as has previously been reported there remains a very strong probability that the Net Zero Goal will be missed although there is a possibility should all portfolios achieve the reductions targeted by fund managers that a date earlier than 2050 could be achieved.

It should also be borne in mind that while there is, rightly, a significant focus on emissions there is no credit in the calculations for the emissions avoided by the significant investment by the Authority in renewable energy and other climate solutions and this is something that we will look to begin reporting on in future.

As reported elsewhere the formalisation of TCFD reporting requirements within the LGPS regulations will require us to begin producing a wider and more comprehensive range of data which we will need external assistance with. Discussions have begun with Border to Coast colleagues about how best to deliver this in a collaborative way in order to reduce cost and avoid duplication.

Stakeholder Interaction

Over the quarter there has been a range of stakeholder interaction, although at a slightly lower level than in the previous quarter.

The focus has been entirely on climate related issues of one sort or another with continuing calls to divest from oil and gas companies, and potentially to use any funds released for more local investment.

There was also a call to “rewet” those elements of the Fund’s agricultural holdings which are on peat-based soils in order to act as a sequestrator. As indicated elsewhere one of the objectives which Project Chip is seeking to achieve is the more active management of these holdings to achieve positive climate benefits. The vast majority of the holdings are on silt-based soils and in these cases “rewetting” may not be the most appropriate route and therefore appropriate scientific studies are already being commissioned to look at the options that might be available in this area.

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.

Local Authority Pension Fund Forum

LAPFF held its most recent business meeting at the beginning of October alongside its AGM. The AGM considered the usual business including the election of members of the Executive. These include two Border to Coast colleagues, Cllr Doug McMurdo of Bedfordshire as Chair and Cllr Wilf Flynn from Tyne and Wear as a member of the Executive. Of note is the fact that all elections were unopposed and that there is a lack of diversity with for example only 3 women amongst 15 executive places. The Executive has identified this as an issue and set up a working group to examine options to address the issue.

The meeting also approved the accounts which indicated an underspend during the year and the maintenance of healthy reserves.

The Business Meeting considered

- A draft report to the consultation on the transition from the Financial Reporting Council (FRC) to the Audit Reporting and Governance Authority (ARGA). In itself the creation of ARGA is the culmination of a long running campaign by LAPFF over the need for regulation in this area to be genuinely independent of the accounting profession and accountable to stakeholders. The response highlighted a number of areas where the consultation appears to depart from the principles set out in the Kingman Review which led to the proposal to create ARGA.
- Issues surrounding Drax and Biomass where engagement is going on in relation to whether the wood being used by Drax to generate power is actually coming from genuinely sustainable forests.
- An update on the recent report of the parliamentary Climate Change Committee on reducing emissions, which highlighted a number of areas for potential future engagement with companies.
- The addition of a further member fund to the Forum bringing the total number of members to 86 Funds and 6 Pools across Scotland, England and Wales.

IIGCC Institutional Investors Group on Climate Change

Transition Pathway Initiative

In recognition of the pivotal role that banks, and financial institutions play in the transition to a low carbon economy, the Transition Pathway Initiative (TPI), in collaboration with the Institutional Investor Group on Climate Change (IIGCC) recently published a framework to assess banks on how they are transitioning to net zero . The Framework has been used to assess 27 banks across several areas, including commitments, targets, strategy, governance, policy engagement and reporting . The results showed that, although banks have made progress, there is still significant work needed for the sector to align with a 1.5 ° pathway.

The Authority is signed up to IIGCC's Paris Aligned Asset Owner Initiative (more details here) and has worked with the initiative's Net Zero Investment Framework to develop its approach to Net Zero, A requirement of this initiative is that signatories disclose various targets and other information. SYPA is part of the second round of disclosures alongside 12 other asset owners. The targets reflect the plans in place for the relevant pooled products in which we are invested and will be reviewed alongside the investment strategy review. Further details can be found here.

PRI Principles for Responsible Investment

To recognise the fast -changing landscape for responsible investment, the Principles for Responsible Investment (PRI), to which Border to Coast is a signatory, has launched a global consultation to explore topics including the PRI's vision, mission and purpose, the future of responsible investment and the value it provides to its signatories . The PRI is proposing to hold conversations with signatories from September to December and host a formal online consultation due to close in January 2023, which we would expect Border to Coast to respond to.

PENSIONS FOR PURPOSE

The Authority has been shortlisted for two awards in the Pensions for Purpose Annual Awards. These are

- The Impact Investing Principles Adopters Award which relates to the strength and quality of our work in turning the principles which we have adopted into a reality within our investment approach. This was the award that we won last year.
- The Place Based Impact Investing Award which celebrates initiatives concerned with impact investing achieving impacts in specific places. This relates to the work we have done with CBRE on our local loans portfolio.

Unfortunately, due to rail strikes during November the presentation has been delayed until February 2023.

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.

The major policy issue relating to LGPS currently is the consultation on the introduction of TCFD reporting to the sector. The Authority contributed to responses by the Border to Coast Partnership and the Scheme Advisory Board, while LAPFF also produced a response, but did not respond itself in order to minimise the call on resources and allow officers to focus on preparing to implement the new requirements. The key issues raised in responses concerned:

- The potential for the data published to be used as a weapon against funds through the creation of league tables based on data without context.
- The significant challenges of aggregating data across the whole LGPS.
- The challenges that exist in scenario analysis and the need to agree a minimum set of common scenarios to be used.
- The well-known issues around missing or poor-quality data.

In addition to this elsewhere on the agenda the Authority is being asked to endorse Border to Coast's updated responsible investment policies.

SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Annual Review and Update of the Border to Coast Responsible Investment Policies**	**Status**	For Publication
Report to	Authority	**Date**	8th December 2021
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 secure the Authority's endorsement for the various Border to Coast Responsible Investment policies following their annual review.

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2 Recommendations

2.1 Members are recommended to:

a. **Endorse the various Border to Coast policies at Appendices A to C**

b. **Note the publication by the Company of its Net Zero Road Map.**

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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.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report will directly impact on the Authority's ability to achieve the necessary mitigations of the identified corporate risk relating to the impact of climate change on the value of investment assets, as well as the more general investment related risks that are mitigated by ensuring that effective stewardship arrangements are in place.

5 Background and Options

5.1 Each year Border to Coast conducts a review of its Responsible Investment Policy and Voting Guidelines so that they can be updated for the following voting season. It is important to recognise that these are all collective documents which represent the company's position based on the consensus position of the partner funds. As such there is, inevitably, a degree of compromise in relation to the positions of the individual partner funds. The diagram below sets out the relationship between these documents and the Authority's own policy framework in this area, and the documents themselves are attached at Appendices A to C.

5.2 The Responsible Investment Policy has been updated to reflect the ongoing evolution of the approach in this area. In particular a new section covering exclusions has been included reflecting the long-standing exclusion for pure coal and tar sands (although with a lower revenue threshold) and a new exclusion for cluster munitions. This is an area that is likely to continue to develop over time. Work has also been done to ensure the policy aligns with the Climate Change Policy. Other changes are minor and reflect a process of ensuring the policy aligns with the expectations of the Stewardship Code. As engagement priorities were set for 3 years these remain the same.

5.3 The main changes to the Voting Guidelines are:

- The inclusion of a new section on human rights reflecting the fact the Company has joined a collaborative engagement in this area and also because of the increasing profile of this area.
- Changes to reflect the updating of the Climate Change Policy and to reflect the evolution of Robeco's approach to climate issues.
- Setting out clear expectations in relation to Board diversity for both FTSE 100 and FTSE 250 companies.
- Setting out standards in relation to the nature of long term incentive packages to cover a wider range of markets.

5.4 These are all changes which would support the Authority's general position and reflect an ongoing ratcheting up of expectations with clear consequences in terms of the way in which votes are cast. This is an approach which is consistent with the long-standing approach that the Authority has taken and it would therefore be appropriate for the Authority to endorse these guidelines.

5.5 The Climate Change policy has been updated to reflect the setting out of the Company's Net Zero road map with milestones to 2050. Beyond this the policy has been amended to set the actions proposed in the context of a Just Transition to a low / no carbon economy which is in line with the Authority's policy position. Further detail has been included on the expectations of external managers, which is helpful in providing clarity for the Authority on the extent to which the company will exert pressure on managers to ensure change. There have also been changes in the sections referring to voting and engagement to bring them in line with other policies.

5.5 The thresholds for exclusion in relation to pure coal and tar sands have been altered to 70% of revenues in public markets with a new lower threshold of 25% for private markets. While this is a welcome move in this area it is worth noting that it does not involve the disposal of any individual holding. This is an area where while welcoming the movement the Authority will wish to see more rapid progress in future iterations of the policy and this will be reflected in the next review of our own policy.

5.6 These changes are broadly evolutionary and are in line with the broader market. There are areas where the Authority might wish to see more rapid progress and these will be reflected in the next review of the Authority's own policies in March which will then influence our input into the next iteration of the Border to Coast policies.

