

# Public Document Pack

## SOUTH YORKSHIRE PENSIONS AUTHORITY

**6 JUNE 2024**

PRESENT:

Councillor Jayne Dunn (Chair)

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

Non-Voting Co-Opted Members: Garry Warwick and Phil Boyes

Officers: Graham Graham (Director), Gillian Taberner (Assistant Director - Resources & Chief Finance Officer), Debbie Sharp (Assistant Director– Pensions), Sharon Smith (Assistant Director – Investment Strategy), William Goddard (Head of Finance), Jo Stone (Head of Governance), Annie Palmer (Team Leader – Governance) and Gina Mulderrig (Governance Officer)

Apologies for absence were received from: Councillor D Fisher and N Doolan-Hamer

### 1 WELCOME AND INTRODUCTIONS

The Director welcomed everyone to the meeting and oversaw the process of electing a new Chair of the Authority.

### 2 APPOINTMENT OF CHAIR AND VICE CHAIR

The Director invited nominations for the role of Chair, Councillor Jayne Dunn was nominated for the position by Councillor Bowser and seconded by Councillor Nevett. There being no other nominations Councillor Dunn was confirmed as Chair of the Authority for the 2024/25 Municipal Year and assumed the Chair. The Chair invited nominations for the position of Vice-Chair. Councillor Donna Sutton was nominated by Councillor Dunn and seconded by Councillor Bowser. There being no other nominations Councillor Sutton was confirmed as Vice Chair.

#### **RESOLVED:**

- a) Councillor Jayne Dunn was elected Chair of the Authority for the municipal year 2024-25.**
- b) Councillor Donna Sutton was elected Vice Chair of the Authority for the municipal year 2024-25.**

### 3 APOLOGIES

Apologies were noted as above.

### 4 DECLARATIONS OF INTEREST

None.

### 5 ANNOUNCEMENTS

The Director presented the report and provided members with the opportunity to acknowledge the loyal service of members of the Authority's staff.

**RESOLVED: Members congratulated and thanked staff who have achieved loyal service awards as set out in the body of the report.**

6 URGENT ITEMS

None.

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

**RESOLVED: Items 26, 27 and 28 were considered in the absence of Public and Press by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972**

8 VOTE OF THANKS TO OUTGOING VICE CHAIR

Member praised the outgoing Vice Chair, Councillor Marnie Howard and also noted that outgoing members of the Authority, Councillors Steve Cox and Mick Stowe, would be missed. The Chair confirmed all outgoing members has received letters of thanks.

9 MEMBERSHIP, POLITICAL BALANCE AND APPOINTMENTS TO COMMITTEES

The Director delivered a report on the appointments to the Authority's Committee's for the 2024/25 Municipal Year in line with the political balance rules applying to the Authority and,

**RESOLVED:**

**a) To note the members appointed to the Authority by the District Councils**

**b) To note the members appointed to answer questions in the meetings of the Full Council of the District Councils**

**c) To approve the following appointments to Committees:**

**Audit and Governance Committee:**

**Councillor D. Sutton (Chair)**

**Councillor N. Wright**

**Councillor J. Church**

**Councillor S. Clement-Jones**

**Councillor D. Fisher**

**Councillor D. Nevett**

**Appointments and Appeals Committee:**

**Councillor J. Dunn (Chair)**

**Councillor R. Bowser**

**Councillor J. Mounsey**

Councillor A. Dimond  
Councillor A. Sangar  
Councillor D. Fisher

Staffing Committee:  
Councillor J. Dunn (Chair)  
Councillor D. Sutton  
Councillor J Mounsey  
Councillor R. Bowser  
Councillor A. Dimond  
Councillor A. Sangar

10 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

None.

11 MINUTES OF THE MEETING HELD ON 14.03.2024

**RESOLVED: That the minutes as presented for the Authority Meeting held on 14th March 2024 are a true and accurate record.**

12 QUESTIONS FROM THE PUBLIC

Questions were received from Ms Janet Milton and Mr Finn Cross. 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.

13 CORPORATE PERFORMANCE REPORT 2023/24 (Q4)

The Assistant Director – Resources presented the Q4 Corporate Performance Report for members to consider and approve. The Head of Finance and Performance added specific commentary on Q4 Provisional Outturn for 2023/24 report and final yearly costs to the Authority.

