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SOUTH YORKSHIRE PENSIONS AUTHORITY

13 FEBRUARY 2025

PRESENT:
Councillor Jayne Dunn (Chair)

Councillors: Roy Bowser, Simon Clement-Jones, Neil Wright, Alexi Dimond, John Mounsey, David Nevett, Andrew Sangar, Craig Gamble Pugh, Neil Wright and James Church

Non-Voting Co-Opted Members: Nicola Doolan-Hamer, Garry Warwick and Phil Boyes

Officers: George Graham (Director), Gillian Taberner (Assistant Director - Resources & Chief Finance Officer), William Goddard (Head of Finance and Performance), Andrew Stone (Assistant Director – Investment Strategy), Jo Stone (Head of Governance and Corporate Services), and Gina Mulderrig (Governance Officer)

Apologies for absence were received from: Councillor Donna Sutton

1 APOLOGIES

The Chair welcomed everyone to the meeting.

Applogies were noted as above.

2 QUESTIONS FROM THE PUBLIC

Questions were received from Mrs S Owen and Mr S Ashton. The Director replied on behalf of the Authority.

Written copies of the questions and responses were given to the questioners.

The written replies are attached as appendices to these minutes.

3 ANNOUNCEMENTS

The Director announced that SYPA had been accredited under the UK Stewardship Code, which recognises high standards in investment principles and corporate governance and promotes the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment, and society. The Chair thanked officers for their work towards gaining accreditation.

The Chair announced that she had attended the LGA LGPS Conference in January 2025 representing SYPA and reported that it had been a useful and productive conference covering multiple issues, particularly the implementation of outcomes arising from the Government's Fit for the Future consultation.

4 URGENT ITEMS

None.

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

None.

6 DECLARATIONS OF INTEREST

None.

7 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

The Chair announced that a motion in relation to Responsible Investment had been received by Sheffield City Council and that she will feedback the details to Authority when available.

8 MINUTES OF THE MEETING HELD ON 12.12.2024

RESOLVED: That the minutes as presented for the Authority Meeting held on 12 December 2024 are a true and accurate record.

9 CORPORATE PLANNING FRAMEWORK 2025 - 2028

The Director introduced the context of the refresh of the Corporate Planning Framework and the Assistant Director – Resources presented the report and sought members' consideration and approval for the triennial detailed refresh and update of the complete corporate planning framework.

Members asked how and when the Authority planned to engage with stakeholders regarding the Investment Strategy and other decisions.

The Director explained that a questionnaire regarding Responsible Investment and Environmental, Social and Governance matters in relation to SYPA's investments had been developed by an independent market research company and would start to be circulated to all scheme members, active, deferred and pensioners, on a phased basis from 19 February 2025. The Director explained that an independent market researcher was being used to ensure the questions held no bias in favour of the Authority and because they had the technology and expertise to analyse the responses thoroughly and effectively. A report on the results will be presented to the Authority when ready and the Director agreed to circulate a blank version of the survey to all members following the meeting for reference.

The Director explained that a different strategy was required to consult with employers as they have different priorities to scheme members regarding the Investment Strategy. It was explained that engagement was on going and in progress and that close communication between SYPA and employers would continue through to the finalisation of the valuation of the fund in December 2025.

Members queried whether the action to develop and deliver an Environmental Sustainability plan referred to a new or existing plan and asked for further information on the indicators for success in responsible investment (the trend in level of carbon emissions and in the ESG score from equity portfolios compared to benchmark indices) as noted in the Investment Strategy.

The Assistant Director – Resources stated that the Environmental Sustainability plan was a new plan, yet to be started, regarding how SYPA operate as an organisation. It was explained that the Net Zero goals related to investments only and that this plan would look at metrics to measure sustainability of SYPA as an organisation.

The Assistant Director – Investment Strategy explained that indicators for Responsible Investment were covered in quarterly reports including information regarding the investments held by Border to Coast Pensions Partnership and the metrics regarding carbon emissions and carbon intensity. It was explained there was a formalised scoring mechanism to gauge the ESG score which shows absolute performance and performance in relation to benchmark indices along with tracking of progress.

Members noted the action to implement the outcomes arising from the Government's Fit for the Future consultation and asked if SYPA had adequate resources to cope with the potential workload.

