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SOUTH YORKSHIRE PENSIONS AUTHORITY **AUTHORITY MEETING** **14 MARCH 2024**

PRESENT:

Councillor J Dunn (Chair)

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

Non-Voting Co-Opted Members: N Doolan-Hamer (Unison), G Warwick (GMB), Richard Bedford (Unite)

Officers: S Ghuman (Deputy Clerk BMBC), G Graham (Director), G Taberner (Assistant Director - Resources & Chief Finance Officer), D Sharp (Assistant Director – Pensions), S Smith (Assistant Director – Investment Strategy), Chloe Knowles (Executive Management Support Officer), J Stone (Head of Governance), A Palmer (Team Leader – Governance)

Independent Advisers: A Devitt

Apologies for absence were received from: Cllr M Havard (Rotherham)

Observing from Aon: L Robson and K McWilliam

1 **APOLOGIES**

The Chair welcomed everyone to the meeting.

Apologies were noted as above.

2 **ANNOUNCEMENTS**

The Director welcomed Karen McWilliam and Liam Robson from Aon to the meeting, who were observing for the purposes of the Independent Governance Review they are conducting on behalf of the Authority.

The Director informed the members that this was the Aoifinn Devitt's final meeting and thanked her for all of her work over the years she has worked with the Authority.

The Director also informed the Board that this was the Deputy Clerk's final meeting and thanked him for his significant influence in providing support and advice to the Authority and informed the Board that Kate Charlton will be replacing him.

3 **URGENT ITEMS**

None.

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

The Meeting will be closed for Item 18 as this is a private matter.

5 DECLARATIONS OF INTEREST

None.

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

None.

7 MINUTES OF THE MEETING HELD ON 08.02.2024

RESOLVED: That the minutes of the meeting held on 8 February 2024 can be agreed as a true record.

8 QUESTIONS FROM THE PUBLIC

Questions were received from Mr Ashton.

The Director responded on behalf of the Authority.

Electronic versions of the questions and responses will be emailed to the relevant members of the public and the written replies are attached as appendices to the minutes.

9 QUARTER 3 CORPORATE PERFORMANCE REPORT 2023/24

The Assistant Director – Resources presented the Q3 Corporate Performance report for 2023/24.

Members asked for further clarification around point 4.43 of the report in relation to the HMRC late payment interest overspend of £7k.

The Assistant Director – Resources responded that this was a result of dealing with the backlog of complex pension saving statement and tax issues. These are penalty charges which as the delay in payment was due to the Authority were being borne by the Authority and not the scheme member.

The Assistant Director – Pensions further added that the work on the backlogs was outsourced, and this is due to be completed in late March and a process has been put in place moving forward to ensure we are able to prevent late payment charges in the future.

Members further probed around whether the Authority would need to pay this charge in future if Lifetime Allowances were being stopped.

The Assistant Director – Pensions responded that the Scheme Pays Rules also apply to the Annual Allowance which remains in place although it has been increased to £60k, which means that far fewer members are likely to be affected.

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

10 ADVISER MARKET COMMENTARY

The Independent Investment Advisor presented the Market Commentary Report for Members to consider and note. The Independent Advisor began by thanking the Board for her time on the Authority which she had found a fulfilling experience.

Members questioned whether there had been any reaction in the markets now that global sea temperatures were off the charts.

The Independent Advisor responded that there had been no reaction in the market day to day, but this does affect the direction of travel in terms of engagement, the transition and the sense of urgency.

Members probed around office properties and how the fund doesn't have much exposure to this asking what the wider market risks would be and if there are any indirect risks and if so, how would our portfolio be protected against this.

The Independent Advisor responded that the Authority's portfolio on the real estate side is biased towards industrial buildings and the only danger in this sector is that perhaps it has gotten a little too popular but has very strong underlying components so we would not be directly affected here. The fund is not directly exposed but could be exposed to anything that may filter through, this is why the portfolio is diversified and has multi asset exposure.

