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Oakwell House
2 Beevor Court
Pontefract Road
Barnsley
S71 1HG

www.sypensions.org.uk

NOTICE OF AUTHORITY MEETING

You are hereby summoned to a meeting of the South Yorkshire Pensions Authority to be held at Oakwell House, 2 Beevor Court, Pontefract Road, Barnsley, S71 1HG on Thursday, 14 March 2024 at 10.00 am for the purpose of transacting the business set out in the agenda.

Sarah Norman
Clerk

This matter is being dealt with by:	Governance Team	Tel: 01226 666405
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Distribution

Councillors: J Dunn (Chair), M Havard (Vice-Chair), R Bowser, S Clement-Jones, S Cox, A Dimond, D Fisher, C Gamble Pugh, J Mounsey, D Nevett, A Sangar and M Stowe.

Contact Details

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SOUTH YORKSHIRE PENSIONS AUTHORITY

THURSDAY, 14 MARCH 2024 AT 10.00 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 The Authority would like to thank Sukdave Ghuman for his time as Deputy Clerk and welcomes his replacement Kate Charlton.	
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 08.02.2024	5 - 12
8.	Questions from the public	13 - 14
	CORPORATE MATTERS	
9.	Quarter 3 Corporate Performance Report 2023/24	15 - 44
	INVESTMENTS	
10.	Adviser Market Commentary	45 - 54
11.	Quarterly Investment Performance Report 2023/24	55 - 74
12.	Pooling Transition Plan	75 - 78
13.	SYPA Responsible Investment Policies annual review Inc Net Zero Action Plan update	79 - 122
14.	Quarter 3 Responsible Investment Update 2023/24	123 - 146

SOUTH YORKSHIRE PENSIONS AUTHORITY
AUTHORITY MEETING
08 JANUARY 2024

PRESENT:

Councillor J Dunn (Chair)

Councillors: M Havard (Rotherham), R Bowser (Barnsley), S Clement-Jones (Sheffield), A Dimond (Sheffield), D Fisher (Rotherham), J Mounsey (Doncaster), D Nevitt (Doncaster) A Sangar (Sheffield), M Stowe (Barnsley)

Officers: G Graham (Director), G Taberner (Assistant Director - Resources & Chief Finance Officer), W Goddard (Head of Finance), D Sharp (Assistant Director – Pensions), Chloe Knowles (Executive Management Support Officer)

Apologies for absence were received from:
Cllr C Gamble Pugh, Cllr S Cox, N Doolan-Hamer (Unison), G Warwick (GMB), Richard Bedford (Unite)

1 APOLOGIES

The Chair welcomed everyone to the meeting.

Apologies were noted as above.

2 ANNOUNCEMENTS

None

3 URGENT ITEMS

The Chair welcomed Cllr Jabbour who is the Vice Chair of the Border to Coast Joint Committee who will be observing the meeting today.

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

Five items are to be considered in the absence of the public and press starting at item 14.

5 DECLARATIONS OF INTEREST

Senior officers have an interest in item 18 and will therefore leave the room at that point.

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

None

7 MINUTES OF THE MEETING HELD ON 07/12/2023

RESOLVED: That the minutes of the meeting held on 7 December 2023 can be agreed as a true record.

8 REVIEW OF THE CORPORATE STRATEGY 2024 – 2027

The Director presented the updated Corporate Strategy covering the three years 2024-2027 for approval. The Corporate Strategy would usually be fully reviewed during the valuation, which is due this time next year, however the Authority recognised a need to do further work on the strategy following discussions with members at the Members Away day in November.

Work has been done to put more focus on driving improvements in the Pensions Administration service, and a report with further details on this will be brought to the next meeting.

Members praised the Authority for taking onboard the feedback following the Members Away Day in November 2023 and were pleased that work had already taken place to put more focus on this area. Members commented that the Away Day was very positive and highlighted the importance of working collectively.

Members further questioned where the Authority thinks we will be in 4 years' time in terms of the pensions administration processes and clearing the backlogs.

The Assistant Director – Pensions responded that we hope to see improvements over the next year as capacity is increased in the team and work has already taken place to ensure we are catching up on system updates, one of which will be due to go live next week. The Director further followed up that staff are now fully on board with the agenda for change and this attitude will help to drive addressing the changes in pensions administration.

Members probed the Authority on the Risk Register and whether other Pensions Authority's would have similar risks and if they would be positioned in a similar way on the matrix.

The Director explained that most of the risks on the Authority's risk matrix would be on every other fund's matrix however, we score climate risk higher than others to reflect our net zero target. Additionally, some of the investment risks are lower than other funds due to the nature of the Authority's Investment Strategy in that it is less volatile than the average. This was reflected in the CEM benchmarking results which for investments indicated that we take much less risk, whilst still achieving added value and at a lower cost.

Members further probed around how this informs the Corporate Strategy.
The Director followed up that each project on the Corporate Strategy is linked to the risks on the risk register with some being more obvious than others.

Members raised questions about the way in which scheme members and stakeholders might influence further development of the Investment Strategy.

The Director responded that it has not yet been decided how the consultation will be conducted due to the vastly different levels of understanding amongst scheme employers and scheme members, so this will need to be framed in a way in which people will understand. Work will commence on this in the early part of the next calendar year and planning will commence later this year.

RESOLVED: Members approved the updated Corporate Strategy set out in Appendix A.

9 BUDGET 2024/25

The Assistant Director – Resources presented the Authority budget proposals for 2024/25 for approval of £8,271,400.

The total increase in the budget is £1.4million in comparison to last year’s budget, however the majority of this has been driven by developments that have been separately approved primarily by the Staffing Committee in October 2023 in relation to the Pensions Administration Improvements and the outcomes of the Pay & Benefits Review. Two further reports in the exempt section of the agenda will also result in part of this budget growth.

Members commented on the large increase to the budget and how they expect to be able to measure improvements over the next year to see that we have delivered on the investment.

The Director responded that the senior management team are very conscious of ensuring that we demonstrate the delivery on this significant investment. The Assistant Director – Resources followed up on this point raising that in December the new Service Manager – Programmes & Performance was appointed, and part of his work will focus on demonstrating outcomes and measuring performance to enable us to bring reports to the Authority which show the steady progress and delivery of outcomes from this investment.

Members further queried the reserves forecast being at such a low level and why nothing could be done in the short to medium term.

The Assistant Director – Resources responded that the Authority had drawn down on the reserves over the past 2 years to deliver on large projects such as the new office building and the Pay & Benefits Review, this had been built up following underspends in the years leading up to this. With a large increase in the budget for 2024/25 which will allow the Authority to deliver on the strategy, it was felt not necessary to further add to the reserves and we will move back to putting money into this from 2025/26 to build it back up again for any future projects.

The Director further assured Members that these are not contingency reserves, and that the Authority is backed by the Pension Fund which meet all costs including what would be calls on a contingency reserve.

RESOLVED: Members approved the 2024/25 budget for the Authority, a total of £8,271,400.

10 MEDIUM TERM FINANCIAL STRATEGY 2024/25 TO 2026/27

The Head of Finance presented the Authority’s Medium Term Financial Strategy 2024/25 to 2026/27 for consideration and approval.

The key points to note were:

- In 2022/23 investment costs returned to similar levels seen in 2020/21, this is positive and shows the assets are performing well. The Authority utilise a lot of expensive investment assets as part of the Investment Strategy which is why we are at the top end of expenses for investments.
- CEM Benchmarking work showed that the cost of our asset mix is below the benchmark, therefore despite costs looking high when taking into account the alternatives we are using, the cost is relatively low in comparison to other funds.
- For the operational budget most of the changes were accounting for the 4% inflation in 2024/25. Moving forward we expect inflation to move to 2%, however this is very volatile and one of the challenges the Authority face when setting the medium-term financial strategy.
- Investment Management expenses are expected to increase due to cost changes at BCPP and we expect that this year we will see an increase in investment management costs.

Members questioned whether the political issues in the Middle East would affect any of the investments the Authority currently hold.

The Director responded that any forecast has a range of uncertainties and are always based on assumptions, therefore it is important to look at how the risk is managed, the Authority's investment strategy is designed to expect less volatility than the average and this is how we manage that risk. Political uncertainty will affect the value of our assets, however the aim of the strategy is to ensure that when we are hit by something like this, it has less of an impact than the average.

Members further probed around whether fund managers will conduct modelling around these worst-case scenarios where political uncertainty is involved and additionally are they modelling other scenarios such as a rapid transition in terms of climate.

The Director responded that fund managers do conduct climate scenario modelling as part of reporting under the TCFD Regime. With regards to political events this is less likely and instead fund managers look at how the political event will affect the stocks we hold and reposition the portfolio to take this into account.

Members raised that the Investment Strategy is very reliant on alternatives and questioned whether this is likely to remain the same in the foreseeable future and if there would be years like 2021/22 in terms of investment costs where we would be considerably away from the median of other LGPS.

The Director responded that the strategy would continue to be reliant on alternatives now and in the future and that it can be difficult to compare costs due to not all funds reporting as they should causing the comparison to be skewed. Work is being done to improve this on a national level and this will allow us to see improvements on the comparison and it has also been suggested that performance fees would be separated from base fees when reporting which would further contribute to this improvement.
Overall, the Authority is paying less than the benchmark to implement our strategy, but we will not become complacent and will continue to evaluate cost.

Members sought assurance on the Pension Fund Forecast Graph which showed an increase year on year, highlighting this was nice to see but do we think this is a realistic forecast.

The Director responded that the forecast is based on the fund growing in line with the actuarial long-term assumptions. This assumes that we will make returns in line with what the actuary tells us we need to make, and in the long term historically we have achieved this however this can swing on a year-by-year basis. At present we are likely to end the year close to £10.7billion which is reasonably close, dependent on how the year finishes over the next six weeks.

The Head of Finance followed up that the Actuary assumes 4.5% and over the last 30 years we have achieved close to 9% so despite this not being year on year, overall we did outperform this significantly so we could be more optimistic with the figures but have gone with the actuarial percentages.

RESOLVED: Members approved the Medium-Term Financial Strategy 2024/25 to 2026/27.

11 TREASURY MANAGEMENT STRATEGY 2024/25

The Head of Finance presented the Treasury Management Strategy for 2024/25.
The key points to note were:

- There have been no major changes to the strategy, other than a few clarifications around the Money Market Funds and Section 114 notices to allow us to show that we are minimising counterparty risk.
- Tables in Appendix A confirm the Authority's investments as at 31/12/2023, however the local authorities have now matured meaning we now have no exposure to Section 114 notices for the Treasury Management Strategy.

RESOLVED: Members approved

a. **The 2024/25 Treasury Management and Annual Investment Strategy and the treasury and prudential indicators set out in the report.**
b. **The Treasury Management Policy Statement attached at Appendix B.**
c. **The Treasury Management Practices attached at Appendix C.**
d. **The Minimum Revenue Provision statement as set out in this report.**

12 PAY POLICY STATEMENT 2024

The Assistant Director – Resources presented the Pay Policy Statement 2024 for approval. The Authority are required to produce this annually, and the statement reflects the Pay Award for 2023/24 and the impact of the outcomes from the Pay and Benefits Review which was approved last October.

This has had a positive impact on the metric showing the ratio of the highest paid role in the organisation to the lowest paid role which has reduced from 6.1 times to 5.6 times which remains well below the Hutton reviews finding that the highest paid shouldn't be no more than 20 times the lowest paid.

The pay grading included in the statement will require updating for any pay award agreed for 2024/25. This is published on the website so is viewable to the public.

Members probed around the Hybrid Working Policy and if there are any penalties for staff members who are unable to attend the office 2 days per week, due to how this may affect performance.

The Assistant Director – Resources responded that full time staff are required to attend the office 2 days per week and part time staff 1 day per week.

There are on occasion times when individuals are unable to attend the office such as for a medical issue, however they can still perform by working from home and deliver using the technology available.

This is always temporary, and their line manager and HR will work with the individual to ensure a return to the office. As an organisation we place importance on office attendance alongside the flexibility of being able to work from home.

RESOLVED: Members approved the revised Pay Policy Statement at Appendix A.

13 GOVERNANCE UPDATE

The Assistant Director – Resources provided members with an update on current governance related activity and regulatory matters.

The key points to note were:

- The new Pensions Regulators General Code of Practice has been published which is expected to come into force on 27th March. Officers are currently working through the content of this and making use of training materials and webinars to support with planning to ensure we can demonstrate compliance with the code.

- An Independent Governance Review will be undertaken by AoN following a procurement process. The report provides the scope of the work to be undertaken and the final report will be presented to the Board in June. One of the aspects of work being discussed with AoN is the potential for the scope of this review to include some detailed work on assessing our position against the new General Code using a tool that they have developed for this purpose and the Authority will update the Board on this as we progress.

RESOLVED: Members noted the updates included in the report and welcomed the action being taken to undertake an independent Governance Review.

14 INDEPENDENT ADVISER APPOINTMENTS

The Director updated members with regard to the arrangements for the independent investment advice and independent advice to the Local Pension Board.

The Director requested an amendment is made the Ms Scott's contract so that it ends on 30th April instead of 29th February as stated in the report before approval.

RESOLVED: Members

a. **Noted the changed circumstances of two of the Authority's independent advisers resulting in a need to make further appointments.**

b. **Agreed to the ending of Ms Devitt's contract on 31st March 2024.**

c. **Agreed to the extension of Mr Castledine's current contract to 30th September 2026.**

d. **Approved the arrangements at paragraph 5.7 to be made for the appointment of a further Independent Investment Adviser with an initial contract term ending in 2027.**

e. **Approved the ending of Ms Scott's contract on 30th April 2024.**

f. **Approved the arrangements at paragraph 5.10 for the appointment of a replacement adviser to the Local Pension Board for an initial term of three years.**

15 DEBT WRITE OFFS

The Head of Finance presented the report to request the Authority's approval to write off irrecoverable debts relating to the Pension Fund's commercial property portfolio and pension member overpayments.

RESOLVED: Members approved the writing off of debts amounting to £264,095.08 excluding VAT.

16 BORDER TO COAST STRATEGIC PLAN

The Director presented the Border to Coast Strategic Plan to secure approval for the casting of the Authority's shareholder vote in favour of the Border to Coast Strategic Plan and Budget.

RESOLVED: Members

a. **Noted the contents of the Border to Coast Strategic Plan and Budget set out in the attached appendices.**

b. **Approved the casting of the Authority's shareholder vote in favour of the Border to Coast Strategic Plan and Budget.**

17 FINANCE SERVICE RESOURCING

The Assistant Director – Resources presented the report to secure Members' approval for proposals to strengthen resourcing in the Finance Service.

RESOLVED: Members approved the addition of 1 FTE Senior Finance Business Partner and the other team structure changes outlined in paragraph 5.9 of this report and shown on Appendix A.

18 SENIOR MANAGEMENT REMUNERATION AND SUCCESSION PLANNING

The Director presented a confidential report making proposals in relation to senior management renumeration following consultation on the Pay and Benefits review and in relation to specific issues concerned with two senior management roles.

RESOLVED: Members

a) **Approve the changes proposed to Grades L and M within the Authority pay and grading structure set out in para 5.4 with effect from 1st April 2023.**
b) **Approve the payment of a non-consolidated additional responsibility allowance to the Assistant Director – Resources backdated to 1st April 2023 as set out in para 5.4.**
c) **Approve the arrangements set out in the body of this report for the process to appoint a successor to the current Assistant Director – Investment Strategy.**
d) **Approve the advertising of the role at a salary of between £106,136 and £116,693 reflecting a market supplement of 20% on the substantive grade for the role.**
e) **Authorise the Director to update the 2024/25 Pay Policy Statement to reflect these changes.**

CHAIR

Questions from the public.

SYPA Authority Meeting 14/03/2024

Sean Ashton (on behalf of South Yorkshire Fossil Free)

In a recent announcement, Wiltshire Pension Fund has officially declared its plan to divest from fossil fuels by 2030 (https://www.wiltshirepensionfund.org.uk/plan-for-fossil-fuel-divestment). This is a very welcome statement from an LGPS fund showing a clear intent to remove some of the most carbon-intense and intransigent companies from its investments.

We acknowledge that it is not immediately straightforward to divest from fossil fuels given the constraints of pooling. However, within a six year timeframe it is not impossible. A similar statement by this Committee would add weight to South Yorkshire Pension Authority's plan to be net zero by 2030 and give added incentive for the Border to Coast Pension Partnership to provide investment vehicles to facilitate removing fossil fuel companies from your portfolio. We would like to know whether the Councillors on this Committee will show the leadership needed to make a similar statement and if not, why not?

Delivering for our Customers – Corporate Performance Report

Quarter 3 2023/24

Contents

1. Introduction

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

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

1.3 This report presents the information on overall performance during the third quarter of the 2023/24 financial year. More detailed information on the performance of the Authority's investments and the pension administration department during the quarter are contained in other reports which are available on the Authority's website.

2. Headlines

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

Sickness absence levels have reduced again in this quarter.

Improvement plans are now in place to address some of the risks and issues in the corporate strategy and in Pensions Administration performance

(Detail reported elsewhere on this agenda)

It will take time to see marked improvements on on the processing performance.

3. Delivering the Corporate Plan & Supporting Strategies

3.1 This section provides an update on progress made in delivering the corporate objectives of the organisation.

3.2 The update to the Corporate Strategy for the period 2023-2026 was approved in February 2023 and reflects the continuing ambition to build a stronger, more resilient organisation focussed on delivering for our customers.

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 table provides updates in respect of developments that have taken place during the quarter in delivering these programmes of work.

3.5 Key to abbreviations used in the table that follows:

Key to Responsible Managers:	
ADIS	Assistant Director - Investment Strategy
ADP	Assistant Director - Pensions
ADR	Assistant Director - Resources
Ben	Service Manager - Benefits
Cus	Service Manager - Customer Services
Dir	Director
Gov	Governance Team Leader
HoF	Head of Finance
HoG	Head of Governance
ICT	Head of ICT
INF	Service Manager - ICT Infrastructure
OMO	Operations Management Officer
PP	Service Manager - Programmes and Performance
S&E	Service Manager - Support and Engagement
Sys	Service Manager - Pensions Systems
TA	Technical Adviser

Key to Status Icons Used	
✓	On track for original timescale, no significant concerns
⇔	Some risks being addressed but remains achievable either within or close to target timescale
✘	Not expected to be achieved within the timescale

Ref	Project / Action	Timescale Start	Timescale Finish	Responsible Manager	2023/24 Progress Updates Quarter 2	On Track:
Data						
D02	**Guaranteed Minimum Pension – Completion of Rectification process**	**Nov-21**	**Dec-23** **Revised to Aug-24**	**ADP**	Project plan now in place. Dry run completed. A method is needed from system supplier to input the data provided by external consultants into Pensions Administration system. The finish date for this project is now Summer 2024.	⇔
D03	**McCloud Remedy-**	**Mar-22**	**Apr-24**	**ADP**		
	System Upgrades	*Apr-23*	*Oct-23*	*Sys*	Project plan now in place and project is well in progress with initial upgrades to system now installed.	⇔
	Processing and Case Reviews	*Apr-23*	*Mar-24*	*Ben*	Member letters updated for basic leaver cases for which the system will now calculate McCloud underpin. System provider now due to work on phase 2 of the system developments for additional calculations and rectification for members who have left since 2014.	✘
	Member Communications	*Apr-22*	*Mar-24*	*Cus*	All members updated either through the website or newsletters. Members opted out of e-comms have been written to..	✓
	Employer Communications	*Oct-21*	*Mar-24*	*S&E*	Website updated.	✓
D04	**Complaints – Undertake root cause analysis of complaints which occur on multiple occasions**	**Jun-23**	**Dec-23**	**Ben**	Work on this has been deferred due to the need to concentrate on addressing backlogs. Resource has been identified to take this forward in the Pensions Administration staffing changes being implemented on a phased basis.	✘

Ref	Project / Action	Timescale Start	Timescale Finish	Responsible Manager	2023/24 Progress Updates Quarter 2	On Track:
D05	**Pensions Dashboard – Provision of data in line with regulatory requirements**	**Apr-23**	**Mar-25**	**Sys**	Awaiting demonstration of the current system providers offering prior to soft market testing.	✓
D06	**Deliver annual data improvement plan**	**Apr-22**	**Mar-25**	**TA**	An increased priority for data improvement has been identified as part of the work to address challenges in Pensions Administration.	⇔
Process Improvement						
P01	**Implement contractual improvements to the Core UPM Pension Administration System –**	**Feb-22**	**Mar-25**	**ADP**	A system audit of the UPM system is planned to take place in March 2024 to identify whether it is being deployed in the optimum configuration.	⇔
P02	**Monthly Data Collection (MDC)**	**Mar-22**	**Mar-25**	**Ben**	Performance in processing monthly data continues to improve data flow from employers. Focus continues to be placed on employers who struggle to provide accurate data.	⇔
P03	**Reporting – Implement improvements to the completeness and degree of automating of reporting across the organisation –**	**Apr-22**	**Mar-25**	**Dir**	Corporate approach to this area will be progressed further when new Service Manager - Programmes & Performance in post (from Dec 2023) and following initial settling in and information gathering period.	✓
	Pension Administration Regular Management Information	*Apr-22*	*Mar-24*	*Ben / Sys / PP*	Improvement plan being put in place as per report elsewhere on this agenda.	⇔

Ref	Project / Action	Timescale		Responsible Manager	2023/24 Progress Updates Quarter 2	On Track:
		Start	Finish			
P04	**Financial Process Improvements -**	**Apr-22**	**Jun-24**	**ADR**		
	Review debt recovery processes	*Apr-23*	*Mar-24*	*HoF*	Completed in November 2023.	✓
	Review of processes following implementation of new financial systems to capture benefits	*Apr-22*	*Dec-23*	*HoF*	Work has taken place to progress this area with new functionality for budget monitoring being used. Areas of the system we would like to utilise are not as easy to utilise as expected; liaison with the software provider, and other clients in similar positions, is taking place to allow further benefits to be realised.	⇔
	Complete the review of the VAT Partial Exemption Special Method	*Mar-23*	*Dec-23*	*HoF*	The internal procurement work has begun for appointing consultants via a framework agreement. It is expected that a consultancy appointment will be made in Q1 2024/25 and work should be completed by Q3 2024/25.	✓
Investment						
I01	**Strategic Issues –**	**Apr-22**	**Mar-25**	**Dir**		
	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*	Annual update to Net Zero Action Plan prepared for March 24 Authority meeting. Additional climate positive investments identified in line with the last strategy review.	✓
	Implement new requirements related to TCFD Reporting	*Apr-22*	*Ongoing*	*Dir / ADIS*	New requirements not made into regulations. Development work on improvements to reporting ongoing with Border to Coast partners	⇔

Ref	Project / Action	Timescale Start	Timescale Finish	Responsible Manager	2023/24 Progress Updates Quarter 2	On Track:
I02	**Tactical and Transactional Issues –**	**Apr-22**	**Ongoing**	**ADIS**		
	Determine the approach to the Border to Coast property proposition and transition assets as necessary	*Mar-22*	*Dec-24*	*Dir / ADIS*	Decision made to proceed and reported to December Authority meeting. Due diligence process prior to transition ongoing.	✓
	Conclude Project Chip	*Sep-21*	*Sep-23*	*Dir*	Project Chip completed at the end of January 2024. Report setting out the results of the project to be considered at March 2024 Authority meeting.	✓
	Review legacy portfolios and determine the ultimate exit routes in each case	*Apr-22*	*Ongoing*	*ADIS*	Work undertaken reflected in the Transition Plan reported to the March Authority meeting	✓
Organisation						
O01	**Governance –**	**Dec-21**	**Mar-25**	**ADR**		
	Update procurement arrangements, processes, and systems including the implementation of the YORtender replacement	*Dec-21*	*Dec-23*	*Gov*	YORTender implementation completed during 2022. Work on updating procurement processes has been taking place throughout 2023 with training from CIPFA's procurement adviser delivered in January 2024.	✓
	Demonstrate compliance with the relevant TPR codes	*Sep-22*	*Aug-23 Revised to Jun-24*	*ADP / HoG*	End date revised due to delays in TPR publishing the General Code. The new Code has now been published and compliance will be assessed with support from Aon as part of independent governance review Feb 2024 to June 2024.	✓

Ref	Project / Action	Timescale Start	Timescale Finish	Responsible Manager	2023/24 Progress Updates Quarter 2	On Track:
O02	**People –**	**Jan-22**	**Ongoing**	**SMT & HR**		
	Consolidate the new finance team structure and capture benefits	*Apr-22*	*Ongoing*	*HoF*	During Q3 2023/24 the Head of Finance and AD - Resources reviewed the team structure; benefits have been captured with improved performance, increased skill sets, more resilience and a clear cultural shift. Due to the changing shape of the demands for the team this piece of work led to further structural changes, approved at the February 2024 Authority meeting.	✓
	Develop a staff Health and Wellbeing Strategy	*Jan-23*	*Apr-24* *Revised to Feb-25*	*ADR / HRBP*	Work on health and wellbeing continues to take place with an ever-increasing number of initiatives and support available for staff. The production of a Strategy document will be undertaken in 2024/25 to form part of the next full review of the Authority's corporate strategy suite of documents due to be approved in February 2025.	⇔
	Create structured learning paths for different job roles using the different learning support technologies available	*Jan-22*	*Sep-24*	*HRBP / S&E*	Work on learning paths is now being supported by the Business Support Officer - L&D who has worked with service managers in different teams to capture needs. The work will continue on an on-going basis to become BAU (Business as Usual). The 2024/25 Corporate Strategy will also contain objectives relating to training paths specifically for Pensions Administration that the new Technical, Support and Training team will be responsible for.	✓
O03	**ICT –**	**Jun-21**	**Mar-25**	**ICT**		
	Complete the roll out of Microsoft 365 tools and the migration to the M365 infrastructure	*Jun-21*	*Dec-23* *To be revised*	*ICT*	M365 Licence renewal completed. The work commenced to migrate to OneDrive online and development of SharePoint Online with a working group established. Document libraries being created. The target completion date will be later than originally planned due to impact of increased responsibilities being brought into ICT (such as Pensions Systems team) since the strategy and timeline was devised.	✗

Ref	Project / Action	Timescale Start	Timescale Finish	Responsible Manager	2023/24 Progress Updates Quarter 2	On Track:
	Strengthen Cyber Security	*Apr-22*	*Ongoing*	*ICT / INF*	Implemented Cyber Awareness Training platform, including the instigation of periodic phishing exercises.	✓
O05	**Business Continuity –**	**Apr-22**	**Ongoing**	**ADR**		
	Produce revised corporate business continuity plan	*Apr-22*	*Dec-23* *To be revised*	*ICT / OMO*	The target for completion of this objective has had to be deferred due to pressures from other work priorities for ICT team. The team have identified two potential providers of external consultancy work for supporting the production of a Business Continuity Plan / Strategy as planned which should enable good progress to be made on this in 2024/25.	✗
	Reinstate annual testing of ICT Disaster Recovery arrangements.	*Sep-22*	*Ongoing*	*ICT / INF*	Business Continuity Rehearsal completed successfully. This was the first recovery testing since our move to the online backup solution.	✓
O06	**Pay and Benefits Review**			**ADR**		
	Commission an independent review of the organisation's pay and benefits and develop actions to address the findings.	*Oct-22*	*Mar-24*	*ADR / HRBP*	Completed. The independent review was completed and this culminated in a report and a package of proposals for enhancements that was approved by the Authority's Staffing Committee in October 2023. These included: - Revised Grading Structure - taking effect from 1 April 2023 with backdating - Reduction to standard weekly working hours from 37 to 35 taking effect from 1 April 2024 - Salary sacrifice schemes for AVCs, Electric / ULEV Cars, and Cycle to Work - Enhanced family support policies: Maternity & Adoption Leave, and Maternity Support / Adoption Support Leave - Updated Loyal Service Award scheme to include recognition for 10 years, 20 years, 30 years and 40 years service - A new Employer Supported Volunteering Leave policy.	✓

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 sickness absence measures for this quarter as compared to last and as compared to this time last year are summarised in the following table.

Measure: Days Lost Per FTE	Quarter 3 2023/24	Quarter 2 2023/24	Quarterly Movement	Previous Year Q3: 2022/23	YTD at Q3 2023/24	Prior Year YTD at Q3 2022/23	Yearly Movement
Short Term Sickness Absence	0.99	0.82		0.96	2.77	2.93	
Long Term Sickness Absence	0.73	1.33		0.99	3.44	3.73	
Total Days Lost per FTE	**1.72**	**2.15**		**1.95**	**6.21**	**6.66**	

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 The sickness absence in this third quarter of the year has fallen compared to the previous quarter and compared to the same quarter last year.

4.5 There has been an increase in short term sickness absence in the quarter – mainly caused by a high incidence of cold / flu and sickness bugs occurring in December.

4.6 The total days lost per FTE for year to date of 6.21 compares favourably with this time last year when the figure was 6.66.

4.7 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. Human Resources have been carrying out additional measures to support and ensure line managers take appropriate steps to manage attendance in line with the policy – such measures include providing additional notifications to service managers on sickness absence triggers each month, copied to the relevant Assistant Director.

4.8 Occupational health services are provided through 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.

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

Investment Measures

4.10 The following table presents a high-level summary of the key indicators of investment performance. A more detailed quarterly report on investment performance, including commentary on market conditions and performance, is provided elsewhere on the agenda.

Measure	Performance Quarter 3 2023/24	Quarterly Benchmark	Performance YTD 2023/24	2023/24 Benchmark	2023/24 Actuarial Target	RAG Indicator
Investment Return – Whole Fund	4.20%	4.70%	4.70%	5.10%	3.30%	

4.11 Performance is within the expectations of the return target.

4.12 The total Fund value at 31 December 2023 was £10.688bn; compared with £10.285bn at 30 September 2023.

4.13 The Funding Level at 31 December 2023 is estimated at 149%. This has reduced from 158% at 30 September as the value of liabilities has risen more than the value of assets as rate expectations fell.

4.14 At the end of the quarter, 71.1% of the Fund's assets were being managed in pooled structures provided by Border to Coast.

Pension Administration Measures

4.16 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	2023/24 Quarter 3	2023/24 Quarter 2	2023/24 YTD	Previous Year: 2022/23	Target 2023/24	Movement
Proportion of priority cases processed on time	68%	67%	64%	79%	100%	↑
Proportion of non-priority cases processed on time	53%	65%	51%	73%	100%	↓
Proportion of all cases processed on time	67%	65%	66%	68%	100%	↑
Proportion of employer data submissions on time	94%	93%	94%	95%	100%	↑

4.17 There has been a slight improvement to overall number of cases completed on time.

4.18 Targeted staff overtime was used to help reduce the number of leaver and deferment cases during October & November and this has skewed the performance percentage for non-priority cases as the team completed cases that were over 2 years old.

4.19 The backlog clearance exercise that we have planned over the next 12 months will continue to skew the performance metrics with regards to non-priority casework as historic cases are completed.

4.20 We do not expect a marked improvement to show for cases processed within SLA until:

a) We have recruited to additional posts that will take us to full capacity.

b) Reviewed SLA's - with the aim of moving to a target of 10 days for most case types.

4.21 Employer performance in relation to timeliness of data submissions has remained fairly consistent.

4.22 At the end of the quarter, membership of the Fund stood at 179,372.

4.23 There were 550 participating employers with active members at 31 December 2023, compared with 556 at 30 September 2023.

4.24 Three new employers were admitted to the scheme during the quarter.

4.25 No terminations were completed this quarter. However, there are instances where cessations are actioned sometime after the date of leaving. An exercise is currently underway to clear some historical cessations, and this has resulted in the total employer number being reduced by 9 at the end of this quarter compared to last.

Financial Measures

2023/24 Q3 Forecast Outturn

4.26 The quarter 3 forecast expenditure for the year and variance against the revised budget for the year is as follows.

South Yorkshire Pensions Authority Operational Budget	2022/23 Actuals £	2023/24 Original Budget £	2023/24 Revised Budget £	2023/24 Q3 Forecast £	2023/24 Q3 Forecast Variance £	2023/24 Q3 Forecast Variance %
Pensions Administration	2,870,210	3,077,530	**3,253,030**	3,477,830	224,800	6.90%
Investment Strategy	526,760	635,770	**635,770**	560,470	(75,300)	(11.80%)
Resources	942,210	1,033,720	**1,033,720**	1,062,660	28,940	2.80%
ICT	720,340	972,975	**972,975**	881,410	(91,565)	(9.40%)
Management & Corporate	693,470	869,650	**869,650**	892,750	23,100	2.70%
Democratic Representation	152,540	145,920	**167,920**	183,710	15,790	9.40%
Subtotal - Cost of Services	**5,905,530**	**6,735,565**	**6,933,065**	**7,058,830**	**125,765**	**1.80%**
Capital Expenditure Charge to Revenue	89,820	72,000	**72,000**	69,900	(2,100)	(2.92%)
Subtotal before transfers to reserves	**5,995,350**	**6,807,565**	**7,005,065**	**7,128,730**	**123,665**	**1.80%**
Appropriations to / (from) Reserves	(66,360)	(150,000)	**(150,000)**	(273,665)	(123,665)	82.40%
Total	**5,928,990**	**6,657,565**	**6,855,065**	**6,855,065**	**0**	**0.00%**

4.27 Following Authority approval granted at the December meeting for a supplementary estimate of £197,500, the outturn forecast position at the end of quarter 3 is that expenditure for the year will match the total revised budget of £6,855k.

4.28 The forecast shows that the cost of services subtotal expenditure is forecast to be overspent by £125k, equivalent to 1.8% of the budget – however this will be fully met by the planned transfers from earmarked reserves.

4.29 The details of the significant variances are set out below.

2023/24 Salary Budget Variances

4.30 The pay award for 2023/24 was agreed by the NJC in November at an amount of £1,925 on all pay points up to 43, and at 3.88% for pay points above this, with effect from 1 April 2023.