6 Implications

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

Financial	None directly
Human Resources	None
ICT	None
Legal	The policies properly address the wider range of risks which can impact shareholder value while ensuring that decisions are made on appropriate investment grounds.
Procurement	None

George Graham

Director

Background Papers	
Document	**Place of Inspection**
Border to Coast Responsible Investment Policies	Responsible Investment - Border To Coast - Sustainable Pension Investments

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Responsible Investment Policy

Border to Coast Pensions Partnership

January 2023

Responsible Investment Policy

This Responsible Investment Policy details the approach that Border to Coast Pensions Partnership follows in fulfilling its commitment to our Partner Funds in their delegation of the implementation of certain responsible investment (RI) and stewardship responsibilities.

1. Introduction

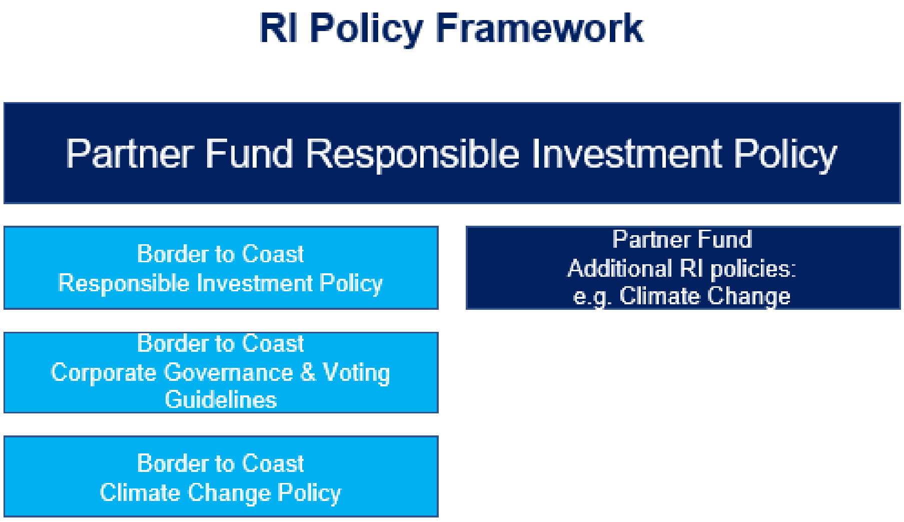
Border to Coast Pensions Partnership Ltd is an FCA-authorised investment fund manager (AIFM). It operates investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). The purpose is to make a difference to the investment outcomes for our Partner Funds through pooling to create a stronger voice; working in partnership to deliver cost effective, innovative, and responsible investment now and into the future; thereby enabling great, sustainable performance.

Border to Coast takes a long-term approach to investing and believes that businesses that are governed well, have a diverse board and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Diversity of thought and experience on boards is significant for good governance, reduces the risk of ‘group think’ leading to better decision making. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long-term returns. Well-managed companies with strong governance are more likely to be successful long-term investments.

Border to Coast is an active owner and steward of its investments across all asset classes. This commitment is demonstrated through achieving signatory status to the Financial Reporting Council UK Stewardship Code. As a long-term investor and representative of asset owners, we hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It practices active ownership through voting, monitoring companies, engagement and litigation.

1.1. Policy framework

The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed this RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds. This collaborative approach results in an RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework.



2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process and practicing investment stewardship, to better manage risk and generate sustainable, long-term returns. Financial and ESG analysis together identify broader risks and the opportunities leading to better informed investment decisions and can improve performance as well as risk-adjusted returns.

Investment stewardship includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance.

3. Governance and Implementation

Border to Coast takes a holistic approach to the integration of sustainability and responsible investment, which are at the core of our corporate and investment thinking. Sustainability, which includes RI, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate the commitment to RI, which include the Responsible Investment Policy and Corporate Governance & Voting Guidelines (available on the **website**). Border to Coast has dedicated staff resources for managing RI within the organisational structure.

The RI Policy is owned by Border to Coast and created after collaboration and engagement with our eleven Partner Funds. The Chief Investment Officer (CIO) is accountable for implementation of the policy. The policy is monitored with regular reports to the CIO, Investment Committee, Board, Joint Committee and Partner Funds. It is reviewed at least annually or whenever revisions are proposed, taking into account evolving best practice, and updated, as necessary.

4. Skills and competency

Border to Coast, where needed, takes proper advice in order to formulate and develop policy. The Board and staff maintain appropriate skills in responsible investment and stewardship through continuing professional development; where necessary expert advice is taken from suitable RI specialists to fulfil our responsibilities.

5. Integrating RI into investment decisions

Border to Coast considers material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments.

The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues are considered and monitored in relation to all asset classes. The CIO 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 Pay conditions (e.g. living wage in UK)	Board independence Diversity of thought Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption Political lobbying

When considering human rights issues, we believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. Companies should have processes in place to both identify and manage human rights risks across their business and supply chain. Further detail on our voting approach is included in the Corporate Governance & Voting Guidelines.

Whilst the specific aspects and form of ESG integration and stewardship vary across asset class, the overarching principles outlined in this policy are applied to all assets of Border to Coast. More information on specific approaches is outlined below.

5.1. Listed equities (Internally managed)

Border to Coast looks to understand and evaluate the ESG-related business risks and opportunities companies face. We consider the integration of ESG factors into the investment process as a necessary complement to the traditional financial evaluation of assets; this results in a more informed investment decision-making process. Rather than being used to preclude certain investments, it is used to provide an additional context for stock selection.

ESG data and research from specialist providers is used alongside general stock and sector research; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection. The Head of RI works with colleagues to ensure they are knowledgeable and fully informed on ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings is shared with the team to increase and maintain knowledge, and portfolio managers are involved in the voting process.

5.2. Private markets

Border to Coast believes that ESG risk forms an integral part of the overall risk management framework for private market investment. An appropriate ESG strategy will improve downside protection and help create value in underlying portfolio companies. Border to Coast takes the following approach to integrating ESG into the private market investment process:

- The assessment of ESG issues is integrated into the investment process for all private market investments.
- A manager's ESG strategy is assessed through a specific ESG questionnaire agreed with the Head of RI and reviewed by the alternatives investment team with support from the Head of RI as required.
- Managers are requested to complete an annual monitoring questionnaire which contains both binary and qualitative questions, enabling us to monitor several key performance indicators, including RI policies, people, and processes, promoting RI and RI-specific reporting.
- Managers are requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring includes identifying any possible ESG breaches and following up with the managers concerned.
- Work with managers to improve ESG policies and ensure the approach is in-line with developing industry best practice.

5.3. Fixed income

ESG factors can have a material impact on the investment performance of bonds, both negatively and positively, at the issuer, sector and geographic levels. ESG analysis is therefore incorporated into the investment process for corporate and sovereign issuers to manage risk. The challenges of integrating ESG in practice are greater than for equities with the availability of data for some markets lacking.

The approach to engagement also differs as engagement with sovereigns is much more difficult than with companies. Third-party ESG data is used along with information from sources including UN bodies, the World Bank and other similar organisations. This together with traditional credit analysis is used to determine a bond's credit quality. Information is shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

5.4. Real estate

Border to Coast is preparing to launch funds to make Real Estate investments through both direct properties and indirect through investing in real estate funds. For real estate funds, a central component of the fund selection/screening process will be an assessment of the General Partner and Fund/Investment Manager's Responsible Investment and ESG approach and policies. Key performance indicators will include energy performance measurement, flood risk and rating systems such as GRESB (formerly known as the Global Real Estate Sustainability Benchmark), and BREEAM (Building Research Establishment Environmental Assessment Method). Our process will review the extent to which they are used in asset management strategies. We are in the process of developing our ESG and RI strategies for direct investment which includes procuring a third-party manager and working with them to develop our approach to managing ESG risks.

5.5. External manager selection

RI is incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP includes specific requirements relating to the integration of ESG by managers into the investment process which includes assessing and mitigating climate risk, and their approach to engagement. We expect to see evidence of how material ESG issues are considered in research analysis and investment decisions. Engagement needs to be structured with clear aims, objectives and milestones.

Voting is carried out by Border to Coast for both internally and externally managed equities where possible and we expect external managers to engage with companies in alignment with the Border to Coast RI Policy.

The monitoring of appointed managers also includes assessing stewardship and ESG integration in accordance with our policies. All external fund managers are expected to be signatories or comply with international standards applicable to their geographical location. We encourage managers to become signatories to the UN-supported Principles for Responsible Investment[1] ('PRI'). We also encourage managers to make a firm wide net zero commitment and to join the Net Zero Asset Manager initiative (NZAM) or an equivalent initiative. Managers are required to report to Border to Coast on their RI activities quarterly.

5.6. Climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts that may manifest under different climate scenarios. Transition will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. However, within sectors there are likely to be winners and losers which is why divesting from and excluding entire sectors may not be appropriate.