**RESOLVED: Members approved:**

- a) the budget virements as set out in paragraphs 4.27 to 4.28 of the report.
- b) the Authority overspend of £49,200 to be charged to the Fund as set out in paragraphs 4.30 to 4.33 of the report.
- c) Approve the transfers to and from earmarked reserves as set out in the table in paragraph 4.87; amounting to a net total transfer from reserves of £274,235.

14 ADVISER MARKET COMMENTARY

Members considered the published market commentary written by T. Castledine as his final report as Independent Adviser to the Authority.

**RESOLVED: Members noted the report.**

15 Q4 INVESTMENT PERFORMANCE REPORT 2023/24

The Assistant Director – Investment Strategy delivered the Q4 Investment Performance Report explaining the market background and its effect on South Yorkshire Pensions Fund and summarising the performance of the Fund in Q4 including the portion of the Fund managed by Border to Coast Pensions Partnership.

Members asked for clarity on the Fund's position in regards to the new Natural Capital fund. The Assistant Director – Investment Strategy confirmed that the Fund's agricultural land holdings were now part of the Royal London Natural Capital Fund and that allocation was being completed by allocation to two timberland funds, one a UK fund and one a global fund with subscription expected to complete during the first quarter of 2024/25.

Councillors asked what would happen if interest rates did not return to predicted levels. The Assistant Director – Investment Strategy confirmed that this was a possibility but is a risk SYPA mitigates by having a diverse portfolio ensuring minimal negative impact however the market performs.

Members asked for clarity on the purpose of secondary benchmarks and their importance. The Assistant Director – Investment Strategy explained that secondary benchmarks related to separately managed areas of multi asset investments rather than overall performance and were there to demonstrate the health of target returns of each area in its own market.

**RESOLVED: Members noted the report.**

16 Q4 RESPONSIBLE INVESTMENT UPDATE 2023/24

The Director presented the regular quarterly report on Responsible Investment Activity for Members to note and comment upon drawing particular attention to the Robeco Active Ownership Report excerpt in the report.

Members referred to the graphs in the report representing the financed emissions target of net zero by 2030 and the 2025 interim target and asked if there was a risk the targets would not be met.

The Director explained that despite the progress made and a positive trajectory it was still a significant risk the targets may not be met. The Director explained the importance of having the goal for 2030 and that the next Investment Strategy review would need to look carefully at how different parts of the portfolio are implemented when considering both this goal and the requirement to achieve return in order to pay pensions.

The Chair noted the policy of staying with potentially controversial investments in order to effect change from within rather than removing assets and asked how the effectiveness of this was measured.

Jane Firth, Head of Responsible Investment at Border to Coast Pensions Partnership, explained that it is difficult to draw a direct correlation between the carbon reductions of individual companies and the pooling company votes, but stressed the importance of the pooling company's influence, particularly in smaller companies where they hold a larger stake. It was stated that divesting is the final stage of escalation and that engagement is more powerful and gives a voice to investors.

Councillors cited large companies being able to sue their own shareholders and asked whether this could mean engaging with such companies could pose a risk.

The Director acknowledged the risk but made the point that the example given (Exxon suing two shareholder groups) occurred in the USA which has a market conducive to facilitating lawsuits against environmental policies and that the environment was different elsewhere. The Head of Responsible Investment at Border to Coast Pensions Partnership added that there had only been one example of this so far and it was not known whether any other company would follow suit. It was explained that there were many ways to demonstrate dissatisfaction in how the company is run as an investor that were more effective than divesting.

Councillors noted that Shell, a stock featured in the report, had the net zero GHG emissions ambition for 2050 and questioned the credibility of this target.

The Director responded that, as Shell had reduced or retired some of their interim targets, Border to Coast Pensions Partnership had voted against the company on certain shareholder resolutions. The Head of Responsible Investment at Border to Coast Pensions Partnership added that the journey to net zero was a long-term goal and that it was more effective for responsible investors to engage with companies to effect change and register dissatisfaction with any decisions that lead the company away from net zero targets. It was added that responsible investors need to invest with the oil and gas industry rather than divesting and leaving the companies to back track on environmental commitments with no complaint.

**RESOLVED: Members noted the content of the report.**

17 LEVELLING UP PLAN

The Director presented the report to secure approval for the Authority's plan to invest up to 5% of the Pension Fund in projects which support the Government's "Levelling Up" missions in preparation for expected regulatory requirement.

Members praised the scope and importance of the report.

**RESOLVED: Members approved the plan set out at appendix A.**

18 PENSIONS IMPROVEMENT PLAN

The Assistant Director – Pensions presented the report to update the Board on the Pensions Administration Improvement Plan including Project Highlights and an update on recruitment and software.