Members raised concerns over companies dropping out of the London stock exchange and the earthquake this could cause in various financial institutions to change what they are doing and how this would affect the Authority with LGPS funding. In response the Independent Adviser indicated that this was a part of a global phenomenon and that the direct impact on the Fund was unlikely to be significant given both the relatively small proportion of the portfolio in UK equities and the long term move that had taken place into private markets.

Members further asked for the Independent Advisors thoughts on hydrogen and synthetic fuels and what investments were out there for this and what could be done. The Independent Advisor responded that the new climate opportunities fund at Border to Coast is poised to capture not only advances from climate technology but also existing technology around battery storage, renewable infrastructure funds and nature-based solutions which provides a whole package of opportunity. The Authority's renewable energy exposure in the fund is already very high and with climate opportunities it will enable the Authority to bolster this to capture the new technology of this sort.

The Chair commented upon the Authority's net zero target and questioned whether given the global political instability this was causing net zero to be moved down the investment agenda. The Independent Advisor responded that this only applies in the US as sustainability is good business. The political noise in the US and the energy security factors in Russia and Ukraine set things back by trying to keep pricing under control.

RESOLVED: Members thanked the adviser and noted the report.

11 QUARTERLY INVESTMENT PERFORMANCE REPORT 2023/24

The Assistant Director – Investment Strategy delivered the Q1 Investment Performance Report highlighting key areas of performance over the last quarter.

Members probed around why the performance for climate opportunity and renewables was below the benchmark as shown in the chart on page 63.

The Assistant Director – Investment Strategy responded that as these are alternative funds, money is committed but in the early years fees are being taken out and the performance is only just starting to come through, so it is very common to see what is described as J curve, and this is to be expected.

RESOLVED: Members noted and accepted the report.

12 POOLING TRANSITION PLAN

The Assistant Director – Investment Strategy updated the Authority on the Fund's plan to transition remaining assets to Border to Coast.

Members commented on the challenge the Authority faces in reaching the 95% model and asked how big the side car arrangement will be and when we will need to commit to this. Members also probed around why the Treasury can't change the rules on Scottish property as an important asset the fund holds.

The Assistant Director – Investment Strategy responded that the side car arrangement will allow the Authority to double the funds natural exposure to renewables, climate opportunity and natural capital that it currently has through Border to Coast however this still doesn't reach the 95% level. Discussions are continuing with Border to Coast, and they are aware of the Authority's strategy and the expectation is that at the next strategy review the Authority will likely increase its exposure. SYPA are the only one out of eleven funds who want a specific natural capital product Border to Coast are aware that others may follow on this journey and that it would become a required product, however they are not there yet.

The Director followed up that the Authority is further down the road than other funds due to the Net Zero Goal being earlier and other funds will inevitably have to follow suit in the future.

Members asked how the funds targeting 5% for "levelling up" would build up.

The Assistant Director – Investment Strategy responded that the funds are within the alternatives and property loans and a certain amount of money is committed and this gets drawn down over a certain period of time. The Authority currently have assets that are within the private equity portfolio that would be specifically classed as place-based investments such as most recently the Northern Gritstone Fund which is investing in spin offs from the Universities of Leeds, Manchester and Sheffield.

Members asked what the implications would be for the Authority should it not reach 95%.

The Assistant Director – Investment Strategy responded that the government have asked that if the target is not reached that you are able to provide good reason as to why, that the logic for not reaching 95% was robust.

The Director followed up that there are other funds considerably behind the progress made by SYPA who would likely be questioned first.

RESOLVED: Members noted the contents of the report.

13 SYPA RESPONSIBLE INVESTMENT POLICIES ANNUAL REVIEW INC NET ZERO ACTION PLAN UPDATE

The Director presented the Authority's various responsible investment policies to secure approval following their annual review.

Members commented upon the importance of the Authority continuing to keep this high on the agenda to influence other funds to make similar changes.

Members probed around BP having no viable path to Net Zero by 2030 and how we would engage with this moving forwards.