In addition, the transition to a low-carbon economy will undoubtedly affect the various stakeholders of the companies taking part in the energy transition. These stakeholders include the workforce, consumers, supply chains and the communities in which the companies' facilities are located. A just transition involves maximising the social and economic opportunities and minimising and managing challenges of a net zero transition. We expect companies to consider the potential stakeholder risks associated with decarbonisation.

[1] The UN-supported Principles for Responsible Investment (PRI) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

Detail on Border to Coast's approach to managing the risks and opportunities associated with climate change can be found in our Climate Change Policy on our website.

6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It practises active ownership through the full use of rights available including voting, monitoring companies, engagement and litigation. As a responsible shareholder, we are committed to being a signatory to the 2020 UK Stewardship Code[2] and were accepted as a signatory in March 2022. We are also a signatory to the PRI.

6.1. Voting

Voting rights are an asset and Border to Coast exercises its rights carefully to promote and support good corporate governance principles. It aims to vote in every market in which it invests where this is practicable. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed on our **website**. Where possible the voting policies are also applied to assets managed externally. Policies are reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund may wish Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this. A Partner Fund wishing to diverge from this policy will provide clear rationale in order to meet the governance and control frameworks of both Border to Coast and, where relevant, the Partner Fund.

6.1.1. Use of proxy advisors

Border to Coast use a Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies. Details of the third-party Voting and Engagement provider and proxy voting advisor are included in Appendix A.

A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by the Voting & Engagement provider. The proxy voting advisor provides voting recommendations based upon Border to Coast's Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A team of dedicated voting analysts analyse the merit of each agenda item to ensure voting recommendations are aligned with the Voting Guidelines. Border to Coast's Investment Team receives notification of voting recommendations ahead of meetings which are assessed on a case-by-case basis by portfolio managers and responsible investment staff prior to votes being executed. A degree of flexibility is required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances, allowing the override of voting recommendations from the proxy adviser.

The Voting and Engagement provider evaluates its proxy voting agent at least annually, on the quality of governance research and the alignment of customised voting recommendations and Border to Coast's Voting Guidelines. This review is part of the control framework and is externally assured. Border to Coast also monitors the services provided monthly, with a six monthly and full annual review.

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[2] The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. https://www.frc.org.uk/directors/corporate-governance-and-stewardship

Border to Coast has an active stock lending programme. 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 is recalled ahead of meetings, and lending can also be restricted, when any, or a combination of the following, occur:

- The resolution is contentious.
- 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.

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies to deposit their shares before the date of the meeting (usually one day after cut-off date) with a designated depositary until one day after meeting date.

During this blocking period, shares cannot be sold; the shares are then returned to the shareholders' custodian bank. We may decide that being able to trade the stock outweighs the value of exercising the vote during this period. Where we want to retain the ability to trade shares, we may refrain from voting those shares.

Where appropriate Border to Coast considers co-filing shareholder resolutions and notifies Partner Funds in advance. Consideration is given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

6.2. Engagement

The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken is 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 are an integral part of the investment process. As part of our stewardship duties, we monitor investee companies on an ongoing basis and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets where possible.

Border to Coast has several approaches to engaging with investee holdings:

- Border to Coast and all eleven Partner Funds are members of the Local Authority Pension Fund Forum ('LAPFF'). Engagement takes place with companies on behalf of members of the Forum across a broad range of ESG themes.

- We seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This is achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.

- Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and complement other engagement approaches, Border to Coast use an external Voting and Engagement service provider. We provide input into new engagement themes which are considered to be materially financial, selected by the external engagement provider on an annual basis, and also participate in some of the engagements undertaken on our behalf.
- Engagement takes place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these cover environmental, social, and governance issues as well as UN Global Compact[3] breaches or OECD Guidelines[4] for Multinational Enterprises breaches.
- We expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policies.

Engagement conducted can be broadly split into two categories: engagement based on financially material ESG issues, or engagement based on (potential) violations of global standards such as the UN Global Compact or OECD Guidelines for Multinational Enterprises.

When engagement is based on financially material ESG issues, engagement themes and companies are selected in cooperation with our engagement service provider based on an analysis of financial materiality. Such companies are selected based on their exposure to the engagement topic, the size and relevance in terms of portfolio positions and related risk.

For engagement based on potential company misconduct, cases are selected through the screening of news flows to identify breaches of the UN Global Compact Principles or OECD Guidelines for Multinational Enterprises. Both sets of principles cover a broad variety of basic corporate behaviour norms around ESG topics. Portfolio holdings are screened on the validation of a potential breach, the severity of the breach and the degree of to which management can be held accountable for the issue. For all engagements, SMART[5] engagement objectives are defined.

In addition, internal portfolio managers and the Responsible Investment team monitor holdings which may lead to selecting companies where engagement may improve the investment case or can mitigate investment risk related to ESG issues. Members of the Investment Team have access to our engagement provider's thematic research and engagement records. This additional information feeds into the investment analysis and decision making process.

We engage with regulators, public policy makers, and other financial market participants as and when required. We encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the TCFD recommendations.

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[3] UN Global Compact is a shared framework covering 10 principles, recognised 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.

[4] OECD Guidelines for Multinational Enterprises are recommendations providing principles and standards for responsible business conduct for multinational corporations operating in or from countries adhering to the OECD Declaration on International and Multinational Enterprises.

[5] SMART objectives are: specific, measurable, achievable, relevant and time bound.

6.2.1. Engagement themes

Recognising that we are unable to engage on every issue, we focus our efforts on areas that are deemed to be the most material to our investments - our key engagement themes. These are used to highlight our priority areas for engagement which includes working with our Voting and Engagement provider and in considering collaborative initiatives to join. We do however engage more widely via the various channels including LAPFF and our external managers.

Key engagement themes are reviewed on a three yearly basis using our Engagement Theme Framework. There are three principles underpinning this framework:

- that progress in the themes is expected to have a material financial impact on our investment portfolios in the long-term;
- that the voice of our Partner Funds should be a part of the decision; and
- that ambitious, but achievable milestones can be set through which we can measure progress over the period.

When building a case and developing potential new themes we firstly assess the material ESG risks across our portfolios and the financial materiality. We also consider emerging ESG issues and consult with our portfolio managers and Partner Funds. The outcome is for the key themes to be relevant to the largest financially material risks; for engagement to have a positive impact on ESG and investment performance; to be able to demonstrate and measure progress; and for the themes to be aligned with our values and important to our Partner Funds.

The key engagement themes following the 2021 review are:

- Low Carbon Transition
- Diversity of thought
- Waste and water management
- Social inclusion through labour management

6.2.2. Escalation

Border to Coast 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 to sell the company's shares.

6.2.3. Exclusions

We believe that using our influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. This is fundamental to our responsible investment approach. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon, and the likelihood for success in influencing company strategy and behaviour.

When considering whether a company is a candidate for exclusion, we do so based on the associated material financial risk of a company's business operations and whether we have concerns about its long-term viability. We initially assess the following key financial risks:

- regulatory risk
- litigation risk
- reputational risk
- social risk
- environmental risk

Thermal coal and oil sands:

Using these criteria and due to the potential for stranded assets, we will not invest in companies with more than 70% of revenues derived from thermal coal and oil sands. We will continue to monitor companies with such revenues for increased potential for stranded assets and the associated investment risk which may lead to the revenue threshold decreasing over time.

We support a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Therefore, in the interests of a just transition we will assess the implications of the exclusion policy and where we consider it appropriate, may operate exceptions.

For illiquid assets the threshold will be 25%. This is due to the long-term nature of the investments and less ability for investors to change requirements over time.

Cluster munitions:

In addition, we will not invest in companies contravening the Convention on Cluster Munitions (2008). It is illegal to use these weapons in many jurisdictions and many signatories to the Convention regard investing in the production of cluster munitions as a form of assistance that is prohibited by the convention. Therefore, as a responsible investor we will not invest in the following:

- Companies where there is evidence of manufacturing cluster munition whole weapons systems.
- Companies manufacturing components that were developed or are significantly modified for exclusive use in cluster munitions.

Companies that manufacture "dual-use" components, such as those that were not developed or modified for exclusive use in cluster munitions, will be assessed and excluded on a case-by-case basis.

Restrictions relate to the corporate entity only and not any affiliated companies.

Any companies excluded will be monitored and assessed for progress and potential reinstatement at least annually.

6.3. Due diligence and monitoring procedure

Internal procedures and controls for stewardship activities are reviewed by Border to Coast's external auditors as part of the audit assurance (AAF) control review. The external Voting and Engagement provider is also monitored and reviewed by Border to Coast on a regular basis to ensure that the service level agreement is met.

The Voting and Engagement provider also undertakes verification of its stewardship activities and the external auditor audits stewardship controls on an annual basis; this audit is part of the annual International Standard for Assurance Engagements control.

7. Litigation

Where Border to Coast holds securities, which are subject to individual or class action securities litigation, where appropriate, we participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. We work with industry professionals to facilitate this.