4.31 The 2023/24 budget was set incorporating a pay award assumption of 2%, plus a corporate contingency budget of £75k. The additional cost of the actual pay award above the total of these is £119k. Separately, a vacancy allowance of -2.5% of the pay budget was included to allow for staff turnover and the time that would be needed to recruit to several newly established posts. However, the level of underspend due to turnover and vacancies has remained in excess of this by a total of just under (£137k).

4.32 The net total impact across the above two items is therefore a forecast underspend of just under (£18k) – as summarised in the first two columns of Table 1 on the next page.

4.33 The total cost in 2023/24 arising from the pay and benefits review outcomes as previously reported, is £198k. This cost is to be met in year from the Pay & Benefits Reserve that was set up for this purpose and has a balance of £200k available.

4.34 The following table summarises the above variances by department.

Table 1 Salary Budget Variances by Type and by Department	Additional Cost of Pay Award Offset by Corporate Contingency Budget £	Underspends Due to Recruitment Delays Offset by Vacancy Allowance £	Pay and Benefits Review £	Apprentice Pay Grade Uplift £	Total Variances on Salaries Budgets £
Pensions Administration	112,000	(95,700)	109,000	17,000	**142,300**
Investment Strategy	9,000	(2,700)	5,000		**11,300**
Resources	49,000	(67,000)	30,000	14,000	**26,000**
ICT	15,000	(59,700)	17,000		**(27,700)**
Management & Corporate: Departmental Budget	8,000	(30,300)	6,000		**(16,300)**
Democratic Representation	1,000	0			**1,000**
Subtotal	**194,000**	**(255,400)**	**167,000**	**31,000**	**136,600**
Management & Corporate: Corporate Contingency and Vacancy Allowance	(75,000)	118,550	-	-	**43,550**
Net Total	**119,000**	**(136,850)**	**167,000**	**31,000**	**180,150**
	(17,850)		**198,000**		**180,150**

2023/24 Cost of Services - Variances

4.35 <u>Pensions Administration – Forecast Over-Spend £225k:</u>

4.36 £142k forecast over-spend on salary budget as detailed in Table 1 and paragraphs 4.30 to 4.34 above.

4.37 Costs relating to hybrid mail are forecast to be £4k over budget. Whilst the general direction towards greater use of online and email communications with members is continuing to reduce costs here, the work being done by the team to clear backlogs has resulted in an increase to the usage of mail for these cases which are additional to the normal level of activity, and this has therefore led to the small over-spend currently forecast.

4.38 The actuarial fees budget is forecast to be over-spent by a net total of £22k. There are additional one-off costs here of the actuary undertaking processing of a backlog of annual allowance / lifetime allowance tax cases. These costs have been partly offset by savings made on the main actuarial services budget by not requiring take-up of all of the potential services available.

4.39 The address tracing budget is forecast to be under-spent by (£12k), due to a new licencing arrangement that has resulted in savings. The reduction in costs is reflected in a reduced budget for 2024/25.

4.40 The professional fees budget is forecast to be over-spent by £38k. Approximately half of this was due to a one-off piece of work from the address tracing provider to support the update of email address contacts for scheme members, which will help with the quality and efficiency of communications. The remaining part of the over-spend is due to work required on GMP Reconciliation and Rectification in year. Additional budget requirements for professional fees that are expected next year for this area were included in the budget set for 2024/25.

4.41 The recruitment fees budget is forecast to be over-spent by £5k. The main driver of the over-spend is due to the costs of specialist, targeted recruitment undertaken for two managerial posts. Some of this over-spend has been offset by a reduced number of recruitment advertising campaigns overall.

4.42 An over-spend for Legal fees of £6k is forecast. During 2023/24 there has been a growth in the use of external legal fees for primarily employer-related work; the 2024/25 budget has been set to reflect this increased requirement for legal fees.

4.43 HMRC late payment interest is forecast to be over-spent by £7k. This relates to late payment interest on member annual allowance (AA) and lifetime allowance (LTA) tax charges paid by the Fund under the Scheme Pays rules. The late payment interest charge is borne by the Authority where the delay in payment is due to a delay in the Authority producing the Pensions Savings Statements, and not the fault of the member. A budget is not normally included for these costs, as they would normally be small and are not easy to predict, and the cost can usually be met from under-spends in other areas. However, as noted above, this year, work is being undertaken with external support to process a backlog of AA and LTA charges – therefore this has resulted in a forecast of higher than usual late payment interest expenditure. It is anticipated that this will be a one-off additional cost in 2023/24 and potentially with some further costs in the early part of 2024/25.

4.44 An over-spend of £9k in total is forecast due to a reduction in administration fees income compared to the estimated income for the budget. Fees charged to employers and payroll administration fees have both reduced slightly compared to expectations – mainly related to volume. The 2024/25 income budget has been set to reflect this reduction.

4.45 A number of miscellaneous items are forecast to result in minor over-spends which together come to a total of £4k. The over-spend items include ill health reports, death certificates, venue hire and SMS messaging, offset by small under-spends on staff training.

4.46 <u>Investment Strategy – Forecast Under-Spend (£75k):</u>

4.47 £11k forecast over-spend on salary budget as detailed in Table 1 and paragraphs 4.30 to 4.34 above.

4.48 The performance measurement budget is forecast to be over-spent by £6k. Following the previous contract ending, a new contract was implemented with a new provider. This resulted in an on-boarding fee which is driving the majority of this over-spend.

4.49 An over-spend of £4k is forecast for investment advisers due to inflationary increases in fees being above the assumptions when the budget was set. The budget for 2024/25 has been set at a higher rate to reflect this.

4.50 The consultancy budget is forecast to be under-spent by (£48k). The budget was set based on estimated needs and costs for a number of items in relation to TCFD and impact reporting that are now not going ahead in this year; some of the work is being covered by internal resources and the remainder is not currently required.

4.51 An under-spend of (£48k) is also currently forecast on legal and other professional fees based on the expected activity and requirements for this year. The main driver of this forecast under-spend is an additional professional licence for Bloomberg budgeted for, that has yet to be implemented.

4.52 <u>Resources – Forecast Over-Spend £29k:</u>

4.53 £26k forecast over-spend on salary budget as detailed in Table 1 and paragraphs 4.30 to 4.34 above.

4.54 The recruitment budget is forecast to be over-spent by £8k due to having required the services of a specialist agency for a second transactions officer; two posts were required, one of which was filled during 2022/23, however the second was delayed until 2023/24. Additionally, two attempts to recruit a Governance Officer were required due to failing to appoint at the first attempt, and this led to additional recruitment advertising fees.

4.55 Additional income of (£5k) is forecast due to not including fee income for providing secretariat services for the Border to Coast Joint Committee when setting the budget as this was yet to be agreed at that time. The 2024/25 budget has been set to reflect the agreed fee income for this going forward.

4.56 <u>ICT – Forecast Under-Spend (£92k):</u>

4.57 (£28k) forecast under-spend on salary budget as detailed in Table 1 and paragraphs 4.30 to 4.34 above.

4.58 The training budget is forecast to be over-spent by £4k due to several additional short courses being undertaken – taking advantage of promotional offers from an external provider that provided good value for money. There is an under-spend on the corporate training budget (shown in Management & Corporate), which can be used to offset the additional training spend in individual departments.

4.59 At this stage in the year, a net under-spend of (£6k) is forecast on the budgets for various software systems:

a) Investment accounting system forecast under-spend (£9k) – the supplier went into liquidation in May 2023 without notice. Arrangements put in place to replace the system, at no cost to the Authority, using internal staff resource to develop a spreadsheet-based system. This will continue to be used pending procurement of a custodian in 2024/25.

b) HR & Payroll system forecast under-spend (£50k) – the procurement and implementation of the new system has been delayed until at least July 2024. The implementation and additional annual costs have been included in the 2024/25 budget.

c) UPM (Pensions Administration software system) forecast over-spend £53k – a number of additional upgrades have been required in 2023/24 that were not known when setting the budget, partly affected by the vacancy of the AD – Pensions at the time. The Head of ICT has now taken over responsibility for this budget, in close consultation with the AD – Pensions in relation to the needs of the service. Therefore, the estimates for the 2024/25 budget are believed to be more robust – although the nature of pensions administration and potential for new requirements arising from regulations etc., can lead to further costs for enhancements / upgrades arising. For this reason, we do also maintain funds in the ICT reserve as a contingency.

4.60 An under-spend of (£29k) is forecast on the hardware replacement budget. The budget included provision for a potential requirement to purchase member devices; an alternative solution was found meaning this has not been required. Additionally, the budget for monitor replacements has not been utilised as the work has been delayed to 2024/25.

4.61 The budget for various software licences and maintenance are forecast to be under-spent by (£36k). This is due to some licence cost increases not being quite as high as budgeted for, and some costs budgeted for in 2023/24 that will now fall in 2024/25.

4.62 A number of miscellaneous items are forecast to result in a minor net over-spend of £3k. This comprises an over-spend on accessories and consumables, offset by under-spends in relation to insurance and telephony.

4.63 <u>Management and Corporate – Forecast Over-Spend £7k:</u>

4.64 £28k forecast over-spend on salary budget as detailed in Table 1 and paragraphs 4.30 to 4.34 above, comprising an under-spend of (£16k) on the departmental budget and £43.5k net cost from the corporate contingency and corporate vacancy allowance budgets.

4.65 An under-spend of (£39k) is forecast in relation to various budgets relating to Oakwell House:

a) The utility bills budget is forecast to be under-spent by (£28k), mainly due to the price of electricity reducing in recent months. The budget was set on a prudent basis without building in these potential reductions.

b) The facilities management and other premises budgets are forecast to be under-spent by (£8k), following the reduction of some charges on the monthly contract. The under-spend in relation to the facilities management contract is offset by additional costs for miscellaneous building maintenance items.

c) Office furniture is forecast to be over-spent by £7k. A number of different furniture needs have been assessed following the appointment of the Operations Management Officer with a dedicated focus on managing the office facility. Further requirements have been taken into consideration when setting the 2024/25 budget.

d) A budget for Oakwell House repairs and maintenance was created in 2023/24 and is forecast to be underspent by (£10k). The purpose of the budget is to spread the cost of any significant works that may be required in future over a number of years, such as a new roof for example. Any under-spend will be transferred to Reserves at the end of the year.

4.66 External audit costs are forecast to be over-spent by £30k. When setting the budget for 2023/24 we increased the budget significantly in line with the estimates provided by PSAA (Public Sector Audit Appointments) which indicated an increase of at least 150% on the previous scale fees. Following conclusion of the audit procurement by PSAA, they provided an updated scale fee for 2023/24 which includes consolidation of fees that previously had to be separately agreed in relation to additional requirements (such as VFM work, new auditing standards) and these have also been uplifted by 150%, leading to this forecast over-spend.

4.67 The recruitment budget is forecast to be over-spent by £5k. A one-off additional recruitment campaign requiring services of an agency for the Programmes and Performance Manager role is the main driver of this over-spend. This recruitment did lead to a successful appointment, with the role holder joining the organisation in December 2023.

4.68 An under-spend of (£16k) is forecast on the corporate training budget. However, this is partly offset by increased training costs at departmental level and is much smaller than has historically been the case when this budget has been under-utilised. The outcome of providing increased focus on support for learning and development, including the appointment to a new role of Business Support Officer – Learning and Development in the HR team from October 2023 – is evident in the increased usage of this budget.

4.69 The budget for HR services provided by Barnsley MBC under a service level agreement is forecast to be over-spent by £5k as a result of increasing the service provided from 3 days to 4 days per week with effect from September 2023, in order to provide the management resource needed for the increasing workload and increased team establishment.

4.70 The professional services budget is forecast to be over-spent by £8k. The main drivers for the over-spend have been additional governance actuarial fees for consultancy regarding member knowledge and skills development and various corporate legal fees.

4.71 An over-spend of £2k is forecast for the apprenticeship levy. The increase in salary costs through the 2023/24 pay award and pay and benefits review have resulted in an increase in apprenticeship levy costs. The Authority receives the benefit of this back through drawdowns of our apprenticeship levy pot to pay for the apprenticeships and training in place.

4.72 The budget for the Multi-Functional Device (Printer / Photocopier) is forecast to be under-spent by (£4k). As the Authority has moved to being paperless the need for two MFDs dropped to one, and there has been a significant reduction in associated consumables. The reduction in costs have been reflected in a reduced budget for 2024/25.

4.73 The Health, Safety & Wellbeing budget is forecast to be over-spent by £4k. The main drivers are occupational health costs and office related health and safety costs, which are both gradually having increased demands. The 2024/25 budget has been increased in this area to reflect the additional spending required. This aligns with the organisational commitment to this area.

4.74 <u>Democratic Representation – Forecast Over-Spend £15k:</u>

4.75 £1k forecast over-spend on salary budget as detailed in Table 1 and paragraphs 4.30 to 4.34 above.

4.76 The Authority and Local Pension Board members' training budget is forecast to be over-spent by £12k. This reflects an increased use of external training providers commissioned for several seminars on specific and current issues in the year (e.g., scrutiny for LPB members, Cyber risk and scams, McCloud) as part of the approved Member Learning & Development Strategy and is part of achieving the aim of enhancing support for member knowledge and skills development. The 2024/25 budget includes increases for both the LPB and Authority member training.

4.77 A small over-spend of £2k is currently forecast on miscellaneous items such as travel, catering and advisor fees, based on the expected activity and requirements for this year, and the newly introduced Members Away Day.

Earmarked Reserves

4.78 The table below shows the forecast transfers to and from all four of the earmarked reserves in 2023/24.

Reserve	Balance at 01/04/2023 £	Contributions to Reserves £	Contributions from Reserves £	Forecast Balance at 31/03/2024
Corporate Strategy Reserve	110,220	22,000	(66,000)	66,220
Pay & Benefits Reserve	200,000	0	(200,000)	0
ICT Reserve	78,030	10,335	(25,000)	63,365
Subtotal Revenue Reserves	**388,250**	**32,335**	**(291,000)**	**129,585**
Capital Projects Reserve	34,290	15,000	(30,000)	19,290
Total Earmarked Reserves	**422,540**	**47,335**	**(321,000)**	**148,875**
Net Total Transfer Out of Reserves		**(273,665)**		

4.79 The planned transfers out of the Corporate Strategy reserve are to meet costs associated with the legal fees for the final stage of the Constitution review and providing for the costs of the retentions scheme this year. The transfer into the reserve is for setting aside of funds to meet the costs of the next investment strategy review due in 2026.

4.80 The Pay & Benefits reserve was created to meet the then unknown costs in 2023/24 of the pay & benefits review outcomes. This work has now been concluded with a forecast cost of £198k and therefore the balance available in this reserve will be fully used to meet this cost.

4.81 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.

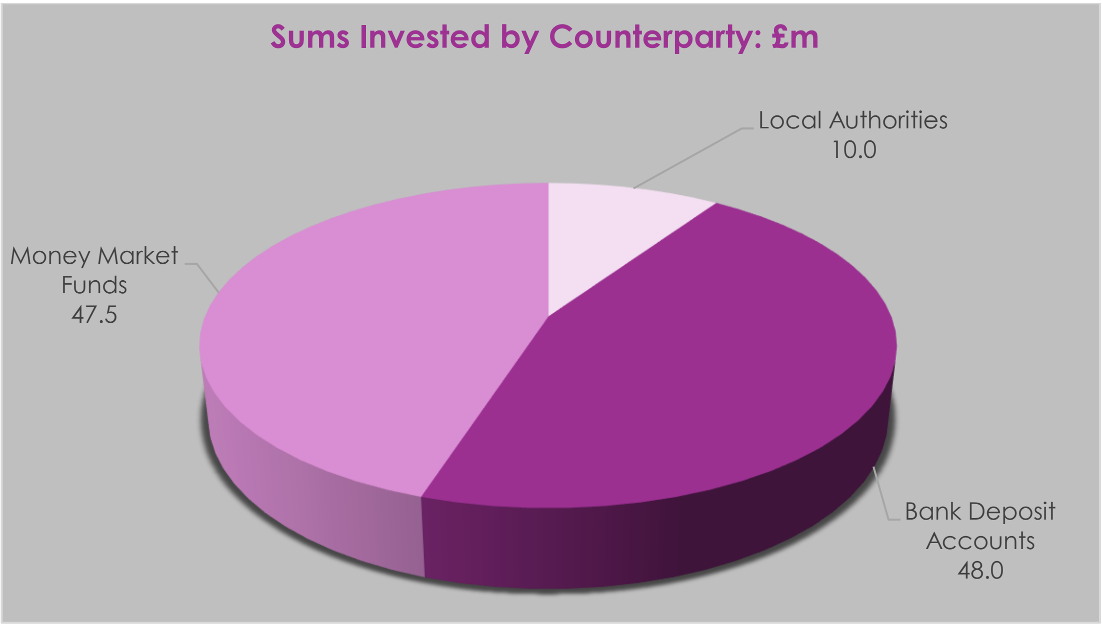
4.82 The transfer out of the Capital Projects reserve is to finance the capital expenditure incurred this year on laptop replacements. The transfer into this reserve is setting aside of funds for meeting future costs of upgrades required to the office building.

4.83 The result of the above is a net total transfer out of reserves of (£273,665).

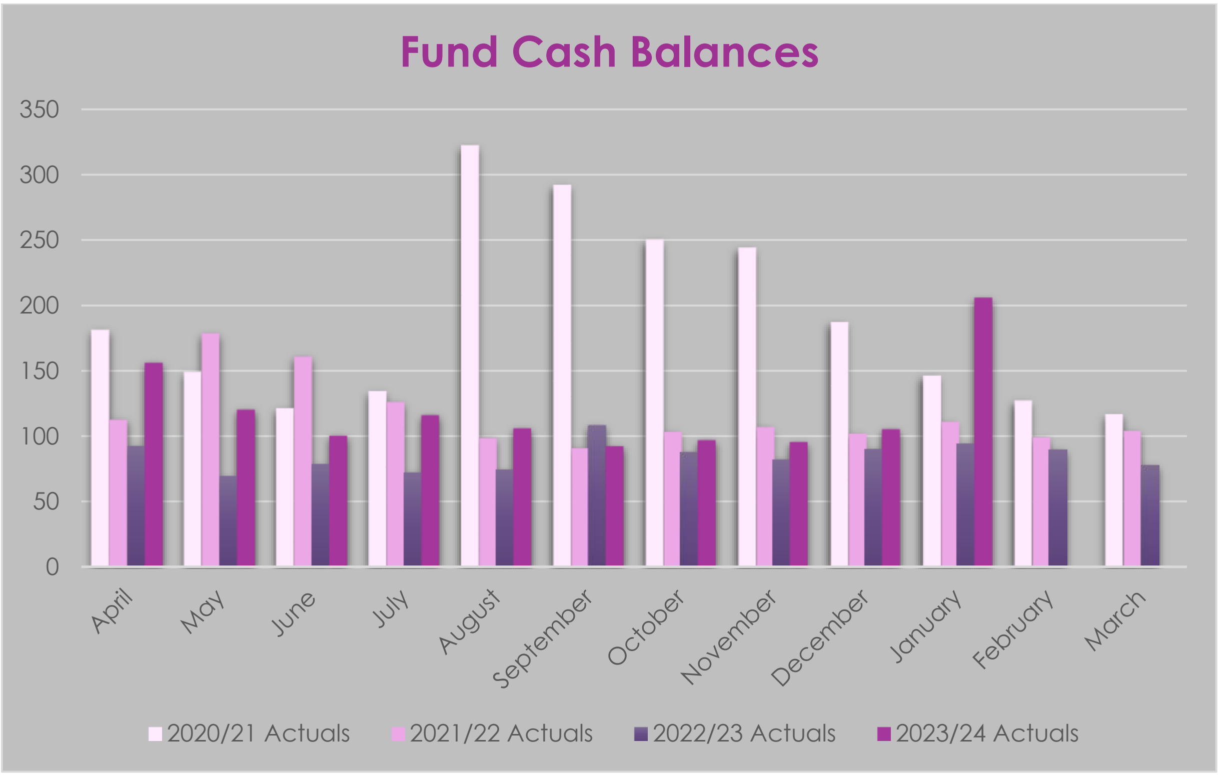
4.84 The forecast total balance in reserves following the transfers proposed, is just under £149k, of which the revenue reserves total is just under £130k, equating to 1.9% of the Authority's total revenue budget, and is well within the limit of 10% that we set for ourselves in the Medium-Term Financial Strategy for 2023/24 onwards.

Treasury Management

4.85 The Fund's cash balances at 31 December 2023 stood at £105.5 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.



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



4.87 Cash is only held pending Fund investment and the balance of cash at the end of the quarter 3 represents 0.99% of the Fund, compared with 0.90% at 30 September 2023.

4.88 The significant increase that can be seen in the chart above of cash held as at the end of January 2024 is due to the conclusion of Project Chip which resulted in a large cash inflow that will be held temporarily pending re-investment by the Fund.

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 Strategic Risk Register is attached at Appendix A.

5.3 As reported last quarter, the risk register underwent a comprehensive review in November 2023 and the format was updated and enhanced. The measures to manage the risks – both the existing ones in place and the planned actions – now include the preventative measures designed to reduce the likelihood of the risk event occurring and the mitigating measures designed to reduce or mitigate the impact should the risk event occur.

5.4 The results of the latest review of the Authority's strategic risks undertaken in February 2024 are set out in the commentary shown in blue font on the register attached at Appendix A.

5.5 No risk scores have changed since the last review reported and no new risks have been added.

5.6 The risk owner for the two risks relating to 'People' has been changed from the Director to the Assistant Director – Resources.

6. Learning from things that happen

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

	Received in Q3 2023/24	Received in Q2 2023/24	Received YTD 2023/24	Received in Previous Year: 2022/23
Complaints	7	8	22	24
Appeals Stage 1	4	1	5	4
Appeals Stage 2	0	0	2	4

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

6.3 There were no identifiable trends and only one complaint was caused by SYPA – due to delays in annual allowance processing.

6.4 Four stage 1 appeals were received in the quarter, two are still within regulatory timeline. A new reporting procedure has been introduced which it is hoped will be used to report to the Authority as part of the Q4 corporate performance report.

6.5 Two stage 1 appeals were determined in the quarter; one was upheld, and one was rejected. Although rejected, a payment of compensation was made to the member.

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 One breach was recorded this quarter, taking the total for this year to date to six.

6.8 The breach related to payment of a refund after the 5-year legislative cut-off period.

6.9 A breach has been reported to the Regulator in relation to five transfer cases as previously advised.

Satisfaction Surveys

6.10 A survey of retiring members between August and October found that 92% of the 130 respondents were satisfied with the service they received.

6.11 A customer centre survey showed that of the 307 respondents, 86% were satisfied with the service they received.

South Yorkshire Pensions Authority Risk Register As At 10 February 2024

Key:

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

Risk Score

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

No Risk scores have changed since the last review.

Appendix A

Risk No	Risk Type	Risk Event	Existing Preventative Measures - Designed to reduce the likelihood of the risk occurring	Existing Mitigating Measures - Designed to reduce the impact if the risk occurs	Current Score	Likelihood & Impact	Target Score	Likelihood & Impact	Additional Preventative Actions (May Reduce Likelihood Score) Additional Mitigation Action (May Reduce Impact Score)	Comment on Current Status	Owner	Risk Change at Review	Last Review Date
G1	Governance	**Failure of members of the Authority and Local Pension Board to maintain adequate levels of knowledge and understanding to enable them to fulfil their role.**	Member Learning and Development Strategy and associated mandatory training requirements in place.	Annual effectiveness review and action plan Identify changes to legislation and key regulatory requirements that require enhanced knowledge and skills development Continuation of collaborative engagement of Independent Advisors, Internal Auditors and Officers	**9**	L=M I=M	**6**	L=L I=M	Any changes in membership will be require new members to undertake mandatory training to ensure the Authority and Local Pensions Board has 100% compliance. Continuous review of the pensions landscape for legislative and regulatory change	***09/02/2024*** ***Authority members remain 100% compliant, however the arrival of a new Union Member (Unite) is being monitored to ensure timely completion of their mandatory training*** ***LPB members remain 100% compliant at this time*** ***The First Members away day in November 2023 was most successful in nurturing individual and board and Authority members training needs to ensure they remain current and aware of the changes to the pensions landscape.*** ***There is no justification to change the score at this stage due to training required to adress key areas of legislative changes***	Head of Governance		09/02/2024
G2	Governance	**Failure to deliver key objectives included within the Corporate Strategy**	Programmes and Performance Management Team Established Installed Programmes and Performance Management System	Regular monitoring and review of objectives delivery	**12**	L=M I=H	**6**	L=L I=M	Development and implementation of a programme management framework Implementation and go live of Programme and Performance System	***Comment 08/02/2024*** ***The Service Manager - Programmes and Performance has been in post since December 2023. Considerable progress has been made in further developing the programme management framework however it is too early to assess any positive impact. There is no justification to reduce the score at this stage.***	Service Manager - Programmes and Performance		08/02/2024
I1	Investment and Funding	**Material changes to the value of investment assets and/or liabilities due to major market movements**		Having a diversified 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	**9**	L=M I=M	**9**	L=M I=M	Ability to implement protection strategies if market circumstances indicate they are appropriate.	***10/02/2024*** ***This risk still remains at the target score*** ***Given nature of the risk it will remain on the register.***	Assistant Director Investment Strategy		10/02/2024
I2	Investment and Funding	**Failure to mitigate the impact of climate change on the value of the Fund's investment assets and liabilities**		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. Review of Investment Strategy following the 2022 Valuation to integrate the achievement of Net Zero within the Strategic Asset Allocation. Reporting in line with the requirements of TCFD and regular monitoring of the level of emissions from portfolios, with outline targets for reductions.	**20**	L=H I=VH	**12**	L=H I=M	Provide more comprehensive data on private market investments. Clear targets for emission reduction to be set for remaining 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.	***09/02/2024*** ***The completion of Project CHIP puts in place arrangements which will deliver significant emissions reductions from a key part of the portfolio over time.*** ***There is no justification to reduce the score at this stage.***	Director		09/02/2024
I3	Investment and Funding	**Failure to manage the key risks identified in the Border to Coast Strategic Plan**	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**	L=M I=M	**6**	L=L I=M	Ongoing monitoring of Programme of specific risk mitigations set out in 2022 - 2025 strategic plan.	***Comment 09/02/2024*** ***The progress against the plan will be reviewed at the September Authority meeting and it is likely that the risk score will reduce following the June review.***	Director		09/02/2024
I4	Investment and Funding	**Imbalance in cashflows**	Maintenance of "cash buffer" of liquidity sufficient to cover more than one monthly payroll.	Process for monitoring and forecasting cashflows	**5**	L=VL I=VH	**5**	L=VL I=VH	Implementation of strategies to more regularly harvest income from investments. Further improvements in cashflow forecasting,.	***Comment 09/02/2024*** ***This risk still remains at target score but will remain on the register due to potential fluctuating circumstances.***	Assistant Director Investment Strategy		09/02/2024

Risk No	Risk Type	Risk Event	Existing Preventative Measures - Designed to reduce the likelihood of the risk occurring	Existing Mitigating Measures - Designed to reduce the impact if the risk occurs	Current Score	Likelihood & Impact	Target Score	Likelihood & Impact	Additional Preventative Actions (May Reduce Likelihood Score) Additional Mitigation Action (May Reduce Impact Score)	Comment on Current Status	Owner	Risk Change at Review	Last Review Date
I5	Investment and Funding	**Employer contributions become unaffordable**	Investment strategy that is focused on long term returns and reduced volatility Reviews of employer covenant and ongoing monitoring of funding levels	Phasing of increases and stabilisation mechanism in the valuation Negotiated exit depending on the type of employer Ability to undertake contribution reviews	**9**	L=M I=M	**6**	L=M I=L	More systematic review of employer covenants More systematic use of the funding monitoring tools that the actuary gives us access to	***Comment 09/02/2024:*** ***Initial process of engagement with larger employers around the 2025 valuation is about to commence. The overall local government finance situation indicates that it is unlikely that this risk can be reduced and it may in fact be necessary to increase the score at the next review.***	Director		09/02/2024
O1	Operational	**Cyber security attack**	Regularly updated policies, software and hardware e.g. firewalls etc. to ensure multi layer cyber security defences. Regular penetration testing. Cyber Security Essentials Plus Certification Regular refresher training on cyber security for all staff with a requirement to achieve a minimum level of pass.	Effective ICT business continuity plan in place. Incident response retainer with specialist security provider Cyber Security Incident Management Policy in place.	**16**	L=H I=H	**12**	L=M I=H	Ongoing review and implementation of ICT action plan to enhance cyber security defences	***09/02/2024*** ***the Cyber Awareness Training solution continues to be utilised, to promote staff awareness. Further enhancements to cyber security defences are being explored. At this stage there is no justification to reduce the risk score.***	Head of ICT		09/02/2024
O2	Operational	**Poor data quality**	Implementation of front end validation of employer data submissions. Use of DART to run daily validations (200 per day) New system testing, releases and updates Dedicated systems team in place Issues and errors reported to System Providers Checking process in existing systems. Targeted staff overtime worked	Ongoing development of data improvement plan. Support from Programmes and Performance team. Use of DART to run daily validations (200) Benefits Projects Team resource to target highlighted issues - bulk data corrections. Use of Hymans data cleansing tool as part of valuation process. Targeted overtime with focus on priority casework	**12**	L=M I=H	**6**	L=M I=L	Further development of a robust data improvement plan Further preventative measures to be assessed to address root cause Capacity exercise outcomes to be implemented and a dedicated team resourced Targeted staff training for consistency of processes Systems Team to carry out review to identify in-house improvements and efficiencies to system. Ensure robust contract and performance management with External Providers	***Comment 09/02/2024*** ***The data improvement plan has been updated. The primary focus is still the GMP Reconciliation and Rectification exercise. This has recently been resurrected and now a project team is actively working on ensuring this is completed Summer 2024.*** ***The impact of the revised plan will be monitored to assess any implications for this risk score. But there is no justification to reduce the score at this stage.***	Assistant Director Pensions		09/02/2024
O3	Operational	**Failure to retain or circulate personal or sensitive data in line with data protection requirements.**	Access to expertise through BMBC Corporate Assurance Team and DPO. ICT control measures. Data protection policies, procedures and training in place.	Data breach process followed to identify areas for improvement. Close liaison with DPO. Reporting to ICO and implementing any recommendations.	**12**	L=M I=H	**6**	L=M I=L	Implement and embed the Information Governance action plan in collaboration with Internal Audit at each stage of review. Delivery of additional Data Protection training in roles and responsibilities for all staff, middle managers, and SMT.	***09/02/2024*** ***Work is still ongoing to further develop and embed the updated suite of Data Protection Policies. These should be in place and ready to share with staff by the end of March 2024. At this stage there is no justification to reduce the risk score.***	Assistant Director Resources		09/02/2024
O4	Operational	**Failure of the Authority to comply with relevant Regulations**	Service areas are aware of key points of reference for relevant regulations Reporting of compliance within relevant standards. Basic assessment of compliance with TPR CoP 14 in place.	Regular reviews of key policies and processes Ongoing process of awareness raising and training for staff in relation to operational matters Oversight of key updates and awareness of milestone approvals	**12**	L=M I=H	**8**	L=L I=H	More detailed assessment of compliance with emerging regulatory requirements. Independent governance review and use of compliance tool for TPR General Code with associated action plan and enhanced regular reporting. Additional training for Authority and Local Pension Board Members on the new General Code to support oversight. Central tracker that is regularly reviewed to ensure timely updates to all policies, procedures and frameworks	***Comment 09/02/2024*** ***The new general code is now published, the indepenent governance review will incorporate the purchase of a reporting tool to enable officers to track, monitor and manage the requirements of the new code and identify areas for improvement/enhancement.*** ***Work continues to develop the policies tracker that will be completed in Q1 of the coming year.*** ***At this stage there is no justification for a reduction in this risk score.***	Head of Governance		09/02/2024

Risk No	Risk Type	Risk Event	Existing Preventative Measures - Designed to reduce the likelihood of the risk occurring	Existing Mitigating Measures - Designed to reduce the impact if the risk occurs	Current Score	Likelihood & Impact	Target Score	Likelihood & Impact	Additional Preventative Actions (May Reduce Likelihood Score) Additional Mitigation Action (May Reduce Impact Score)	Comment on Current Status	Owner	Risk Change at Review	Last Review Date
O5	Operational	**Backlogs in work flows**	Improved processes and staff training Targeted overtime to focused areas Changes to work tray allocations Pre live launch testing processes in place.	Capacity planning exercise has been undertaken and required increases in establishment for pensions admin approved in Autumn 2023. An action plan considering a range of specific actions to address aspects of problems identified has been developed and is being worked through.	16	L=H I=H	6	L=M I=L	Overarching action plan to be developed Review of processes and policies Implementation and recruitment for new posts approved as outcome of capacity planning exercise. This may take some time to have an impact. Continuation of implementation of the action plan (particularly the automation of certain bulk processes) will provide some mitigation in the interim.	***Comment 09/02/2024*** ***The overarching action plan has been approved and is in place(wef February 2024). This is now at early implementation stage.*** ***Whilst progress has been made against some of the additional preventative and mitigating actions there is no justification to reduce the score at this stage.***	Assistant Director Pensions	`	09/02/2024
P1	People	**High level of vacancies within the organisation**	Career grade scheme in place to develop in house specialists. Targeted advertising including using social media Introduction of hybrid working and existing flexi scheme.	Capacity planning and identified additional resourcing needs and increase to establishment to address. Regular one to ones, review of workload and work life balance. Promotion of wellbeing initiatives. Provision of Counselling, Occupational Health and Employee Assistance Programme. Continued investment in learning and development. Market supplements to be used on a limited basis if required to fill specialist roles.	12	L=H I=M	6	L=M I=L	Implementation of Pay & Ben review and talent attraction via Employee Value Proposition Enhancements to 'Work for Us' area of our website and development of our own recruitment microsite to be implemented alongside new HR system. Increase in staffing following capacity planning Develop action plan following 2023 employee survey	***Comment 09/02/2024*** ***This risk owner has been revised from Director to the Assistant Director - Resources.*** ***The workforce plan is to be further developed this year to complement the HR Strategy. Changes from Pay and Benefit review have been implemented with further actions in the new financial year.*** ***At this stage the risk score remains the same to enable success to be measured.***	Assistant Director Resources		09/02/2024
P2	People	**Single point of failure due to unexpected or long term vacancies in specialist knowledge roles**	Revised pay and benefits package Range of policies for supporting wellbeing Documented procedures and work instructions Learning and development plans and knowledge transfer	Organisational Resilience Plan. Lessons learned to identify single points of failure. Ability to call on external third party support. Regular one to ones, review of workload and work life balance. Promotion of wellbeing initiatives. Provision of Counselling, Occupational Health and Employee Assistance Programme.	12	L= M I= H	9	L= M I= M	Further measures to identify single points of failure across all teams Enhance knowledge transfer Further develop succession planning Implementation of Pensions Administration Review Identify specialist areas to call on third party support	***09/02/2024*** ***This risk owner has been revised from the Director to the Assistant Director - Resources.*** ***Agreed staffing changes are in the process of being implemented. If and when all roles are successfully filled it should be possible to reduce this risk score.*** ***This risk was added as new risk in Nov 2023 to address the potential risk of future single points of failure and the challenges this could create in specialist and senior and middle management level roles***	Assistant Director Resources		09/02/2024

March 2024 – Investment Context

Table of Contents

Dodging a Bullet

Last quarter I painted a scene of contrast between the ebullience of the end of 2023 and the chaos and volatility at the end of 2022. Now, well into the first quarter of 2024, a new era has dawned, and markets are grappling with how to cope with a dodged bullet.

