SOUTH YORKSHIRE PENSIONS AUTHORITY

8 DECEMBER 2022

PRESENT: Councillor J Mounsey (Chair)

Councillors: R Bowser, S Clement-Jones, S Cox, B Curran, A Dimond, D Fisher, D Nevett, A Sangar and M Stowe

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

Investment Advisors: A Devitt and T Castledine

Officers: J Bailey (Head of Pensions Administration), J Stone (Corporate Manager - Governance), G Graham (Director), S Smith (Head of Investments Strategy), G Taberner (Head of Finance and Corporate Services) and R Green (Business Support Officer)

Jane Firth (Border to Coast Pensions Partnership Ltd)

Apologies for absence were received from Councillor M Havard, G Warwick and G Richards

1 APOLOGIES

The Chair welcomed everyone to the meeting.

Apologies were noted as above.

2 ANNOUNCEMENTS

None

3 URGENT ITEMS

Two members of the public, Mr Henshaw and Mr Ashton were present to ask questions directly to the Authority. A copy of the question and the written response is available in the appendixes of the minutes.

Mr Ashton asked a supplementary question: With the Government opening a new coal mine, how can the Authority claim that engagement with companies is an effective course of action?

G. Graham replied: The Authority's Annual Report shows the progress that has been made via engaging with companies, but clearly there is more to do. In addition all of this activity has to be set in the context of the primary duty of the Authority to ensure the fund has funds available to pay pensions when due.

The Chair reiterated the Authority will ensure its voice is heard in Border to Coast discussions on these issues.

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

RESOLVED – That item 16 ‘Border to Coast Governance Review’ and item 17 ‘Debt Write Offs’ be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST

G. Graham declared an interest on behalf of J. Stone in regards to agenda item 14.

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

None

7 MINUTES OF THE MEETING HELD ON

RESOLVED – That the minutes of the meeting held on 8th September 2022 be agreed as a true record.

8 CORPORATE PERFORMANCE REPORT - Q2

Members considered the Corporate Performance Report for Quarter 2, 2022/23.

Headlines included:

- The fund maintained a strong funding level despite market conditions.
- Customer feedback positive review ratings have fallen below 90%.
- Costs, including pay pressure, is being maintained within budget.
- Increase in sickness levels
- Delays to a small number of Corporate Strategy projects that need to be rephased.
- The review of the Risk Register has provided assurance of mitigation actions being effective and resulted in reduced current score on some risks.

A. Dimond asked about the current funding level showing as over 150% of requirement.

G. Graham replied this was something of a statistical anomaly due to the timing of recording of the figures and the impact of gilt yields on the liability valuation, while subsequent events have reduced the level back to between 119% - 150%. The key message being that the funding level is strong

D. Nevett asked about the review of assets held in the legacy portfolio. What is the trajectory of pooling the assets?

S. Smith advised the this will be a medium-term project. The properties are projected to move over in the next couple of years. The infrastructure assets could take up to 10 years.

G. Graham added that some assets held by the fund have no pooling option and up to 5% of the total fund assets can be held outside of the pool.

9 APPROVAL OF THE LEVY

G Taberner introduced the annual report seeking approval of the Levy for 2023/24 under the Levying Bodies (General) Regulations 1992.

It was noted that the 2023/24 Levy had been calculated as £353,000 minus a forecast balance of £28,388 leaving a balance of £324,612.

D. Nevett asked if the levy had a specific end date when it would no longer be needed?

G. Taberner replied it will decrease as more members die but will obviously be a gradual process.

A. Dimond asked if the funding level was impacted the levy?

G. Graham confirmed these are unfunded legacy liabilities so are not affected by current funding levels.

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

10 ADVISERS COMMENTARY

A Devitt provided a market commentary on recent events.

Highlights since the last update included:

- **Inflation remains at the front and centre of government and household concerns**, and in September rose to a 40 year high, rising 10.1% (CPI). As levels stay around high single digits or even double digits in Europe and the US, there are nevertheless some signs of it faltering.

These are signs that the unemployment rate in the US rose slightly (although is still historically low) while supply shocks seem to have played out and there is evidence that the supply of goods is not still seeing price hikes.

- **Interest rates continued to rise,** with the US Fed raising rates for the sixth time this year (75 bps) in November while the Bank of England raised its rates to 3%, its eighth consecutive rate rise and the largest (75 bps) since 1989. As noted earlier, some central banks are “blinking” in the lights of economic strains and not raising by as much as expected.

- **UK employment figures remain robust,** with unemployment numbers at multi-decade lows and at numbers not seen since 1974. This was partially driven by a lower participation rate, particularly as older workers stayed out of the work force and students choosing not to work.

- **GDP growth in the UK has been flatlining** – falling by 0.6% in September and 1% in August but after growth of only 0.1% in July.