8. Communication and reporting

Border to Coast is transparent with regard to its RI activities and keeps beneficiaries and stakeholders informed. This is done by making publicly available RI and voting policies; publishing voting activity on our **website** quarterly; reporting on engagement and RI activities to the Partner Funds quarterly, and in our annual RI report.

We also report in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and provide an annual progress report on the implementation of our Net Zero Plan.

9. Training and assistance

Border to Coast offers the Partner Funds training on RI and ESG issues. Where requested, assistance is given on identifying ESG risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

The Investment Team receive training on RI and ESG issues with assistance and input from our Voting & Engagement Partner and other experts where required. Training is also provided to the Border to Coast Board and the Joint Committee as and when required.

10. Conflicts of interest

Border to Coast has a suite of policies which cover any potential conflicts of interest between itself and the Partner Funds which are applied to identify and manage any conflicts of interest, this includes potential conflicts in relation to stewardship.

Appendix A: Third-party Providers

Voting and Engagement provider	Robeco Institutional Asset Management BV	June 2018 - Present
Proxy advisor	Glass Lewis	June 2018 - Present

Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

January 2023

1. Introduction

Border to Coast Pensions Partnership believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner Border to Coast will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders' role includes appointing the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Executive Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. In some instances, attendance at AGMs may be required.

Border to Coast discloses its voting activity on its website and to Partner Funds on a quarterly basis.

We will support incumbent management wherever possible but recognise that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

We will vote **For**, **Abstain** or **Oppose** on the following basis:

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.
- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.

3. Voting Guidelines

Company Boards

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe.

Composition and independence

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures, and no simple model can be adopted by all companies.

The board of companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, the board must be able to demonstrate their independence. Non-executive directors who have been on the board for a significant length of time, from nine to twelve years (depending on market practice) have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. We aspire for a maximum tenure of nine years but will review resolutions on a case-by-case basis where the local corporate governance code recommends a maximum tenure between nine and twelve years.

The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenure greater than nine years will be assessed on a case-by-case basis.

The company should, therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

- Representing a significant shareholder.
- Serving on the board for over nine years.
- Having had a material business relationship with the company in the last three years.

- Having been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.
- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

If the board has an average tenure of greater than 10 years and the board has had fewer than one new board nominee in the last five years, we will vote against the chair of the nomination committee.

Leadership

The role of the Chair is distinct from that of other board members and should be seen as such. The Chair should be independent upon appointment and should not have previously been the CEO. The Chair should also take the lead in communicating with shareholders and the media. However, the Chair should not be responsible for the day-to-day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director should be appointed, in-line with local corporate governance best practice, if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance. Where the Chair and CEO roles are combined and no senior independent non-executive director has been appointed, we will vote against the nominee holding the combined Chair/CEO role, taking into consideration market practice.

Non-executive Directors

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chair and other directors where necessary.

Diversity

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity and inclusion policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company, it should reflect the demographic/ethnic makeup of the countries a company is active in and be disclosed in the Annual Report.

We support the government-backed Davies report, Hampton Alexander and Parker reviews, which set goals for UK companies regarding the representation of women and ethnic minorities on boards, executive teams and senior management. Therefore, in developed markets without relevant legal requirements, we expect boards to be composed of at least 33% female directors. Where relevant, this threshold will be rounded down to account for board size. Recognising varying market practices, we generally expect emerging market and Japanese companies to have at least one female on the board. We will vote against the chair of the nomination committee where this is not the case and there is no positive momentum or progress. On ethnic diversity, we expect FTSE 100 companies to have met the Parker Review target and FTSE 250 companies to disclose the ethnic diversity of their board and have a credible plan to achieve the Parker Review targets by 2024. We will vote against the chair of the nomination committee at FTSE 100 companies where the Board does not have at least one person from an ethnic minority background, unless there are mitigating circumstances or plans to address this have been disclosed.

Succession planning

We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee. The committee should comprise of a majority of independent directors or comply with local standards and be headed by the Chair or Senior Independent Non-executive Director except when it is appointing the Chair's successor. External advisors may also be employed.

Directors' availability and attendance

It is important that directors have sufficient time to devote to the company's affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the chairmanship of such a company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

Re-election

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with issues such as stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice. As representatives of shareholders, directors should preferably be elected using a majority voting standard. In cases where an uncontested election uses the plurality[1] voting standard without a resignation policy, we will hold the relevant Governance Committee accountable by voting against the Chair of this committee.

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. As part of the evaluation, boards should consider whether directors possess the necessary expertise to address and challenge management on key strategic topics. These strategic issues and important areas of expertise should be clearly outlined in reporting on the evaluation. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and any action taken as a consequence. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

Companies need to develop and maintain relationships with key stakeholders to be successful in the long-term. The board therefore should take into account the interests of and feedback from stakeholders which includes the workforce. Considering the differences in best practice across markets, companies should report how key stakeholder views and interests have been considered and impacted on board decisions. Companies should also have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders and wider stakeholders on a regular basis are key for companies; being a way to discuss governance, strategy, and other significant issues. Companies should engage with shareholders ahead of the AGM in order that high votes against resolutions can be avoided where possible.

Where a company with a single share class structure has received 20% votes against a proposal at a previous AGM, a comprehensive shareholder and stakeholder consultation should be initiated. A case-by-case approach will be taken for companies with a dual class structure where a significant vote against has been received. Engagement efforts and findings, as well as company responses, should be clearly reported on and lead to tangible improvement. Where companies fail to do so, the relevant board committees or members will be held to account.

Directors' remuneration

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support

[11] A plurality vote means that the winning candidate only needs to get more votes than a competing candidate. If a director runs unopposed, he or she only needs one vote to be elected.

for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that high executive pay does not systematically lead to better company performance. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues. The selection of these metrics should be based on a materiality assessment that also guides the company's overall sustainability strategy. If environmental or social topics are incorporated in variable pay plans, the targets should set stretch goals for improved ESG performance, address achievements under management's control, and avoid rewarding management for basic expected behaviour. Where relevant, minimum ESG standards should instead be incorporated as underpins or gateways for incentive pay. If the remuneration committee determines that the inclusion of environmental or social metrics would not be appropriate, a clear rationale for this decision should be provided in the remuneration report.

The compensation provided to non-executive directors should reflect the role and responsibility. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should, therefore, not be granted performance-based pay. Although we would not expect participation in Long-term Incentive Plans (LTIPs), we are conscious that in some exceptional instances non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided. Companies should also be transparent about the ratio of their CEO's pay compared to the median, lower and upper quartiles of their employees.

• **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event. For large cap issuers, we expect the annual bonus to include deferral of a portion of short-term payments into long-term equity scheme or equivalent. We will also encourage other companies to take this approach.

• **Long-term incentives**

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. Border to Coast therefore encourages companies to simplify remuneration policies.

Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. Poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. Executives' incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation, taking into account local market standards. We encourage Executive Directors to build a significant shareholding in the company to ensure alignment with the objectives of shareholders. These shares should be held for at least two years post exit.

The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value.

Directors' contracts

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should be aligned with those of the majority of the workforce, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third-party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report. Termination benefits should be aligned with market best practice.

Corporate reporting

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the report and accounts. As well as reporting financial performance, business strategy and the key risks facing the business, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks.

We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

Audit

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. To ensure that the audit committee can fulfil its fiduciary role, it should be established as an appropriate committee composition with at least three members who are all independent non-executive directors and have at least one director with a relevant audit or financial background. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures. Audited financial statements should be published in a timely manner ahead of votes being cast at annual general meetings.

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. For the wider market, the external audit contract should be put out to tender at least every ten years. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

Non-Audit Fees

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

Political donations

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is the interest of the company and shareholders. Where these conditions are not met, or there is insufficient disclosure that the money is not being used for political party donations, political donations will be opposed. Any proposals concerning political donations will be opposed.

Lobbying

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and requiring alignment of company and trade association values. This includes expectations of companies to be transparent regarding lobbying activities in relation to climate change and to assess whether a company's climate change policy is aligned with the industry association(s) it belongs to.

Shareholder rights

As a shareowner, Border to Coast is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

- **Dividends**

Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate unless there is a clearly disclosed capital management and allocation strategy in public reporting.

- **Voting rights**

Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. We will not support measures or proposals which will dilute or restrict our rights.

- **Authority to issue shares**

Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

• **Disapplication of Pre-emption Rights**

Border to Coast supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

Share Repurchases

Border to Coast does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

Memorandum and Articles of Association

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of Border to Coast, presented as separate resolutions for each change, and the reasons for each change provided.

If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, we will oppose the changes.

Mergers and acquisitions

Border to Coast will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

Articles of Association and adopting the report and accounts

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

Virtual Shareholder General Meetings

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. If extraordinary circumstances rule out a physical meeting, we expect the company to clearly outline how shareholders' rights to participate by asking questions and voting during the meeting are protected. Any amendment to a company's Articles to allow virtual only meetings without these safeguards will not be supported.