In dodging a bullet I imagine one would vacillate between euphoria and relief, as well as the queasy jitters about what might have been. And that has been the pattern in markets for much of this year. Having dodged a recession bullet, there is a growing sense of confidence that inflation is receding, jobs and the economy are resilient and there are occasional bursts of euphoria for tech stocks. At times, though, there are the thoughts of what might have been. Concern for the state of commercial property prompts sell-offs in financial stocks, there is no tolerance for failure or disappointing earnings (c.f. SNAP and Tesla in the aftermath of disappointing numbers).

There are all eyes on politics in this election year with over 50% of the worlds' population going to the polls (including the UK, US and India). The drama in other geopolitical circles ebbs and flows but market remain strangely numb.

Key Developments since the last quarterly update:

- **Inflation seems to be in the home stretch?** The latest US inflation print in early February was a cheerful 3.1%, while economic growth was still exceptionally positive at 3.3% for the fourth quarter. There was some mulling over the "stickiness" of the components that remain. In the UK inflation showed a similar pattern (closing in at 4% in January) and even wage growth seemed to be more subdued.

- **Not a question but if but when?** Now that the "higher for longer" narrative is in the rear view mirror and central banks have sent unequivocal messages of pausing, the question of when rate cuts will appear has become a guessing game. Estimates have moved around dramatically from consensus of a cut in Q1 to diminishing probability of that, and now it even seems that Europe will be first to move compared to the Fed. The Bank of England recently poured cold water on a possibility of a rate cut in the near term.
- **Economic Growth Soldiers On.** After the recession that wasn't in 2023, economic growth has proven resilient in 2024 so far and corporate earnings and equity market performance has continued this theme. Employment figures remain robust across developed markets and in the US the S&P broached an important psychological barrier of the 5000 level, which is likely to lead to more momentum and record market levels have been recorded in the US, Europe and Japan.
- **Canaries No More.** The stories of commercial real estate write offs have multiplied and have almost moved beyond the canary in the coal mine status. The latest news of a Churchill Place sale in Canary Wharf for 60% less than it was bought for in 2017 is sure to send chills through the commercial property sector, while in the US we have seen confirmed evidence of effect of commercial property write downs on the momentum around banks.

***

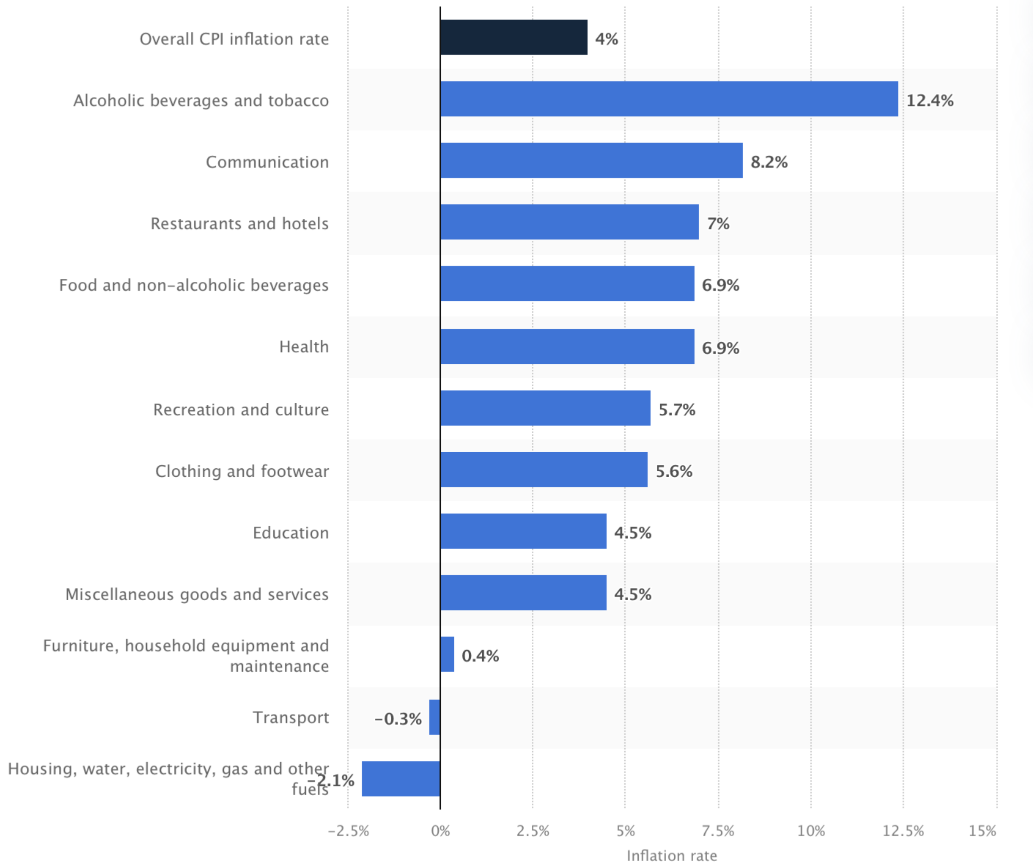
Current Macro Snapshot

Economic growth – Goldilocks burns her hands

Last quarter we suggested that the UK economy was stirring to life after being "stuck" and its stock market significantly underperforming the US and its European neighbours in 2023. This month it was confirmed that it had officially slipped into a recession after two consecutive quarters of negative growth – showing -0.3% in the quarter to the end of December and -0.1% in the previous quarter. While these numbers are hardly steep declines it was still a significant divergence with economies such as the US where economic growth in the fourth quarter was a robust 3.2%. There were even a few positive headlines in the mix for the UK:

> Bank of England's Andrew Bailey sees signs of 'somewhat stronger ' UK growth

Inflation is weakening on a global scale – dropping to 3.1% in the US and 4% in the UK (2.8% in Europe). This is confirmatory evidence that some of the Covid imbalances have worked their way out of the system but some elements such as services remained sticky. Food and energy prices have dropped globally and the breakdown of UK inflation is as below, and there was a lot of discussion about what is and is not "sticky" in this context and concern that the "last mile" as inflation heads down will be the hardest.

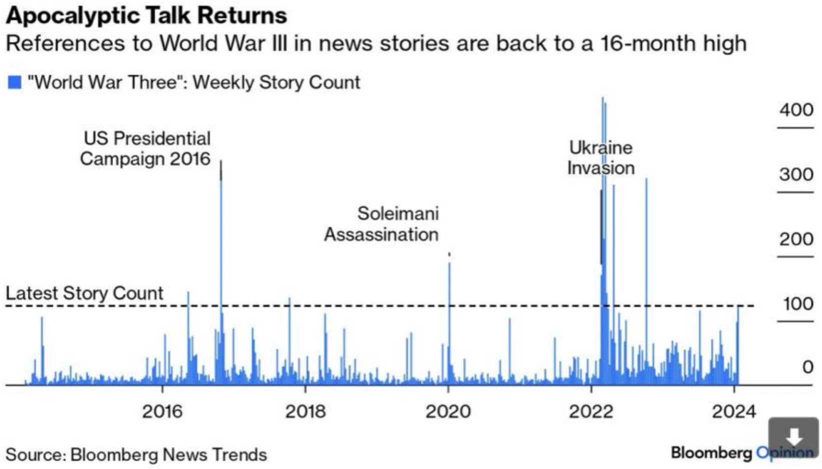


Continuing the "good news is bad news and bad news is good news" phenomenon that gripped markets last year this signs of robust job creation and economic growth (at least in the US) sparked a sell off as investors feared overheating.

Central banks - where do they go from here?

As inflation hovers tantalizingly close to the level that central banks target a question arises as to when will central banks have seen enough? Estimates as to the timing of interest rate changes have diverged dramatically and initially coalesced around expectations of a 1Q rate cut – which, in fairness, no central banker had even indicated. These expectations slowly subsided and as economic growth has remained robust have moved steadily further out in the year. Sterling remains somewhat weak relative to the dollar year to date losing around 0.4%, but is still up over 7% for the last 12 months.

The sense of current conditions being too good to be true was occasionally punctuated by fears of geo-political chaos, and as the chart below shows tensions between the US and Iran as well as the continued attacks on ships in the Red Sea have sparked sensational news stories.



There is also a pending sense of uncertainty with over 50% of the world's population due to go to the polls this year with elections in over 60 countries and some major economies included. This map shows those that had been evident as of the beginning of the year but more could have been added since. Many cite the tendency of election campaigns to become increasingly nationalistic and divisive as augmented sources of uncertainty and maybe elaborate economic promises that distort consumer behaviour (c.f. tax cuts). There is also the potential for distorted fiscal behaviour in the run up to an election, all of which is disruptive for markets.

Individual Asset Class Performance.

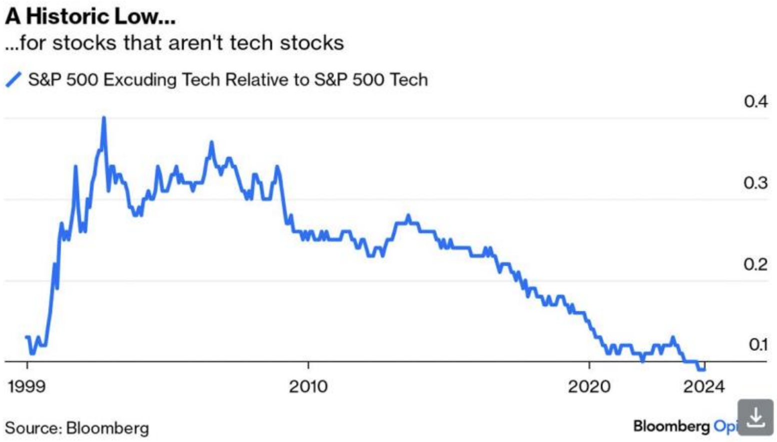
- Equities
- Fixed income
- Real Estate and Real Assets

The chart below shows recent performance in main equity indices (at March 3, 2024):

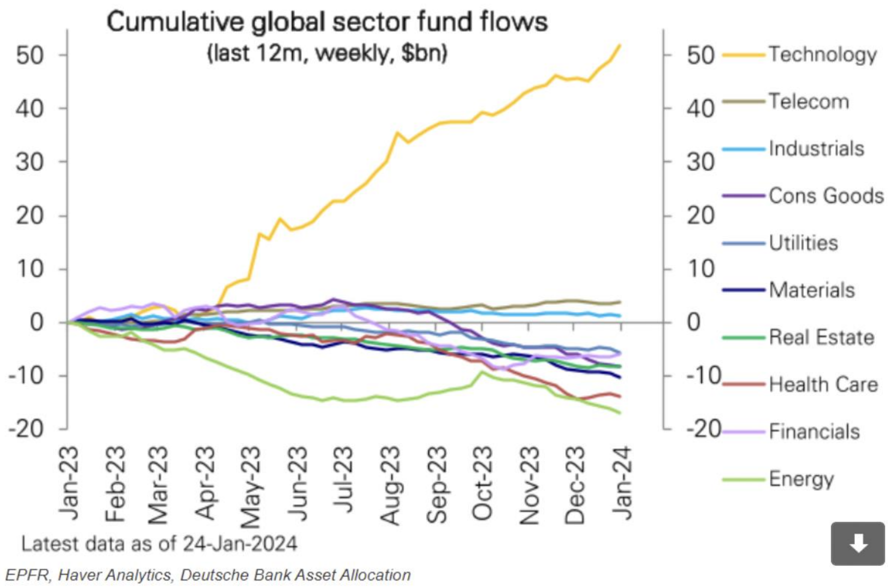
Equity Index	**Last 12 months**	**Year to date (March 3, 2024)**
FTSE 100	-3.72%	-1.4%
S&P 500	26.74%	7.57%
Nasdaq	36.81%	7.97%
Dax (Europe)	13.6%	5.51%
Hang Seng	-21.29%	-5.19%
Shanghai Comp	-7.22%	2.45%
Nikkei 225	41.64%	19.82%

The sharp divergence in Asia builds on the divergences in evidence in 2023, although the outperformance in Japan has recently been diminished by a weakening Yen.

Equity markets have surged confidently past prior limits in the last few weeks, with the most notable milestone being the S&P passing 5000. The fickle investor behaviour continued – with Tesla seeing a sell-off in response to disappointing sales figures (it remains down over 24% year to date) while pharmaceutical stocks were forced to defend their post-Covid drug portfolios as Covid treatments and vaccines saw dramatic declines in demand. The focus shifted to obesity drugs, other vaccines (such as for RSV) and oncology treatments, where M&A has been significant. As the chart below shows, non-tech stocks have shown significant under-performance and this has made some active management challenging.

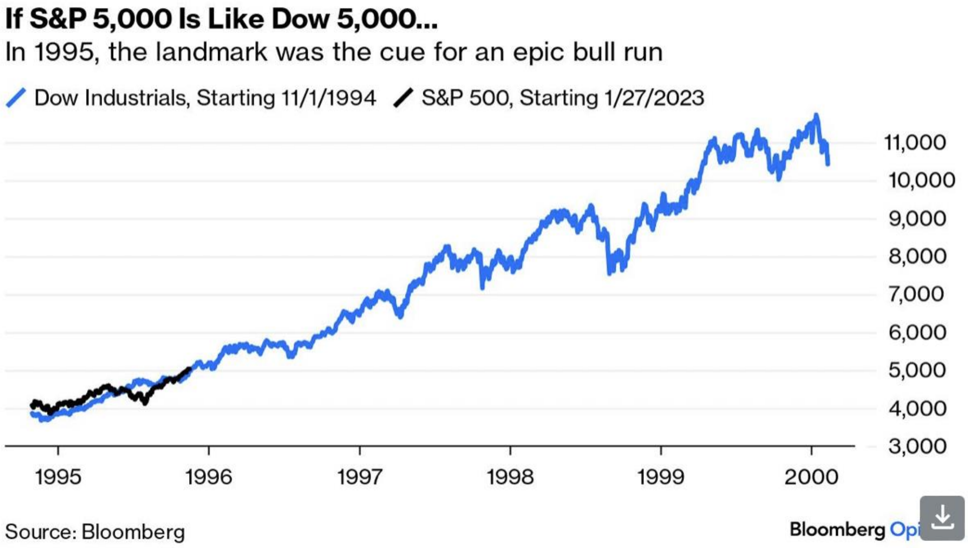


The flows shown below show incontrovertibly where the flows have been – and they have for the most part followed the money – into tech.



Active management is also challenged by the increasing short-termism that is creeping in to markets, with shorter holding periods and the increased involvement of passive investors and day traders.

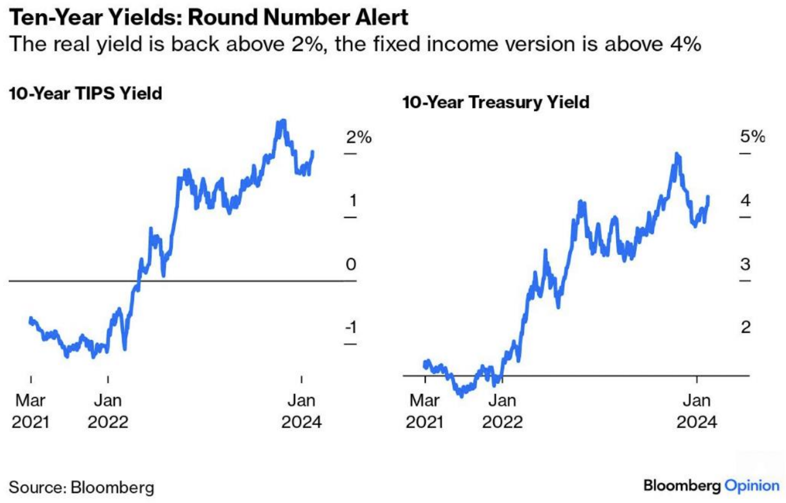
There is a strong sense that the 5000 milestone being passed will be a further boost for equity markets, and pundits have pointed to past breakthroughs as evidence for this.



Fixed Income: Peak Rates, Now What?

As central banks unite behind a pause, the consensus is settling around us having reached "peak rates". This places a "best before date" on the current high cash yields, and to the relief of homeowners may also promise a relief from higher mortgage rates. While last quarter we showed evidence of yields trending down, they have been more volatile recently, trending upwards in the US (see below) as well as the UK.

Spreads are quite tight within corporate bonds and high yield, suggesting risk appetite is high, and this could be challenging for this area going forward.



The Office, 2024 edition - More than a Canary

We spoke last quarter about the performance of listed real estate as a proxy for illiquid assets such as directly held real estate – which only really trades when transactions happen. This index has been negative again this year, but only slightly. There has been a chill on many real estate sectors all year and, for example, 2023 saw the lowest transaction volume in US residential real estate in 30 years. A few data points have cropped up such as news that Boston Properties had purchased a 29% interest in 360 Park Avenue South, an office block in a prestigious midtown Manhattan location, for $1 from its joint venture partner, the Canadian pension plan CPPIB, which had purchased the stake for $71 m, while we noted above the steep discount on the sale of the office building in Canary Wharf v. its purchase price in 2017.

The complexity and opacity of commercial real estate and the fact that they are not readily marked to market is a barrier to true information on this asset class, but by all accounts there is worse news to come on the office side.

Declining office use and a focus on efficiency have long been focuses of this asset class and most managers have de-emphasized it long ago in favour of industrial and other property types such as hotels and self-storage. As a result, the Pension Fund will have very little exposure to office properties, but it is a notable sector as for many investors news about the office sector tends to define a sector. A declining interest rate environment, when it happens, should lessen the headwind for all real estate sectors.

Outlook

If last year was the comeback year, this year might be the *transitional* one. This unusual descriptor was frequently used in earnings statements this year by companies who were still figuring out how the higher rates would impact consumers, companies and the economy. They were literally in a mode of "wait and see". In coming months we will be watching in particular:

- **Which Central Bank moves first and why.** We have moved from "higher for longer" to a "higher for how much longer?" and the first move to ease by a developed market central bank will be the "shot heard around the world".
- **More Indicators from Commercial Property**. As commercial property continues to become unstuck and properties start to change hands, this is likely to lead to a cascade of valuation corrections and more write downs by commercial lenders. Investors have already been astute to distinguish between banks with the highest percentage property exposure but there are bound to be some unpleasant surprises if this comes to light.
- **Geopolitics and elections at the forefront.** This factor has not changed since last quarter, with elections mounting related newsflow will be top of mind for the media and the public. We will continue to watch developments carefully as markets seem to remain fragile with little mood for volatility and surprise.

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March 3, 2024

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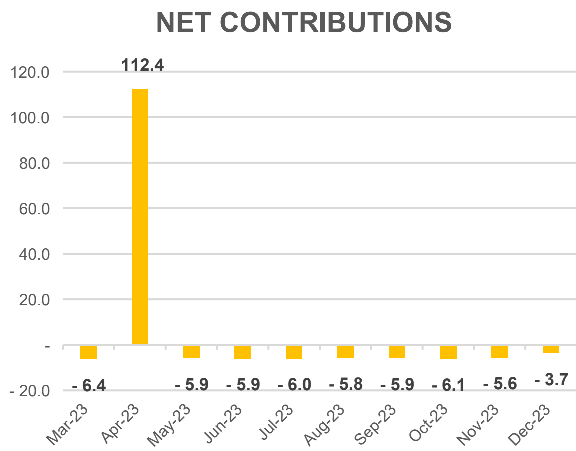
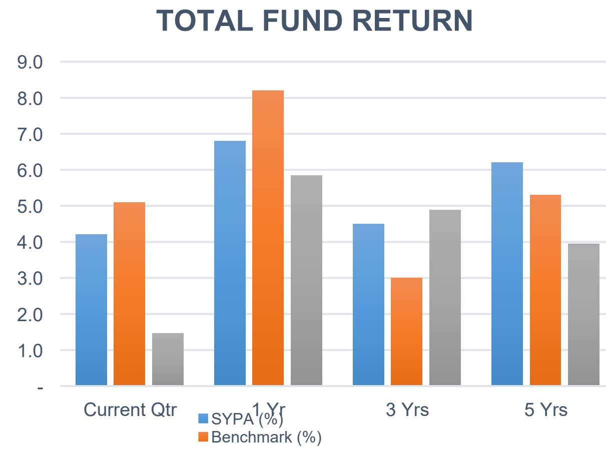
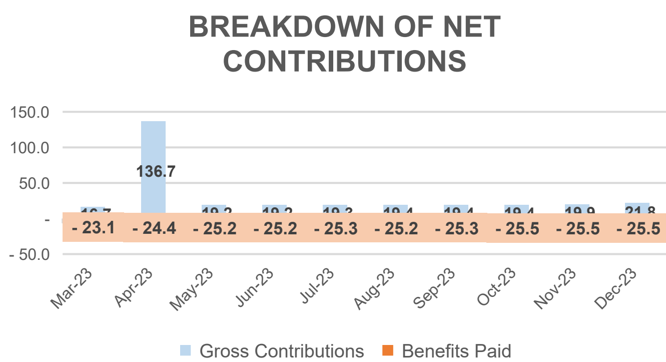
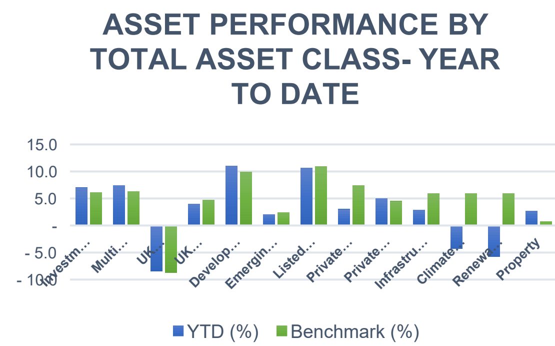
SOUTH YORKSHIRE PENSIONS AUTHORITY

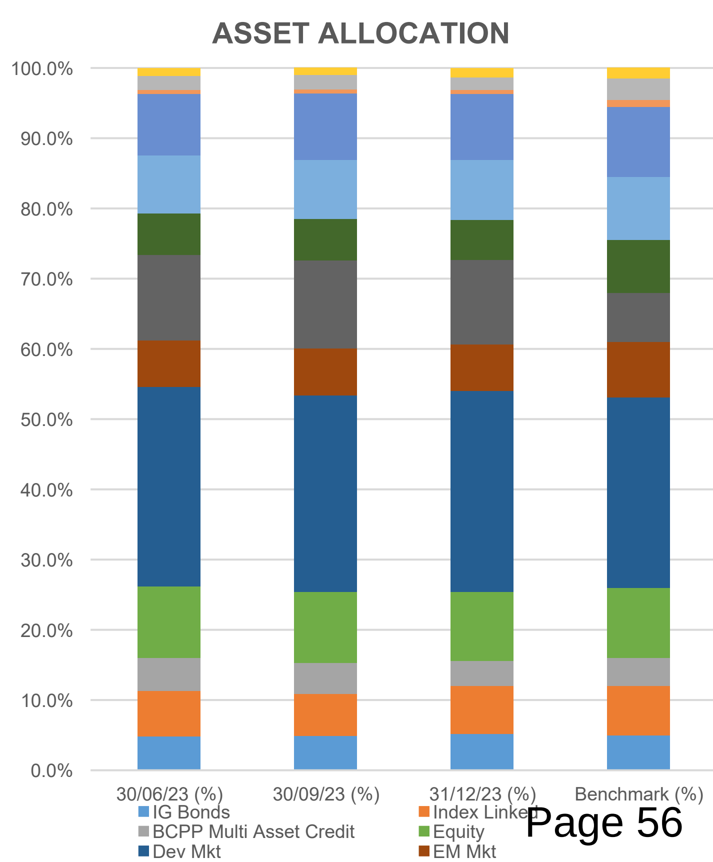
QUARTERLY REPORT TO 31 DECEMBER 2023

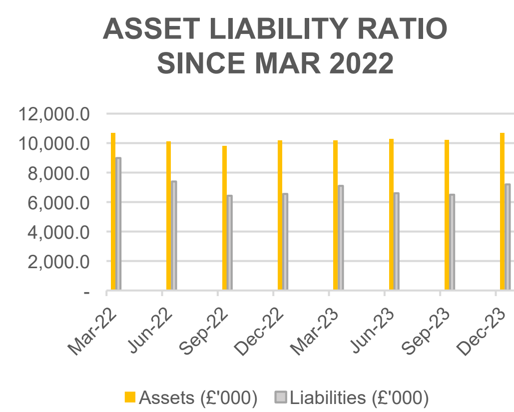

NET CONTRIBUTIONS
112.4
- 6.4
- 5.9
- 5.9
- 6.0
- 5.8
- 5.9
- 6.1
- 5.6
- 3.7
Mar-23
Apr-23
May-23
Jun-23
Jul-23
Aug-23
Sep-23
Oct-23
Nov-23
Dec-23

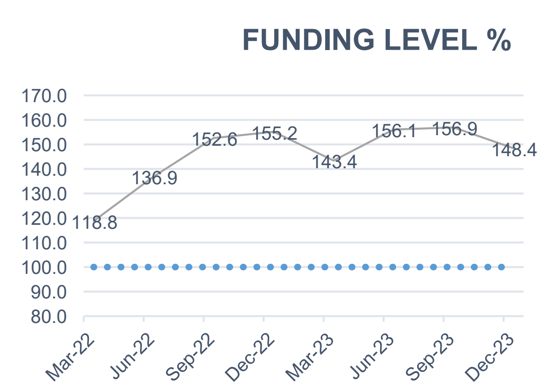

TOTAL FUND RETURN
Current Qtr
1 Yr
3 Yrs
5 Yrs
SYPA (%)
Benchmark (%)


BREAKDOWN OF NET CONTRIBUTIONS
136.7
- 23.1
- 24.4
- 25.2
- 25.2
- 25.3
- 25.2
- 25.3
- 25.5
- 25.5
- 25.5
Gross Contributions
Benefits Paid


ASSET PERFORMANCE BY TOTAL ASSET CLASS- YEAR TO DATE
YTD (%)
Benchmark (%)


ASSET ALLOCATION
30/06/23 (%)
30/09/23 (%)
31/12/23 (%)
Benchmark (%)
IG Bonds
Index Linked
BCPP Multi Asset Credit
Equity
Dev Mkt
EM Mkt


ASSET LIABILITY RATIO SINCE MAR 2022
Mar-22
Jun-22
Sep-22
Dec-22
Mar-23
Jun-23
Sep-23
Dec-23
Assets (£'000)
Liabilities (£'000)


FUNDING LEVEL %
118.8
136.9
152.6
155.2
143.4
156.1
156.9
148.4
Mar-22
Jun-22
Sep-22
Dec-22
Mar-23
Jun-23
Sep-23
Dec-23

Market background

Global equity markets ended 2023 on a strong note, supported by reduced inflationary pressures in most developed market economies. As inflationary pressures declined, major central banks kept interest rates on hold with the Federal reserve adopting a data dependent approach to monetary policy.

Fears of a global recession diminished given the robust economic performance seen in the US. However, investors remained concerned about the weak outlook for the Chinese economy given the highly indebted property sector. This did lead to the Chinese authorities announcing fresh stimulus measures for the property sector.

UK equities continued to underperform other regional markets but did see some improvement over the quarter. Annual inflation in the UK fell to 3.9% in November but remains above the Bank of England's 2% target. The Bank of England maintained interest rates at 5.25%.

In Japan, the macroeconomic conditions continued to improve, and the Bank of Japan took further steps to normalise its monetary easing policy in October and continued to hint that they are likely to take further action in 2024.

Government bond markets ended higher, as central banks kept interest rates on hold and started to contemplate future rate cuts. As markets started to price in easing conditions, government bond yields fell across the board. The US 10-year Treasury yields fell from 4.57% the previous quarter to 3.87% at the end of December. The UK 10-year gilt fell from 4.44% to 3.54% and the German 10-year Bund yield ended the quarter 0.81% lower at 2.03%.

Despite a slowing growth outlook, the corporate bond market staged an impressive rally on hopes that a deep recession could be averted as financial conditions eased. High yield markets outperformed investment grade in both the US and Europe, with a tightening of spreads reflecting improved investor risk appetite, also marking outperformance over government bonds.

Market background

Commodity indexes declined over the quarter with price gains for precious metals and industrial metals failing to offset weaker prices for agriculture and energy. Energy was the worst performing component with oil prices falling despite output cuts from OPEC.

The property index was lacklustre over the quarter, returning -1.2%. Capital value declines in the office and retail sectors offset the income received. The office and retail sectors continue to see capital value declines, while the industrial sector continued to recover some of the falls seen at the end of 2022 having now recorded eight consecutive months of growth.

Fund Valuation

as at 31 December 2023

	Sep-23		Quarterly Net	Dec-23		Benchmark	Range
	£m	%	Investment	£m	%	%	%
FIXED INTEREST							
Inv Grade Credit - BCPP	501.4	4.9	20.0	555.4	5.2	5	
UK ILGs - BCPP	617.7	6.0	20.0	726.9	6.8	7	
MAC - BCPP	450.6	4.4	-84.5	387.8	3.6	4	
TOTAL	**1569.7**	**15.3**	**-44.5**	**1670.1**	**15.6**	**16**	**11_21**
UK EQUITIES	**1034.2**	**10.1**	**-20.0**	**1041.7**	**9.7**	**10**	**5 _ 15**
INTERNATIONAL EQUITIES							
Developed Market - BCPP	2875.1	28.0	-30.0	3053.5	28.6	27.125	
Emerging Market - BCPP	696.3	6.8	0.0	709.6	6.6	7.875	
Emerging Market - SYPA	0.7	0.0	0.0	0.7	0.0		
TOTAL	**3572.1**	**34.7**	**-30.0**	**3763.8**	**35.2**	**35**	**30-40**
LISTED ALTERNATIVES -BCPP	**155.2**	1.5	**0.0**	**172.3**	1.6	0	
PRIVATE EQUITY							
BCPP	294.6		14.3	323.9			
SYPA	845.0		-27.0	799.3			
TOTAL	**1139.6**	**11.1**	**-12.7**	**1123.2**	**10.5**	**7**	**5_9**
PRIVATE DEBT FUNDS							
BCPP	137.3		10.1	154.5			
SYPA	468.5		-13.2	453.8			
TOTAL	**605.8**	**5.9**	**-3.1**	**608.3**	**5.7**	**7.5**	**5.5-9.5**
INFRASTRUCTURE							
BCPP	391.7		24.2	430.8			
SYPA	468.6		2.2	469.8			
TOTAL	**860.3**	**8.4**	**26.4**	**900.6**	**8.4**	**9**	**6_12**
RENEWABLE ENERGY	**205.9**	**2.0**	**-7.4**	**192.0**	**1.8**	**3**	**1_5**
CLIMATE OPPORTUNITIES	**62.1**	**0.6**	**3.0**	**64.2**	**0.6**	**1**	**0-3**
PROPERTY	**974.6**	**9.5**	**36.3**	**1009.0**	**9.4**	**10**	**8_12**
CASH	**105.2**	**1.0**		**142.6**	**1.3**	**1.5**	**0-2.5**
TOTAL FUND	**10284.7**	**100.0**		**10687.8**	**100.0**	**100**	
COMMITTED FUNDS TO ALTERNATIVE INVESTMENTS	**1584.9**			**1652.7**			

Asset Allocation Summary

We continued to reduce our overweight position to listed equity funds. We sold £30m from Overseas Developed equities.

Within bonds we reduced the Multi asset Credit fund by £80m, switching £20m into index-linked bonds and £20m into Sterling Investment Grade Credit.