The Director explained that the workload and the pressure on SYPA would depend on how the Government resolves to enforce implementation of the changes. It was explained that a legal mandate to force changes would add pressure but that a more likely outcome would the continuing development of products and opportunities in line with the changes giving funds the opportunity to evolve with less pressure on resources. It was also explained that any pressure from the Government would be more aimed at the pooling companies than administering authorities. The Chair added that implications of the outcomes were a primary concern throughout the industry but noted that SYPA was in a stronger position than many as its governance and investment plans were already aligned with the proposed changes.

Members noted the aim in the Pension Administration section of the plan to clear the remaining backlogs of casework by the end of 2025 and asked if this goal was realistic. Members also noted the Data Quality Improvement Plan and the action to ensure the administration software system was kept up to date and questioned how the systems would be kept updated and asked whether Artificial Intelligence (AI) could assist with the actions.

The Director explained that 62% or the backlogs had already been cleared and that officers remained confident they would be cleared by the end of 2025. The Assistant Director – Resources explained that the Data Quality Improvement Plan would focus on data supplied by employers and ensuring that it is accurate. It was noted that good contract management with the software supplier was necessary along with internal ICT and Systems teams working closely with the Administration team to ensure the software system was continually developed and its functionality used to the optimum. It was stated that introducing AI to assist with these actions was a possibility but that security remained the priority and that the benefits would be weighed against the risks when next reviewing the ICT Strategy.

Members drew attention to the gender pensions gap as mentioned in the strategy and asked for a summary of any actions taken on the issue.

The Assistant Director – Resources explained that industry bodies were analysing the issue and that it was a developing area of concern but no actions had yet been taken. The Director added that while the gap could be measured and seen, SYPA was very limited in what it could do due to legacy legislation and societal trends. It was explained that this issue would be monitored, and developments noted but that the Authority could do little in isolation and that continuing societal change and better education around pensions would eventually lead to changes in the gender pensions gap.

Members drew attention to the part of the report that noted that there were significant risks for the Authority as SYPA was a unique institution which could make it a target in any consolidation debates and asked officers for further detail on the risks.

The Director clarified that there were risks and these were noted in the Corporate Risk Register but that equally the SYPA model might be how wider consolidation could occur. It was explained that the Senior Management Team had met with Government Officials to explain how the Authority works and the challenges and benefits of such a model.

The Assistant Director - Resources presented the People Strategy. Members queried whether the budget for Health, Safety and Wellbeing was sufficient given the size of the workforce. The Assistant Director – Resources explained that the budget was kept under review but that calculations had been based on previous years and it was believed to be adequate.

Members noted that SYPA has 66% female staff but that only 50% of the top earners were female.

The Assistant Director – Resources acknowledged the difference and explained that the gender pay gap is closely monitored and published yearly but that work is ongoing to address the issue including group coaching for female staff and promoting internally where possible to naturally redress the balance.

Members acknowledged the need to recruit more black, Asian and minority ethnicities to more accurately represent the diversity in South Yorkshire and of scheme members.

The Assistant Director – Resources agreed and explained there were developments in progress to alter the recruitment procedure including using an external recruitment provider to reach a wider range of potential candidates and plans to look at targeted recruitment. It was explained that SYPA works with North Yorkshire Council when recruiting for senior posts which helps with reaching a more diverse pool of potential candidates.

The Chair suggested SYPA and the pensions industry at large target students at schools and colleges to present the benefits of working in the industry and assist in gaining a more representative workforce.

Members reflected on the membership of the Authority and that it could be more diverse and representative of scheme members. The Director explained that SYPA supported inclusivity and diversity and that this was thoroughly expressed to the South Yorkshire Councils when asking for Authority appointees. It was explained that the Authority was limited to membership of elected members from the South Yorkshire Councils and therefore more work needed to be done to encourage people from diverse backgrounds to stand for election and remove barriers to them doing so.

RESOLVED: Members
a. Approved the Corporate Strategy 2025 – 2028 at Appendix A and
b. Approved the supporting strategies 2025 – 2028 at Appendices B to D.

10 BUDGET 2025/26

The Head of Finance and Performance presented the Authority budget proposals for 2025/26 for approval.

RESOLVED: Members approved the 2025/26 budget for the Authority, a total of £9,050,830.

11 MEDIUM TERM FINANCIAL STRATEGY 2025/26 - 2027/28

The Head of Finance and Performance presented the Authority's Medium Term Financial Strategy 2025/26 to 2027/28 for consideration and approval.