Shareholder Proposals

We will assess shareholder proposals on a case-by-case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

Shareholder proposals are an important tool to improve transparency. Therefore, we will, when considered appropriate, support resolutions requesting additional reporting or reasonable action that is in shareholders' best interests on material business risk, ESG topics, climate risk and lobbying.

Human rights

When considering human rights issues, we believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. We expect companies exposed to human rights issues to have adequate due diligence processes in place to identify risks across their business and supply chain, in line with the UN Guiding Principles on Business and Human Rights. Where a company is involved in significant social controversies and at the same time is assessed as having poor human rights due diligence, we will vote against the most accountable board member or the report and accounts.

Climate change

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related voting and engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reach net zero by 2050 or sooner. The areas we consider include climate governance, strategy and Paris alignment, command of the climate subject, board oversight and incentivisation, TCFD disclosures and scenario planning, scope 3 emissions and the supply chain, capital allocation alignment, climate accounting, a just transition and exposure to climate-stressed regions.

For companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the Transition Pathway Initiative (TPI) and the Climate Action 100+ (CA100+) Net Zero Benchmark. We will vote against the Chair (or relevant agenda item) where companies are scored 2 or lower by the TPI. In addition, we will vote against the Chair for Oil and Gas companies scoring 3 or lower. Where a company covered by CA100+ Net Zero Benchmark fails indicators of the Benchmark, which includes a net zero by 2050 (or sooner) ambition, and short, medium and long-term emission reduction targets, we will also vote against the Chair of the Board.

Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change.

Banks will play a pivotal role in the transition to a low carbon economy, and we will therefore be including the sector when voting on climate-related issues. We will assess banks using the IIGCC/TPI framework and will vote against the Chair of the Sustainability Committee, or the agenda item most appropriate, where a company materially fails the first four indicators of the framework.

We support a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Therefore, in the interests of a just transition we will assess the implications when considering our voting decisions on a case-by-case basis.

Investment trusts

Border to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

We may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.

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Climate Change Policy

Border to Coast Pensions Partnership

Policy Owner: The Chief Investment Officer
Live from: January 2023

Climate Change Policy

This Climate Change Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to managing the risks and opportunities associated with climate change across the assets managed on behalf of our Partner Funds.

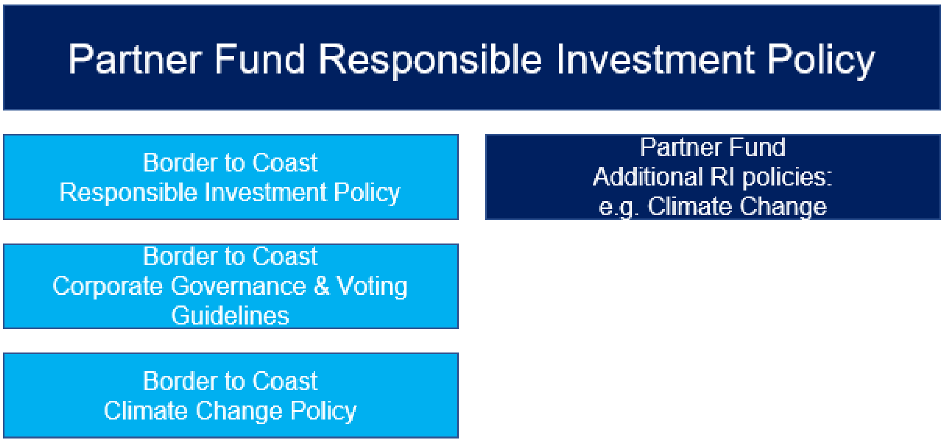
1 Introduction

Border to Coast Pensions Partnership Ltd is an FCA regulated and authorised investment fund manager (AIFM), operating investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). As a customer-owned, customer-focused organisation, our purpose is to make a sustainable and positive difference to investment outcomes for our Partner Funds. Pooling gives us a stronger voice and, working in partnership with our Partner Funds and across the asset owner and asset management industry, we aim to deliver cost effective, innovative and responsible investment thereby enabling sustainable, risk-adjusted performance over the long-term.

1.1 Policy framework

Border to Coast has developed this Climate Change Policy in collaboration with our Partner Funds. It sits alongside the Responsible Investment Policy and other associated policies, developed to ensure clarity of approach and to meet our Partner Funds' fiduciary duty and fulfil their stewardship requirements. This collaborative approach resulted in the RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:

RI Policy Framework



2 Policy overview

2.1 Our views and beliefs on climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. Our planet has warmed by over 1ºC relative to the pre-industrial average temperature, and we are starting to experience the significant effects of this warming. This changes the world in which we live, but also the world in which we invest.

Atmospheric CO_2 is at unprecedented levels in human history. Further warming will occur, and so adaptation will be required. The extent of this further warming is for humankind to collectively decide, and the next decade is critical in determining the course. If the present course is not changed and societal emissions of CO_2 and other greenhouse gases (GHG) are not reduced to mitigate global warming, scientists have suggested that global society will be catastrophically disrupted beyond its capability to adapt, with material capital market implications.

Recognising the existential threat to society that unmitigated climate change represents, in 2015, the nations of the world came together in Paris and agreed to limit global warming to 2ºC and to pursue efforts to limit the temperature increase to 1.5ºC. A key part of the Paris Agreement was an objective to make finance flows consistent with a pathway towards low GHG emissions and climate resilience. This recognises the critical role asset owners and managers play, reinforcing the need for us and our peers to drive and support the pace and scale of change required.

In 2018, the Intergovernmental Panel on Climate Change (IPCC) published a special report, “Global warming of 1.5ºC”[1], which starkly illustrated how critical successful adaptation to limit global warming to 1.5ºC is. The report found that limiting global warming to 1.5°C would require “rapid and far-reaching” transitions in land, energy, industry, buildings, transport, and cities. This includes a need for emissions of carbon dioxide to fall by approximately 45 percent from 2010 levels by 2030, and reach ‘net zero’ around 2050. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. Urgent collaborative action is needed to reach net zero greenhouse gas emissions globally by 2050, and everyone has a part to play in ensuring the goal is met.

2.2 Why climate change is important to us

The purpose of embedding sustainability into our actions is twofold: we believe that considering sustainable measures in our investment decisions will increase returns for our Partner Funds, in addition to positively impacting the world beneficiaries live in.

Our exposure to climate change comes predominantly from the investments that we manage on behalf of our Partner Funds. We develop and operate a variety of internally and externally managed investments across a range of asset classes both in public and private markets for our Partner Funds to invest in.

We try to mitigate these exposures by taking a long-term approach to investing as we believe that businesses that are governed well and managed in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Climate change can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore needs to be considered across all asset classes in order to better manage risk and generate sustainable, long-term returns.

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. There are two types of risks that investors are exposed to, the physical risk of climate change impacts and the transitional risk of decarbonising economies, both can also impact society resulting in social risks.

Transition to a low carbon economy will affect some sectors more than others, and within sectors there are likely to be winners and losers, which is why divesting from and excluding entire sectors may not be appropriate. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

[1] https://www.ipcc.ch/sr15/

In addition, the transition to a low-carbon economy will undoubtedly affect the various stakeholders of the companies taking part in the energy transition. A just transition refers to the integration of the social dimension in the net zero transition and is part of the Paris Agreement, the guidelines adopted by United Nations' International Labour Organization (ILO) in 2015, and the European Green Deal. These stakeholders include the workforce and the communities in which the companies' facilities are located. We expect companies to consider the potential stakeholder risks associated with decarbonisation.

Our climate change strategy is split into four pillars**: Identification and Assessment, Investment Strategy, Engagement and Advocacy, and Disclosures and Reporting.** We will continue to monitor scientific research in this space; evolving and adapting our strategy in order to best respond to the impacts of climate change.

2.3 How we execute our climate change strategy

We integrate climate change risks within our wider risk management framework and have robust processes in place for the identification and ongoing assessment of climate risks.