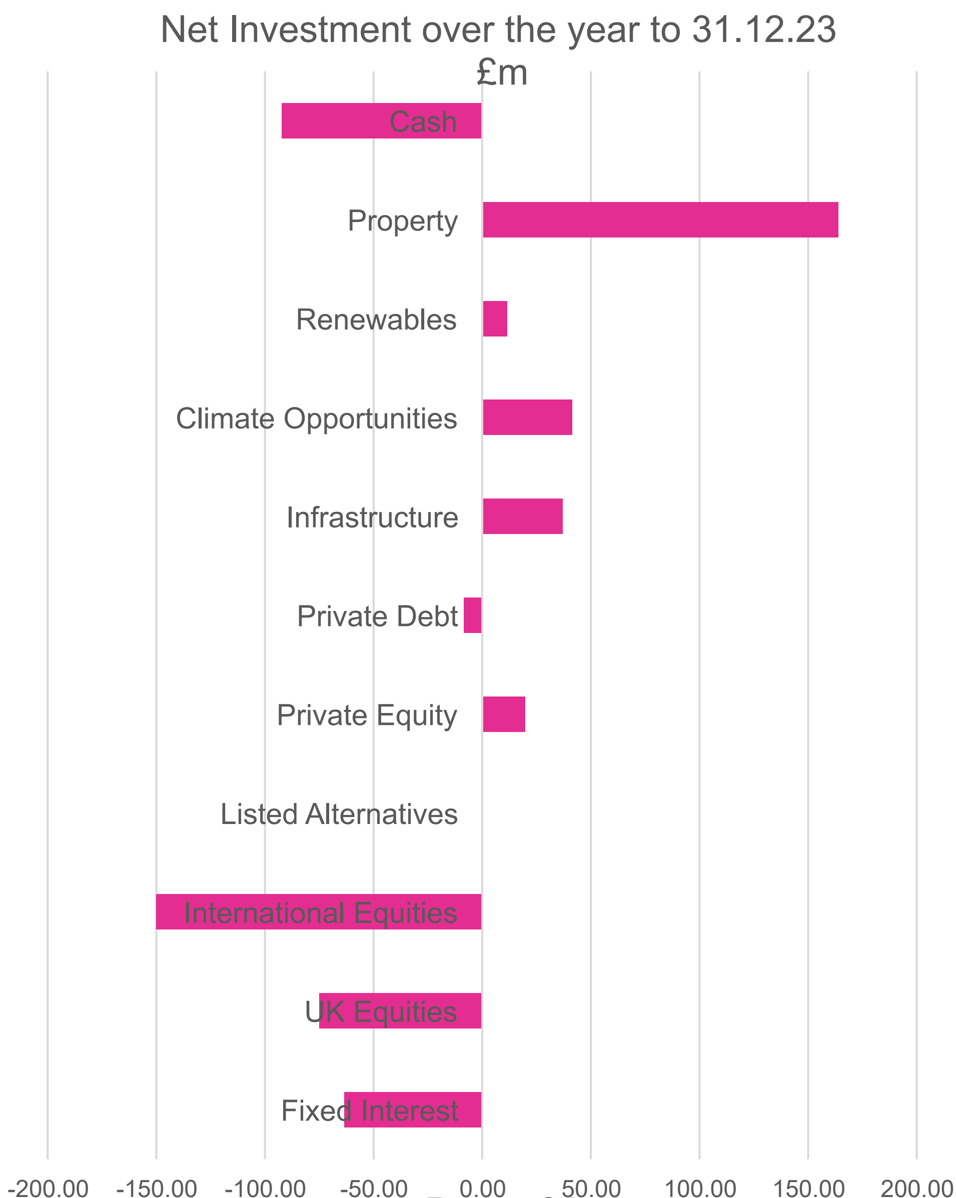
Within the property portfolios there were a further £9m of drawdowns on the CBRE local loans and £20m drawdowns into property impact funds that we hold, and we purchased £7m of agricultural land which is adjacent to existing holdings.

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

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.

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	7	5 - 9	726.9	6.8	**-0.2**
Sterling Inv Grade Credit	5	4 - 6	555.4	5.2	**0.2**
Multi Asset Credit	4	2 - 6	387.8	3.6	**-0.4**
UK Equities	10	5 - 15	1041.7	9.7	**-0.3**
Overseas Equities	35	30 - 40	3763.8	35.2	**0.2**
Private Equity	7	5 - 9	1123.2	10.5	**3.5**
Private Debt	7.5	5.5-9.5	608.3	5.7	**-1.8**
Infrastructure	9	6 - 12	900.6	8.4	**-0.6**
Renewables	3	1-5	192	1.8	**-1.2**
Listed Infrastructure	0	0-2	172.3	1.6	**1.6**
Climate Opportunities	1	0-2	64.2	0.6	**-0.4**
Property	10	8 - 12	1009	9.4	**-0.6**
Cash	1.5	0.5 - 2.5	142.6	1.3	**-0.2**
Total	100		10687.8	100	

OW/UW 'RAG' ratings

Green ratings indicate that current asset allocation is within agreed tolerances

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

Red ratings indicate that current asset allocation is out of range

Performance

as at 31 December 2023

	Qtrly Performance		Financial Y.T.D.	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Investment Grade Credit - BCPP	7.6	7.3	7.0	6.1
UK ILGs	13.8	13.8	-8.5	-8.7
Multi Asset Credit - BCPP	5.9	2.1	7.4	6.3
UK EQUITIES	**2.8**	**3.2**	**4.0**	**4.7**
INTERNATIONAL EQUITIES				
Developed Market - BCPP	7.3	7.3	11.0	9.9
Emerging Market - BCPP	1.9	2.0	2.0	2.4
TOTAL	**6.2**	**6.1**	**9.2**	**8.2**
PRIVATE EQUITY	**-0.3**	**2.4**	**3.0**	**7.4**
PRIVATE DEBT FUNDS	**1.1**	**1.5**	**5.0**	**4.5**
INFRASTRUCTURE	**1.7**	**1.9**	**2.9**	**5.9**
RENEWABLES	**-2.7**	**1.9**	**-5.8**	**5.9**
CLIMATE OPPORTUNITIES	**-1.2**	**1.9**	**-4.3**	**5.9**
PROPERTY	**0.6**	**0.3**	**2.7**	**0.7**
CASH	**0.9**	**1.3**	**2.1**	**2.4**
TOTAL FUND	**4.2**	**4.7**	**4.7**	**5.1**

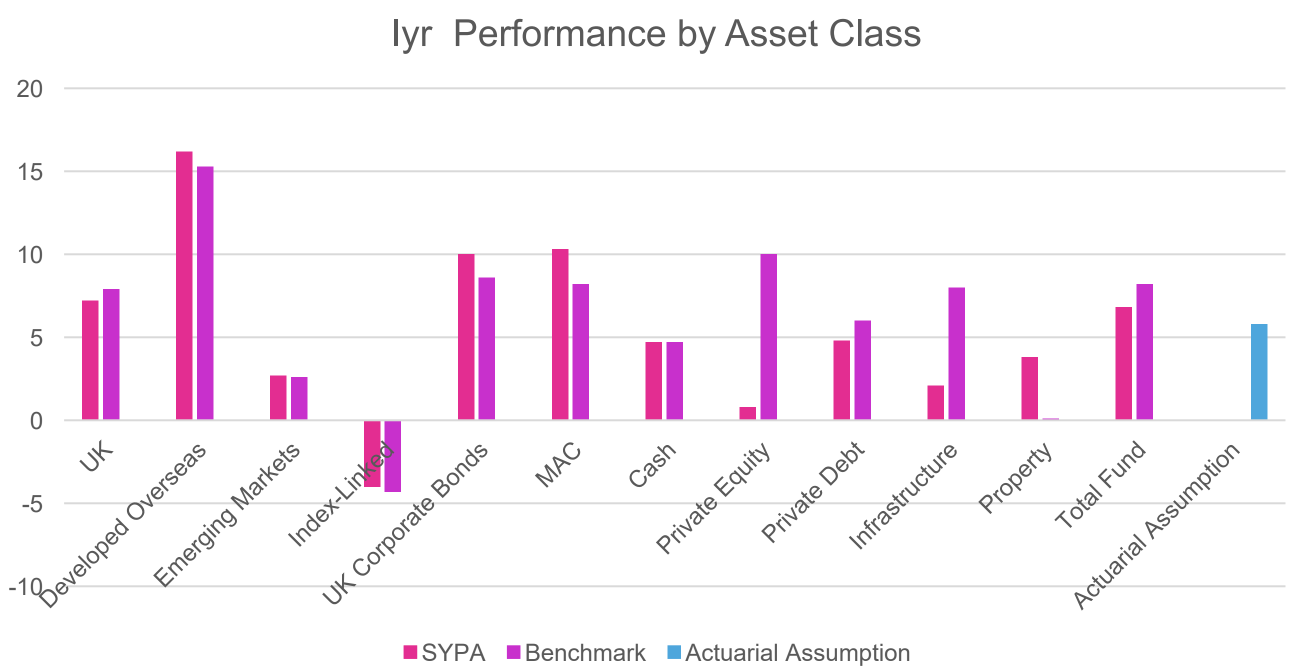
Performance Summary

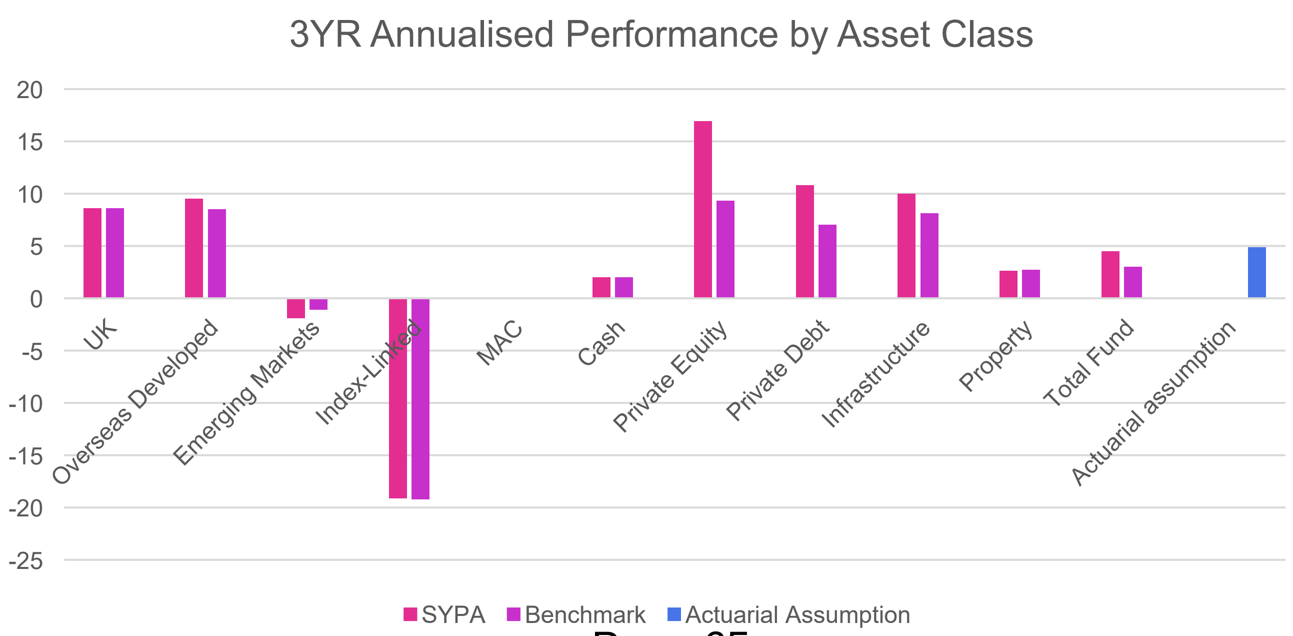
For the quarter to the end of December, the Fund returned 4.2% against the expected benchmark return of 4.7%. Asset allocation decisions taken together had no impact with stock selection having a slightly negative impact overall.
The breakdown of the stock selection is as follows:-

UK equities	-0.1%
Renewables	-0.1%
Private Equity funds	-0.2%
Private Debt funds	- 0.1%

Year to date the Fund has returned 4.7% against the expected return of 5.1%.

Performance-Medium term





Performance – Border to Coast Funds

The UK equity portfolio showed marginal underperformance of its benchmark this quarter but is still outperforming since inception. The portfolio was impacted by stock selection decisions in industrials and financials and an overweight to consumer staples.

The Overseas Developed Market portfolio continued to outperform the benchmark return. The key contributor to relative performance was again the European exposure, although both Japan and Asia ex-Japan also contributed positively to performance. Sector wise the industrial sector was the most material positive contributor to returns with positions in Siemens, recruit Holdings and Schneider contributing positively. The portfolio is ahead of its target since inception.

The Emerging Market portfolio had positive absolute performance of 1.92% but marginally underperformed the benchmark by 0.1%. On a since inception basis the Fund has also delivered positive absolute performance of 2.74% but it remains behind the benchmark by 1.15% per annum. (although this has improved). Over the quarter UBS and the internal manager both outperformed with FountainCap underperforming.

The index-linked portfolio generated a total return of 13.84% during the quarter, compared to the benchmark return of 13.78%. The outperformance was driven in equal measure by a compression in credit spreads on the corporate holdings and the duration overweight as yields fell. The portfolio has met its target since inception.

The Sterling Investment Grade Credit fund generated a return of 7.66% and was ahead of the benchmark return of 7.35%. This outperformance is roughly half the target for a full year. All managers delivered positive excess returns over the quarter.. The Fund has performed well over the year adding 1.4% in excess return and there was positive relative contributions from all three managers. From inception all the managers have achieved outperformance of their target.

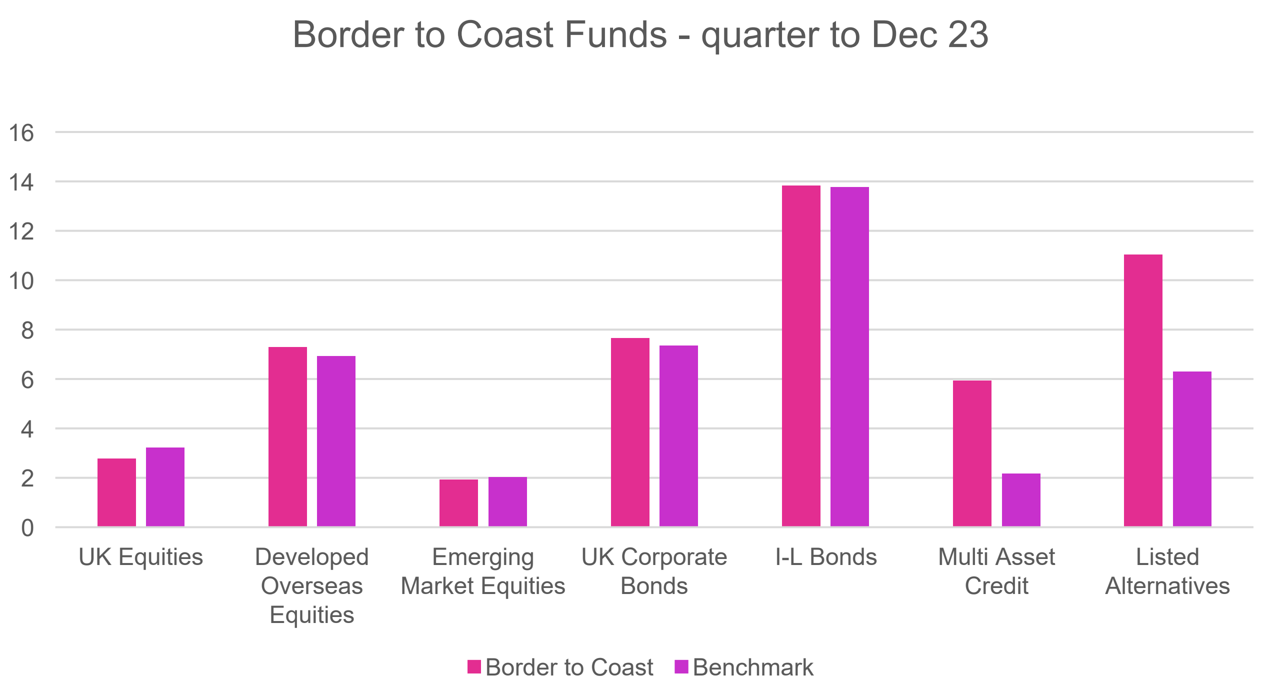
The Multi-Asset Credit fund performed strongly as credit markets rallied. The fund returned 5.9% outperforming its primary cash benchmark by 3.7% and brought its annual return to 10.36% which was ahead of its benchmark by 2%. All the managers except for PGIM outperformed their benchmarks. The fund is still behind target from inception with only the internal team and Wellington outperforming their benchmark but is starting to recoup the original losses.

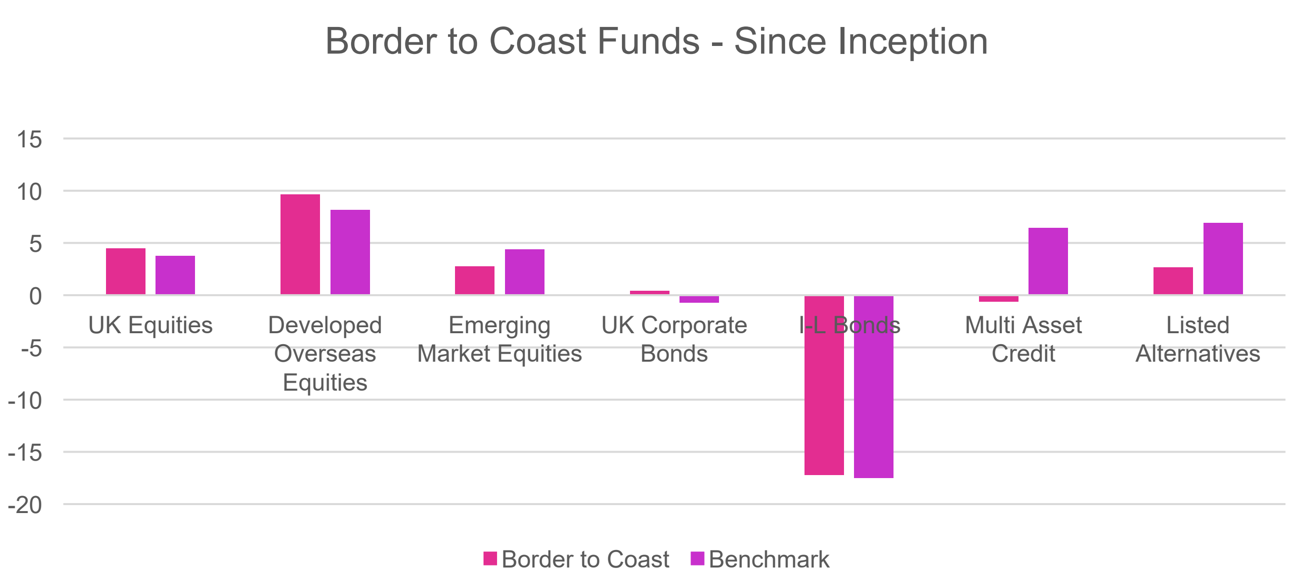
Performance – Border to Coast Funds

The Listed Alternatives fund showed outperformance for the quarter. The portfolio has a diversified portfolio which includes listed assets in infrastructure, specialist real estate, private equity and alternative credit. The Fund returned 11.03% over the quarter, taking returns since inception to 2.67%. Global equity markets as measured by the MSCI ACWI Index returned 6.31% in the last quarter and 6.9% since the launch of the Fund. The Fund's sensitivity to interest rates was the primary driver of outperformance this quarter, as there was a downwards repricing in interest rate expectations and so the interest rate sensitive areas of the portfolio such as specialised real estate and private equity both produced strong returns.

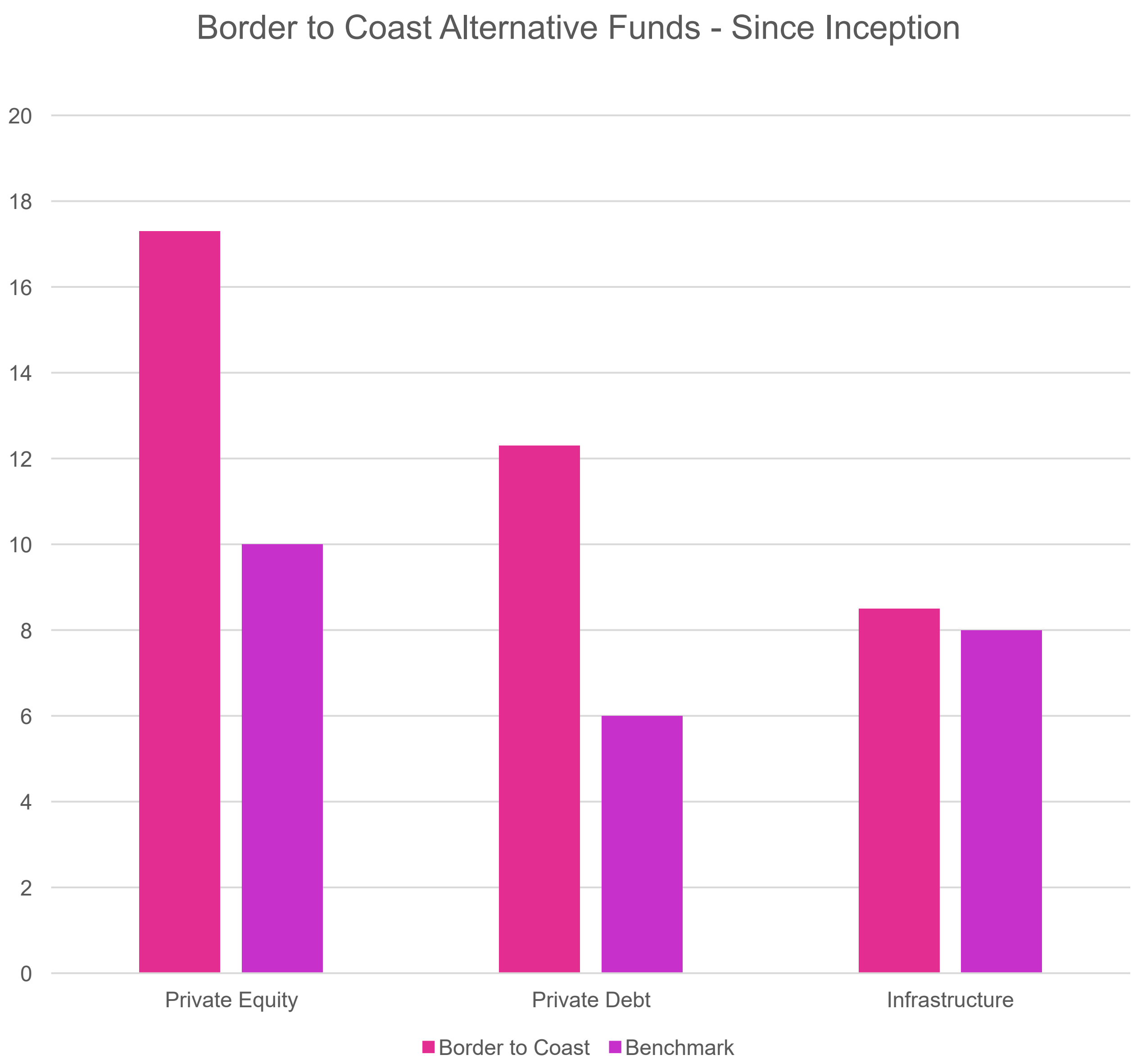
The charts below show quarterly returns but also the longer-term position of each of the Border to Coast funds that we hold.

Performance-Border to Coast Funds





Performance-Border to Coast Alternative Portfolios



Funding Level

The funding level as at 31 December 2023 is estimated to be 149%

The breakdown is as follows:

Fund’s Assets at 31 December	£10,687.8
Funds estimated Liabilities at 31 December	£7,200

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

Outlook

The global economy looks set to slow in 2024 as current fiscal policy starts to drag on growth. However, rates of inflation have fallen significantly and should allow central banks to start cutting interest rates during 2024. This could start with the ECB and the US Federal Reserve in the second quarter with the Bank of England potentially following in the third quarter. Although expectations are for substantial cuts it is not expected that they will go back to the extreme lows seen after the global financial crisis.

UK Equities

The UK equity market has continued to lag other developed equity markets and there may be an opportunity for this to change in 2024. The pessimism around UK equities is fully priced in with the UK market looking cheap historically and relative to other international markets. Would like to have a neutral weighting.

Overseas equities

We expect market conditions to remain volatile. The US stock market looks expensive relative to history, but this is largely due to gains in leading technology companies. The fact that the US economy looks to be in relatively good shape should help to support profits in 2024 but would need companies to show increased earnings for the market to rally further. European and Japanese company shares are trading below their historical averages and so have attractions. Emerging markets have lagged developed markets due to the impact of China's disappointing recovery. This could change if policy supports by the Chinese government manages to stabilise the property sector and thus boost consumer confidence. Will look to continue rebalancing total overseas weighting towards neutral.

Outlook

Bonds

The prospect of easier monetary conditions has already led to a sharp decline in the yields offered by government bonds. A comparatively healthier economy in the US suggests that the upside from here in UD Treasuries is finely balanced given the extent to which the market is pricing in rate cuts in 2024. The UK and Europe look to offer more value because the more challenging economic backdrop means that fewer cuts are currently priced into these markets. If inflation continues to fall it could lead to more recovery in these bond markets.

Real Estate

With the increased prospect of interest rate cuts in 2024 it is expected that UK real estate performance will improve as investor confidence improves, and greater liquidity returns to the market

The portfolio remains heavily weighted towards industrials and very underweight in offices, with a marginal overweight position in ‘other’ and an underweight holding in retail.

The strongest rental and capital growth over the next five years is expected to be seen in the residential and industrial sectors and in selected alternative markets. The recommendation is to maintain the overweight industrial position and deploying capital to build a position in the residential sector.

The focus will still be on good quality assets with strong ESG credentials. Will look to selectively increase our weighting.

Alternatives

We are looking to add further investments into this asset class with the allocations being weighted more towards private credit and to infrastructure investments, in particular to renewable energy funds that have secure income characteristics. We are also adding further to climate opportunity funds.

Outlook

Cash

The deployment to the alternative sectors has reduced cash to a level that further cash requirements would necessitate switching among the asset classes.

SOUTH YORKSHIRE PENSIONS AUTHORITY

Agenda Item

Subject	**Transition Plan**	**Status**	For Publication
Report to	Authority	**Date**	14 March 2024
Report of	Director		
Equality Impact Assessment	Not Required	Attached	N/a
Contact Officer	Sharon Smith, Assistant Director – Investment Strategy	**Phone**	01226 666442
E Mail	ssmith@sypa.org.uk		

1 Purpose of the Report

1.1 To update the Authority on the Fund's plan to transition remaining assets to Border to Coast.

2 Recommendations

2.1 Members are recommended to:

a. **Note the contents of the report.**

3 Link to Corporate Objectives

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

Investment Returns

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

Responsible Investment

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

Effective and Transparent Governance

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

4 Implications for the Corporate Risk Register

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

5 Background and Options

5.1 In July of last year, the Government published a consultation “Local Government Pension Scheme (England and Wales): Next steps on Investments”. Among the key points raised:

- A clear timeline of March 2025 for the transition of all listed assets to the pool.
- Clear plans and timelines for the overall transition and a high bar for holding assets outside the pool.
- A requirement to publish a plan showing how the Fund will move to achieve investment of 5% of AUM in projects which support “levelling up”.

As the Authority has already transitioned its listed holdings and published a Place Based Impact Policy this report concentrates on the plan for the overall transition.

5.2 SYPA made the commitment to pool assets through Border to Coast in 2018 and there has been a significant migration to date with all our listed equity and bond portfolios having transitioned across to Border to Coast. We have also made annual commitments to their alternatives programme over the last 5 years and currently 71.1% of SYPA assets are managed by Border to Coast. This figure will increase as the commitments are drawn down into the alternative portfolios.

5.3 Among the assets yet to migrate are our property and legacy alternative assets.

- Property

  Border to Coast recently launched their Global real estate funds and as a means of diversifying our property exposure we made a £95m commitment to the Core Global Real estate fund. This is expected to be drawn down within the next 18 months.

  Border to Coast is expecting to launch the UK Real Estate fund in September 2024 and the Authority has already approved the transition of our English property asserts and PUTs into this fund (Welsh and Scottish assets are unable to transition) An estimated £540m of assets will be transitioning and underscores our commitment to pooling via Border to Coast

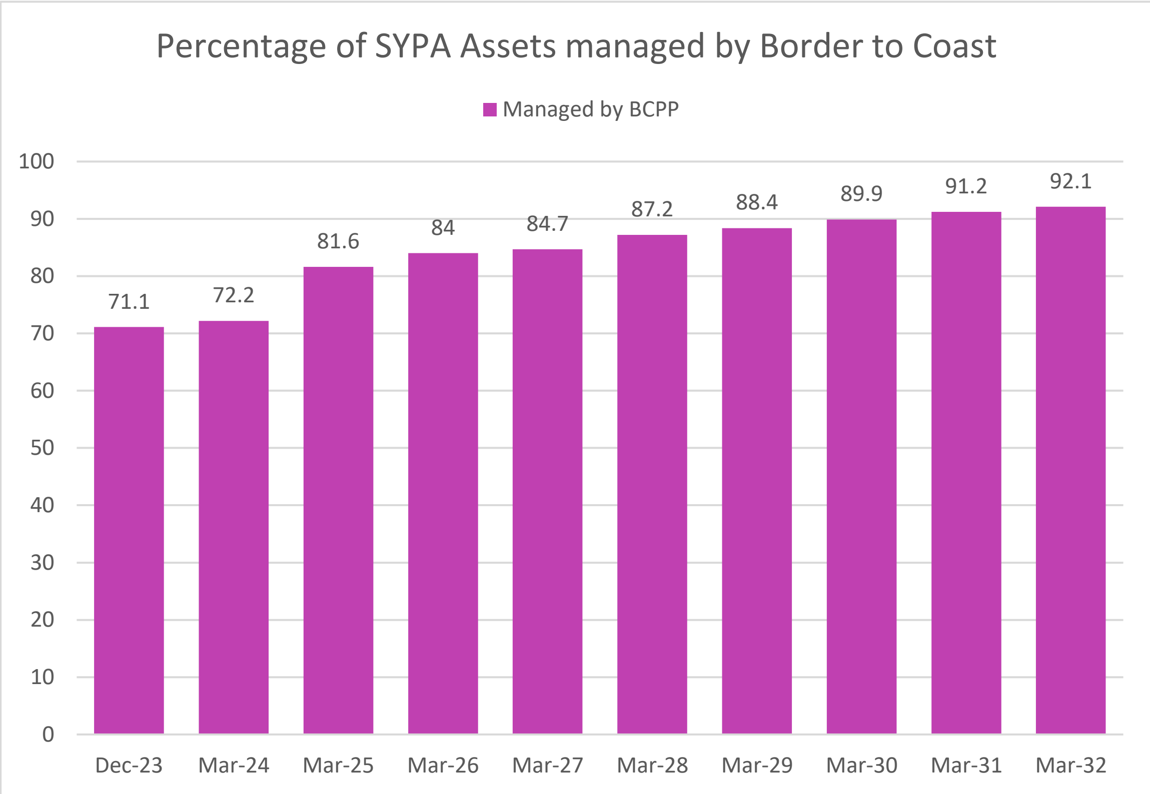
  However, it is crucial to note that certain specialised property assets such as agricultural holdings held within the RLAM Natural Capital fund, are earmarked to remain outside Border to Coast’s control. Similarly, bespoke portfolios, including CBRE managed property loans and select housing funds within the place-based impact portfolio, will remain outside the pool.

- Alternatives

  SYPA has a legacy portfolio of alternative assets that are in gradual runoff. Despite the waning of these assets the nature of them means that their disposition will unfold over an extended timeline. We have undertaken a cash flow analysis of all our holdings and the graph below charts the gradual convergence towards Border to Coast management.

  The transition timeline for monies in legacy assets to move across to Border to Coast is expected to span 8 years but should optimise value of these assets.

  Over the last 5 years we have made most of our strategic annual commitments to alternatives through Border to Coast. The only commitments made directly by SYPA have been in the place-based portfolio or in renewables funds as part of our investment strategy that Border to Coast were unable to fulfil at that time.



5.4 As we progress towards 2032 the residual balance will be the assets held in our place-based portfolio which is earmarked to be 5% of the total fund value and is testament to SYPA's commitment to effecting societal change through its investment initiatives without compromising on the return to the Fund. Similarly, the Natural Capital portfolio is currently distinct from Border to Coast management. While Border to Coast's Climate Opportunity Fund offers a glimpse into potential synergies, SYPA's current investment strategy necessitates a direct approach to fully realize its bespoke investment imperatives. Border to Coast have designed a mechanism that we will be able to achieve extra exposure to any fund that they invest in which is within the Natural Capital arena. However, this will not give us the exposure we need under our Investment Strategy and as such we currently need to make this investment directly.

6 **Implications**

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

Financial	None directly.
Human Resources	None
ICT	None
Legal	None

Procurement	None

Sharon Smith

Assistant Director – Investment Strategy

Background Papers	
Document	**Place of Inspection**
None	

SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Annual Review of Responsible Investment Policies**	**Status**	For Publication
Report to	Authority	**Date**	14th March 2024
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	Michael Littlechild Investment Manager	**Phone**	01226 666423
E Mail	mlittlechild@sypa.org.uk		

1 Purpose of the Report

1.1 To secure approval for the Authority's various responsible investment policy documents following their annual review.

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2 Recommendations

2.1 Members are recommended to:

a. Approve the following revised policy documents appended to this report

- **i. The Responsible Investment Policy (Appendix A)**
- **ii. The Climate Change Policy (Appendix B)**
- **iii. The Net Zero Action Plan (Appendix C)**
- **iv. The Annual Statement of Commitment to the Impact Investing Principles for Pension Funds (Appendix D)**

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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.

Regularly reviewing and updating policy documents related to Responsible Investment ensures that the Authority's policy stance continues to evolve to address the ever widening and more complex range of issues facing investors in this area.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report specifically address the climate related risks include in the Corporate Risk Register and the various risks related to the maintenance of an effective investment process.