The Director responded that through the Partnership he would like to see a clear understanding of where the threshold is for excluding individual companies however it is much easier to seek to do this in theory than in practice due to various constraints on portfolio managers. The structuring and parameters for the Equity Funds mean that there is exposure to every sector and there will always be some oil and gas companies within the portfolio, while they are present in the relevant index. The challenge is thinking about whether this is right for the partnership and being one of eleven funds, the Authority needs to continue to influence others on this journey with SYPA and seek to progress to this point.

Members expressed concerns over some of the language in the Climate Change Policy.

The Director responded that the Climate Change Policy is written in the context of the financial services industry and the fund's assets and liabilities and how climate change affects the two. In terms of climate change analysis this is a very complex and evolving science, and the Authority is doing its best to make educated guesses using the information available. The key point to note is the Authority's practical approach to addressing climate change which doesn't come through in the dry policy documents, but this is a problem and an issue the Authority seeks to address in the way we invest and manage the funds and as much progress needs to be made as quickly as we can in a measured and considered way.

Members sought clarification around what the triggers would be for climate related engagement or whether this was on a case-by-case basis.

The Director responded that it was a mix between a case-by-case basis and a standard set figure so the collectively agreed voting guidelines by the eleven Border to Coast partner funds states that if a company doesn't have a transition plan with science-based targets along other requirements then votes would be cast against the company. This would also depend on the nature of what you are engaging with them about as it may require setting more specific criteria.

RESOLVED: a) Members approved the following revised policy documents appended to the 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)**

Cllr Dimond requested that his dissent be noted due to concerns over the language used in the Climate Change Policy.

14 QUARTER 3 RESPONSIBLE INVESTMENT UPDATE 2023/24

The Director presented the regular quarterly report on Responsible Investment Activity for members to note and comment upon.

Members commented that it is good to see the increased engagement with the steel and cement sector and that this work is taking place given the sentiment and discussions that had taken place on the previous agenda item.

RESOLVED: Members noted and accepted the report.

15 BENCHMARKING ADMINISTRATION AND INVESTMENT ACTIVITIES

The Director presented the results of the Benchmarking exercises undertaken on both administration and investment activities by CEM.

RESOLVED: Members noted the results of the most recent benchmarking of the Authority's activities undertaken by CEM.

16 UPDATE ON PENSION ADMINISTRATION IMPROVEMENT PLAN

The Assistant Director – Pensions updated the Board on the Pensions Administration Improvement Plan.

Members asked if there was anything live on the Dashboard that they could see at present.

The Assistant Director – Pensions responded that there is nothing live as of yet but as soon as there is this will be brought to members.

The Chair probed the officers on whether they had been speaking to other funds on how they were dealing with McCloud Remedy.

The Assistant Director – Pensions responded that during the regional meeting with other pension funds this was discussed in terms of how different funds are managing this, and how they are finding their software providers. It is also clear that this cannot be done manually and relies heavily on the software.

RESOLVED: Members noted and commented upon the plans for Administration improvement that are being put in place.

17 PROCUREMENT FORWARD PLAN

The Team Leader – Governance presented the Authority's Procurement Forward Plan 2024 to 2026 presented at Appendix A. The Authority has never previously had a separate procurement plan, and this was highlighted by the Internal Audit Team when looking at procedures. Although there are processes in place for financial and strategic planning, having this procurement plan will strengthen the Authority's

procedures and will be brought to the Board annually for approval at the February meeting.

Members questioned whether the Authority had a Responsible Procurement Policy.

The Assistant Director – Resources responded that there is no specific separate policy for responsible procurement, however when conducting evaluations of procurements and tenders dependent on the nature of the procurement sustainability and social value would be considered.

RESOLVED: Members approved the Procurement Forward Plan 2024 to 2026 presented at Appendix A.

18 UPDATE ON COMPLETION OF PROJECT CHIP

The Director provided Members with an update following the completion of Project Chip.

RESOLVED: Members noted the completion of Project Chip and the details of the project set out in the body of this report.

CHAIR

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