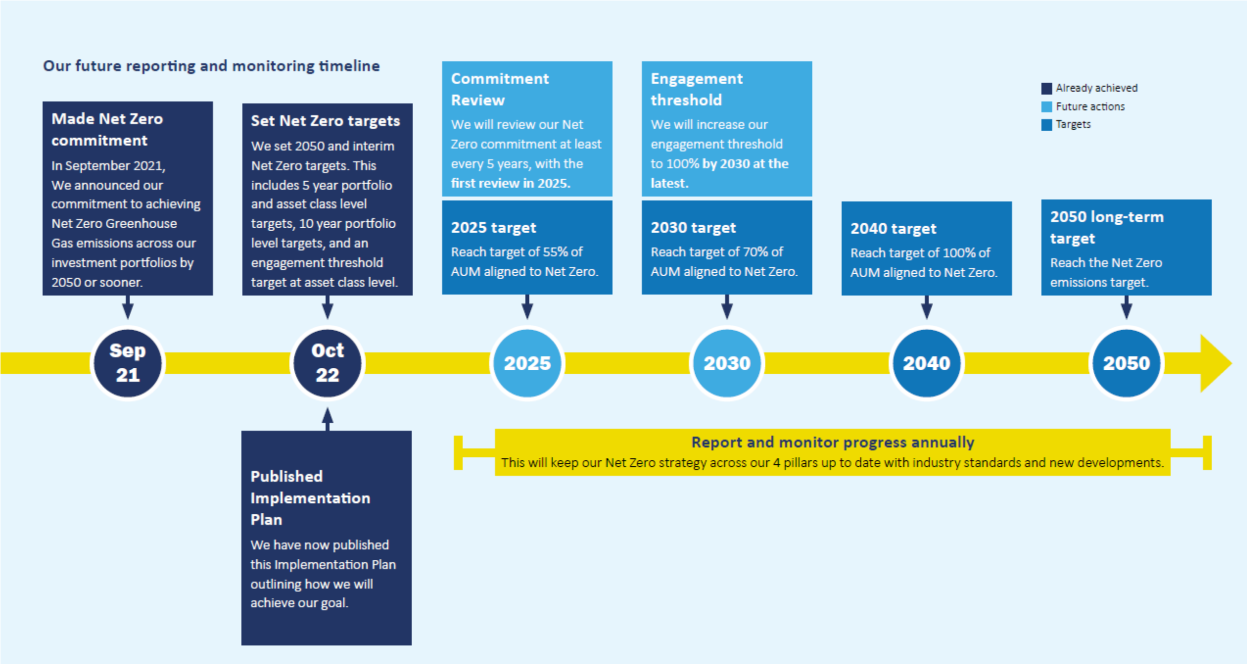
We consider climate change risks and opportunities within our investment decision making process.

We are committed to transparency regarding our climate change issues and activities.

Border to Coast, as a large investor, aims to influence companies to adapt and articulate their climate change strategy, to enable them to be well prepared for the transition to a low carbon economy. This in turn will improve investment outcomes.

2.4 Roadmap

The roadmap demonstrates the future reporting and monitoring timeline for implementing our Net Zero plan.



3 Climate change strategy and governance

3.1 Our ambition – Net Zero

Our climate change strategy recognises that there are financially material investment risks and opportunities associated with climate change which we need to manage across our investment portfolios. We have therefore committed to a net zero carbon emissions target by 2050 at the latest for our assets under management, in order to align with efforts to limit temperature increases to under 1.5ºC.

We recognise that assessing and monitoring climate risk is under constant development, and that tools and underlying data are developing rapidly. There is a risk of just focusing on carbon emissions, a backwards looking metric, and it is important to ensure that metrics we use reflect the expected future state and transition plans that companies have in place or under development. We will continue to assess the metrics and targets used as data and industry standards develop.

As a supporter of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we continue to embed climate change into our investment process and risk management systems, reporting annually on our progress in the TCFD report.

To demonstrate our Net Zero commitment, we joined the Net Zero Asset Manager initiative (NZAM) pledging to decarbonise investment portfolios by 2050 or sooner.

We are using the Net Zero Investment Framework to support us in implementing our strategy to being Net Zero by 2050.We have developed an implementation plan which sets out the four pillars of our approach: governance and strategy, targets and objectives, asset class alignment, and stewardship and engagement. We believe success across these four elements will best enable us to implement the change needed. The Net Zero Implementation Plan can be found on our website.

3.2 Governance and implementation

We take a holistic approach to the integration of sustainability and responsible investment; it is at the core of our corporate and investment thinking. Sustainability, which includes RI is considered and overseen by the Board and Executive Committee. We have defined policies and procedures that demonstrate our commitment to managing climate change risk, including this Climate Change Policy, our Responsible Investment Policy and Corporate Governance & Voting Guidelines which can be found on our website.

3.3 Division of roles and responsibilities

The Board determines the Company's overall strategy for climate change and with support from the Board Risk Committee, more broadly oversees the identification and management of risk and opportunities. The Board is responsible for the overarching oversight of climate related considerations as part of its remit with respect to Border to Coast's management of investments. The Board approves the Responsible Investment strategy and policies, which includes the Climate Change Policy. Updates on Responsible Investment are presented to the Board at regular intervals, this includes activities related to climate change. The Board reviews and approves the TCFD report prior to publication.

The Climate Change Policy is owned by Border to Coast and created after collaboration and engagement with our Partner Funds. We will, where needed, take appropriate advice in order to further develop and implement the policy.

The Chief Investment Officer (CIO) is responsible for the implementation and management of the Climate Change Policy, with oversight from the Investment Committee, which is chaired by the Chief Executive Officer. Each year the CIO reviews the implementation of the policy and reports any findings to the Board. The policy is reviewed annually, taking into account evolving best practice, and updated as needed.

The Investment Team, which includes a dedicated Responsible Investment Team, works to identify and manage environmental, social and governance (ESG) issues including climate change. Climate change is one of our responsible investment priorities and sits at the core of our sustainability dialogue. We are on the front foot with UK, European and Global climate change regulation, horizon scanning for future regulation and actively participate in discussions around future climate policy and legislation through our membership of industry bodies.

3.4 Training

Border to Coast's Board and colleagues maintain appropriate skills in responsible investment, including climate change, maintaining and increasing knowledge and understanding of climate change risks, available risk measurement tools, and policy and regulation. Where necessary expert advice is taken from suitable climate change specialists to fulfil our responsibilities. We also offer our Partner Funds training on climate change related issues.

3.5 Regulatory change management

Regulatory change horizon scanning is a key task undertaken by the Compliance function, which regularly scans for applicable regulatory change. This includes FCA, associated UK financial services regulations, and wider regulation impacting financial services including Responsible Investment, and climate change. The relevant heads of functions and departments, as subject matter experts, also support the process and a tracker is maintained to ensure applicable changes are appropriately implemented.

4 Identification and assessment

4.1 How we identify climate-related risks

The Identification and Assessment pillar is a key element of our climate change strategy. Our investment processes and approach towards engagement and advocacy reflect our desire to culturally embed climate change risk within our organisation and drive change in the industry.

The risk relating to climate change is integrated into the wider Border to Coast risk management framework. The Company operates a risk management framework consistent with the principles of the ‘three lines of defence' model. Primary responsibility for risk management lies with the Investment and Operations teams. Second line of defence is provided by the Risk and Compliance functions, which report to the Board Risk Committee, and the third line of defence is provided by Internal Audit, which reports to the Audit Committee and provides risk-based assurance over the Company’s governance, risk and control framework.

We consider both the transition and physical risks of climate change. The former relates to the risks (and opportunities) from the realignment of our economic system towards low-carbon, climate-resilient and carbon-positive solutions (e.g. via regulations). The latter relates to the physical impacts of climate change (e.g. rising temperatures, changing precipitation patterns, increased risk arising from rising sea levels and increased frequency and severity of extreme weather events).

4.2 How we assess climate-related risks and opportunities

We currently use a number of different tools and metrics to measure and monitor climate risk across portfolios. We acknowledge that this is a rapidly evolving area, and we are developing our analytical capabilities to support our ambition. Carbon data is not available for all equities as not all companies disclose, therefore there is a reliance on estimates. Data is even more unreliable for fixed income and is only just being developed for Private Markets. We will work with our managers and the industry to improve data disclosure and transparency in this area.

We utilise third party carbon portfolio analytics to conduct carbon footprints across equity and fixed income portfolios, analysing carbon emissions, carbon intensity and weighted carbon intensity and fossil fuel exposure when assessing carbon-related risk, on a quarterly basis. The Transition Pathway Initiative (TPI)[2] tool and climate Action 100+ Net Zero Company Benchmark analysis is used to support portfolio managers in decision making with respect to net zero assessments. We use research from our partners and specific climate research, along with information and data from initiatives and industry associations we support.

We continue to develop climate risk assessments for our listed equity investments that combines several factors to assess overall whether a company is aligned with the Paris Agreement (to limit global warming to 2ºC), so that we can both engage appropriately with the company on their direction of travel and also track our progress. This is an iterative process, recognising that data, tools and methodologies are developing rapidly.

We understand that scenario analysis is useful for understanding the potential risks and opportunities attached to investment portfolios and strategies due to climate change. We note that scenario analysis is still developing, with services and products evolving as data quality and disclosure from companies continues to improve. During 2022 we will be evaluating our third-party scenario analysis tools and conducting analysis using a number of different scenarios.

5 Investment strategy

5.1 Our approach to investing

We believe that climate change should be systematically integrated into our investment decision-making process to identify related risks and opportunities. This is critical to our long-term objective of improving investment outcomes for our Partner Funds.

Border to Coast offers Partner Funds a variety of internally and externally managed investment funds covering a wide-ranging set of asset classes with different risk-return profiles. Partner Funds then choose the funds which support their strategic asset allocation.

[2] The Transition Pathway Initiative (‘TPI’) is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.

