SOUTH YORKSHIRE PENSIONS AUTHORITY

16 MARCH 2023

PRESENT: Councillor J Mounsey (Chair)

Councillors: R Bowser, S Cox, B Curran, A Dimond, D Fisher, M Havard, A Sangar, M Stowe and G Weatherall

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

Investment Advisors: A Devitt and T Castledine

Officers: G Graham (Director), J Stone (Corporate Manager - Governance), S Smith (Head of Investments Strategy) and G Taberner (Head of Finance and Corporate Services)

Douglas Green, Steven Scott and David Walker from Hymans Robertson.

Apologies for absence were received from Councillor S Clement-Jones and Councillor D Nevett

1 APOLOGIES

The Chair welcomed everyone to the meeting.

Apologies were noted as above.

2 INTRODUCTIONS

The Director introduced N. Keogh who has joined SYPA as Interim Assistant Director – Pensions and S. Guhman, Service Director Legal and Governance at BMBC who has taken the role as Deputy Clerk.

3 URGENT ITEMS

A question from a member of the public, Mrs Milton was submitted. Mrs Milton was in attendance to ask her question in person and was answered by the Director. A copy of the question and written response are available in the appendices of the minutes.

The Director provided an update to Members on the implications to the fund from changes announced by the Chancellor in his latest budget.

The increase in the Annual Allowance means significantly fewer cases will need to be assessed and will see a reduction in the number of scheme members who incur a tax liability.

All LGPS funds will be required to move their listed assets into an investment pool by March 2025. SYPA is already compliant with this.

A target of minimum investment pool size of £50 billion has been set. The Border to Coast pool, of which SYPA is a member, already meets this threshold.

Cllr Stowe asked about the investment zone opportunities that were announced. The Director replied one of the 12 zones will be in South Yorkshire, with some focus on Net Zero and Green technology. Members may want to consider this when discussing Agenda Item 11.

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

RESOLVED – That item 16 ‘Directors Appraisal’ and Item 17 ‘Employment Matters’ be considered in the absence of the public and press.

The chair granted the non-voting members permission to remain in the meeting for the first of these items.

5 DECLARATIONS OF INTEREST

None

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

None

7 MINUTES OF THE MEETING HELD ON 09/02/2023

RESOLVED – That the minutes of the meeting held on 9th February 2023 be agreed as a true record.

8 Q3 CORPORATE PERFORMANCE REPORT 2022/23

The Assistant Director – Resources delivered the Quarter 3 Corporate Performance Report.

The key points to note were:

- SYPA is maintaining a strong funding level despite current market conditions.
- Costs are being maintained within agreed budget.
- Recruitment to positions agreed in the Resilience and Sustainability has begun.
- The Risk Register continues to be reviewed to provide assurance on the mitigation actions.
- Positive customer feedback has dropped below 90%
- There has been a significant decrease in the sickness absence level.
- A small number of Corporate Strategy projects have seen delays.
- Two new significant risks have added to the Risk Register. Mitigation actions have been identified.

The Chair asked about the risk identified on the potential effects of climate change. Why is the risk score so high, when the Authority is taking steps to attempt to mitigate this?

The Assistant Director replied the scoring is based on the potential of the risk happening and the impact it would have if it did. Both these criteria are currently judged as high, although the score has been reduced to take into account the decisions made by the Authority.

The Director added the risk is likely to remain judged as high for the foreseeable future, as SYPA can have little impact if acting alone. It will require global institutions such as the UN alongside individual governments to deliver significant progress for this to be reduced.

RESOLVED: Members noted, commented on and accepted the report.

9 QUARTERLY INVESTMENT PERFORMANCE REPORT 2022/23

The Assistant Director – Investment Strategy together with A. Devitt and T. Castledine (Independent Investment Advisors) delivered the quarterly investment performance report.

Councillor Sangar asked for clarification on the situation with SVB and Credit Suisse. Does it point to potential underlying issues with the banking sector?

A. Devitt replied she did not think so. However, it will likely lead to more regulation and oversight from governments and less risk taking by banks.

The Assistant Director – Investment Strategy reported on the investment performance for the last quarter.

Councillor Fisher asked a question about the challenges facing Emerging Markets and whether that could affect performance?