5 Background and Options

5.1 Each year the Authority conducts a review of its various responsible investment policies to ensure that they remain up to date and relevant and that the policy stance articulated continues to seek to move the collective policies adopted by the Border to Coast Pensions Partnership in a direction which the Authority can support. The diagram below shows the various aspects of the Responsible Investment policy framework and how they related together and also their relationship to the various collective Border to Coast policies.

5.2 The Commercial Property policy does not require any updating this year and it is proposed to not review this further given the proposed timing of the launch of the Border to Coast property products at which point a specific SYPA policy of this sort will no longer be required although some changes will be required to the main Responsible Investment policy.

5.3 In addition to these documents an annual review has also been conducted of the Statement of Commitment to the Impact Investing Principles for Pensions. A review of this sort is good practice for any standard like this to which the Authority subscribes and it is presented at Appendix D for convenience.

Responsible Investment Policy (Appendix A)

5.4 The Responsible Investment Policy has not required major changes. The most notable change is the addition of a specific heading and paragraph on Border to Coasts engagement and voting on Human Rights issues.

5.5 Achieving these objectives will not be easy and partners may have differing views on these issues. However, the views articulated by elected members which have influenced this position are clearly that for a policy of engagement to have “teeth” there needs to be clearer definition of and more automaticity in the consequences of failure. It is also likely that the Authority will more often consider voting in a different way to the rest of the partnership particularly where companies’ plans for the climate transition lack credibility. However, given the constraints of resources and the timescales to undertake the necessary analysis to support such decisions it remains the case that such occasions are likely to remain the exception.

Climate Change Policy (Appendix B)

5.6 This Policy is at a very high level and sets out the Authority’s broad approach to the issue and the allocation of responsibility as between officers and members in line with the Task Force on Climate Related Financial Disclosures. The limited revisions to the Policy reflect the continued tightening of the position set out more clearly in the overall RI policy.

Net Zero Action Plan (Appendix C)

5.7 This document sets out the actions proposed in the coming year to move the Authority along the road to decarbonising its investment portfolios. The most significant changes to the document this year include: an update on the progress against carbon emissions reduction targets; an update on Border to Coast’s exclusion thresholds for revenues derived from thermal coal and oil sands; the addition of new allocations to Climate Opportunities and Renewable Energy following the 2023 Investment Strategy review; and a list of considerations for the Authority prior to undertaking the next strategy review in 2026. Additionally, a further risk arising from a lack of diversification has been added to the Risks section of the Action Plan.

6 Implications

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

Financial	There are no direct financial implications arising from this report.
Human Resources	None
ICT	None
Legal	It is a requirement of the relevant LGPS regulations that the Authority set out its position in relation to Environmental, Social and Governance issues in its Investment Strategy Statement. These documents set out the arrangements for the detailed implementation of this statement and also set out the strategic arrangements which are required as the foundation of arrangements for meeting the requirements of the Task Force on Climate Related Financial Disclosure.
Procurement	None directly.

George Graham

Director

Background Papers	
Document	**Place of Inspection**

SouthYorkshirePensionsAuthority

RESPONSIBLE INVESTMENT POLICY

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

Context

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

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

Beliefs

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

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

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

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

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

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

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

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

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

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

This policy is set within the context of these beliefs.

Stewardship, Responsibility and ESG

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

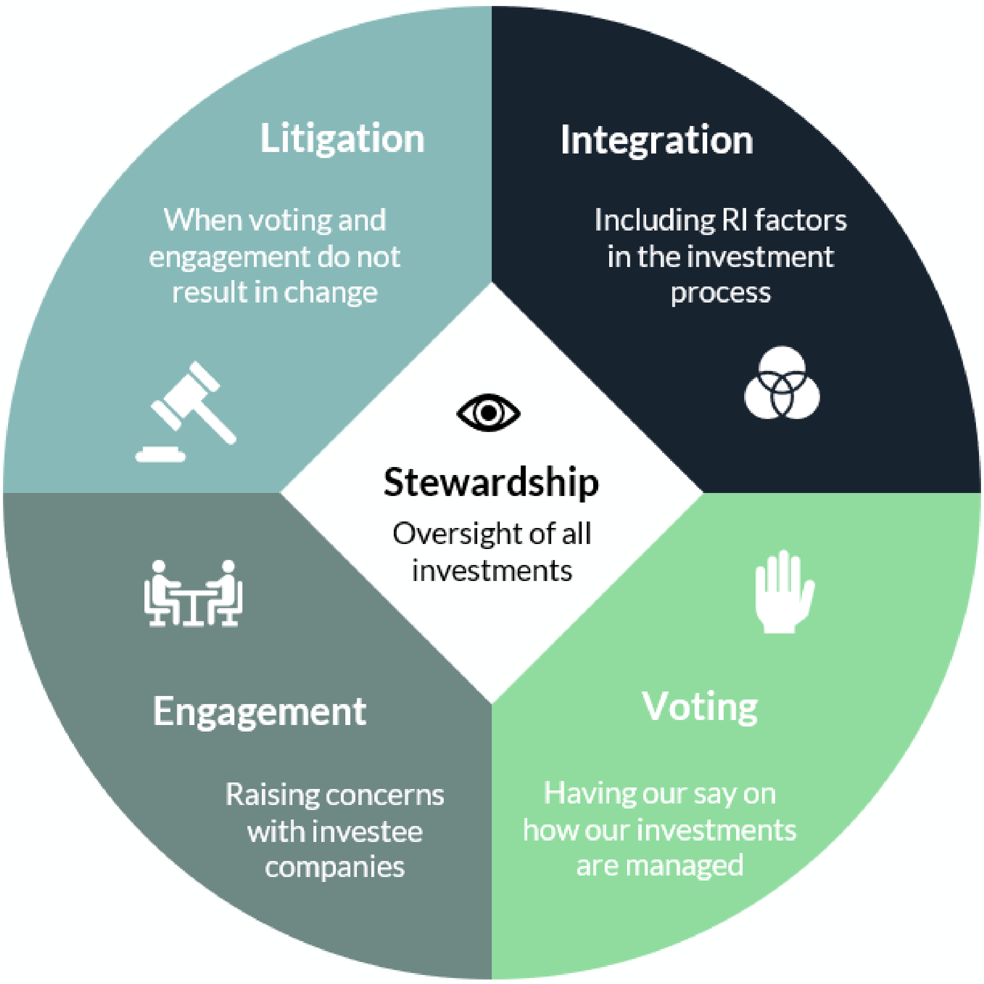
Evidence shows that pension funds which consider how the companies they are invested in behave in relation to environmental social and governance issues, tend to achieve better returns. In other words, companies that are well managed and have strong governance are more likely to be successful long term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

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

There are five major components to our RI approach:

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

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



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

Governance and Implementation

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

Skills and competency

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

Integrating RI into investment decisions

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

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

Environmental	**Social**	**Governance**	**Other**
Climate Change Resource & energy management Water stress Single use plastics Biodiversity	Human rights Child labour Supply chain Human capital Employment Standards Pay conditions (e.g living wage in UK) Just transition	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

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

Stewardship

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

Voting

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

A specialist proxy voting advisor, Robeco has been appointed by Border to Coast to provide analysis of voting and governance issues and to ensure that votes are executed in accordance with its policies. The proxy voting advisor will implement a set of detailed voting guidelines provided by Border to Coast and agreed by the partner funds, which are available on the Border to Coast website, to ensure that votes are executed in accordance with policies. The voting guidelines are administered and assessed on a case by case basis. A degree of flexibility will be required to reflect specific company and meeting circumstances.

A process is available to allow the Authority to vote its proportion of any shareholding in a different way to the other Border to Coast partner funds should there be a difference in interpretation of the voting guidelines between the Authority and Border to Coast and Robeco. While this facility is only likely to be used rarely the Authority will consider its use in the case of shareholder resolutions where the common stance proposed by the operating company fails to meet the Authority's policy objectives, and in particular where companies are failing to deliver clear and deliverable climate transition plans. Votes will only be cast separately if the Chair in consultation with the s41 members agrees, as set out in the protocol for urgent decisions between meetings of the Authority.

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

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

Stock lending can also be restricted in these circumstances.

Where appropriate Border to Coast will consider co-filing shareholder resolutions which support the long term economic interests of shareholders and will notify the Authority in advance of doing so. Equally the Authority may encourage Border to Coast to co-file resolutions which support its objectives, where it is made aware of such opportunities for example through the Local Authority Pension Fund Forum (LAPFF).

The Authority will also look to Border to Coast and others managing money on its behalf to "join up" the voting position in relation to a company's issued equity with action in relation to bonds issued by the Company including where appropriate "denying the debt" as a means of influencing behaviour change on behalf of companies.

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

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

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

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

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

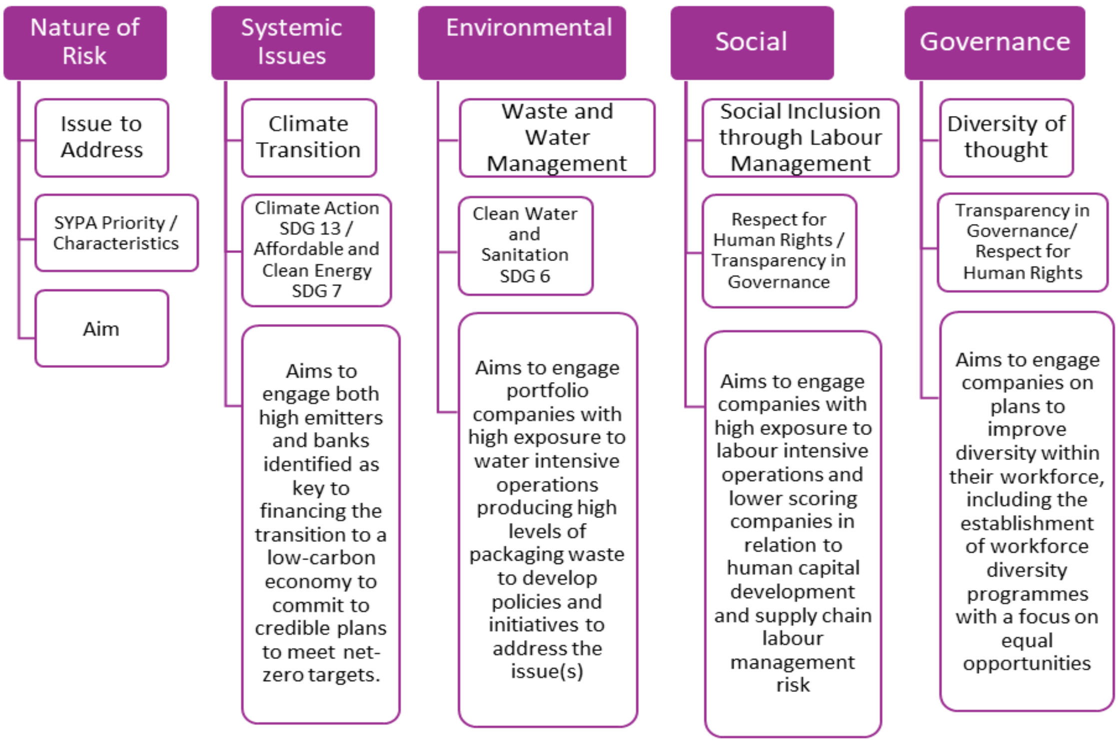
These factors mean that the choice of themes is driven by the material ESG risks facing the portfolios and their financial materiality.

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

For the 2022 – 25 period Border to Coast's key engagement themes are:

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

The diagram below shows how these themes relate to the Authority's priorities



SouthYorkshirePensionsAuthority

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

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

Based on this the resources on which the Authority relies for direct engagement are largely focused on the priorities identified in the beliefs statement, with the significant emphasis on climate issues reflecting the priority attached by the Authority to the achievement of Net Zero.

Escalation

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

The Authority will be looking for those acting on its behalf (principally Border to Coast) to set out when launching an engagement process much clearer consequences of failure by companies to make progress particularly in relation to the production of clear and deliverable climate transition plans. It is expected that these consequences will include the identification of the point at which the investment case for a company is undermined by their failure to address the issues raised in the engagement to such an extent that divestment is the appropriate course of action. The Authority recognises that it cannot move on this alone given that all its listed investments are in pooled funds and will be explicitly seeking to influence its partners to agree to policies of this sort.

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

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

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

In addition we monitor the regular reports provided by both Border to Coast and Robeco to identify areas of potential non-compliance with agreed policies and also review Border to Coast's voting in relation to LAPFF voting alerts.

We also work with the other 10 funds within the Border to Coast Partnership to monitor the Company's progress on delivering its Responsible Investment Strategy through the Responsible Investment Officer Operations Group (RI OOG).

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

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

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

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

Conflicts of interest

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

Climate Change

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

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 Enerprises. Companies should have processes in place that both identify and manage human rights risks across their business and supply chain. Border to Coast engage on our hehalf with investee companies on human rights as part of our social priority engagement theme, engaging on modern salvery and labour practices and human rights due diligence where companies operate in high-risk areas. Border to Coast have incorporated considertions into how votes are exercised on our behalf at company meetings and we will push towards zero human rights cases within our invested companies.

March 2024

Climate Change Policy

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

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

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

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

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

website here:
https://www.fsb-tcfd.org/

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

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

The TCFD framework is widely recognised as the best practice guide against which investors' actions will be assessed, and is increasingly becoming part of the regulatory framework for reporting by corporates and asset owners, with regulations applying to the LGPS expected to be implemented with effect from the 2024 financial year. The Authority has reported in line with this framework for some years. This Climate Change Policy is therefore be structured around these four themes, and the Authority commits to continuing to report in line with this framework each year.

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

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

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

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

- be aware of the investment risks and opportunities associated with climate change;

- incorporate climate considerations into the investment decision making practices and processes; and
- monitor and review fund managers in relation to their climate change approach and policies.
- engage with companies in relation to business sustainability and climate risk disclosure and to encourage companies to adapt their business strategies to support the transition to a low carbon economy.
- recognise that while active shareholder engagement should be the first option, the Authority encourages Border to Coast (and other fund managers) to consider actively reducing exposure to high-carbon intensity companies that fail to respond to engagement by not demonstrating a decrease in carbon intensity or carbon risk and/or by failing to develop credible plans for the transition to a low/no carbon economy.
- support climate related resolutions at company meetings when deemed appropriate, and
- consider co-filing shareholder resolutions at Annual General Meetings (AGMs) on climate risk disclosure, transition plans, science based targets and related issues, such as trade association lobbying after engagement with its Partner Funds.
- Set out as part of any climate related engagement clear measures for the success of the engagement and clear triggers for specific action up to and including divestment or denial of debt where the investment case for a company is fundamentally undermined.

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

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

The Authority expects those managing money on its behalf to actively consider environmental, social and governance factors, and in this context specifically climate change, when selecting stocks in which to invest which is likely to result in investments not being made in companies which are not actively addressing the need to move to a low carbon economy. However, in light of the significant potential financial impacts of climate change, carbon risk and stranded assets, it has made the decision not to invest in public market companies or illiquid assets with >25% of revenue derived from thermal coal and oil sands, unless there are exceptional circumstances. Further exclusions apply to public market companies in developed markets with >50% revenue derived from thermal coal power generation. For companies in emerging markets, the revenue threshold is >70%, this is to reflect our support of a just transition to a low-carbon economy. We expect the thresholds at which Border to Coast and other fund managers apply these exclusions to be reduced year on year, with a view to them reaching zero by 2030 at the latest, and we will engage with the operating company and partner funds in order to achieve this.

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

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

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

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

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

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

Metrics and Goals

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

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

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

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

It will also report on additional metrics which will include company engagement meetings, both direct and collaborative and the degree to which companies within portfolios have aligned their plans with the goals of the Paris agreement. It will request that Border to Coast integrates climate risk and opportunities into the investment decision making process for both internal and external mandates, and for the private market structures.

March 2024

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Action Plan for Delivering the Net Zero Goal

Update
March 2024

Contents

Introduction

At its meeting in March 2021 the Pensions Authority agreed its first Action Plan for Delivering the Net Zero Goal and agreed to update the Action Plan annually. This third annual update reflects on the progress that has been made and identifies a revised set of actions flowing from that progress and developments in the wider environment including the evolution of regulation.

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

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

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

There remain significant gaps in both our knowledge and the data available to us, both of which we will need to continue to address. There are however specific actions we will need to take in parallel to address these gaps and to make full use of the relatively short time available to us to achieve net zero. We already report in line with the requirements of the Task Force on Climate Related Financial Disclosure and each year in our Annual Report we will present our progress both in delivering this action plan and towards achieving net zero.

This plan will continue to be developed further, at least on an annual basis, as we better understand our current position and the progress we are making.

Defining the Goal

It is important to understand what we mean by the goal of net zero and how it will be measured.

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

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

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

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

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

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

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

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

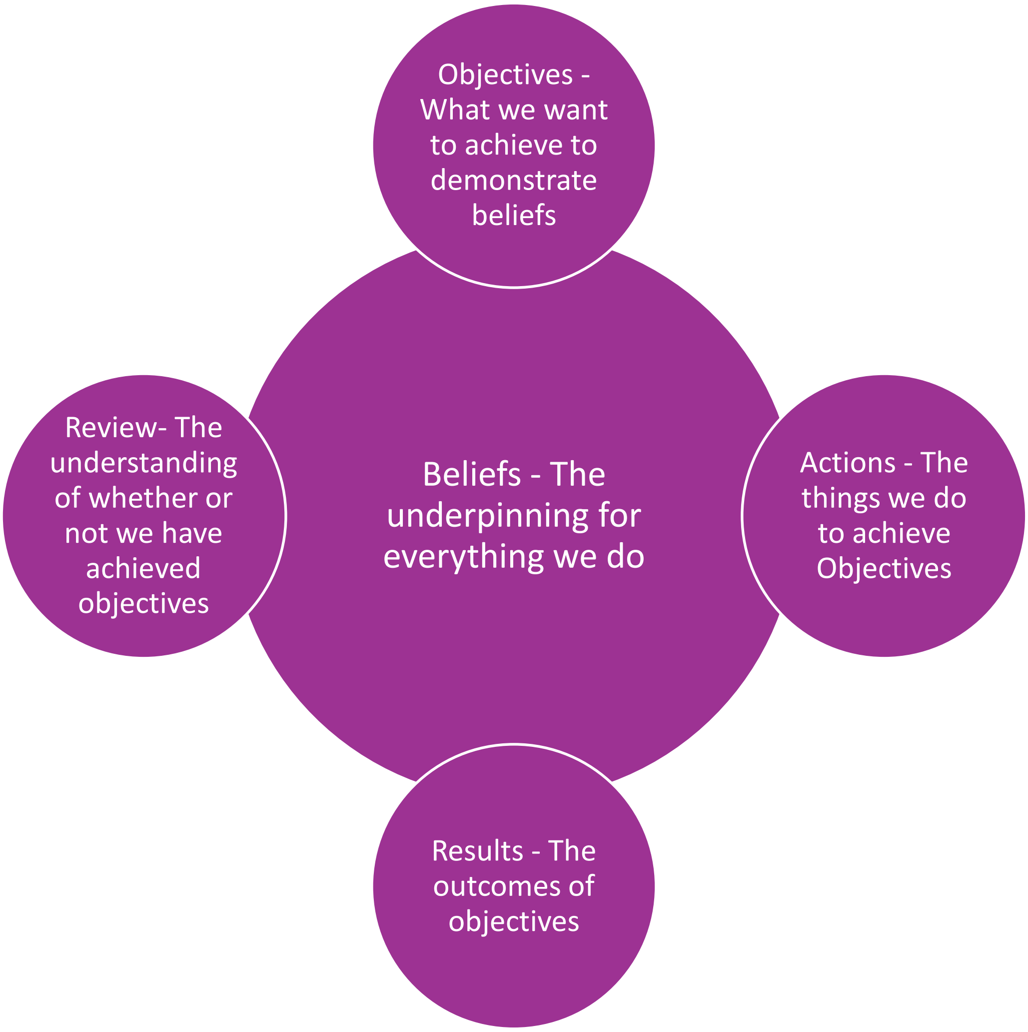
While concentrating on scope 1 and 2 emissions allows the Authority to set targets which are comprehensible and where data is likely to be available, this position will need to be kept under review as more data becomes available and the investment impacts of using specific measures becomes clear. Measurement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

In addition, the Authority will separately seek to make the remainder of its operations carbon neutral over the same timescale with relevant actions included in future iterations of the corporate strategy, for example utilising renewable energy in our office, reducing the generation of waste and setting policies which promote the use of electric vehicles and/or public transport.

Governance and Strategy

Getting the governance and strategy right means that the organisation will retain focus on specific goals. In turn, this will support decision making processes which are able to receive, understand and react to information on progress to specific goals as it comes through.

This is illustrated as a cycle in the graphic below.



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

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

In the last 12 months we have continued to build on the foundations set out in our agreed beliefs statement through continuing a dialogue with Border to Coast and the other partner funds to increase the focus on the move to Net Zero and deliver further opportunities for investment in climate positive assets.

The review of the investment strategy was finalised in 2023, with a net-zero tilt in asset allocation, and our reporting continues to progress towards Net Zero. This reporting will continue to be developed as data for more asset classes becomes available and the detailed requirements of new regulations become clear. This work is supported by the work undertaken by external consultants to support the revised Investment Strategy that was signed off at the March 2023 Authority meeting.

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

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

The work required to support the investment strategy review will provide a foundation for addressing the new reporting requirements. In addition, we will be working with Border to Coast and their new data provider to develop the forward-looking metrics that will be crucial to measuring progress towards the goal and informing future adjustments to the strategy.

Setting Targets Objectives and Reporting

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

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

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

At this stage we have some idea for around 60% of the Fund's assets by value of the distance to travel and fund managers have set targets for a number of portfolios, although these relate to their own targets for achieving Net Zero rather than the Authority's own more ambitious target. The key consideration here is that we are not the only investor in the products in which we are invested. Therefore, while in terms of the Border to Coast internally managed funds, we can seek to influence we cannot dictate. Nor are we able to simply switch into a carbon neutral fund because the pool does not offer one, and to do so would require a fundamental change in the Authority's longstanding investment approach (either in terms of active vs passive management, or in terms of internal management vs much more expensive external management) which we do not believe is justified. These issues are dealt with in more detail in the next section of this document.

For other asset classes (such as Property) we are in the process of agreeing a trajectory of emissions reduction with investment managers. This will be incorporated in the next round of updates to targets under the Paris Aligned Asset Owner Initiative. In addition, we have made some significant improvements in the availability of data over the last 12 months. At the same time setting targets will continue to be difficult and on the basis of not letting the perfect be the enemy of the good we will be looking to set emissions targets, for all portfolios, on a downward trajectory as soon as practically possible.

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

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

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

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

We will also be required to provide some scenario analysis, although at this stage the detailed requirements are not clear and we will work with colleagues through the Border to Coast partnership to ensure that this analysis is consistent across the whole partnership regardless of what, if any Net Zero goal, each partner has adopted.

The targets that have been adopted while supportive of the Authority's direction of travel are, in themselves, not sufficient to achieve the Net Zero Goal. Additional tools, such as adjustments to the balance of the overall asset allocation, will be required to bring the Authority closer to its goal.

Ref	Action	Responsibility	By When
TR1	Following Investment Strategy Review identify interim targets leading to net zero	Director / Assistant Director - Investment Strategy	Completed but subject to ongoing revision and refinement
TR2	Work with Border to Coast and other investors in relevant products to ensure mandates and performance objectives specifically reflect the Net Zero Commitment	Assistant Director - Investment Strategy	Ongoing
TR 3	Conduct an annual review of progress towards Net Zero and make adjustments to either targets or implementation approach as necessary while continuing to meet return objectives	Assistant Director - Investment Strategy	Annually from April 2022. This update is the third such review

Asset Class Implementation

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

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

Specifically, the Authority believes in:

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

As we progress along the road to net zero, and further along the pooling journey more generally, these beliefs about how to do investment are all likely to be challenged in different ways. The Authority will need to keep them under review to ensure that they remain compatible with achieving both our return and net zero objectives. In particular, to hasten the move of portfolios towards investment in companies with a longer-term future, the Authority will be seeking to influence partners to continue to reduce the revenue threshold for exclusion of pure coal and coal sands companies, so that it reaches zero before 2030.

The other contextual factor to be considered, before looking at the approach in each asset class, is the fact that the Authority (like all other LGPS Administering Authorities) is part of a pool. Therefore, the Authority needs to secure the co-operation of the other partner funds, within Border to Coast, to make progress where changes are required to investment products. The Pool has now agreed its own Net Zero objective (setting a goal of 2050) and, while this is not the same as the Authority's, the setting of the objective requires the setting of targets and the reporting of metrics. In themselves, these will support the Authority's work while the ability to alter the asset mix through the Strategic Asset Allocation and to manage the legacy portfolio (the assets not yet pooled or not to be pooled at all) provide potential levers for accelerating or reducing the pace of movement to Net Zero.

Border to Coast have demonstrated their Net Zero commitment by joining the Net Zero Asset Manager initiative (NZAM) by pledging to decarbonise investment portfolios by 2050 or sooner.

To meet their commitment, and support their implementation strategy, Border to Coast have developed targets for investment funds in line with the Net Zero Investment Framework (NZIF). The implementation strategy developed by Border to Coast sets out the four pillars to their approach: Governance and strategy; targets and objectives; asset class alignment; and stewardship and engagement.

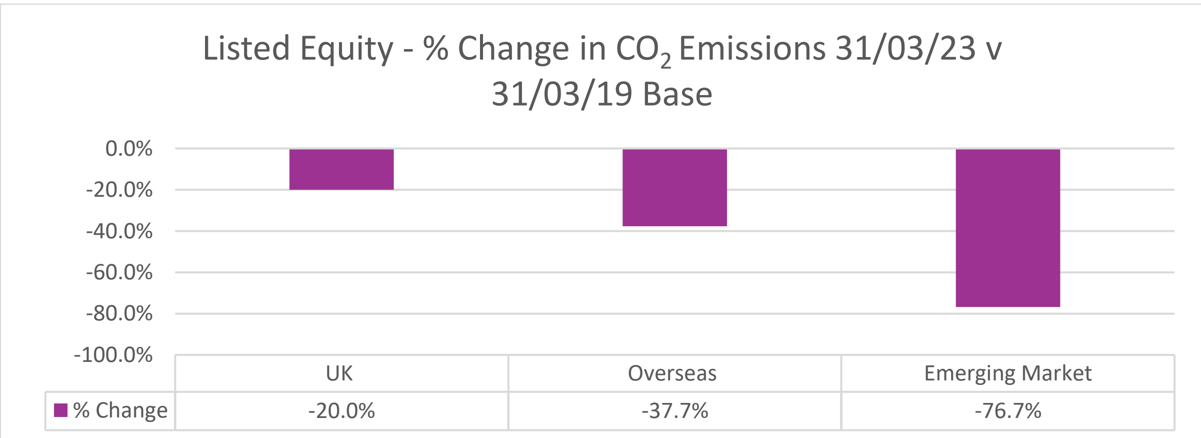
The following sections deal with each asset class in turn.

Listed Equities

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

Border to Coast have identified a series of changes to the investment process which will make it more sensitive to the scale of climate risk posed by individual companies. These are in the process of being implemented with a target to reduce normalised financed emissions from these funds by 52% by 2025 and 65% by 2030 from 2019 baseline levels.

Compared to the base year of 2019, emissions across the equity portfolios have, as shown in the graph below, reduced substantially. In particular, within the Emerging Markets portfolio, as a result of the restructuring of the China element of the portfolio. However, total financed carbon emissions in the Overseas Developed and UK equity portfolios have increased year-on-year. This is potentially due to a rebound in emissions as economies continue to recover after pandemic slowdowns. This does highlight that the approach adopted by the Authority of not changing the products in which it invests results in a harder path to achieving net zero.



Despite a reduction in Strategic Asset Allocation from 45% to 38%, listed equities remain the single largest asset class in which the Pension Fund is invested. To achieve SYPA's ultimate goal, it will be necessary to reduce the contribution to aggregate emissions from these portfolios in total by at least 50% by 2025. While the targets set by the fund manager do not reflect this maintenance of the current rate of progress would indicate that this is within the range of possible outcomes. Beyond this the impact of the changes in the investment process, to make it more climate aware, and the weight of assets held in the different products, which will be reviewed as a matter of course, are likely to further influence the level of overall emissions beyond 2025.

Border to Coast, as Fund Manager, has “ratcheted down" their thresholds for excluding public market companies with more than 25% of revenues derived from thermal coal and oil sands. This now brings the exclusion threshold for public markets in line with the threshold of 25% for illiquid assets, which was set lower due to the long-term nature of these investments.

Border to Coast also have additional exclusions in place covering public market companies in developed markets with more than 50% of revenue derived from thermal coal power generation. For companies in emerging markets, the revenue threshold is more than 70%, this threshold is set higher to reflect support of a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities.

An important feature of investments in listed equities is the voting rights which are conferred on asset owners. The way in which the Authority, through Border to Coast, chooses to exercise these voting rights has the potential to accelerate progress by companies towards net zero. Border to Coast continues to update and strengthen the voting guidelines on climate change for the 2024 proxy voting season. As well as voting against the reappointment of board members, where companies are not making progress towards net zero as assessed by the Transition Pathway Initiative (TPI), votes against the Chair have been and will continue to be cast where a company fails one or more of the first four indicators of the Climate Action 100+ Net Zero Benchmark. The Authority will review proposals for the casting of votes in relation to companies’ climate transition plans and where it feels that Border to Coast policy is resulting in support for plans that do not deliver a credible move to Net Zero for a company it reserves the right to vote its portion of the shares held in a different way to the remainder of the Partnership.

The ability to exercise voting rights is supported by engagement with investee companies. Most engagement activity is undertaken by Robeco, acting for Border to Coast (the actual share owner in the pooled products). The issues associated with climate change and the achievement of Net Zero remain the single most significant focus of engagement activity. During 2023 an additional engagement programme around the Net Zero theme on “Just transition” was added. Just transition is the integration of social risks and opportunities into decarbonisation strategies. It enables investors to address systematic threats to long term stability and value creation and supports the delivery of a rapid and resilient transition to Net Zero. Border to Coast continue to develop clearer tracking and reporting in this area. Successful engagement on these issues will, likely, hasten progress towards net zero, and engagement will need to remain a key tool in the armoury to ensure that companies in which the Authority is invested meet their commitments to reducing emissions. Climate issues continue to represent a very significant proportion of the engagement activity, which we support, and we report on this each quarter. The Authority will work through the Partnership to seek to define much clearer success criteria for climate engagements along with clearer escalation of consequences up to and including divestment in the event that engagement does not meet those criteria.

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

Fixed Income

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

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

Fund managers in this space do seek to engage with corporates and there is an increasing issuance of "green bonds" both by corporates and governments. Border to Coast are beginning to examine options for a specific product in this space and the Authority will be positively supporting this work as it may provide the opportunity provide funding for a more rapid transition to Net Zero. However any investment will depend on successful due diligence being undertaken.

Given Border to Coast's Net Zero commitment they will need to produce metrics and set targets for fixed income products, although at present sovereign bonds and the Multi Asset Credit Fund are excluded from their emissions targets due to insufficient data availability and a lack of quality in the data. The combination of products provides an opportunity for the Authority to set its own targets for the asset class as a whole once such data is available.

Data is only currently available for the Investment Grade Credit portfolio and this indicates a decline in emissions of close to 50% from inception. However, as indicated above data quality in relation to this product, in particular coverage of portfolio companies, is not as good as for the equity portfolios and this may mean that this statistic is not a representation of the on the ground position. However, it is a starting point for this portfolio and the Fund Manager has set specific targets for emissions reduction for the portfolio aiming for a c50% reduction in emissions by 2030. Based on the information available this may be overachieved, although overachievement here may compensate for slower progress on more recently launched fixed income funds.

The Authority will take the following actions in relation to fixed income investments in the coming year:

- Seek to understand and monitor the impact of changes to the investment process required by the adoption of the Net Zero target and assess their impact.
- As with equities, seek to define much clearer success criteria for climate engagements and clearer escalation of consequences up to and including denial of debt in the event of engagement not meeting those criteria.
- Seek to ensure existing exclusion policies for pure coal and coal sands are applied across fixed income portfolios.
- Continue to support Border to Coast's work to develop a "green" bond product as a positive way of financing the transition by reducing exposure to the Multi Asset Credit (MAC) mandate and, subject to due diligence, transitioning to a green bond mandate when launched.

Alternatives

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

The key initial issue here is the lack of data, which has improved but remains less complete compared to public equities. This issue is being addressed, to some extent, through work already commissioned by the Authority and through the introduction of new regulatory requirements on asset owners which give leverage with fund managers to secure data. While this is helpful it is likely to be some time before data is comprehensive and it will also take some time to achieve the necessary quality of data, although starting later may allow some of the mistakes made in the early stages within other asset classes to be avoided.

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

Any investment portfolio of the scale of SYPA's alternatives portfolio is likely to contain some investments which could be regarded as "carbon negative". The work commissioned on data should allow at least some of these to be identified, and it will then be necessary to consider whether any action is appropriate. By their nature alternatives are often highly 'illiquid' meaning they are not bought and sold on exchanges like listed equities and secondary sales very often result in a loss of value. Therefore, it is likely to be necessary to hold such investments to maturity which will require additional carbon positive investments to offset them.

In order to achieve diversification, it would not be unreasonable to seek to emphasise low carbon or transition supportive investments within the alternatives portfolio. To support this Border to Coast are have successfully launched a Climate Opportunities sleeve within the alternatives platform. The success of this Fund and growth of the market mean that it is likely that the planned 3 year investment period will be reduced to 2, which will to some extent mitigate the scaling back of our original intended allocation. We will be monitoring this Fund as it is deployed to ensure that these investments can be measured in terms of their offsetting characteristics and thus how they can be used in our net zero calculations.