- **The political environment remains fraught,** although the new Conservative government seems less wracked with drama than the previous one and there is clearly a strong desire for stability, from fellow politicians, the general public and market participants.

The following would be watched in the coming months.

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

  Tech as a Canary in the Coal Mine? During the recent layoffs, may tech executives noted with chagrin their recent overly exuberant hiring and growth expectations. It is true that they did contribute to a particularly frothy employment climate.

  It will be key to see if they have over-steered now, or only scratched the surface, and whether other industries follow suit. With the apparent shortage of labour in some areas and a challenge in hiring, how this all settles with respect to employment will be very interesting to watch.

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

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

11 INVESTMENT PERFORMANCE REPORT - Q2

S Smith presented the Quarter One Investment Performance report.

This quarter was another difficult quarter for markets. Developed market equities, emerging market equities, credit and sovereign bonds all fell as investors priced in further interest rate rises and an increased risk of recession.

The overall total of the fund dropped below £10billion at the end of September but had recovered by the end of November.

The overweight position to listed equity holdings reduced as part of the asset rebalancing requirement.

Within the commercial property portfolio two small holdings were sold.

There was also a liquidating redemption made from the SL Retail Property Unit Trust. This was offset by drawdowns on the CBRE loans that we have and into the residential funds.

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

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

For the quarter to the end of September, the Fund returned -1.1% against the expected benchmark return of -2.5%.

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

The UK equity portfolio showed outperformance of its benchmark this quarter and is now achieving its target return since inception.

The Overseas Developed Market portfolio continued its steady outperformance.

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

In respect to future outlook, risks of a global recession have intensified. High inflation and monetary tightening by central banks are leading to slowing growth.

The UK market has performed relatively better than other developed equity markets due to relatively high exposure to defensive stocks and commodities. It is accepted that we are already in recession and the fund will be looking to take profits as necessary.

For Overseas Equities, expect market conditions to remain volatile. Currently moderately overweight overseas equities although we are underweight emerging markets relative to benchmark.

Bonds are looking more attractive than in recent months. The fund has benefited from being underweight in bonds as rates have been increasing but there is now better value in them so will be rebalancing, with preference for index-linked bonds given our very underweight position.

The Chair thanked S Smith for the report.

12 RESPONSIBLE INVESTMENT UPDATE - Q2

G. Graham advised this was a much quieter quarter due to reduction of voting events at AGMs. The submitted report highlights the key votes Border to Coast have taken.

The funds property portfolio increased in rating to 3 stars on the benchmarking for Environmental Performance. This is a significant improvement.

Members sought further information on the process of engagement undertaken and how its effectiveness might be judged to which Mr Graham and Jane Firth from Border to Coast responded.

13 ANNUAL REVIEW OF BORDER TO COAST RESPONSIBLE INVESTMENT POLICIES.

Each year Border to Coast conducts a review of its Responsible Investment Policy and Voting Guidelines so that they can be updated for the following voting season. It is important to recognise these are all collective documents which represent the consensus position of the partner funds.

Inevitably, a degree of compromise is required in relation to the positions of the individual partner funds.

Jane Firth Head of Responsible Investment at Border to Coast presented the key changes to the various policies and explained the rationale for them.

Members in discussing the policies highlighted the potential issues arising from the fact that Border to Coast and the Authority have differing Net Zero goals, and the effectiveness of continued engagement with some companies. In addition the specific identification of human rights issues within the policies was welcomed.

RESOLVED:

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

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

Councillor Dimond and Councillor Curran dissented and asked that this be minuted.

Chair thanked J. Firth for the work undertaken by her team in this area.

14 APPOINTMENT OF MONITORING OFFICER

A report was presented recommending an appointment to the statutory role of Monitoring Officer following the departure of the current incumbent. In addition the report recommended the designation of an officer as Secretary to the Border to Coast Joint Committee.

RESOLVED:

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

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

15 GOVERNANCE UPDATE REPORT

A report for information only was presented updating members on various governance developments.

RESOLVED: The report was noted.

Exclusion of the Public and Press RESOLVED – That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act and the public interest not to disclose information outweighs the public interest in disclosing it.

16 BORDER TO COAST GOVERNANCE REVIEW

G. Graham presented a report to secure approval for revised governing documents for the Border to Coast Pensions Partnership following the completion of a governance review.

The proposed changes have all previously been supported by the Authority. Members to note Appendix D of the report, confirming there is no legal reason not to sign the documents.

RESOLVED:

a) Authorise the Director to agree further amendments to the draft documents set out at appendices A to C to accommodate any further requirements of the Financial Conduct Authority or drafting issues.

b) Subject to resolution a) above, to authorise the signing and sealing of the governance documents at appendices A to C on behalf of the Authority.

17 DEBT WRITE OFFS

G. Taberner presented a 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: Approve the write-off of debts amounting up to £52,650.03 including VAT.

Chair concluded the meeting.

18 APPENDIX A