The Assistant Director replied the last quarter was impacted by a change in the zero covid policy in China. This had a very short-term impact and performance has improved in the last two months.

RESOLVED: Members noted, commented on and accepted the reports.

10 REVIEW OF THE INVESTMENT STRATEGY

A review by Hymans Robertson of the Investment Strategy following the 2022 Valuation of the Fund was presented by David Walker.

The key findings from the report were:

- The Fund was in a very strong position as at the March 2022 actuarial valuation with a funding level of 119%
- The Fund is currently net cashflow negative by around £130m p.a. in terms of benefits payments versus contributions (i.e. excluding investment income) and this position is projected to increase in coming years
- The asset liability analysis shows there is a very high likelihood of the funding level in 20 years' time being above 100% funded on the current investment strategy

- Based on the assets where information is available the Fund's current strategy is not expected to achieve net zero by 2030. The UK equity solution is the most well aligned to net zero of the Fund's strategies and the Multi-asset credit strategy the least well aligned. To achieve net zero by 2030 the Fund would likely have to consider a mix of options which could include investment in negative carbon investment solutions and alternatives to existing equity and credit solutions.

Councillor Dimond asked if in future reports, will it include actual emissions produced in addition to projected trajectories?

The Director replied under the forthcoming TCFD reporting guidelines, where this information is available, it will be provided on both a fund-by-fund basis and the portfolio as a whole

Councillor Dimond then asked if divestment from certain investments would be recommended to reduce omissions? It was explained that the review did not change the current policy in relation to engagement as opposed to divestment.

Councillor Sangar stressed the importance of ensuring Border to Coast as the pool we are invested in, understand the importance SYPA places on a 2030 and not a 2050 timeframe. Given that Global Equities are going to be net positive in emissions at 2030, the Authority will need to ensure we have net negative products to off-set them. Also, how can we ensure the opportunities provided by Border to Coast are going to be sufficient size and scale for SYPA to invest in?

Meetings have been held with Border to Coast and they are aware of the high importance SYPA places on the 2030 target and are working with us to provide opportunities to achieve it if possible.

RESOLVED: Members:

a. Note the work undertaken by Hymans Robertson to review the Strategic Asset Allocation.
b. Approve the proposed revised Strategic Asset Allocation.
c. Approve the revised Investment Strategy Statement at Appendix A incorporating the new Strategic Asset Allocation.

11 REPORT OF THE MEMBER WORKING GROUP - IMPACT INVESTMENT

The Director presented a report on the outcomes from the Member Working Group – Impact Investing.

The recommendations of the group are:

- The Authority should within its investment strategy commit to creating a place-based impact portfolio structured as set out on page 10 with an ultimate target allocation of 5% of the Fund's asset value, to be achieved by a process of earmarking parts of the relevant underlying asset class allocations.
- The initial core of this portfolio should be the current impact holdings set out in Appendix 2 of the report.

- The process of transition to the new portfolio should follow the broad approach set out on page 12 of the report.
- Officers should work up more detail on the measurement and reporting framework and in particular the metrics to be used for agreement with members.
- Officers should develop proposals for the procurement of investment managers for elements of the General Needs Housing and Local Venture Capital and SME allocations involving appropriate sub regional stakeholders.
- Progress on delivering on these recommendations should be included in the regular investment reports provided to the Authority.

Councillor Cox welcomed the report and recommendations as something the Authority has been requesting for some time.

Councillor Sangar concurred and added he was particularly interested in the sections around affordable and sustainable housing projects. One point of clarification, why is the local venture capital stake so small?

The Director replied that it has been conceived initially as a pilot as the risk involved and demand for it are currently unknown. If it proves successful, money will be drawn from other private equity investments to provide additional funds.

Councillor Stowe expressed the hope that SYPA's lead would be followed by other investors and that the scheme could grow as a result.

RESOLVED: Members noted, commented on the report and accepted the proposals.

12 <u>SYPA RESPONSIBLE INVESTMENT POLICIES ANNUAL REVIEW INCLUDING NET ZERO ACTION PLAN UPDATE</u>

The Director presented the Annual Review of Responsible Investment Policies.