The latest Investment Strategy, implemented from March 2023, resulted in a recommended strategy with a more significant tilt of the alternative portfolio in a climate positive direction. New benchmark allocations to 'Climate Opportunities' and 'Renewable Energy' were added, each targeting an allocation of 5.0% of total assets. In addition, the target allocation to 'Natural Capital' was also increased from 2.0% to 3.5%, with investments in suitable Timberland managers being evaluated. These increased allocations will be balanced through the reduction of equity assets and the Multi Asset Credit (MAC) Fund. The reweighting of allocation to climate positive investments and away from the MAC fund has additional benefit as the MAC fund is a relatively high emitting asset class with challenges around reporting and transparency of underlying investments.

It is anticipated that investments in timberland assets will form a significant weighting of the overall 3.5% allocation to Natural Capital. Timberland has the benefit of capturing and storing carbon and in 2016 the Paris Accord recognised that healthy forests play a critical role in absorbing and storing global CO2 emissions. Qualifying timberland is able to generate a nature-based removal Verifiable Carbon Asset (VCA). A VCA represents one tonne of CO_2 equivalent removed and/or reduced that has been verified to meet the criteria of a carbon project. The carbon sequestered in forests can be quantified and reported in a net carbon footprint. In addition, carbon offsets generated by a forest carbon sequestration project can be registered and retired or monetized to supplement existing income returns. We will look to register VCAs and retire or offset them against carbon arising from investments in other asset classes.

Principally we will explore with Border to Coast ways of meeting the new allocations to climate positive investments through the pooling framework. We recognise that this route supports the pooling process and utilises the resources at Border to Coast given the limitations on our in-house resources. In order to facilitate our increased climate positive targets, Border to Coast have agreed to allow the doubling of investment in new, specific climate opportunities and renewable energy investments through the use of a 'side car' arrangement. We anticipate utilising our allowances through these side car arrangements, however these on their own will not be sufficient to meet the target allocations in the March 2023 strategy. Therefore, it is anticipated and planned we will make direct investments in timberland and renewable energy assets to meet our target allocations. This highlights a conflict that is present in meeting out 2030 Net Zero target, specifically that we are limited by the products and allocations within those products that are made by Border to Coast. We will look to influence Border to Coast to provide more climate positive products at a faster pace, however there are 10 other partner funds with later Net Zero targets and therefore different priorities on where cost and resource should be spent.

Property

The property portfolio provides a number of opportunities in terms of the movement to Net Zero. Again, there is a lack of robust and comprehensive data required to fully understand the carbon footprint of the portfolio. A third-party review undertaken gave a detailed baseline of energy consumption based on c74% of actual data, however reporting continues to improve. There remain challenges in undertaking alterations, such as the addition of solar panels, where the cost needs to be recovered through service charges, with the current economic climate making this particularly challenging.

Over the last 12 months Abrdn as the Fund Manager have made significant progress in the overall management of ESG risks (including climate) related to the portfolio resulting in a improvement in the GRESB score from 74 to 78 with plans to improve it further in 2024. A number of projects to improve environmental performance via refurbishment have been identified, with some (including a solar PV installation on a very large industrial unit) completed. In addition, "green clauses" continue to be added to all new leases. This programme of work will continue and provide a foundation on which Border to Coast will be able to build when direct property assets transition into the proposed pooled product, expected to be during 2024. The target for the portfolio is net zero by 2050 but with reductions of c 30-35% by 2025 and 50-60% by 2030. New acquisitions target EPC A or B minimum with developments BREEAM Excellent or Very Good as a minimum. Data coverage has significantly improved and the future workplan reflecting the need to deliver further improvements.

The completion of Project Chip in January 2024 sets the agricultural portfolio on a road to be a positive asset in terms of the Authority's approach to climate. It will take a number of years to deliver the projects necessary to achieve this and in the next year we expect to see the establishment of both an understanding of the current position and of the opportunities available and associated actions.

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

Ref	Action	Responsibility	By When
AC1	Agree and implement changes to equity mandates following production of proposals by Border to Coast (subject to agreement by other investors).	Assistant Director - Investment Strategy	Completed
AC2	Consider whether further changes are required to the structure of equity products, including implementing further exclusions in the light of the impact of the changes made under AC1 and whether they are achievable given SYPA's current product mix and other investment beliefs.	Assistant Director - Investment Strategy	As part of the 2025 strategy review
AC3	Continue to seek tightening of the voting guidelines in relation to climate issues and actively review potential votes in relation to climate issues	Director	Annually as part of Border to Coast Policy Review and as necessary.
AC4	Work within the Border to Coast partnership to achieve clearer success criteria for climate related engagements with clearer escalation of consequences up to and including divestment or denial of debt in the event of engagement not meeting those criteria.	Director	Ongoing process feeding into the annual Border to Coast Policy Review
AC4	Consider the approach to Net Zero for Fixed Income Portfolios in the light of emerging data and undertake the identified actions set out in this Action Plan	Director & Assistant Director - Investment Strategy	Initial assessment completed. Results to be reflected in the nest strategy review
AC5	Support the further development of a "green bonds" product by Border to Coast	Assistant Director Investment Strategy	Ongoing discussion with decision as to launch of product by end of 2024

AC6	**Identify through the work being carried out on data any particularly carbon negative alternative investments and consider whether any action is possible**	**Director**	**This action will now be taken as part of a deep dive into the legacy alternatives**
AC7	Engage Border to Coast in discussion over the best means to achieve a positive bias to supporting the low carbon transition within the alternatives portfolios	Assistant Director - Investment Strategy	Completed – in addition to the Climate Opportunities Fund side car vehicles have now been provided for renewable and natural capital.
AC8	Work with Abrdn to identify and initiate a programme of improvements to the environmental performance of the commercial property portfolio	Director	Completed property level action plans in place and being reported.
AC9	Deliver intended outcomes of Project Chip in terms of the climate opportunities within the agricultural portfolio.	Director	Project Chip transaction completed. Monitoring of progress will now be an ongoing issue.

Targets and Direction of Travel

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

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

The current direction of travel is positive, and in line with Border to Coast's targets, and if maintained would on a straight-line basis result in achieving net zero between 2044 and 2048. Thus, it is clear that a significant increase in the rate of reduction is necessary if we are to meet our 2030 goal. This increase in the rate of reduction will be in addition to the need to fill in the data gaps which continue to exist, particularly within fixed income investments. It is anticipated that further investment within alternatives will be a focus as the opportunity to earn carbon offsets will be vital to achieve out net zero ambition.

Emissions data coverage of the listed portfolio continues to improve with over 82% now covered by carbon emissions reporting compared to 66% in 2022. The level of carbon emissions coverage, at a fund level, is monitored and reported on in the quarterly Responsible Investment update.

As part of the work carried out on the revision of the investment strategy, the likely trajectory of emissions was considered and the impact of a number of different wider world scenarios on the overall position of the Pension Fund. This has allowed us to have a clear idea of the likelihood of the Fund delivering its overall objective of being able to pay pensions when due in each scenario. The review found that changes in asset allocation will have a positive impact on emissions and thus on the Fund's ability to meet the Net Zero goal, whilst only marginally increasing the likelihood of a more negative impact on the funding level compared to the previous investment strategy.

After the implementation of the 2023 investment strategy, there will be significant questions that need answering prior to the next strategy review in 2026.

- What are we willing to do and what sacrifices will we make to reach net zero by 2030.
  - Are we willing to look outside of Border to Coast fund options?
  - Are we willing to incur transaction costs to liquidate invested funds?
  - Are we willing to take on more liquidity risk by holding less liquid positions that could lead to sub optimal investment decisions to meet contractual pension payments?
  - Are we willing to increase company specific risk and expected volatility of portfolio returns through a less diversified portfolio?
  - Are we willing to reduce the correlation between Fund assets and liabilities through investment in less interest rate sensitive hedging assets?
- What changes to our investment beliefs are we willing to accept.
  - Would we go to fully actively managed with a net zero focus?
  - What level of tracking error, eg deviation from the benchmark, are we willing to accept?

Risks

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

The key risks identified are:

Unintended Consequences

Changing one aspect of the way in which we invest can result in unexpected results elsewhere. Thus, for example, adopting a more climate aware benchmark could reduce oil and gas exposure but increase tobacco exposure which could be seen as undesirable for other policy reasons. Similarly, a focus on scope 1 and 2 emissions could result in an increased exposure to financial institutions, although they represent very significant different forms of investment risk within a portfolio. Similarly when Scope 3 emissions are examined Apple's emissions increase by 475x whereas Shell's only increase by 12x which might appear counter intuitive.

Further this could lead to, excluding companies with high carbon footprints but credible decarbonisation plans, these strategies risk omitting quality firms that are aligning to net zero and whose progress might be underappreciated by the market. Perversely, investing only in low-carbon-now companies withholds capital from transitioning firms in economically important but hard-to-abate sectors, like steel and agriculture. This approach slows emissions-reduction where it is most needed and risks slowing carbon reduction in the real-world economy.

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

Inability to Secure Agreement of Other Investors

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

Data Gaps

As indicated throughout this document, this is an area that is bedevilled by gaps and inconsistencies in data. These inconsistencies are evident from the apparent disagreement between data vendors about the alignment of individual companies to the climate transition. While the Authority has taken action to address this it will on occasion have to act in the absence of data and almost always with limited data. This is to accept that in the initial stage of the process it is important to build a momentum behind measures moving in the desired direction allowing the development of measures and the achievement of comprehensive data to follow.

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

Transition Cost / Performance Erosion

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

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

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

Success and Embedding of Process Changes

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

Lack of Integration

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

Lack of Diversification

Achieving a net-zero portfolio will require a forward-looking assessment to maximise opportunities and reduce risks associated with a climate transition. Focus would have to be given to potential leaders of the climate transition within the lowest emitting sectors of the economy. This forward-looking view will introduce uncertainty and dependency on the company delivering their net-zero target. What is certain is that to achieve a net-zero portfolio by 2030, only a small number of companies in the MSCI World Index (which comprises the largest companies in developed markets) with 2030 net-zero targets will be investable. Currently, the number of companies with 2030, or near, net zero targets is 71, which makes up less than 5% of the total Index. This reduction in the size of the investible universe will significantly constrain the ability to build diversified portfolios. As a result, company specific risk, rather than market risk would become the primary risk factor in the portfolio due to a lack of diversification.

Diversification is the process of spreading investments across different asset classes, industries, and geographic regions to reduce the overall risk of an investment portfolio. The idea is that by holding a variety of investments, the poor performance of any one investment potentially can be offset by the better performance of another, leading to a more consistent and less volatile overall return. Diversification thus aims to include assets that are not highly correlated with one another.

Although diversification does not guarantee against loss, diversification is an important component in reaching long term investment goals, whilst minimising the risk of missing that goal.

Conclusion

The actions set out in this Action Plan will not, in themselves, be enough to achieve the 2030 goal. However, we must start to make progress and the specific steps outlined here will begin moving us towards the Goal. Progress has been made since the goal was agreed in engaging with Border to Coast and Robeco, in analysing a specific approach by asset class, engaging with third parties such as Abrdn and planning a climate solutions strategy and in taking the first steps to implement these plans. We will continue to implement the revised Investment Strategy which will increase our understanding and experience of investing in new asset classes that will be crucial to achieving our Net Zero ambitions. These building blocks are essential to enable proper governance and oversight as we continue along the road to net zero.

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

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SOUTH YORKSHIRE
PENSIONS AUTHORITY

Impact Investing Principles for Pensions – Annual Statement of Recommitment

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

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

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

Advice on an Impact Investing approach for our Pension Fund

The Authority does not retain an investment consultant but uses independent advisers to assist it in shaping and delivering its investment strategy, although investment consultants are used for specific projects. The advisers have been instrumental in supporting the following during the year:

- The design of the place-based impact strategy.
- Identifying an approach to new natural capital investments.

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

In addition to the "whole portfolio" analysis of impact on people and planet developed with Minerva which was published during the 2022/23 the Authority has continued to report on the impact of its investments on the climate through the Climate report included within the Annual Report. Building on previous pilot work the Authority has also reported on the impact of all of the investments held within the Place-Based Impact portfolio which is the part of the portfolio which is held intentionally to achieve impact. This was included in the annual report and demonstrated considerably greater impact, particularly within South Yorkshire than had previously been identified.

The Authority continues to report in line with the requirements of TCFD and has increased the scope of investments for which emissions data are available.

Consider available impact investment strategies

In relation to the element of the portfolio intentionally held to achieve an impact as well as a return the Authority has during 2023/24:

- Continued to develop out its portfolio of local development loans with a current commitment of £149m of which £64m is drawn to 9 projects and a pipeline of 9 further projects currently being reviewed. Two loans have now been fully repaid.
- Agreed a Memorandum of Understanding with the South Yorkshire Mayoral Combined Authority setting out how the two organisations will share information and work together in relation to investment opportunities without compromising the Fund's independence of decision making.
- Committed to new investments in key worker housing and startup capital, including to the Northern Gritstone fund which is focussed on university spin outs in the North of England.
- Begun the process to procure managers for the South Yorkshire focussed housing and SME finance allocations which will complete in 2024/25.

Beyond actions related to the specific principles the Authority has continued to emphasise its commitment to impact investing through participation in research and knowledge sharing activities sponsored by the Global Impact Investing Network (GIIN) and through providing material for a case study included in a publication on LGPS investment and the Government's "levelling up" agenda. The Authority also received the Pensions for Purpose award for Place Based Impact during the year.

March 2024

SOUTH YORKSHIRE PENSIONS AUTHORITY

Responsible Investment Update Quarter 3 2023/24

March 2024

Contents

Highlights and Recommendations

Highlights over the quarter to the end of December include:

- The casting of over 640 votes at close to 90 company meetings.
- Despite the passing of peak voting season, the overall level of engagement activity, with invested companies, increased compared to the same quarter in 2022 as Border to Coast, LAPFF and Robeco all stepped up engagement.
- High ESG ratings have been maintained for those funds where ratings are available.
- Continued focus on engaging with companies to provide clearer plans for the transition to Net Zero and their business strategies to achieve these plans.
- The overall ESG performance of the listed asset portfolios with Border to Coast has continued to be strong and better than the respective benchmarks.
- Overall financed emissions of the Border to Coast invested assets fell modestly over the quarter. However, the Emerging Markets Equity Fund saw a significant increase due to the restating of reported emissions from a constituent company.

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

Background

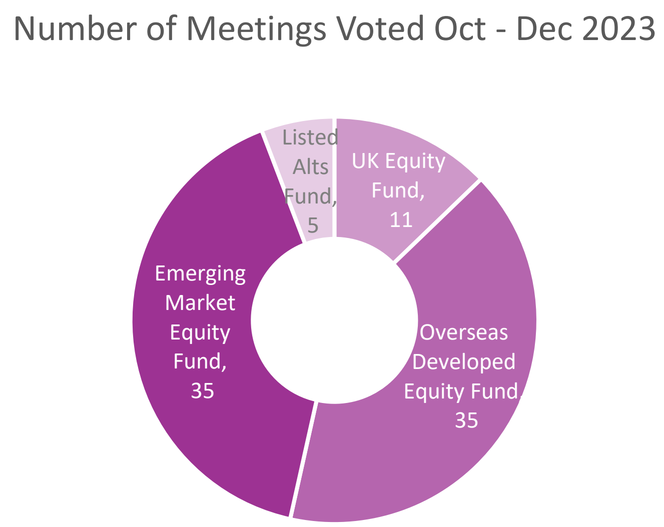
The Authority has developed a statement which sets out what it believes Responsible Investment is and how it will go about implementing it within its overall approach to investment. This statement is set out in the Responsible Investment Policy which is available on the website here.

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 fall in both the number of meetings and votes cast as we moved past peak voting season. Detailed reports setting out each vote are available on the Border to Coast website here. The charts below show a breakdown of the meetings and votes cast by Border to Coast on behalf of SYPA investments.



Robeco highlighted the below in their Q4 2023 Active Ownership report how investors have continued to use their shareholder rights, through proxy voting, to ensure that good corporate governance is in focus for state-owned enterprises. Robeco's analysis is detailed in the box below:

Corporate Governance in State-Owned Enterprises (SOEs)

SOEs are amongst the largest corporations in many countries and account for a growing share of the corporate landscape. The OECD reports that the ratio of SOEs in the list of top 500 global companies has tripled over the last two decades. The public sector held almost 11% of the listed companies' global market capitalization at the end of 2022. On top of that, in many countries, SOEs are the sole or main providers of essential services such as water or electricity.

Good governance in SOEs is, however, far from being a simple matter. If an SOE is run well, state control can provide stability. If not, political involvement may also have downsides. State ownership adds to the known corporate governance challenges faced by listed firms for a number of reasons. For one, as noted by the OECD, "the accountability for an SOE's performance is often dispersed across the public administration and among different state bodies with inherently different policy interests". Secondly, SOEs have the hard task of walking a fine line when balancing different, and sometimes conflicting, objectives. Listed SOEs have the advantage of being subject to the much stricter requirements applicable to publicly listed firms, as well as monitoring from external investors. However, minority shareholders often have limited rights and therefore little power to hold management to account.

The growing awareness of the importance of SOEs to our economies and the governance challenges that they face have prompted many countries around the world to roll out reforms. These initiatives point out the fact that there is no one-size fits-all recipe for reform. Nonetheless, the OECD Guidelines on Corporate Governance of State-Owned Enterprises, which are currently undergoing a review expected to be completed in 2024, are widely regarded as the golden standard for SOE reform.

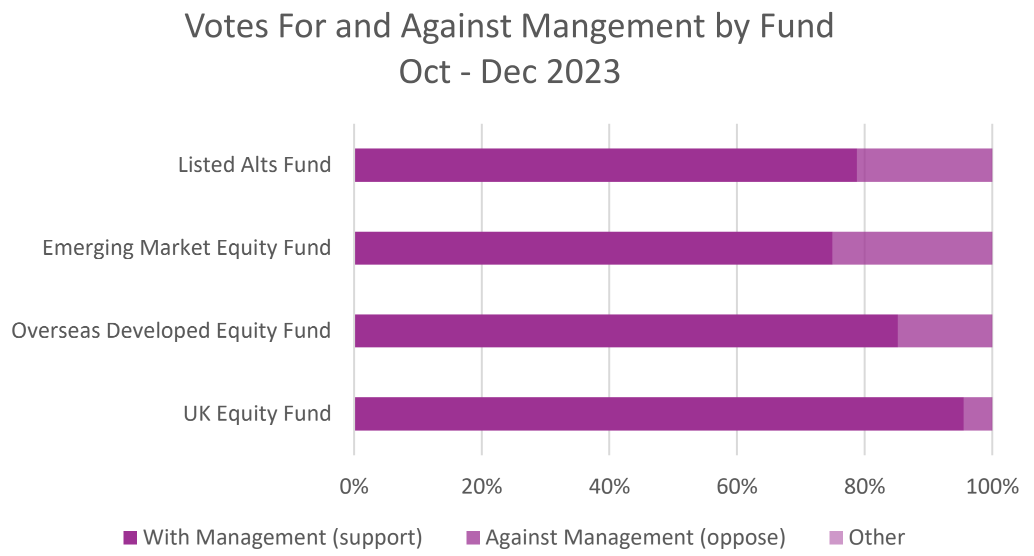
The guidelines provide a multitude of tailored recommendations for SOEs, from encouraging governments to evaluate and disclose the policy rationale that motivates state ownership, to clearly identifying which part of the public administration is responsible for exercising the state ownership function.

Investors can use their voting rights to push for these companies to adopt good governance and sustainable corporate practices. At Robeco, votes are guided by a robust policy which sets out our approach to a wide variety of issues ranging from director elections and remuneration to capital management and shareholder rights.

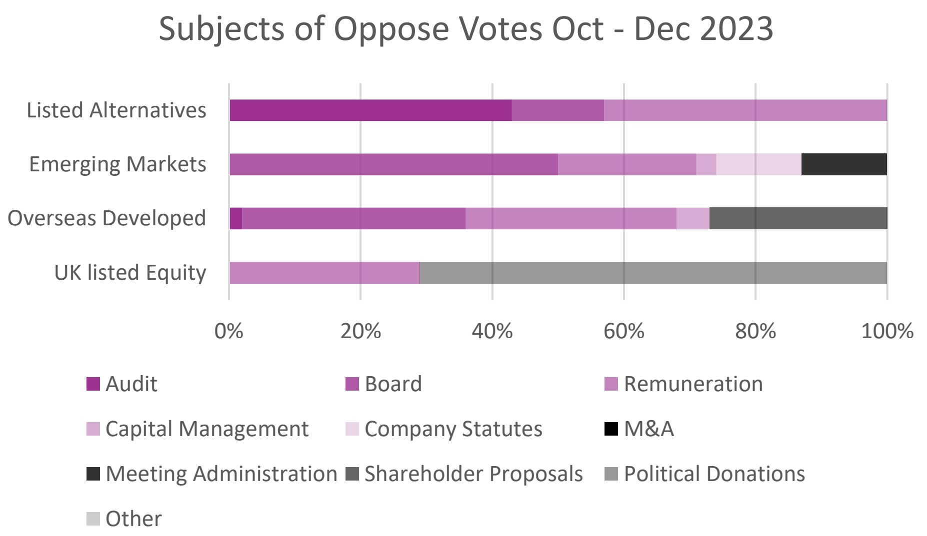
Robeco expect SOEs to have proper safeguards in place, such as the establishment of committees comprising independent members to oversee conflicts of interest, super-majorities or 'majority of minority' voting provisions, and a transparent process for board nominations. If Robeco see that insufficient safeguards are in place, they will hold companies accountable. For example, Robeco would oppose article amendments that would lead to a negative impact on minority shareholder rights or to a deterioration in the process for director nominations. Similarly, Robeco would oppose related party transactions that are not subject to an adequate oversight process that ensures minority shareholder rights are protected. Where Robeco conclude that a company has not ensured adequate minority shareholder protections, they will consider escalation via a vote against the most accountable board member or via engagement. Because poor corporate governance does make a difference – even in our day-to-day lives.

Robeco Active Ownership Report January 2024

The breakdown of support and oppose votes, which align with votes for or against management, is shown in the chart below.



The above graph shows the breakdown of votes cast for (in support of management) and against (in opposition to management) resolutions during the quarter. Compared to last quarter, the proportion of votes against the line taken by company management increased from 10% to 15% of total votes cast, albeit on a lower total. 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.



The above graph indicates that votes against remain more concentrated across topics than has been the case previously. The three largest areas where we continue to oppose management relate to Board composition, remuneration, and in the case of the Listed Alternatives fund, Audit. Compared to previous quarters, votes against political donations increased from close to 50% to just over 70% of the votes made against management of UK listed companies, albeit the total number of votes was lower. Notably, in the case of the Overseas Developed fund, the proportion of shareholder proposals voted against increased to over 25% of total votes against made of the Fund this quarter. It is worth reviewing the reasons why it is the case that votes are made against management.

- 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.
- 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.
- In the case of votes against political donations in the UK, this reflects the fact that in the UK donations must be put to a shareholder vote and the voting guidelines oppose any donations of this kind.
- Auditor appointments are automatically opposed if reappointment would result in an unduly long term which is viewed as compromising the independence of the Auditor.

Shareholder resolutions, as can be seen within the information on notable votes in these reports linked below, can cover a whole range of issues. It can be seen that, in the last year the focus, aside from 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, rather analysis is undertaken on a case-by-case basis covering both the company's and proponent's positions before votes are decided by Border to Coast on the advice of Robeco.

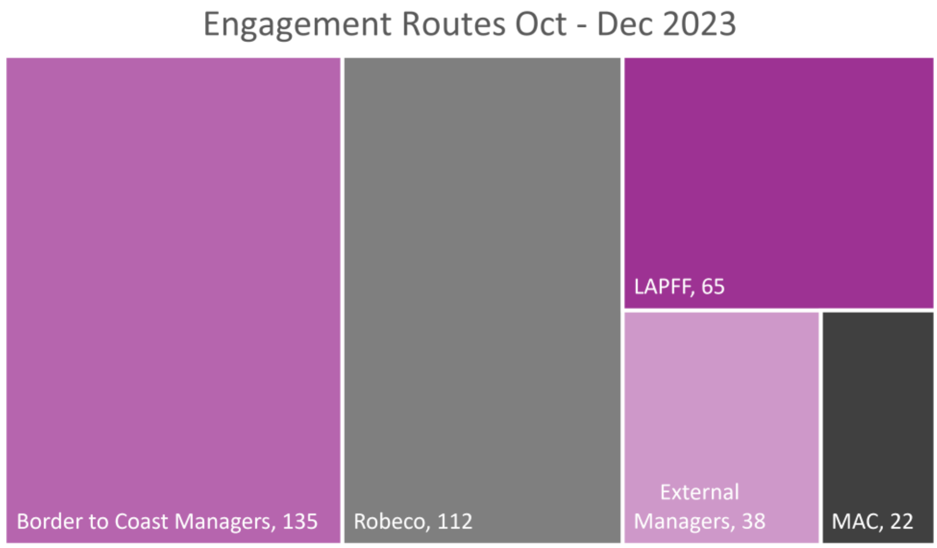
Notable votes in the quarter are summarised below and further details on the voting undertaken can be found here.

Microsoft's 2023 AGM agenda featured a number of routine resolutions as well as several shareholder proposals. Similar to previous years, Robeco did not support the Say-on-Pay proposal due to concerns regarding the significant height of the remuneration awarded to the CEO. Robeco identified areas of concern around the short term performance measurements on one year under the Long-Term Incentive plan. Two of the shareholder proposals related to the reporting on data operations in human rights hotspots and on the risks of facilitating AI misinformation and disinformation. Robeco supported both proposals, as they considered both to be of relevance to Microsoft and would allow shareholders additional insights into material risks.

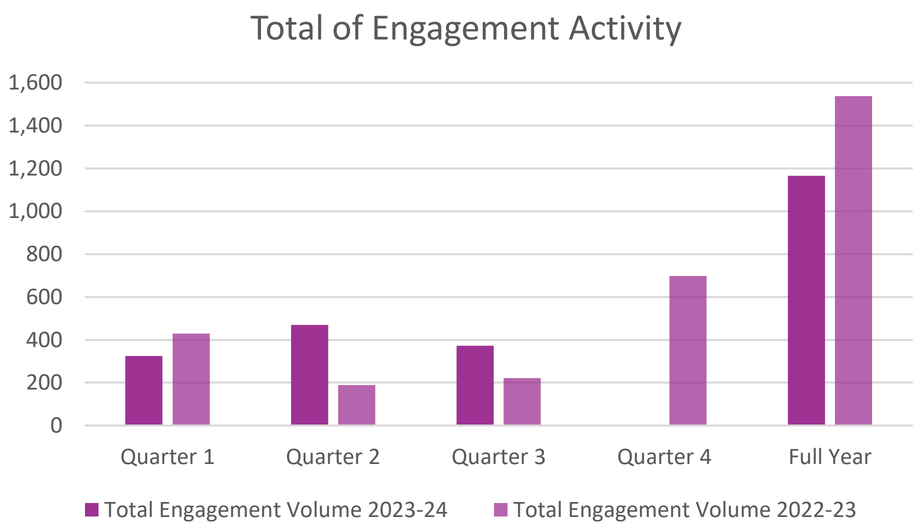
National Australia Bank Limited, a business focussed bank, held its 2023 AGM during the quarter which included two shareholder proposals as well as the standard items. The proposal put forward by shareholders on climate change asked the company to disclose whether all fossil fuel producers would require a climate transition plan in order to receive new lending from the bank. The proponents noted that while the company had put in place a requirement for transition plans to come into effect for oil and gas companies in 2025, this policy did not appear to apply to sub sectors such as thermal coal mining and a comprehensive approach to assessting transition plans had not been made public. Robeco decided to vote For the proposal as it aligns with our own climate change policy.

Engagement Activity

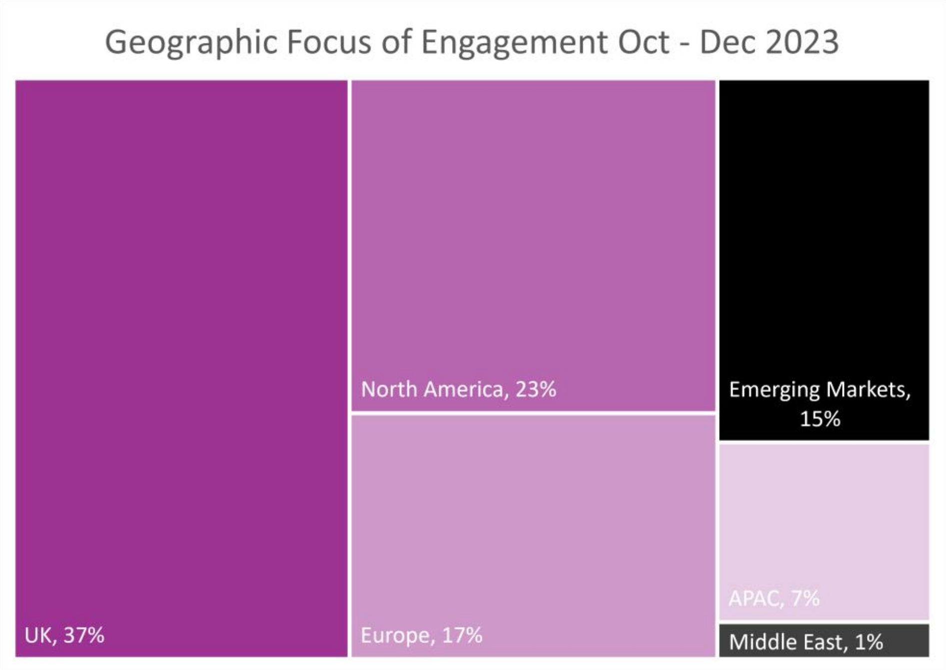
Engagement is the process by which the Authority, working together with other like-minded investors, seeks to influence the behaviour of companies on key issues. Engagement (in distinction to voting) is an ongoing process and is undertaken by those directly managing money for the Authority. This includes 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 ("LAPFF") 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.



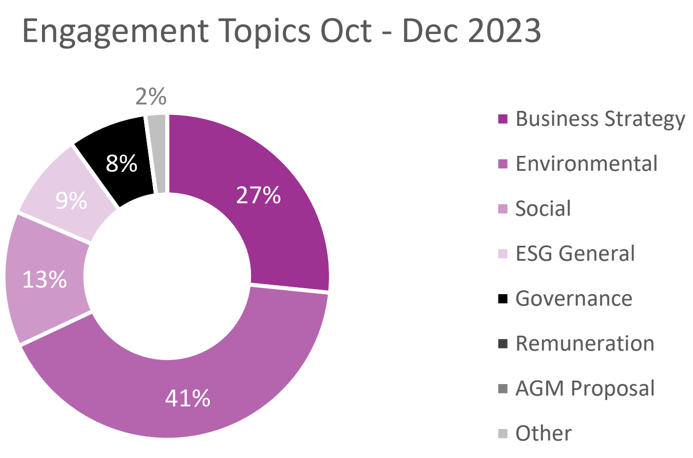
The graph below shows the level of engagement activity in the quarter has increased compared to the same quarter last year, but was down on the previous quarter (Q2 2023-24). Total activity fell quarter-on-quarter due to a decrease in engagement with companies by LAPFF and the passing of peak voting season for the year.



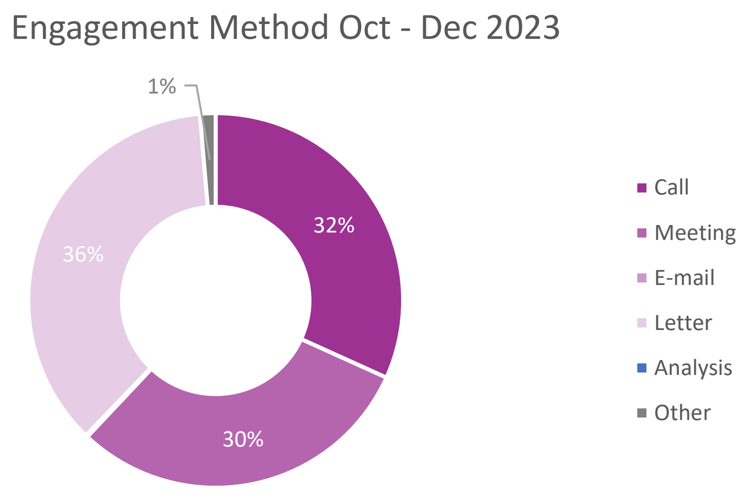
The chart below shows a breakdown of the geographic market focus in engagement over the last quarter. The focus of engagement shifted to a greater proportion being in the UK which is likely reflective of an element of home market bias.



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 the proportion of business strategy engagement increased on last quarter and also received a high degree of focus.



The method by which companies are engaged is important. Letters and emails are much more easily ignored or likely to generate a stock response from companies, whereas calls or meetings allow for more effective and genuine interaction with the company. During the quarter, there was an increase on the proportion of engagement taking place via calls or meetings from c35% to c60%.



More details of the engagement activities undertaken by Border to Coast and Robeco in the quarter are available [here.](#) Robeco provided updates over the quarter on their engagement covering the following areas: modern slavery in supply chains; Nature action 100; and Net-zero carbon emissions. The highlights from Robeco's engagement report are summarised below.

Modern slavery in supply chains
It is crucial for companies to identify and address modern slavery conditions – which can be hidden deep within their supply chains – to meet their obligation to respect human rights, avoid reputational risks and prevent disruptions. Failing to comply with an increasing number of regulations over modern slavery and human rights issues also poses direct consequences to companies' operations.

An estimated 50 million people are trapped in modern slavery, of which over 28 million are in forced labour, where a person's freedom to accept or refuse a job, or to leave one employer for another, is non-existent. Over 85% of cases are found in the private sector, and they are often linked to industries such as manufacturing, construction and agriculture.