Members queried what potential effect the policies of the new President of the United States of America might have on SYPA investments.

The Assistant Director – Investment Strategy answered that there were many variables to consider and that investments and the economy would be closely monitored for potential repercussions.

Members queried the management costs detailed in the report and asked whether these were fixed costs and what controls were in place to ensure value for money.

The Assistant Director – Investment Strategy explained that a benchmarking exercise is undertaken by an external provider to ensure all costs are acceptable and that they are challenged if not. It was explained that, as going forward most costs would be borne by Border to Coast Pensions Partnership, management costs will be driven down.

RESOLVED: Members approved the Medium Term Financial Strategy 2025/26 to 2027/28

12 TREASURY MANAGEMENT STRATEGY 2025/26

The Head of Finance and Performance presented the Treasury Management Strategy for approval.

RESOLVED: Members
a. Approved the 2025/26 Treasury Management and Annual Investment Strategy, and the treasury & prudential indicators set out in this report;
b. Approved the Treasury Management Policy Statement attached at Appendix B;
c. Approved the Treasury Management Practices attached at Appendix C; and
d. Approved the Minimum Revenue Provision statement as set out in this report.

13 PAY POLICY STATEMENT

The Assistant Director – Resources presented the report to secure approval of the updated Pay Policy Statement for 2025.

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

14 VALUATION 2025

The Director presented the report to agree the framework for setting contribution rates and associated actuarial assumptions to be consulted on with employers as part of the 2025 valuation process.

Members queried whether any significant economic events could take the adjusted funding level of 120% below 100%.

The Director expressed that a significant economic event could impact the funding level but that the Authority needed to remain in a risk-taking position to maximise returns while monitoring the market and managing risk as necessary.

Members acknowledged the positive funding level and queried whether SYPA could go further in the planned reduction of employer contributions, especially given that Local Authorities, a major employer in the scheme, were experiencing increased financial demands.

The Director recognised the financial difficulties faced by Local Authorities and explained there was scope for adjustment and nuance in the final contribution rates set, as well as the possibility of differentiating contribution rates to different employers. The Director advised a cautious approach adding that if contribution rates were cut too far, they may then need to be raised again and this would be harmful to employers and their budget management.

Members asked whether employee contribution rates might change. The Director explained that the LGPS set national employee contribution rates which are reviewed every 4 years and could only be changed with Government intervention so SYPA regarded employee contributions as fixed when making plans.

Members queried whether the positive funding level of the Authority might allow it to strengthen its Responsible Investment policies, for example by divesting from companies with low ESG scores.

The Director explained that the Authority’s priority remained maximising returns and servicing benefits but that Responsible Investment would continue to remain part of the Investment Strategy.

Members referenced the recent decision made by the Kensington and Chelsea London Borough Council to reduce employers’ contributions rate to zero with the reasoning that it was believed this would not materially affect the pension fund's position and asked whether this may lead to a similar decision in South Yorkshire.

The Director explained that the pension fund in question was currently over 200% funded so the temporary reduction of contributions would have a negligible effect, but that SYPA was not in the same position. It was also explained that the actuary to the aforementioned fund had not certified the reduction and that SYPA had taken legal advice and been advised not to set a rate that the actuary would not approve. The Director explained that pressure from Local Authorities to reduce rates was expected but that all recommendations in the report were made with all aspects taken into account.

Members referenced the South Yorkshire Mayoral Combined Authority consultation on bus franchising and the resultant potential changes that would open up the LGPS to more people and queried whether this could affect calculations made in the report. The Director explained that this would not affect the position of the Authority but would need to be looked at in more detail to gain data and determine any potential impact due to that particular employer.

RESOLVED: Members approved the framework set out in the body of the report for consultation with employers as part of consultation on the revised Funding Strategy Statement required as part of the valuation process.

15 PROCUREMENT FORWARD PLAN

The Head of Governance and Corporate Services presented the Authority’s Procurement Forward Plan to members for approval.

Members asked whether procurement policy was subject to the Responsible Investment policy and SYPA practised responsible procurement.

The Assistant Director – Resources explained that procurement was covered by Contract Standing Orders in the SYPA constitution which had been aligned with the Procurement Act (2023) due to come in to force on 24 February 2025. The Director added that SYPA’s procurement policy did not explicitly address responsible procurement but that regulations ensured procurement was done through detailed frameworks using an approved list of suppliers. Officers accepted that this approach could be strengthened and would be addressed in the Environmental Sustainability plan as part of the Corporate Strategy.