Resolved: Members approved the following revised policy documents:

a) **The Responsible Investment Policy**
b) **The Climate Change Policy**
c) **The Net Zero Action Plan**
d) **The Annual Commitment to the Impact Investing Principles for Pensions**

13 <u>Q3 RESPONSIBLE INVESTMENT UPDATE 2022/23</u>

The Director presented the Responsible Investment Update Quarter 3 2022-23.

Key points to note are:

- A reduction in the overall number of votes with the passing of peak voting season.
- Continued focus in both voting and engagement on moving companies to providing clearer plans for the transition to Net Zero.
- The overall ESG performance of the listed asset portfolios has continued to be strong.

- Changes in market values and some updated data have retarded the rate of emissions reduction from the listed asset portfolios.

RESOLVED: Members noted the actions taken during the quater and accepted the report.

14 FUNDING STRATEGY STATEMENT

The Funding Strategy Statement was presented to the Authority by Steven Scott of Hymans Robertson.

The Authority worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 17th March 2023.

The funding strategy objectives are to:

- Take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- Use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- Where appropriate, ensure stable employer contribution rates
- Reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- Use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

Councillor Weatherall asked when the strategy takes effect.

The Director confirmed it would be effective immediately from the Members accepting it.

Resolved: Members approved the revised Funding Strategy Statement.

15 VALUATION 2022 OUTCOME

The 2022 Actuarial Valuation was presented by Douglas Green of Hymans Robertson to update members on the outcome of the triennial valuation process and seek acceptance of the Actuary's rates and adjustments certificate.

Key points to note:

The process has been completed in excellent time and the Authority is well ahead of its peers in terms of reporting.

The Authority has a strong funding position.

Employer contributions have been held at a stable level and advance notice of that had been given to major scheme employers.

Resolved: Members:

- **Noted and discussed the outcome of the 2022 Triennial Valuation of the Fund.**
- **Accepted the Actuary's Rates and Adjustments Certificate subject to the agreement by the Director and the Actuary of any outstanding adjustments as a result of phasing and prepayments.**

RESOLVED – That members of the press and public be excluded from the meeting at this point by virtue of paragraph 1 of part 1 of Schedule 12A of the Local Government Act 1972.

The chair granted the non-voting members permission to remain in the meeting for the first of these items.

16 DIRECTORS APPRAISAL

A report was submitted which allowed members to consider the annual appraisal of the Director's performance.

RESOLVED: That members:

i) Note the review of the Director's performance over the year.

ii) Approve the objectives for the coming year set out in the body of the report.

Following this item the non-Voting members withdrew from the meeting

17 EMPLOYMENT MATTER

The Director provided a verbal update on the conclusion of an employment matter that had been reported to the previous meeting of the Authority.

RESOLVED: That members:

i) Note and endorse the action taken by the Director in consultation with the Chair and Vice Chari in concluding the employment matter.

18 APPENDIX A - WRITTEN REPLY TO PUBLIC QUESTION

I am pleased to see that the proposed new Investment Strategy includes significant investment in Climate Opportunities and Renewables. However, I would like to ask a question about the proposed allocation of 2.5% of the fund to timber. Carbon offsetting has come under scrutiny recently. Research into Verra, the largest provider for the rapidly growing $2bn (£1.6bn) voluntary offsets market, has found that, based on analysis of a significant percentage of the projects, more than 90% of their rainforest offset credits – among the most commonly used by companies – are likely to be "phantom credits" and do not represent genuine carbon reductions. How would South Yorkshire Pension Fund ensure that their timber allocations are just, sustainable and represent genuine carbon reductions rather than a green-washing exercise? For example, will it affect indigenous communities, who will ensure the trees reach maturity, what happens if there is a fire or drought etc.?

With best wishes

Janet Milton

Reply:

The Investment Strategy Review being considered by Authority members today includes a proposed allocation to natural capital, most likely in the form of forestry. Currently no specific investment proposals have been considered and given that this is a completely new asset class for officers some form of market survey will need to be commissioned before any specific investments can be considered, probably much later in 2023/24. Clearly the concerns raised in the question are important and reflect issues that will need to be considered in any market review and in conversations with potential fund managers.

CHAIR