For any company, developing appropriate management oversight and policies is an essential first step to tackling modern slavery as well as addressing wider human rights risks in their operations and supply chains. One of the most important actions is to conduct human rights due diligence.

Robeco expect companies to identify risks according to aspects like sourcing from conflict regions, workplace characteristics and the types of raw materials sourced, and to take appropriate actions. With this in mind, Robeco selected a list of companies to engage with based on their multi-layered supply chains, the nature of operations for raw materials production, and the geographical areas in which they and their suppliers operate. Robeco analyzed publicly available documents and research pieces from international organizations, NGOs and news sources to gain a good understanding of sectors and commodities that face a higher risk.

Robeco's engagement objectives also emphasize whether remediations to affected workers are carried out effectively, and if corrective measures are taken to prevent future recurrence, in collaboration with suppliers, workers and other stakeholders. Collaboration with various players is crucial in understanding the different contexts of each case, and is necessary for creating solutions for the workers at risk, while providing them with alternative means for decent work.

One of the challenges Robeco expect to face is lack of quality information regarding lower-tier suppliers. These are needed to assess whether the companies under engagement are well positioned to identify and remediate modern slavery risks and impacts. Although companies often have a supplier code of conduct, certification and social audits in place, these may be limited in scope, and are often mere box-ticking exercises applying only to direct suppliers.

Dedicated resources are required in order to identify high-risk regions and populations, track raw material sourcing, and compensate wages for affected workers, as well as to develop responsible recruitment policy and procurement practices. Companies also require close collaborations with suppliers' workers and management teams, civil society, and multiple departments within the company, which can be time consuming and costly to set up. However, these short-term costs will be outweighed by the long-term benefits of strong supply chain management and risk oversight, supplier resilience and efficiency, as well as reputational goodwill.

Nature action 100

More than half of the world's gross domestic product (USD 44 trillion) is moderately or highly dependent on nature and its services – such as the provision of food, fibre and fuel – and the unprecedented loss of biodiversity places this value at risk. By threatening these key ecosystem services, biodiversity loss and any company practices associated with it can expose both them and their shareholders to significant financially material risks. These include the physical and transition risks, the threat of litigation and regulatory action, as well as the wider systemic risks that come from harming nature.

Nature Action 100 was launched against the backdrop of aligning investor action to contribute to the GBF. It mobilizes institutional investors to establish a common high-level agenda for engagements, and a clear set of expectations to drive greater corporate ambition and action to stem biodiversity loss.

The initiative was launched in September 2023 with more than 200 investors and targets 100 companies in eight key sectors that are deemed to be systemically important in reversing biodiversity loss by 2030, such as chemicals, food, and metals and mining. These sectors are major drivers of damage to nature due to their large impacts on habitat loss and the overexploitation of resources, as well as their contribution to water and land pollution.

Companies are encouraged to set a public commitment to minimize biodiversity impacts and to conserve and restore ecosystems by 2030. They should set time-bound, science-based targets that are based on assessments of their nature related dependencies, impacts, risks and opportunities. These should be followed by an inclusive implementation plan taking into account any local communities that are affected.

Robeco reviewed their investment exposure to biodiversity risks across sectors and markets, as well as took into account our clients investment exposure, before selecting sectors and companies that they wanted to engage with under Nature Action 100. Our results suggested that biodiversity risks are concentrated in three sectors in our portfolios, which are exacerbated in our investment strategies with allocations to emerging markets. As a result, Robeco prioritized their engagement coverage with eleven companies across these three sectors: Materials (chemicals), Consumer Staples (retail, food and beverage, household and personal products) and Consumer Discretionary (retail). More than half of these companies are based in emerging markets.

Robeco's engagement approach aims to be holistic and targeted to each company's footprint and sets of impacts and dependencies. Tailored to each company, the engagements will push for a better understanding and strategy to address corporates' biodiversity footprints, including the establishment of meaningful targets and reporting frameworks, such as adopting the Taskforce for Nature-Related Financial Disclosures.

Net-zero carbon emissions

Investor engagement is a critical tool to ensure that companies are on a transition pathway that limits global warming to 1.5°C. In order to more effectively achieve this, in 2020 Robeco grouped all their ongoing climate change engagement efforts under their consolidated 'Net-Zero Carbon Emissions' engagement program.

Robeco's engagement activities set the expectation for companies to set long term net-zero targets, and to substantiate them with credible short- and medium-term emissions reduction strategies, implementing transition plans that ensure a reduction in real-world emissions over the next decade.

A credible climate strategy is difficult to define as each company will have its own challenges and approaches to decarbonization. Nevertheless, Robeco leverage external means of measurement such as the Climate Action 100+ Net Zero Benchmark when defining objectives.

The relevance of Robeco's engagement program hinges on the systemic risks that climate change poses to the global economy and financial system. Companies face significant transition risks encompassing legal and regulatory issues and technology and market changes, which weaken the viability of existing technologies and practices.

Companies also face physical risks from more frequent extreme weather events such as hurricanes, droughts and floods, and the longer-term issue of rising sea levels. This may cause damage to assets or bring cost increases and supply chain disruptions.

Besides these risks, there are also opportunities for companies. Indeed, they can spur growth by pursuing efforts to mitigate or adapt to climate change, using the consequences of the transition to their advantage.

Overall, Robeco registered positive progress for almost all the companies under engagement. The industries which registered the highest level of progress were the steel and cement sectors. Considered to be the hard-to-abate industries, these companies showed meaningful improvements, especially in disclosing detailed capital alignment and decarbonization strategies.

Although the oil and gas industry has taken several initiatives to address the net-zero transition, Robeco feel that there is room for improvement, especially in outlining reduction targets for Scope 3 emissions, and reallocating capex away from potentially stranded fossil fuel assets. Indeed, as Robeco witnessed in the last three years, setting targets for Scope 3 emissions has been one of the main challenges on the net zero pathway for oil and gas companies.

Having originally witnessed early progress coming from this sector, some companies unfortunately have reached a standstill at best in their decarbonization pathways after the global energy crisis. Therefore, Robeco plan to intensify and escalate their engagement efforts with them in the next year to seek more improvements.

Border to Coast Engagement

Border to Coast produced their quarterly Stewardship report which outlined a number of their key engagement highlights during the quarter and can be viewed here. Overall, the last quarter was quieter for voting as the main season in most markets passed for 2023. However, Border to Coast continued to engage with investee companies, most notably with water utilities Yorkshire Water and Northumbrian Water as well as airline, EasyJet.

In 2023, Border to Coast joined a collaborative engagement initiative with the UK water utility sector coordinated by Royal London Asset Management. Focus areas include sewage pollution, water leakage, climate change mitigation and adaption, biodiversity, antimicrobial resistance, and industry collaboration.

Border to Coast is leading the engagement with Yorkshire Water and Northumbrian Water on behalf of the collaboration. In October, Border to Coast met with Yorkshire Water to discuss their assessment of the Company against sector expectations. Discussion focused on areas Border to Coast had identified as priorities: pollution and maintenance of good asset health; sustainable water abstraction; and biodiversity targets and net gain.

The Company's response has been positive, and Yorkshire Water recently announced that it is bringing forward sewage infrastructure investment in Scarborough and surrounding area, an area our engagement has highlighted as in need. Northumbrian Water has responded to engagement with further disclosure on our priorities, which is currently being assessed. Engagement with Yorkshire Water and Northumbrian Water will continue.

Additionally, Border to Coast has joined the IIGCC Net Zero Engagement Initiative (NZEI) and is co-leading engagement with easyJet alongside shareholders Ninety-One, Phoenix Group, and Strathclyde Pension Fund.

The IIGCC engagement programme is seeking comprehensive Net Zero Transition Plans from 107 target companies, including a net zero commitment, aligned GHG reduction targets, emissions performance disclosure, and credible decarbonisation strategy.

Following assessment of easyJet's transition plans and response to the IIGCC NZEI questionnaire, a meeting was held in November to discuss its emission reduction targets and decarbonisation strategy.

The Company response was satisfactory, with a well-below 2 degrees aligned Science Based Targets initiative (SBTi) target and comprehensive transition plan. Further disclosure has been requested on the feedstock and sustainability of Sustainable Aviation Fuels, and on the contributions of transition measures to meeting its targets. Engagement with easyJet is continuing.

Local Authority Pension Fund Forum ("LAPFF") are another relevant organisation that SYPA are members of where LAPFF carry out activity and engagement with invested companies. A detailed report of the work undertaken by LAPFF in the quarter is available here. The key issues worked on during the quarter include:

- LAPFF has continued to engage on climate change through both policy and engagement channels. LAPFF coordinated an investor letter to 35 FTSE companies in high emitting sectors requesting a shareholder vote on the company's transition plans. LAPFF received a substantive response with some companies outlining their consideration of such a vote at next year's AGMs. Some companies outlined previous votes and their intention to continue to hold similar votes in the future. Others stated either that they did not plan to hold such a vote and engaged shareholders in the past or held a past vote and did not intent to do so again.

- After restarting its 2020 engagement with insurance companies, LAPFF met with AIA, AXA, Legal & General, Lloyds Banking Group, and Ping An to discuss each company's progress on assessing its impact on climate change and integrating climate considerations into corporate strategy and operations. In LAPFF's view, although there has been some progress in understanding climate related risks within their investment businesses, there is still greater consideration that could be applied to the role of insurance companies in mitigating climate change. As such, LAPFF will continue engagement.

- Miners Glencore and Grupo Mexico were companies of focus this last quarter. LAPFF generally has at least an annual meeting with the Glencore Chair. This meeting was its second with Chair Kalidas Madhavpeddi. Although LAPFF had requested a meeting with CEO Gary Nagle to discuss both climate and human rights performance at Glencore, Mr. Madhavpeddi was accommodating and helpful. LAPFF asked about the company's engagement with affected communities, but Mr. Madhavpeddi did not share much on this front. LAPFF subsequently held a seminar for investors with communities from Colombia and Peru who are affected by Glencore's Cerrejon and Antapaccay projects, respectively. It has also been in touch with IndustriALL representatives who worked with investors last year to bring a climate-related resolution to Glencore's AGM. LAPFF's view from speaking to these stakeholders is that in the coming year, Glencore is likely to be the target of a concerted union and community campaign because of its human rights and environmental practices. Therefore, LAPFF has reached out to the company for a follow up meeting to discuss these stakeholder concerns and to push the company to build and disclose stronger stakeholder engagement mechanisms and climate practices.

- LAPFF continued its engagement with Vale and Anglo American through the PRI Advance human rights initiative, including through bringing investors in other PRI Advance groups into stakeholder engagement meetings on Glencore, BHP, and Rio Tinto. These initiatives are moving quite slowly, in part in LAPFF's view, because investors are generally less aware of and less attuned to human rights considerations than they are corporate governance and environmental issues. Therefore, they are still considering how best to engage companies on human rights, which tend to deal with 'soft' issues such as illegal discrimination and freedom of association rather than 'hard' issues like clear financial costs.

LAPFF has also continued to respond to wider developments and consultations, for example the UN Working Group on Business and Human Rights and will continue to respond to consultation opportunities where it believes it can contribute helpfully with the aim helping investors to understand the link between human rights and financial materiality.

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 of each of the listed funds.

Overseas Developed

- Weighted ESG Score 7.3
- 54.2% of portfolio ESG leaders v 52.0% in the benchmark.
- 1.5% of portfolio ESG laggards v 2.4% in the benchmark.
- 4.4% of portfolio not covered all of which are investment trusts etc higher than benchmark
- Lowest rated 5 companies 1.4% of portfolio
- Emissions below or inline with benchmark on all metrics.
- Weight of fossil fuel holdings greater than benchmark
- All 5 top emitters rated on the Transition Pathway with 4 TPI scoring of 4
- 4 of 5 top emitters engaged through Climate Action 100+

United Kingdom

- Weighted ESG Score 7.8
- 73.8% of portfolio ESG leaders v 70.8% in the benchmark
- 0% of portfolio ESG laggards
- 7.0% of portfolio not covered, mainly investment trusts marginally more than benchmark
- Lowest rated 5 companies 11.1% of portfolio, all MSCI rated BBB or above
- Financed emissions and carbon intensity metrics are below or inline with the benchmark
- Lower weight of fossil fuel holdings than in benchmark.
- 4 of 5 top emitters rated 4 or 4* (highest ratings) on the Transition Pathway, all engaged through Climate Action 100+

Emerging Markets

- Weighted ESG score 6.0
- 26.1% of portfolio ESG leaders v 23.5% in the benchmark
- 9.7% of portfolio ESG laggards v 13.4% in the benchmark
- 4.1% of portfolio not covered largely investment trusts etc
- Lowest rated 5 companies 5.3% of portfolio.
- Emissions materially below benchmark on all metrics
- Lower weight of oil and gas holdings than in benchmark.
- 2 of the top 5 emitters engaged with the Transition Pathway with average scores of 3
- 2 of top 5 emitters engaged through Climate Action 100+

Listed Alternatives

- Weighted ESG score 7.3
- 38.2% of portfolio ESG leaders v 44.4% in the benchmark
- 0.4% of portfolio ESG laggards v 2.8% in the benchmark
- 39.8% of portfolio not covered largely investment trusts etc
- Lowest rated 5 companies 10.2% of portfolio.
- Emissions below benchmark on 2 of 3 measures
- Materially lower weight of fossil fuel holdings than in benchmark.
- 4 of the top 5 emitters engaged with the Transition Pathway with two scoring TPI level 4 and further scores of 3 and 2
- 2 of 5 top emitters engaged through Climate Action 100+

Overall, this shows a broadly positive picture, with all funds continuing to score better than, or inline with, the benchmark overall. However, the overall trajectory of improvements within these funds has slowed with progress largely flat, or reflective of changes in proportion to the benchmark, during the quarter.

Each quarter Border to Coast's reporting on carbon emissions features particular stocks and their plans for decarbonisation. To increase the level of transparency on the engagement undertaken with companies and the assessment of their future decarbonisation plans, case studies for each listed fund are included below.

Overseas Developed Fund

Financed emissions decreased in the quarter. This was largely driven by strong performance in some of the higher emitting companies such as RWE, Holcim and ArcelorMittal.

Featured Stock: RWE

In November 2023, RWE outlined a €55bn investment plan to 2030 to expand its green portfolio to more than 65 gigawatts (GW) by 2030, adding net capacity of >30GW between 2024-30. RWE's goal is to be carbon neutral by 2040 and to achieve this it is increasing the pace of its transformation and aiming to reduce its emissions in line with the 1.5ºC reduction path across all corporate activities and all greenhouse gases. This includes the construction of renewable energy plants based on offshore and onshore wind power, solar energy, and battery storage as well as investments in hydrogen-ready gas-fired power plants. RWE has a goal to phase out the use of coal as an energy source by 2030 and is decommissioning coal power plants as soon as their utilisation is no longer required. To achieve the goal of net zero by 2040, the decarbonisation of fossil-fuelled power plants is another key element. The Company is converting its Dutch power plants to run on biomass and is currently developing carbon capture and storage projects in the UK and the Netherlands.

The investment thesis for owning RWE remains; it has one of the strongest balance sheets in the sector and will be looking at the renewable space to grow its earnings. It is at a valuation discount to its peers, which is mainly due to coal-fired power generation exposure. As the exposure to coal/lignite reduces, RWE should rerate to be in line with its peers.

UK Listed Equity Fund

The weighted ESG score remained consistent over the quarter and remains in-line with the benchmark. This Fund holds a higher weighting of companies considered to be 'Leaders'. Furthermore, the Fund does not hold any companies considered to be 'Laggards' (CCC or B rated companies).

Featured Stock: BP

BP is a multinational integrated oil and gas company, operating through three key segments: Gas and Low Carbon Energy, Oil Production and Operations, and Customers and Products. Higher energy prices have seen BP deliver strong cashflows and have provided a strong basis for it to meet its target of allocating 50% of its capital expenditure to the strategic 'energy transition growth engines' by 2030. Recently, BP has made some substantial changes to its short-term emissions targets and the mix of its investments. The company has reduced its ambition with its short-term emissions target for 2025 being reset to a 10-15% reduction (from 20%), and the 2030 target to a 20-30% reduction (from 35- 40%). A 40% reduction in oil and gas production by 2030 is now set at a 25% reduction.

Furthermore, its investment mix has adapted in line with the market as investment in hydrogen has been delayed. Despite these changes, BP continues to target net zero scope 1,2 and 3 emissions by 2050. BP indicates these changes reflect stronger shorter term energy prices and the desire to remain flexible and pragmatic given heightened geopolitical uncertainty.

The unexpected departure of the CEO in September saw short-term management passed to the FD (Murray Auchincloss) whilst a replacement was found. Recent engagement with the Chairman indicated the board are the custodians of the low carbon strategy and that the new appointee will not be able to reverse the current plans. The Company has since announced that Murray Auchincloss has been appointed as the new CEO. Border to Coast continue to actively engage with BP seeking more disclosure around targets and capex plans. Recent engagement with the Chairman indicated the board are the custodians of the low carbon strategy and that the new appointee will not be able to reverse their current commitments.

Emerging Markets Equity Fund

During the quarter carbon emissions increased in absolute terms but remains significantly below that of the benchmark. This increase was due to Grasim restating their reported emissions for the financial year 2022. In previous years annual reports, Grasim had not included the emissions of UltraTech Cement which is a subsidiary of Grasim Industries. This accounts for the Funds' increased emissions and Grasim now accounts for 45% of emissions. Grasim is this quarter's Feature Stock below.

Featured Stock: Grasim

Grasim is an Indian conglomerate operating in three core sectors: cement, viscose staple fibre (VSF), and financial services. Grasim's cement subsidiary, UltraTech, is India's largest cement manufacturer by volume and benefits from rising spend on house building. Its VSF subsidiary is the largest supplier of fibres for viscose yarn in India and is primarily driven by domestic apparel spending. India's cement consumption is growing slightly faster than GDP growth, while use of VSF is also rising. Both businesses lead the competition in scale and profitability. Grasim provides the portfolio with exposure to the India growth story from the perspective of both basic infrastructure and consumption.

Cement production is the greatest source of carbon emissions for Grasim (>90%) as the production of clinker for cement is very energy intensive. Grasim aims to achieve Net Zero overall by 2050. Within cement specifically, Grasim has committed to reduce Scope 1 and Scope 2 emissions (the most material emissions for the cement industry) by 30% by FY30 (versus FY17). This will be achieved by increasing the share of renewable power to 25% by FY25 and investing in waste heat recovery systems. In the VSF business, Grasim has committed to reduce GHG emission intensity by 50% by FY30 and achieve Net Zero Emissions by FY40. The decarbonisation strategy targets new technologies, operational efficiency gains, and new low carbon product offerings. While Grasim is a large carbon producer, cement production is nevertheless vital in pursuing basic development goals, and thus a fundamental ingredient in delivering affordable and safe housing, communications infrastructure, clean water and sanitation. It is therefore an important industry to support in its transition towards net zero.

Sterling Investment Grade Credit Fund

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 7.2 which is lower than benchmark of 7.5
- 40.9% of portfolio ESG leaders compared to 56.8% in the benchmark
- 0.6% of portfolio ESG laggards compared to 1.0% In the benchmark
- 23.8% of portfolio not covered compared to 8.7% in the benchmark
- The 5 lowest rated issuers represent 1.4% of the portfolio
- Emissions above benchmark on two out of three carbon emission and intensity metrics.
- Materially below benchmark weight of companies with fossil fuel reserves.
- 4 of top 5 emitters being engaged by Climate Action 100+ and all four rated 4 on the Transition Pathway

The ESG score and MSCI ESG rating remained stable over the quarter remaining below the benchmark on ESG scoring driven primarily by an overweight position in UK Government Bonds (rated A) of approximately 5%.

Commercial Property Portfolio

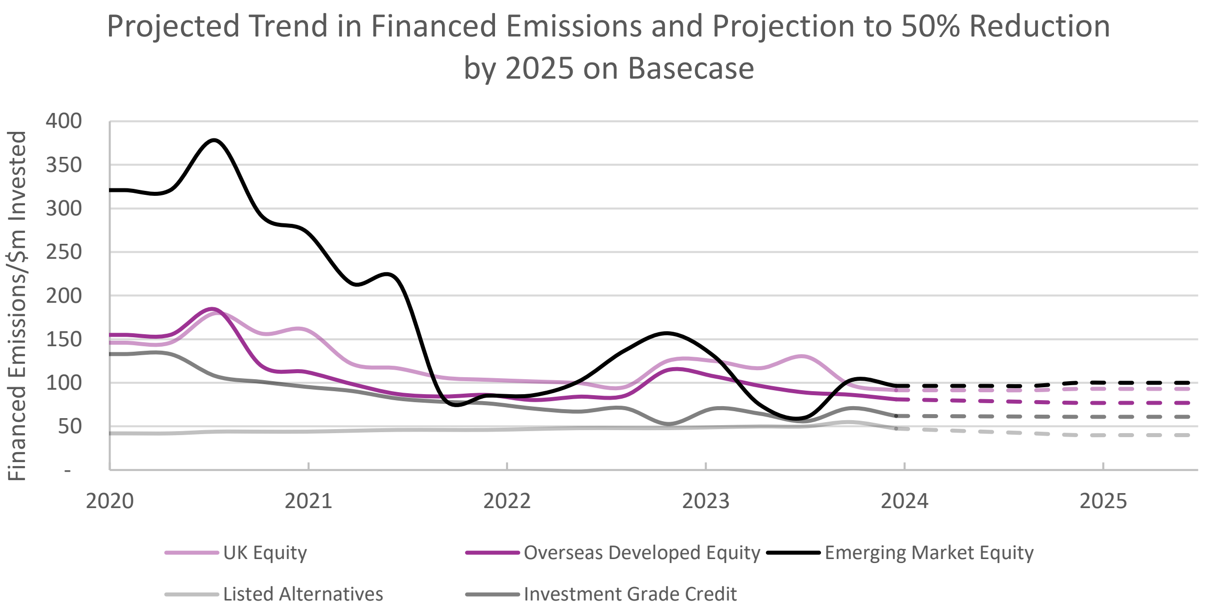
As reported in the last quarterly update the overall ESG performance of the commercial property portfolio as measured by the GRESB (Global Real Estate Sustainability Benchmark) has improved over the last year. The portfolio achieved a 3 star score with an increase in the percentage score from 74% to 78%, compared to a peer average score of 73%. In comparative terms the portfolio's ranking, over the year, moved up to 22 out of 100 from 22 of 80, reflecting the increased focus on these issues by abrdn. Like-for-like total emissions (scope 1, 2 & 3) also showed positive have fallen year-on-year by 11%.

In terms of the more routinely measured metrics, the proportion of the portfolio with EPC ratings A-C remains at 78%.

Abrdn remain concentrated on retaining the best performing assets, and divesting from the worst performing, in both financial and sustainability terms. As a result, the proportion of the portfolio AUM with sustainability green building certification has been on an upward trajectory year-on-year from 10% to 37%. As noted in previous reports, given the costs of in use certification, this measure is expected to increase as all new properties have been rated either BREEAM very good or excellent.

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 now includes emissions data for the Listed Alternatives fund therefore covers five publicly traded funds held with Border to Coast for which carbon emissions data is available.



The above graph shows in the solid lines the actual financed emissions of the listed funds held over time. The dashed lines indicate the linear path required to meet the 2025 interim target of reducing financed emissions by 50% on a March 2019 base case. The UK Equity and Emerging Markets funds are both currently in line with their emission reduction targets. The Overseas Equity Fund and Investment Grade Corporate Credit Fund both have small reductions required, on a % change basis, to meet their interim targets with the Listed Alternatives Fund having the largest % reduction required. It should be noted that some volatility in financed emissions quarter on quarter is to be expected however the financed emissions trend has been directionally reducing, albeit at a slowing rate over recent quarters.

Overseas Developed Markets Equity

Financed emissions decreased during the quarter and remain below the benchmark. This was largely driven by strong performance in some of the higher emitting companies such as RWE, Holcim and ArcelorMittal.

UK Equity

The Fund remains slightly above the benchmark for Weighted Average Carbon Intensity (“WACI"). However, both WACI and financed emissions decreased quarter on quarter. This was largely due to the exit of CRH following a switch of the main listing to the US and reduced weightings in Shell and BP.

Emerging Markets Equity

The Fund remains significantly below the benchmark for all three measures of carbon emissions and carbon intensity. However, as mentioned previously, the Fund saw a significant in carbon emissions and WACI due to the restating of reported emissions from one of the companies held. This highlights one of the reasons for potential volatility in reported emissions.

Listed Alternatives

The Listed Alternatives portfolio has seen a continued increase in the availability of Carbon Emissions Data as the proportion of assets held through Investment Trusts declined. During the quarter, the overall weighted average carbon intensity (WACI) and financed emissions of the fund decreased following a reduction in portfolio weight of Cheniere Energy and NextEra Energy.

Investment Grade Credit

As mentioned previously, the Investment Grade Credit portfolio has seen a significant improvement in data availability. The overall position being broadly in line with the benchmark on all emissions metrics and with no one holding dominating portfolio emissions. Financed emissions and WACI decreased in the quarter largely driven by an increase in market cap of the Funds' largest emitters as an increase in market cap results in lower emissions per £M invested. This supports the revised position proposed in the Authority's annual policy review of using debt denial as a means of encouraging companies to actively decarbonise their operations through the use of science-based targets.

Coverage

The proportion of companies covered is an important metric when assessing the progress made to Net Zero. Without a high level of coverage, the emissions reduction picture will not be complete or accurate. The table below outlines the level of coverage in the funds held with Border to Coast. Over time the % of the funds covered has increased, however the progress has largely plateaued towards the end of 2023. It should also be noted that there are further improvements to be made, particularly on the Sterling Investment Grade Credit Fund.

Fund	ESG (%)	Carbon (%)
Overseas Developed Markets Equity	95.6%	95.6%
UK Listed Equity	93.0%	93.0%
Emerging Markets Equity	95.9%	98.6%
Listed Alternatives	60.2%	89.3%
Sterling Investment Grade Credit	76.2%	73.0%

As has been made clear previously, the forecast reduction in emissions shown is dependent upon Border to Coast delivering the targets set out in their own Net Zero Strategy. This further depends on changes within the investment process as well as on the actions of individual companies. Officers continue to engage with Border to Coast to further understand both the nature of the changes being made to the investment process and their likely impact.

Beyond this the recently revised investment strategy, that is undergoing implementation, will result in changes to the mix of assets that reduce the level of emissions from the portfolio. However, this process is too early stage to determine the scale of any reduction. 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.

Stakeholder Interaction

There was limited stakeholder interaction over the course of the quarter confined to the Director dealing with Responsible Investment related questions largely related to climate change submitted at the Annual Fund meeting.

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's most recent business meeting considered a draft workplan for the coming year which includes a focus on the following areas, each of which covers a range of specific engagement themes:

- Climate and Strategic Resilience, Environmental Protection and a Fair and Just Transition;
- Natural Resources and Water Stewardship;
- Human Rights and Employment Practices;
- Promoting Good Governance; and
- Reliable Accounts, Capital Market Regulatory Reform.

Climate Action 100+

During the quarter, Climate Action 100+, the world's largest investor engagement initiative on climate change, published its list of produced its list of 10 companies to be assessed against the Net Zero Standard for Oil & Gas (NZS O&G).

The NZS O&G, published by IIGCC in April 2023, provides a comprehensive sector-specific assessment framework for investors to assess oil and gas companies' disclosures and the alignment of their transition plans with a 1.5oC climate scenario. The NZS O&G was developed to help inform investors' corporate engagement priorities and escalation strategies, whilst helping them better understand the transition risk in their portfolios.

10 companies that will be assessed publicly against the NZS O&G in early 2024 include: Exxon Mobil, Shell plc, Chevron, TotalEnergies SE, ConocoPhillips, BP, Occidental Petroleum, Eni S.p.A, Repsol S.A. and Suncor Energy.

Policy Development

This section of the report highlights the key pieces of policy related activity which have taken place that will impact SYPA in the future.

UN Climate Change Conference (COP28)

COP28 took place in Dubai, United Arab Emirates, in December, with the aim of making progress in several areas:

- hammering out the details of the loss and damage finance facility to help vulnerable communities deal with immediate climate impacts;
- driving towards a global goal on finance that would help fund developing countries' efforts in addressing climate change;
- accelerating both an energy and a just transition;
- closing the massive emissions gap, just to name a few.

There were five key developments that came of COP28:

1. A final agreement made on global "transition away from fossil fuels." This is the first time the shift away from fossil fuels has been explicitly included in a final agreement at a COP. Whilst the final agreement does not commit to the phase-out of fossil fuels, it does show progress, albeit slowly.
2. An Oil and Gas Decarbonisation Charter was launched to accelerate climate action. Fifty oil and gas companies committed to decarbonising their direct emissions and taking significant steps towards reducing methane emissions. This is the first time many National Oil Companies (NOCs) have adopted Net Zero 2050 targets. Signatory companies represent over 40 percent of global oil production, with NOCs representing over 60 percent of signatories – the largest-ever number of NOCs to commit to a decarbonisation initiative.
3. Over 123 countries committed to tripling renewable energy generation capacity to at least 11,000 GW by 2030 and double the global average annual rate of energy efficiency improvements from around 2% to over 4% every year until 2030.
4. The Loss and Damage fund was operationalised and mobilised more than US$85 billion in new financial commitments to support the developing countries most vulnerable to negative climate change impacts.
5. Over 100 countries signed a declaration to focus on the impact of food and land-use changes on carbon emissions.

SOUTH YORKSHIRE PENSIONS AUTHORITY

Agenda Item

Subject	**Benchmarking – Administration and Investment Functions**	**Status**	For Publication
Report to	Authority	**Date**	14th March 2024
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Director	**Phone**	01226 666439
E Mail	ggraham@syppa.org.uk		

1 Purpose of the Report

1.1 To present the results of Benchmarking exercises undertaken on both administration and investment activities by CEM.

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2 Recommendations

2.1 Members are recommended to:

a. **Note the results of the most recent benchmarking of the Authority's activities undertaken by CEM.**

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3 Link to Corporate Objectives

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

Customer Focus

To design our services around the needs of our customers (whether scheme members or employers).

Investment Returns

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

Effective and Transparent Governance

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

Undertaking benchmarking exercises using an external provider to analyse the results and draw comparisons with appropriate peer groups provides the Authority with the opportunity to understand how its costs and performance / quality of service rate compared to others and therefore identify areas for improvement.

4 Implications for the Corporate Risk Register

The actions outlined in this report do not directly impact on any specific risks included in the Corporate Risk Register but in the case of investment activity do specifically address the balance of risk and return.

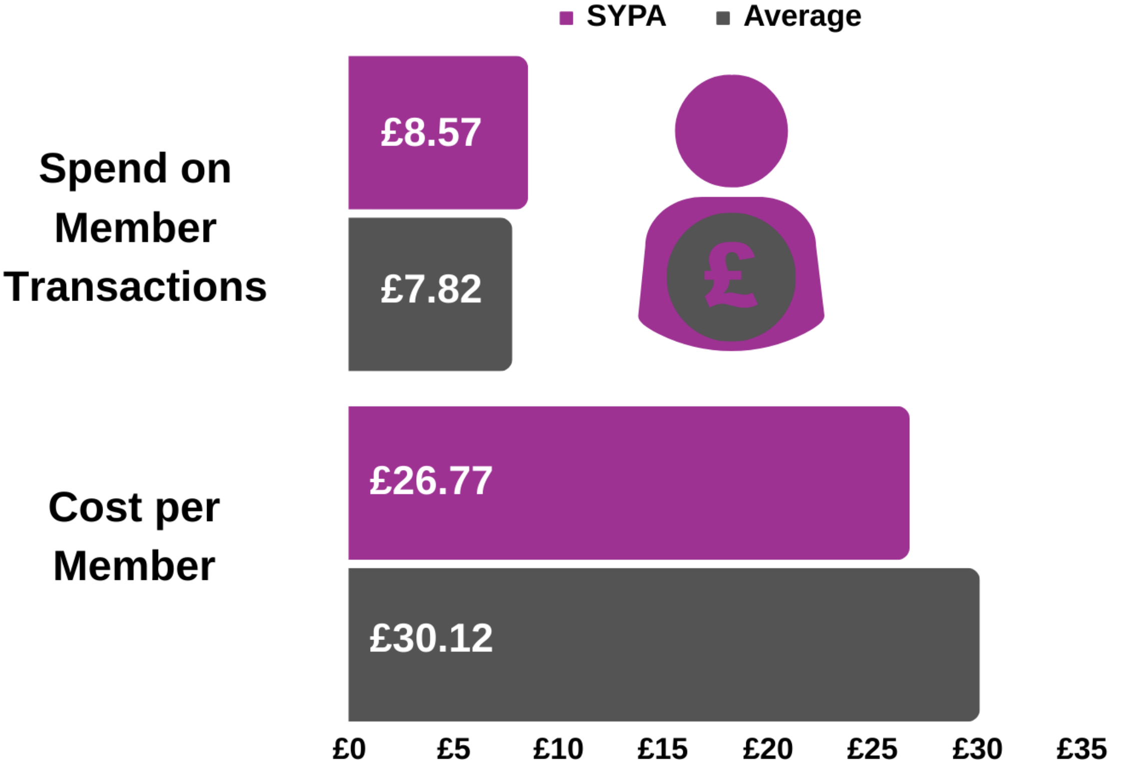
5 Background and Options

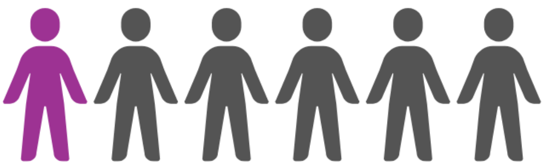
5.1 Benchmarking provides a useful way of comparing both costs and performance / quality of service across a wide range of indicators and the comparisons can be enhanced by using a wider range of broadly comparable organisations. The Authority has regularly participated in benchmarking exercises in relation to its administration and investment activities for many years. For administration services this has previously been as part of a benchmarking club run by CIPFA (and in 2019 the CEM survey) and for investment activities as part of a service delivered by CEM. More recently the number of LGPS funds participating in the CIPFA survey has significantly reduced and it is now largely comprised of smaller funds making the comparative data less useful to a larger fund like South Yorkshire. CEM's coverage on the other hand has increased and it is possible for them to provide both LGPS and global comparators. This report provides a summary of the results of the most recent CEM administration and investment benchmarking reports which were presented in detail at a workshop for Authority and Local Pension Board members.