RESOLVED: Members approved the Procurement Forward Plan 2025 to 2028 presented at Appendix A.

16 DECISIONS TAKEN BETWEEN MEETINGS

The Head of Governance and Corporate Services detailed decisions taken as a matter of urgency between meetings of the Authority.

RESOLVED: Members noted the decisions taken between meetings of the Authority using the appropriate urgency procedures.

17 INDEPENDENT ADVISERS' OBJECTIVES

The Director presented the report and asked members to approve the objectives agreed with the Independent Investment Advisers

Members received the objectives noting that the Independent Investment Advisers were a useful asset to the Authority and that they welcomed the formalisation of their role.

RESOLVED: Members approved the objectives for the Independent Investment Advisers set out in the body of the report.

CHAIR

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Public Questions

Question 1 – Ms S Owen

The South Yorkshire Pension Authority Responsible Investment Policy states that 'all companies should abide by the UN Global Compact and the OECD Guidelines for Multinational Enterprises'.

Principal 2 of the UN Global Compact states that 'Businesses should ensure that their practices are not complicit in human rights abuses'

The OECD guidelines state that businesses must 'Avoid causing or contributing to human rights harms'.

Israel is now being investigated by the International Court of Justice for the crime of genocide. The International Criminal Court has issued an arrest warrant for the Israeli Prime Minister, Benjamin Netanyahu.

The International Court of Justice ruling of 19 July 2024 declared that Israel's occupation of the Gaza strip and the West Bank, including East Jerusalem, is unlawful, along with the associated settlement regime, annexation and use of natural resources. The Court also said that Israel is violating the international prohibition on apartheid.

The ICJ mandated Israel to end its occupation, dismantle its settlements, provide full reparations to Palestinian victims and facilitate the return of displaced people.

"States must immediately review all diplomatic, political, and economic ties with Israel, inclusive of business and finance, **pension funds**, academia and charities." https://www.ohchr.org/en/press-releases/2024/07/experts-hail-icj-declaration-illegality-israels-presence-occupied

The ICJ called for an arms embargo, **an end to all other commercial activities that may damage the Palestinians,** and sanctions against entities involved in illegal occupation, racial segregation and apartheid policies.

South Yorkshire Pension Authority has a number of investments in arms companies and other companies that have been identified by the United Nations as complicit in the crimes of apartheid and genocide. These investments cause financial risk and reputational damage to SYPA.

Can you identify what is the process for carrying out due diligence regarding human rights concerns prior to investing in these companies both for SYPA and your investments with Border to Coast? Have you identified which companies that SYPA invests in, are exporting military equipment or components for military equipment to Israel, and what is the value of the SYPA investments in these companies?

Response

SYPA does not directly own the shares and bonds of individual companies (or government entities). Rather, it invests through pooled funds managed by fund managers. In most cases the fund manager is the Border to Coast Pensions Partnership, one of 8 local government investment pools. Border to Coast is constituted as an FCA regulated company owned by 11 Local Government Pension Funds (known as the "Partner Funds") including SYPA.

Border to Coast have established due diligence processes for considering human rights issues and any reported human rights incidents relating to its holdings. It is worth noting that Border to Coast's funds are either managed directly ("internally") or by external fund managers who have been appointed by Border to Coast.

For Border to Coast's internally managed funds, new potential investments are assessed by the internal research team to identify financially-material ESG risk factors associated with a company. Material ESG risks would include human rights impacts. External data sources are used to investigate a company's human rights incidents. Human rights issues are considered alongside all material ESG factors in the investment team's decision-making process.

Border to Coast do not direct the individual investment decisions of its external fund managers. However, they regularly review and assess whether the external managers have adequate policies and processes to ensure that their investment decisions follow the principles of its responsible investment approach. Annual reviews question all of the external managers on how they specifically approach human rights risks and how they monitor and respond to arising controversial incidents, including incidents where companies infringe on human rights. For example, one of Border to Coast's data providers, MSCI, issues a Controversial Incident Red Flag where a company is reported to have potentially infringed on human rights. Border to Coast have an established monitoring process that identifies whether any of its holdings are flagged. The monitoring process triggers an investigation into the incident and its impact on the investment case for that company. Border to Coast also utilise human rights watchlist alerts in RepRisk to flag reported incidents of potential human rights infringements.