Partner Funds retain responsibility for strategic asset allocation and setting their investment strategy, and ultimately their strategic exposure to climate risk. Our implementation supports Partner Funds to deliver on their fiduciary duty of acting in the best interests of beneficiaries.

We consider climate change risks and opportunities in the process of constructing and developing investment funds. Engaging with our investee companies and fund managers will be a key lever we will use to reach our Net Zero goals, but we also recognise the role of screening, adjusting portfolio weights, and tilted benchmarks in decarbonising our investments.

Climate change is also considered during the external manager selection and appointment process. We monitor and challenge our internal and external managers on their portfolio holdings, analysis, and investment rationale in relation to climate-related risks.

We monitor a variety of carbon metrics, managing climate risk in portfolios through active voting and engagement, whilst also looking to take advantage of the long-term climate-related investment opportunities.

We believe in engagement rather than divestment and that by doing so can effect change at companies. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and if there is limited scope for successful engagement. Using these criteria and due to the potential for stranded assets, we interpret this to cover public market companies with 70% of revenue derived from thermal coal and oil sands and will therefore not invest in these companies. For illiquid assets a revenue threshold of 25% is in place, this is due to the long-term nature of these investments. Any companies excluded will be monitored with business strategies and transition plans assessed for potential reinstatement.

5.2 Acting within different asset classes

We integrate climate change risks and opportunities into our investment decisions within each asset class. The approach we take for each asset class is tailored to the nature of the risk and our investment process for that asset class. The timeframe for the impact of climate change can vary, leading to differing risk implications depending on the sector, asset class and region. These variations are considered at the portfolio level. This policy gives our overall approach and more detail on the processes and analysis can be found in our annual TCFD report.

Climate risks and opportunities are incorporated into the stock analysis and decision-making process for **listed equities** and **fixed income**. Third-party ESG and carbon data are used to assess individual holdings. We also use forward looking metrics including the TPI ratings, Climate Action 100+ (CA100+) Net Zero Company Benchmark and the Science Based Targets initiative (SBTi) to assess companies' transition progress. Internal, sell-side and climate specific research, and engagement information are also utilised. Carbon footprints are conducted relative to the benchmark. Climate scenario analysis is also conducted for listed equity and fixed income portfolios using third-party data.

For our **alternative funds**, ESG risks, which includes climate change, are incorporated into the due diligence process including ongoing monitoring. Across both funds and co-investments, we consider the impact of carbon emissions and climate change when determining our asset allocation across geographies and industries. We assess and monitor if our GPs track portfolio metrics in line with TCFD recommendations. Climate change presents real financial risks to portfolios but also provides opportunities with significant amounts of private capital required to achieve a low-carbon transition. We have therefore launched a Climate Opportunities offering and will be facilitating increased investment in climate transition solutions taking into account Partner Fund asset allocation decisions.

To meet our commitment to reach net zero carbon emissions by 2050 or sooner, we have developed targets for our investments in line with the Net Zero Investment Framework (NZIF). We have set targets at two levels: portfolio level, which refers to our combined total investments in the asset classes covered by this plan, and asset class level, which refers to our investments split by investment type (i.e. listed equity, corporate fixed income etc). This covers 60% of our

AUM (at 31/03/2022) and we will look to increase coverage across the rest of our investments when appropriate.

5.3 Working with External Managers

Assessing climate risk is an integral part of the External Manager selection and appointment process. It also forms part of the quarterly screening and monitoring of portfolios and the annual manager reviews. We monitor and review our fund managers on their climate change approach and policies. Where high emitting companies are held as part of a strategy managers are challenged and expected to provide strong investment rationale to substantiate the holding. We expect managers to engage with companies in line with our Responsible Investment Policy and to support collaborative initiatives on climate, and to report in line with the TCFD recommendations. In addition, we encourage managers to make a firm wide net zero commitment. We will work with External Managers to implement specific decarbonisation parameters for their mandate. We will monitor our managers' carbon profiles and progress against targets on a quarterly basis and as part of our annual reviews. We will also consider the suitability of those targets on an annual basis. Where carbon profiles are above target, this will act as a prompt for discussion with the manager to understand why this has occurred, any appropriate actions to be taken to bring them back to target, and the timescales for any corrective action.

6 Engagement and advocacy

As a shareholder, we have the responsibility for effective stewardship of all companies or entities in which we invest, whether directly or indirectly. We take the responsibilities of this role seriously, and we believe that effective stewardship is key to the success for our climate ambition. As well as engaging with our investee companies it is important that we engage on systemic risks, including climate change, with policymakers, regulators and standard setters to help create a stable environment to enhance long-term investment returns.

6.1 Our approach to engagement

As a long-term investor and representative of asset owners, we will hold companies and asset managers to account regarding environmental, social and governance issues, including climate change factors, that have the potential to impact corporate value. We support engagement over divestment as we believe that constructive dialogue with companies in which we invest is more effective than excluding companies from the investment universe, particularly with regard to promoting decarbonisation in the real world. If engagement does not lead to the desired results, we have an escalation process which forms part of our RI Policy, this includes adverse voting instructions on related AGM voting items, amongst other steps. We practice active ownership through voting, monitoring companies, engagement and litigation. Through meetings with company directors, we seek to work with and influence investee companies to encourage positive change. Climate is one of our key engagement themes. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reach net zero by 2050 or sooner. The areas we consider in our engagement activities include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; scope 3 emissions and the supply chain; capital allocation alignment, a just transition and exposure to climate-stressed regions.

In order to increase our influence with corporates and policy makers we work collaboratively with other like-minded investors and organisations. This is achieved through actively supporting investor RI initiatives and collaborating with various other external groups on climate related issues, including the Institutional Investors Group on Climate Change (IIGCC), CA100+, the UN-supported Principles for Responsible Investment, the Local Authority Pension Fund Forum and the TPI.

In particular, we are currently focusing on the following actions:

- When exercising our voting rights for companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the TPI and CA 100+ Net Zero Company Benchmark. Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change. Our voting principles are outlined in our Corporate Governance & Voting Guidelines. We are also transparent with all our voting activity and publish our quarterly voting records on our website.
- Support climate-related resolutions at company meetings which we consider reflect our Climate Change Policy. We will co-file shareholder resolutions at company AGMs on climate risk disclosure and lobbying, after conducting due diligence, that we consider to be of institutional quality and consistent with our Climate Change Policy.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the TCFD recommendations.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Work collaboratively with other asset owners in order to strengthen our voice and make a more lasting impact for positive change. Engagement is conducted directly, through our engagement partner and through our support of collaborations. We also expect our external asset managers to engage with companies on climate-related issues.
- Use the IIGCC's Net Zero Stewardship Toolkit to develop our net zero stewardship strategy.
- Use carbon footprints the TPI toolkit, CA100+ Net Zero Company Benchmark and SBTi to assess companies and inform our engagement and voting activity. This will enable us to prioritise shareholder engagement, set timeframes and monitor progress against our goals.
- Engage collaboratively alongside other institutional investors with policy makers through membership of the IIGCC. We will engage with regulators and peer groups to advocate for improved climate related disclosures and management in the pensions industry and wider global economy.

7 Disclosures and reporting

Transparency is one of our key organisational values. We disclose our RI activity on our website, publishing quarterly stewardship and voting reports, annual RI & Stewardship reports and our TCFD report. We are committed to improving transparency and reporting in relation to our RI activities, which include climate change related activities.

We will keep our Partner Funds and our stakeholders informed on our progress of implementing the Climate Change Policy and Net Zero commitment, as well as our exposure to the risks and opportunities of climate change. This will include:

- Reviewing annually how we are implementing this policy with findings reported to our Board and Partner Funds. report in line with the TCFD recommendations on an annual basis, including reporting on the actions undertaken with regards to implementation of this policy and progress against our Net Zero commitment.
- We will disclose our voting activity and report on engagement and RI activities, including climate change, to the Partner Funds quarterly and in our annual RI & Stewardship report.

- Disclose climate metrics and targets that help to analyse the overall exposure of our portfolios to the risks and opportunities presented by climate mitigation and adaption.

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Appointment of Monitoring Officer**	**Status**	For Publication
Report to	Authority	**Date**	8th December 2022
Report of	Clerk and Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham	**Phone**	01226 666439
E Mail	ggraham@sypa.org,uk		

1. Purpose of the Report

1.1 To seek approval from the Authority to appoint Joanne Stone as Monitoring Officer to the Authority following the departure of the current Monitoring Officer, Jason Field, at the end of December 2022 and formalise arrangements for the provision of the secretariat to the Border to Coast Joint Committee.

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2 Recommendation(s)

2.1 Members are recommended to:

a. **Approve the appointment of Joanne Stone (Corporate Manager - Governance) as the Authority's Monitoring Officer with effect from 1st January 2023.**

b. **Approve the designation of Joanne Stone (Corporate Manager - Governance) as the Secretary to the Border to Coast Joint Committee with immediate effect.**

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3. Link to Corporate Objectives

3.1 **Effective and Transparent Governance**

The Monitoring Officer has an important role to promote and enhance good corporate governance in terms of the quality of decision making as well as ensuring legality, probity and propriety.