Administration

5.2 The Administration report compares SYPA with a peer group of 14 other administration providers, mainly larger LGPS funds but also including several shared service operations (such as LPPA) and large quasi-public sector Defined Benefit Schemes such as Railpen and USS. As a result of this SYPA serves 43% fewer members than the average in the group. Logically this might mean that as a smaller provider we might find it more difficult to deliver the same level of service as some larger providers. The graphics below highlights some of the key messages from the report which is available in the members online reading room.

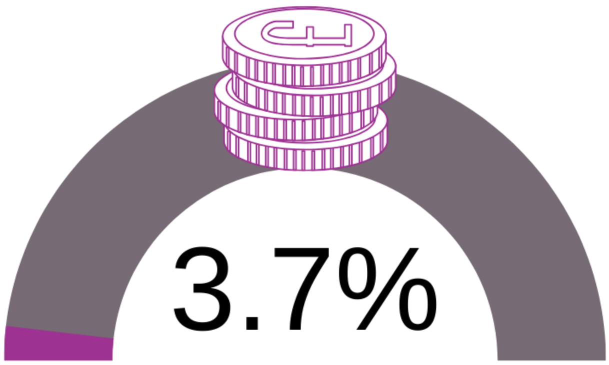
Administration





1 FTE staff member per 2,657 scheme members
vs
An average of 1:2,542

Average remuneration



less than average

Total Member Service Score

62 vs **64**

SYPA | **Average**

Quality

Positives

Scored 2nd highest score for phone outcomes.

Our website provides high value functionality, especially for pensioners.

Provision of face to face individual meetings. (most do not provide)

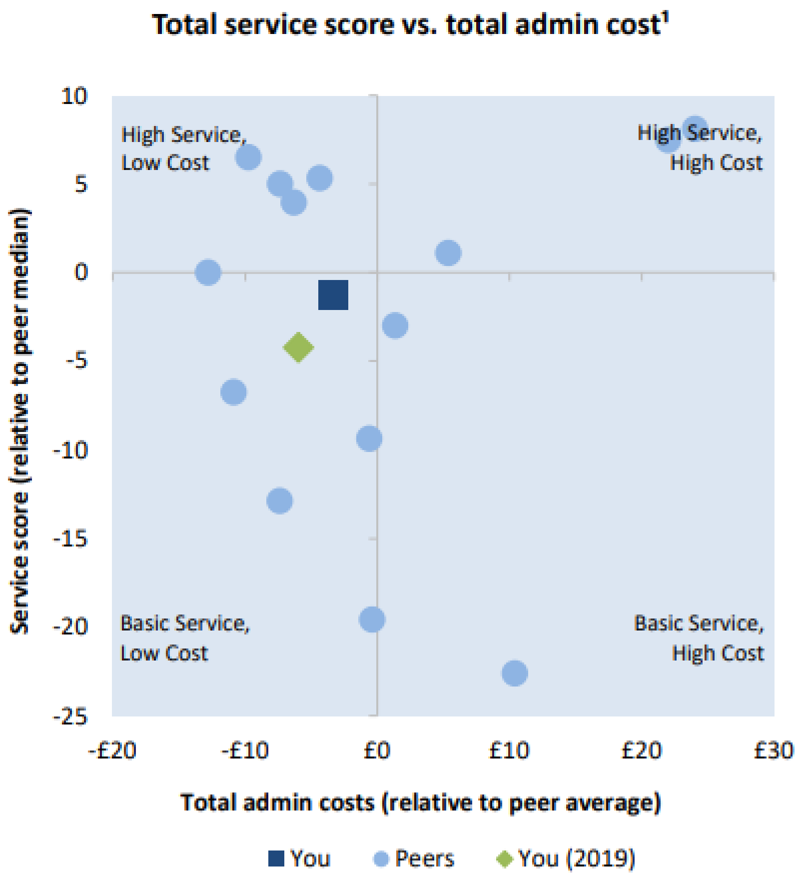
Areas for Improvement

Call wait times average 250 secs vs median of 164 secs

>50% of retiring members paid without a cashflow interruption vs median of 67.5%

31 days to send an estimate vs 12 days for peers

5.3 CEM's summary places SYPA as a basic member service low cost provider on their cost effectiveness chart (as shown below), which tallies with a greater proportion of cost being directed at what are described as “member transactions”. Although the service score is close to the High Service boundary.



5.4 CEM’s research indicates that there is a low correlation between cost and service (as measured in their scale) and it should therefore be possible to increase the service score without necessarily increasing costs. This is the focus of the activities set out in the updated corporate strategy although the budget does provide for a significant increase in staffing to ensure that once eliminated processing backlogs do not recur. This will clearly affect cost comparisons but is a conscious choice to improve the overall quality of service by eliminating backlogs and ensuring we have a properly trained workforce. The Authority will now participate in the CEM survey annually and will use the identified areas for improvement to support its improvement plans.

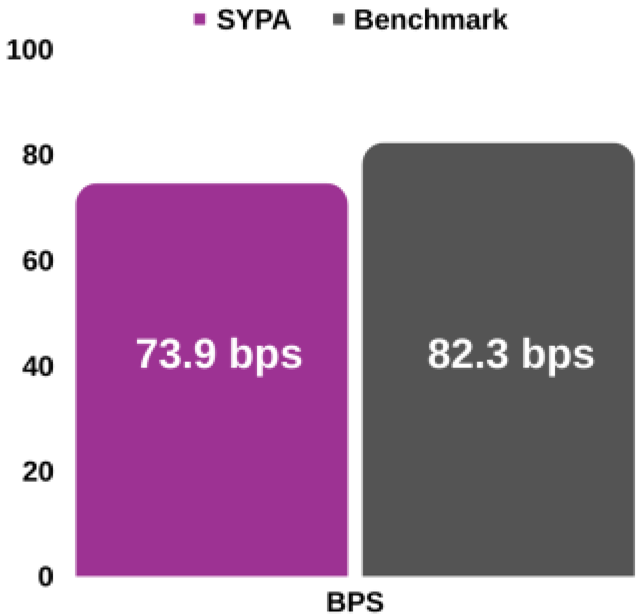
Investment

5.5 SYPA has participated in the CEM investment benchmarking since 2107. The report compares SYPA to a group of 6 other larger LGPS funds and 39 other global pension funds including both public and private sector funds. The average fund in this peer group has assets of £9.7bn compared to SYPA’s assets for the purpose of this exercise of £9.9bn. CEM also have a wider LGPS universe of 34 funds which is used for some LGPS only comparisons. This includes 10 of the 11 Border to Coast funds and a statistically significant proportion of the other pools except for Wales and the London CIV. The graphic below sets out key highlights from the report which was the subject of a separate briefing for both Authority and Local Pension Board members with the full report available in the online reading room.

Investment

Lower Cost

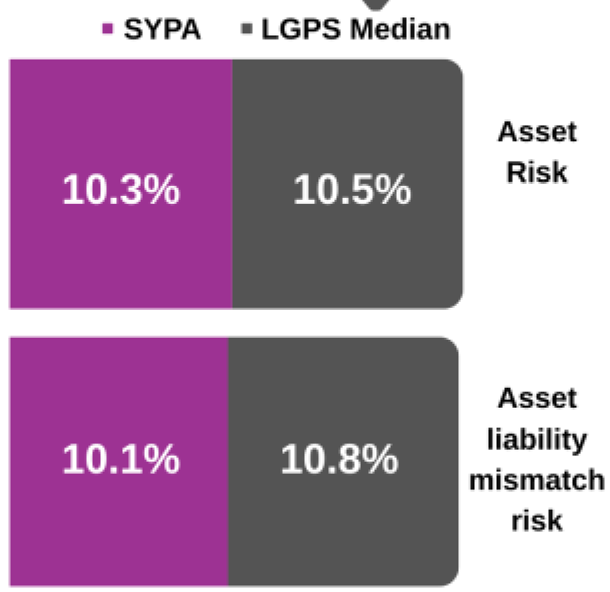
bps = basis points
or 0.1%
100 bps = 1%



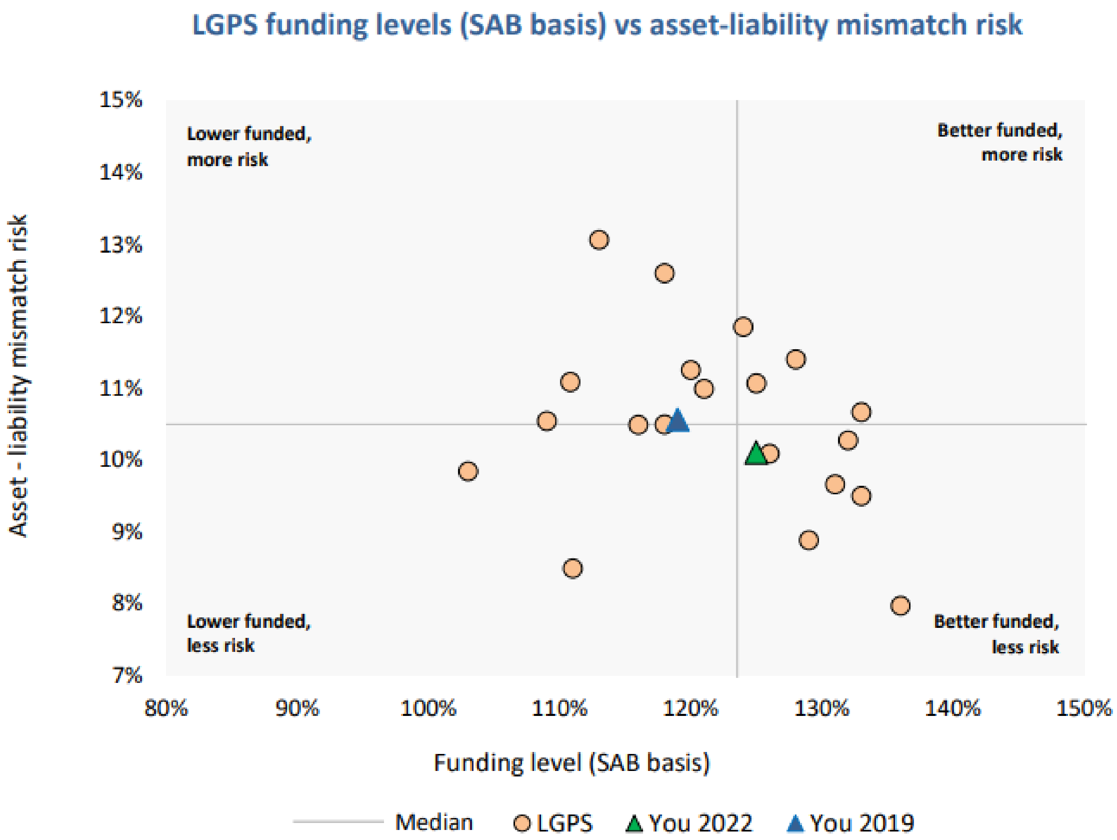
Positive Performance

Over 5 years we have achieved Net Value Added of 0.9% which equals £437m

Lower Risk

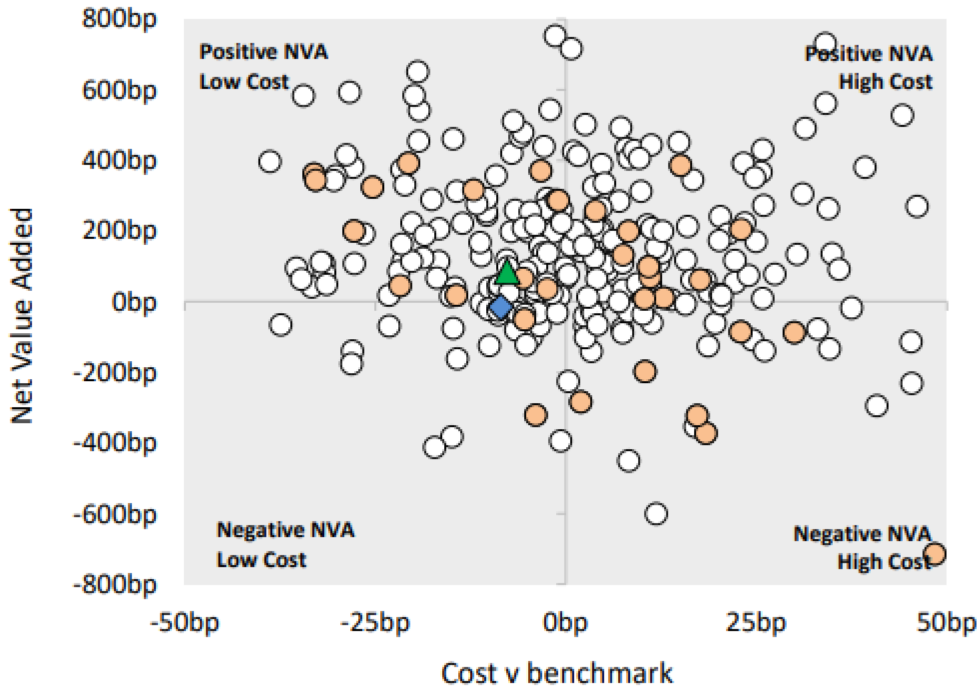


5.6 The key conclusions which can be drawn from the report are also summarised in the charts below. Firstly, SYPA is better funded with less risk when compared to the other LGPS funds which participated in the survey in both 2019 and 2022 and shows that as the SYPA funding level has increased the level of risk taken has reduced, in line with the intentions set out in the review of the investment strategy.

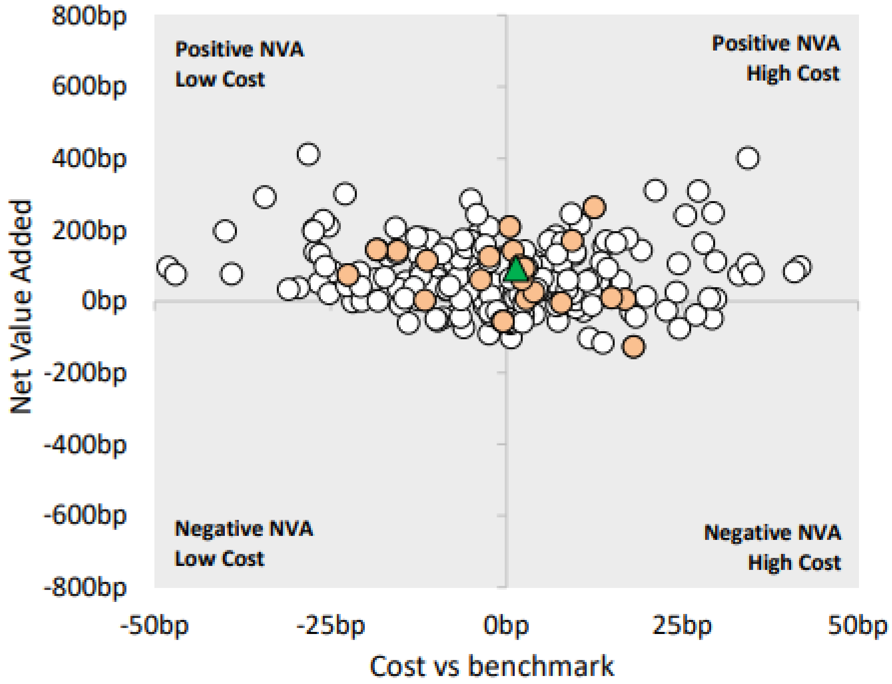


5.7 The other key conclusions from this survey relate to value for money. Here the position differs between the one-year picture and the longer term 5-year picture. The longer-term picture is very significantly influenced by the high level of performance fees paid for private market investment in the 2021 survey. In both cases though the charts below indicate that the Fund is delivering positive value added through both its investment strategy and its implementation choices. The 5-year cumulative net added value is c£437m of which pooled assets have contributed c£55m This reflects the fact that much recent performance has been driven by the legacy alternatives portfolio rather than listed assets which are managed through the pool and also that fixed income assets within the pooled assets have had significantly negative performance although less so in two of the pooled products than the market generally.

(Your 2022/23: net value added 86.0 bps, cost savings 7.7 bps)



(Your 5-year: net value added 93.0 bps, cost 1.4 bps)



5.8 Other key conclusions are that:

- SYPA has a higher cost implementation style compared to other LGPS fund. This is a function of a significantly greater allocation to alternatives than the average

LGPS fund. As previously reported alternatives are significantly more expensive than listed assets.

- In aggregate SYPA pays less than LGPS peers for similar assets. This is likely in part to be a function of scale relative to LGPS peers but could also relate to implementation style for some asset classes such as property where direct ownership rather than investment through funds reduces costs and the use of Border to Coast's lower cost internal funds.
- Pooled assets saved 8.5bps relative to LGPS peers. This is likely to be almost entirely dure to the lower costs of Border to Coast's internally managed funds.
- Compared to the wider universe SYPA's investment costs increased over the five-year period by less than expected by 20.1 bps compared to an expectation of 29.3bps based on the changes in asset mix over the period.

5.9 These data broadly support the conclusion that Border to Coast which manages over 70% of the Fund is delivering value for money and that the investment strategy is succeeding in delivering positive value added and reducing risk. Some of the more granular information in the full CEM report will support the Investment Advisory Panel's annual review of Border to Coast.

Conclusion

5.9 The overall conclusion from the two benchmarking exercises is that broadly the Authority continues to be able to demonstrate that it is delivering value for money across its administration and investment activities.

6 Implications

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

Financial	None directly, the costs of participating in benchmarking exercises are provided for in existing budgets. The fact that the results demonstrate broadly positive value for money will contribute to the evidence base for the external auditor's value for money conclusion.
Human Resources	None
ICT	None directly.
Legal	None
Procurement	None

George Graham

Director

Background Papers	
Document	**Place of Inspection**

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Update on Pensions Administration Improvement Plan**	**Status**	For Publication
Report to	Authority	**Date**	14 March 2024
Report of	Assistant Director - Pensions		
Equality Impact Assessment	Not Required	Attached	
Contact Officer	Debbie Sharp, Assistant Director Pensions	**Phone:**	012260666480
E Mail:	dsharp@sypa.org.uk		

1 Purpose of the Report

1.1 To update the Board on the Pensions Administration Improvement Plan.

2 Recommendations

2.1 Members are recommended to:

a. **Note and comment on the plans for Administration improvement that are being put in place.**

3 Link to Corporate Objectives

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

Customer Focus

To design our services around the needs of our customers, whether scheme members or employers.

Listening to our stakeholders

To ensure that stakeholders' views are heard within our decision-making processes. The report includes information about the engagement with the employers in the scheme and how SYPA can support them to complete their responsibilities.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times. The report includes detail on the overall administration performance to ensure Members are able to scrutinise the service being provided to our customers.

Valuing and engaging our Employees

To ensure that all our employees are able to develop a career with SYPA and are actively engaged in improving our services.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report seek to address operational risks around data quality and backlogs in work (O2 and O6) and the people risks around vacancy levels and single points of failure (P1 and P2). The key mitigants of these risks identified are the plan to address backlogs on a systematic basis and the recruitment to new roles approved by the Authority which will increase the resilience of the team and ensure that there are sufficient resources to handle incoming work.

5 Background and Options

5.1 The Assistant Director Pensions took up role in November 2023. A revised Pension Administration structure has been agreed and the latest Corporate Plan introduced an Administration Improvement Plan. The Plan is a series of interlinked activities, intended to address long standing issues, which have affected the underlying performance of the administration service, and to place the service on a stable and sustainable basis. The plan was influenced by;

- Changes in the nature of the scheme caused by regulatory changes which will require the recalculation of benefits in payment and entitlements for a sizeable proportion of scheme members.
- The need to address the long-standing backlogs and process issues within the administration service.
- Developments within the Local Government Pension Scheme and the wider pensions industry such as the Pensions Dashboard.
- Technological developments.
- Feedback from stakeholder groups, including scheme members, employers and our staff.

This programme of work incorporates the need also to address things over which the Authority has no choice, such as the need to implement the changes in the pension regulations arising from various legal challenges related to discrimination based on either age or gender. These plans represent a significant volume of work for the team over a number of years and must not be underestimated.

5.2 The Administration Improvement Plan is to deliver:

A1 – Improvements in Data Quality

A2 – Recruit to the Pensions Administration structure approved at the end of 2023.

A3 – System Improvements to ensure that the Authority is making the best use of technology.

A4 – Clear backlogs

A5 – Implement the McCloud Remedy

A6 – Successfully link SYPA to the Pensions Dashboards

5.3 The Plan is currently being shaped and is in its infancy. Future Board reports will include monitoring updates. Actions taken since December 2023 on each area of improvement include the following.

SOUTH YORKSHIRE PENSIONS AUTHORITY

5.4 A1 - Improvements in Data Quality

The Pension Regulator (TPR) data scores were provided in the TPR Annual return in January 2024. The scores had improved since last reported;

	TPR Scheme Return	TPR Scheme Return
	2022	2023 (25.01.24)
Common Data	97%	97%
Scheme Specific Data	94%	96%

A Data Improvement Plan is being drawn up. This will focus on overall data improvements not just TPR scores. Future priority areas are still to be identified but for 2024 the current priority is to complete the GMP reconciliation and rectification project. The Data Improvement Plan will be reported to Board at a future meeting.

5.5 A2- Recruit to the Pensions Administration structure approved at the end of 2023.

The recruitment campaign has commenced. Currently advertisements are live for the 2 vacant Service Manager posts, Employer Services Manager and Technical Support Manager. A training plan will then be arranged, and the new Benefits operation team recruited to over the summer.

5.8 A3 – System Improvements - ensure Authority is making the best use of technology.

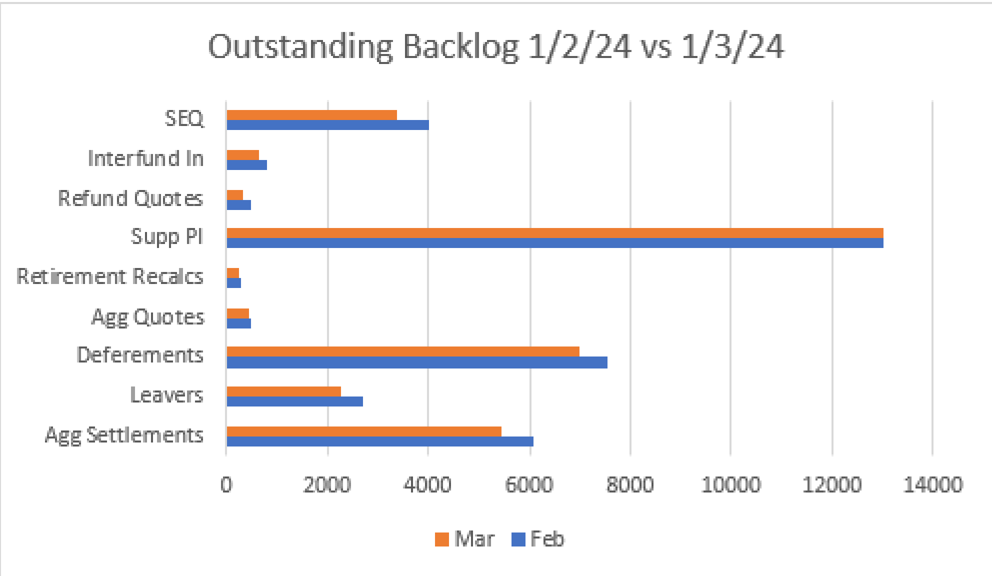
An audit of how the Authority uses the Civica, UPM Administration system has been organised. It is scheduled to be undertaken across March 2024. The audit outcome will help shape a System Improvement Plan along with a review of the operational workflows and an overhaul of performance reporting. Team plans are being put in place for all 4 Teams across Pensions to ensure improvements are delivered along with the improvements.

5.9 A4 – Clear backlogs.

A plan was introduced during February and monitoring has shown a 7.4% reduction in the backlog in this first month. Close monitoring will keep track on current workloads. There is a risk that these increase backlogs prior to the recruitment drive in 5.5 above. It is hoped that the outstanding supplemental Pension Increase payments may not have to be done completely manually. Options are being investigated. SEQ in the chart below, are Standard Employer Queries. This is where information is missing from the employer which means the team have been unable to close the record correctly. Internal guidance is being written for the Team, to enable them to calculate the missing piece of information where possible i.e. Final pensionable pay, leaving date, and calculate the correct benefit and close the record. Progress will be reported to Board on a quarterly basis going forward.

Examples of reporting monitoring;

1 Feb 24-29 Feb 24	Est Hours	Act Hours	Difference	Est Vol	Act Vol	Difference	O/S Feb	O/S Mar	Difference
Agg Settlements	540	373	**-167**	1080	600	**-480**	6059	5459	**-600**
Leavers	30	78	**48**	600	426	**-174**	2692	2266	**-426**
Deferments	30	28	**-2**	200	558	**358**	7536	6978	**-558**
Agg Quotes	30	44	**14**	82	56	**-26**	508	452	**-56**
Ret Recalc	30	23	**-7**	90	29	**-61**	287	258	**-29**
Supp PI	0	0	**0**	0	0	**0**	13000	13000	**0**
Refund Quotes	30	28	**-2**	95	158	**63**	471	313	**-158**
Interfund In	30	4	**-26**	120	163	**43**	822	659	**-163**
SEQ	0	0	**0**	0	627	**627**	4001	3374	**-627**
Total	**720**	**578**	**-142**	**2267**	**2617**	**350**	35376	32759	**-2617**



5.10 A5 – Implement the McCloud Remedy.

When the Government reformed public service pension schemes in 2014, for the Local Government Pension Scheme (LGPS), and 2015 for all other public services, transitional protections were introduced for older members. In the LGPS the transitional protections are known as the underpin. In December 2018, the Court of Appeal ruled that younger members of the judicial and firefighters' pension schemes had been unlawfully discriminated against because the protections did not apply to them. This ruling is called the McCloud judgment. All public service pension schemes that provided transitional protection, including the LGPS, must extend the protections to all affected by the judgment to remove the age discrimination found in the McCloud court case.

Implementing the McCloud remedy has been described as **the biggest challenge to face the LGPS** since the introduction of the CARE scheme in 2014. It is a multi-faceted project that will require considerable resource and it will take considerable time to complete the rectification work required as a result. The Authority must identify all qualifying members, including those who have left since 2014, and who did not qualify for the previous underpin, to recalculate their benefits. The Authority will also have to revisit those members who did qualify for the original underpin to see whether they are affected. That is because the original underpin regulations were not detailed enough to ensure all protected members received a CARE benefit which was at least as good as the final salary benefits would have been. The new underpin regulations include more detail to ensure it is consistently applied to all members. The Authority will need to include information about underpin protection for all qualifying members in Annual Benefit statements (ABS) from 2025.

Members will understand, managing the work required to comply with McCloud will be a significant undertaking for the Authority and may inevitably have an impact on service levels and the Authority's ability to meet existing priorities, such as clearing historic backlogs.

5.11 A6 - Successfully link SYPA to the Pensions Dashboards.

Awaiting a demonstration from Administration software provider of their offer, prior to testing the market for suppliers. There is a considerable amount of work to be completed for the Authority to prepare for dashboards, both for the initial connection to the dashboards and the ongoing business as usual once the dashboards are live.

6 Implications

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

Financial	The costs from the improvements being implement have been included in the Authorities approved budget. The cost of overtime is being monitored on a monthly basis. Procuring an ISP to connect SYPA to Pensions Dashboards will increase costs.
Human Resources	The recruitment to the agreed revised structure may lead to further recruitment requirements. All new recruits will also require training.
ICT	None
Legal	None
Procurement	An ISP provider will need to be procured to connect to the Pensions Dashboards programme.

Debbie Sharp
Assistant Director Pensions

Background papers	
Document	**Place of Inspection**
None	

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	Procurement Forward Plan	**Status**	For Publication
Report to	Pensions Authority	**Date**	14 March 2024
Report of	Team Leader Governance		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	Annie Palmer Team Leader Governance	**Phone**	01226 666404
E Mail	APalmer@sypa.org.uk		

1. Purpose of the Report

1.1 To present the Authority's Procurement Forward Plan to members for approval.

1. **Recommendation(s)**

2.1 Members are recommended to:

a. Approve the Procurement Forward Plan 2024 to 2026 presented at Appendix A.

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.

3.2 The monitoring and planning of future procurement activity is part of meeting good governance requirements, particularly relating to procurement and financial management, and also ensures greater transparency.

4. Implications for the Corporate Risk Register

4.1 The contents of this report do not link to a specific risk in the corporate risk register.

5. Background and Options

5.1 The Authority's Contract Standing Orders (CSO's) sets out the framework in which the Authority complies with public contracts regulations. The CSO's capture the requirement to publish details of all contracts over a certain value threshold, and this is managed via the e-tender system and associated contracts register, which is publicly available via the system.

5.2 Although the processes in place for financial and strategic planning have always taken account of planned requirements for contracts and procurements, we have not previously prepared and published a separate procurement plan. This was highlighted by the corporate assurance team during a recent internal audit review of the Authority's procurement procedures. Whilst the Authority does not undertake a significant amount of procurement activity, due to our size and scale, the absence of a procurement plan is nevertheless considered a gap that should be addressed to ensure appropriate controls and transparency. Therefore, a management action was agreed to produce a forward plan covering a 3 year rolling programme to be approved annually by the Authority.

5.3 The aim is for this forward planning to align with the Authority's strategic and financial planning framework to contribute to the delivery of strategic objectives and facilitate compliance with legislative and regulatory requirements. In future years, the procurement plan will be taken to the February meeting of the Authority alongside the rest of the corporate strategic framework.

5.4 The Procurement Plan at Appendix A sets out the planned procurement activity that has been identified for the forthcoming three-year period.

5.5 The plan will be kept under review throughout the year. This initial plan is based on requirements identified from the existing contracts register, relevant end dates of current contracts where a renewal or retender will be required, and known requirements for any new purchases with a minimum value of £20,000, inclusive of VAT.

5.6 During the year, the Governance Team will carry out a detailed monthly review of the contracts register and of information held on the e-tendering system to ensure accuracy of published information. If this identifies any new contracts / contract renewals, these will be added into the plan.

5.7 The team will also co-ordinate a quarterly review of the procurement plan by key officers with relevant responsibilities to highlight any new requirements that need to be considered and planned.

5.8 The updated procurement forward plan will be brought to the Authority on an annual basis for approval in February each year.

6. Implications

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

Financial	No additional financial implications. Financial implications relating to specific contracts / purchases will be taken account of through the budget setting and monitoring arrangements and individual business cases where appropriate.
Human Resources	None
ICT	None
Legal	None
Procurement	The implementation of the Procurement Forward Plan will further strengthen the Authority's compliance with public contracts regulations.

Annie Palmer

Team Leader Governance

Background Papers

Document	Place of Inspection
None	-

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Forward Procurement Plan 2024/25 to 2026/27
Contract Value of £20,000 or more inclusive of VAT

Service Area	Contract Title	Project Reason New Requirement Contract Expiring	Estimated Procurement Start Date	Estimated Contract Start Date	Estimated Contract Length (In months) Including any agreed extensions	Estimated contract value	Planned Procurement Route
ICT	eBackup Solution	Existing Contract Expiry	Mar-24	25/04/2024	36	£47,428.00	Framework
ICT	Email Protect and Workspace	Existing Contract Expiry	Aug-24	30/09/2024	12+12	£20,000.00	Framework
Customer Services	Hybrid Mail Solution	Existing Contract Expiry	Sep-24	03/11/2024	36	£72,000.00	TBC
ICT	M365 E5 3 Year Subscription	Existing Contract Expiry	Aug-26	01/10/2026	36	£180,000.00	Framework
ICT	AppCheck Subscription Agreement	Existing Contract Expiry	Aug-26	01/11/2026	36	£16,250.00	Framework
Pensions Administration	Actuarial Services	Existing Contract Expiry	9 months prior to expiry	TBC	60 (+ 48)	TBC	Framework
ICT	Cyber Security Management - Software and Training Tool	Existing Contract Expiry	Jan-25	22/02/2025	36	£55,000.00	TBC
Finance	Finance Management System	Existing Contract Expiry	Aug-24	20/11/2024	48	£160,000.00	Framework
ICT	Telephony	Existing Contract Expiry	Jul-25	12/09/2025	48	£91,000.00	TBC
ICT	Internet Provider	Existing Contract Expiry	Oct-26	22/12/2026	60	£35,000.00	TBC
ICT	Backup Line for Telephony / Broadband	Existing Contract Expiry	Nov-27	25/01/2027	60	£20,000.00	TBC
ICT - Operations	Facilities Management Service Contract	Existing Contract Expiry	9 months prior to expiry	TBC	24 (+36)	£500,000.00	Framework
Governance & Corporate	Performance and Risk Management System	Existing Contract Expiry	9 months prior to expiry	TBC	36 (+24)	£40,000.00	Framework
Investment Strategy	Local Housing Investment Manager	New Requirement	Commenced	01/05/2024	TBC - min 60 with option to extend	£1,000,000.00	FTS - Above Threshold
Resources	HR and Staff Payroll System	New Requirement	April - June 2024	July - Sept 2024	36 + 24	£75,000.00	Framework
ICT	Pensions Administration Software System	Existing Contract Expiry	Mar-26	13/02/2027	60	£1,000,000.00	Framework

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Appendix A

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

Agenda Item 18

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