Border to Coast continues to develop its approach to assessing human rights related issues associated with the companies invested in. It is not feasible for Border to Coast to undertake due diligence on behalf of the companies invested in, and so the focus is to engage with those companies to set out expectations of the due diligence approach expected of them. Due to limitations in information availability and reliability, Border to Coast is unable to identify all holdings that may export military equipment or components for military equipment to Israel. Border to Coast therefore cannot quantify the value of investments in such companies either. However, Border to Coast does monitor its holdings, including those in the defence sector, for exposure to significant controversies using aforementioned sources such as MSCI and RepRisk. Exposure to the Israel/Gaza conflict has also been assessed specifically in order to understand the risks the holdings may be exposed to.

As fund manager, Border to Coast takes Environmental, Social & Governance (ESG) issues into account in line with a Responsible Investment Policy agreed between the 11 Partner Funds. The Responsible Investment Policy ensures the exclusion of financing to companies involved in the manufacture of controversial weapons considered to have an indiscriminate and disproportional impact on civilians during military conflicts. This includes not investing in companies contravening the Anti-Personnel Landmines Treaty (1997), Chemical Weapons Convention (1997), the Biological Weapons Convention (1975), and the Convention on Cluster Munitions (2008).

Other companies supplying arms will be doing so under the explicit terms of licences from the relevant government and it would be unreasonable (in terms of the legal principle known as Wednesbury reasonableness) to disinvest from a company acting with specific legal sanction.

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Border to Coast's Responsible Investment Policy also considers ESG issues in the context of risks posed to the value of an investment. One aspect of this is the materiality of such risks. It is unlikely that a multi-national company supplying a global market, for example, will receive material income from activity in Israel or the Palestinian territories.

Question 2 – Mr S Ashton

In South Yorkshire Pensions Authority's (SYPA's) Responsible Investment Update, Quarter 2, 2024/25, LAPFF's scrutiny of the Drax power station is highlighted (page 14).

The findings of this scrutiny, as stated in the update, are not positive including the fact that Drax is the UK's largest carbon emitter, uses wood from rare old-growth forest in Canada (offsetting this with pine monoculture), relies heavily on government subsidy and has been fined £25 million for misreporting biomass data.

It goes on to say that *'challenges to Drax's BECCS model include wood pellet supply, ecological impacts, water use, and the need for toxic chemicals. High subsidy demands raise issues of nationalization, especially given questions about BECCS's actual emissions reduction capabilities. Meetings with Drax's CFO and other leaders are planned to address these concerns.'*

On top of this, using biofuels does not reduce CO_2 in the atmosphere immediately, with the payback time for the carbon debt for using wood as a fuel ranging from 44–104 years after clearcut, depending on forest type and assuming the land remains forest (reference supplied below). This timeframe is too long for any net zero targets.

((PDF) Does replacing coal with wood lower CO2 emissions? Dynamic lifecycle analysis of wood bioenergy)

In light of this and the authority's ambition to be net zero by 2030 we would hope that the authority doesn't have any investments in Drax. However, to clarify whether this is just an update on LAPFF activity in general or is pertinent to SYPA, can you please confirm if:

- SYPA has any investments in Drax power station and, if yes, what is the value of the investment?
- Whether the reason for inclusion in the updates is because you are considering investing in Drax?

Response

SYPA has no exposure to Drax Group PLC the update was to highlight the positive activity that LAPFF has undertaken on behalf of its members, of which SYPA is one.

Border to Coast's investment process is underpinned by a philosophy of investing in companies that generate high and sustainable returns and whose prospects are undervalued by the market. Responsible investment considerations are an important component of this consideration.

Though Border to Coast do not currently intend to invest in Drax, they are always looking at, and assessing, all investment opportunities to determine whether they represent an opportunity that is consistent with this approach. Over the twenty years since its listing, Drax has delivered poor returns and with significant volatility. This is consistent with a company that is highly reliant on regulation, subsidies, and volatile power prices.

Border to Coast are aware of the controversies surrounding Drax's closure of its coal powered plan in 2023 and its conversion to a biomass/pellet-based solution. The change in its energy mix to one that is dominated by biomass generation and hydro/pumped storage has meant that it is not captured by Border to Coast's policy restricting investments in thermal coal-based power production. Despite not having an explicit restriction, concerns over its procurement of biomass (wood pellets) combined with its reliance on subsidies are a concern to the sustainability of the returns that must be taken into consideration when investing for the long term.