4. Implications for the Corporate Risk Register

4.1 None.

5. Background and Options

5.1 The Authority has a statutory duty to appoint a Monitoring Officer under s5 of the Local Government and Housing Act 1989.

5.2 The functions of the Monitoring Officer are:

- To maintain the Constitution.
- Ensure lawfulness and fairness of decision making.
- Provide advice on the scope of the powers of the Authority, its Committees and officers to take decisions and in matters involving maladministration and probity.

5.3 Since February 2022 the role has been held by Jason Field, Head of Legal Services at Barnsley MBC. Mr Field will be leaving Barnsley to take up an appointment as Head of Legal Services at Bradford City Council at the end of December 2022 and it is necessary for the Authority to appoint a replacement.

5.4 The Authority has previously agreed to bring the Monitoring Officer role “in house” with effect from 1st April 2023 and it therefore seems sensible that rather than make a short-term appointment for three months that the process of bringing the role in house be accelerated. It is therefore recommended that the Authority appoint Joanne Stone (Corporate Manager – Governance) as Monitoring Officer with effect from 1st January 2023.

5.5 The Inter-Authority Agreement governing the operation of the Border to Coast Joint Committee requires that an officer of the Authority be designated as Secretary to the Joint Committee. It is not clear whether a formal designation has previously been made but in light of the creation of a robust governance function within the Authority it is now appropriate to designate Ms. Stone as the head of the governance function as Secretary to the Joint Committee.

6. Implications

6.1 The proposals outlined in this report have the following implications

Financial	There are no financial implications arising from the new appointment as these duties were reflected in the original grading of the role. There may (subject to negotiation) be a small saving on the SLA with Barnsley MBC.
Human Resources	None
ICT	None
Legal	It is a statutory requirement to appoint a Monitoring Officer
Procurement	None

Sarah Norman **George Graham**

Clerk **Director**

Background Papers	
Document	**Place of Inspection**
S5 of the Local Government and Housing Act 1989	http://www.legislation.gov.uk/ukpga/1989/42/contents

SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Authority Governance Update Report**	**Status**	For Publication
Report to	Authority	**Date**	08/12/2022
Report of	Corporate Manager - Governance		
Equality Impact Assessment	Not Required	Attached	Na
Contact Officer	Jo Stone Corporate Manager – Governance	**Phone**	01226 666418
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1. **Purpose of the Report**

1.1 To provide members with an update on current Authority governance related activity. To update Members on the actions being taken in response to audit findings by both internal audit and external audit during the current financial year and in previous financial years. Finally, to provide members with an update on recent decisions made by the Authority.

1.2 A report will be provided regularly to provide assurance and monitoring of Authority governance across many areas of the business.

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2. **Recommendations**

2.1 Members are recommended to:

a. **Note the current Authority governance position.**
b. **Note the progress on training and development of LPB and Authority members.**
c. **Note the progress being made on implementing agreed management actions arising from audit reviews.**
d. **Note the information governance activity to enhance processes and procedures.**
e. **Note the reportable data breach, actions taken, and response from the ICO**

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3. **Link to Corporate Objectives**

3.1 This report links to the delivery of the following corporate objectives:
Effective and Transparent Governance

3.2 To uphold effective governance always showing prudence and propriety.

3.3 The reporting of audit findings and agreed actions in response to these, is a key part of providing assurance on the adequacy of the Authority's corporate governance arrangements, particularly those relating to internal control and financial and risk management.

4 **Implications for the Corporate Risk Register**

4.1 The contents of this report set out the actions being taken in several areas that will contribute to addressing various risks in relation to operations and governance as detailed in the original audit reports.

5 **Background and Options**

Governance Work Progress

Considerable activity has taken place to enhance the Authority's governance arrangements since May 2022. This has included monitoring and managing elected members' knowledge and skills to ensure mandatory training compliance and expertise across the organisation. The initiation of activities to implement a second layer of risk and audit assurance across the business to enhance governance processes and ensure middle management roles and responsibility for risk and a tier of escalation to SMT. This will require a revision the Risk Management Framework once implemented. To support this work, a software system has been identified and the governance team, working with the programmes and performance team are currently scoping a business case and project plan to present to SMT in January with the intention of embedding a system to enhance risk management arrangements and provide relevant tools and guidance for managers to be responsible for risk identified in their teams.

5.1 Two activities have begun regarding legal requirements of the organisation. One area is to secure a contract with a firm of solicitors to act as a legal retainer in all matters on an ad hoc basis. The secondary requirement is to undertake a full review of the Constitution. This activity will include engagement with Members of the Authority, the Director and SMT, the Independent Adviser, Auditors and Monitoring Officer to review the document and ensure a current version is ready for approval by the Authority at the first meeting of the 2023/24 municipal year in June 2023.

Member Training and Development

5.2 Training sessions have been delivered to all members in the following areas to increase knowledge and skills:

- 28 July – Roles and responsibilities of the Audit Committee
- 08 September – Investment Strategy Presentation (Hymans)
- 15 September – Actuarial valuation results and issues (Hymans)
- 20 October – Risk Management training
- 10 November – Climate Change training

5.3 There has been significant activity in the LGPS mandatory training requirements with Authority and LPB members. 10/12 Authority members have completed all six modules, the remaining two members are completing the training on 06 December, I will provide a verbal update to this position during the meeting, as the paper is drafted prior to the Authority meeting. 7/10 LPB members have completed all six modules. Three members will attend site on 06 December, and one will complete remotely. There is one LPB member who has four modules to complete. With the authority of Chair and Vice Chair of the Authority and Chair of the LPB. This member has been informed they will be asked to not attend meetings until they are fully compliant.

5.4 A full training plan will be created for 2023/24 to ensure members receive bespoke training to enhance individuals identified knowledge and skills gaps. There will also be bespoke training for Authority, LPB and Audit members, and example scheduled so far is the CIPFA training for Audit members on 23 January 2023 on the responsibilities of Local Authority Audit Committees to strengthen governance further.

Progress on Management Actions in Response to Audit Reviews

5.5 The Authority's Local Code of Corporate Governance sets out the framework in which the Authority complies with the seven principles of good governance; one of which is "*managing risks and performance through robust internal control and strong public financial management*". One aspect of achieving this is having arrangements for assurance and effective accountability in place and ensuring that findings and/or recommendations made by both external audit and internal audit are addressed and acted upon.

5.6 The Audit Committee receives reports of the external auditor and of the Head of Internal Audit at regular intervals throughout the financial year. On 20 October 2022, the Audit Committee reviewed the summary of actions taken, and progress being made on implementing the actions agreed in response to audit findings during the current and previous financial years. This included agreed timescales for future completion and is actively monitored.

Information Governance Activity

5.7 Considerable activity has commenced to enhance the Authority's information governance arrangements. This will include IT and Cyber Security going forward, although this is not reported in this update. The Governance team are working on enhancing processes and procedures relating to information governance (including data protection policy and impact assessments for example) throughout the organisation with the involvement of internal audit in an advisory capacity as a 'critical friend'. A focused action tracker has been implemented and agreed with the auditors which scopes those areas that the team will focus on during the remainder of 2022/23 and agreed timeframes for implementation. The Governance team are currently on track with these actions. A full audit review will be carried out during Q4 of the current year to track progress and provide assurance on the robustness of the controls in this area

Data Breach

5.8 A data breach occurred on 19 September 2022, a bank holiday when the office was closed. The external letter box was tampered with and post stolen and strewn across the path and road outside the building. It was identified that the documentation retrieved that had been tampered with related to 17 data subjects (scheme members). Through CCTV footage it is evident that the assailant's intentions were to seek cash, and therefore the documentation was discarded. It is not known whether any further post was taken from site.

5.9 All internal protocols were followed and reported to the Data Protection Officer (Rob Winter – Head of Internal Audit). All the affected data subjects were informed of the breach and assurance provided that the documentation was retrieved and that any damaged documentation will be replaced and/or costs reimbursed by the Authority. The external letter box was immediately taken out of use and post is now only accepted during office hours when it can be handed to a member of staff.

5.10 Whilst the incident was low risk and pertained to a small number of data subjects, the decision was taken by the DPO, Corporate Manager – Governance and the Governance and Risk Officer to report the incident to the Information Commissioner's Office (ICO) along with the actions already taken and those that would be taken as preventative measures in future The ICO have now responded to advise there is no action to be taken and provided three recommendations which all reflected the actions we had proposed in the report to the ICO. These included reviewing the procedures for accepting post and making all relevant staff aware of this, considering alternative methods for receipt of sensitive documentation such as being accepted by hand during office hours only and requiring a signature on receipt.

6 Implications

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

Financial	None
Human Resources	None
ICT	None
Legal	None
Procurement	None

Jo Stone

Corporate Manager - Governance

Background Papers	
Document	**Place of Inspection**
None	-

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Appendix B

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Appendix D

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Agenda Item 17

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