Members queried how the implementation of the McCloud Remedy would affect the existing backlog of work.

The Assistant Director – Pensions Administration explained that the McCloud Remedy implementation would create a new workload separate from the existing backlog but that through the additional recruitment detailed in the Improvement Plan and continued development of systems, staff would be able to manage the workload. Progress would be monitored and performance of workload management reported to the Authority.

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

19 FUNDING STRATEGY STATEMENT

The Assistant Director – Pensions presented a report seeking agreement to update the Cessation Policy within the Funding Strategy Statement to ensure the Authority was compliant with the Regulations and acting in a fair and transparent way for all employers within the Fund.

**RESOLVED: Members agreed without comment that the cessation policy be updated in line with the report and as shown in Appendix A, to reflect the agreed approach to calculating the exit credit payable to a ceasing contractor.**

20 GOVERNANCE UPDATE

The Head of Governance and Corporate Services presented a report to provide Authority members with an update on current governance related activity and regulatory matters.

Members queried whether they would be directly involved in the planning and implementation of the changes recommended in the Aon Governance Review.

The Head of Governance and Corporate Services assured Members that they would be updated at every stage and that a Member Working Group comprising both Authority and Local Pension Board members to oversee the recommendations would be convened following this meeting.

**RESOLVED: Members noted the updates included in the report.**

21 VEXATIOUS COMPLAINTS AND UNREASONABLE BEHAVIOUR POLICY

The Head of Governance and Corporate Services presented a report seeking approval of the Vexatious Complaints / Enquiries, Abusive and Unreasonable Behaviour Policy.

Members asked whether this policy related just to members of the scheme and, that if it included the public, could this stifle democracy when asking questions at meetings.

The Head of Governance and Corporate Services explained that the policy related to scheme members, staff and the public and the Director stressed that this policy only

related to unreasonable behaviour that continued past legal routes having been exhausted and was not intended to stop any questions from the public. It was clarified that there was clear and extensive internal policy for dealing with legitimate complaints and the Vexatious Complaints and Unreasonable Behaviour Policy only related to those who persisted outside the existing complaints policy.

**RESOLVED: Members approved the Vexatious Complaints / Enquiries, Abusive and Unreasonable Behaviour Policy attached in Appendix A of the report.**

22 MEMBERS' LEARNING AND DEVELOPMENT STRATEGY

The Head of Governance and Corporate Services presented a report to provide members with a forward look at arrangements for 2024/25 within the Members Learning and Development Strategy and provide a training plan to address the training needs of members.

Members praised the forward planning and agreed on the need to keep refreshing and delivering training to all Authority and Local Pensions Board members.

**RESOLVED: Members approved the Members Learning and Development Strategy 2024/25 in Appendix A of the report.**

23 ANNUAL REPORT OF LOCAL PENSION BOARD

The Head of Governance and Corporate Services presented the Annual Report of the Local Pension Board to members of the Authority to consider in line with the LGPS Governance Regulations and as part of the process of gathering assurance for the production of the Annual Governance Statement.

**RESOLVED: Members noted the Annual Report of the Local Pension Board.**

24 ANNUAL REPORT OF AUDIT AND GOVERNANCE COMMITTEE

The Head of Governance and Corporate Services presented the Annual Report of the Audit and Governance Committee to allow members of the Authority to consider as part of the process of gathering assurance for the production of the Annual Governance Statement.

**RESOLVED: Members noted the Annual Report of the Audit and Governance Committee.**

25 ANNUAL GOVERNANCE STATEMENT

The Director presented a report to secure approval for the Authority's Annual Governance Statement.

**RESOLVED: Members:**

- a. **Approved the Annual Governance Statement for 2023/24 and authorised its signature by the Chair and Director.**

**b. Noted the provisional conclusion of the Head of Internal Audit which will be revised if required by the content of the Internal Audit Annual Report.**

**Resolved: Item 26 shall be considered in the absence of Public and Press by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972**

26 BORDER TO COAST 2030 STRATEGY

The Director presented the report detailing the Border to Coast 2030 Strategy.

Members discussed the implications of recommendation in the report.

**RESOLVED: Members approved the casting of the Authority's shareholder vote in favour of the Border to Coast 2030 Strategy.**

27 INDEPENDENT ADVISERS RECRUITMENT PROGRESS UPDATE

The Director presented the report to update members with regard to the arrangements for independent investment adviser, Members were informed that Ms Devitt has expressed a desire to be reappointed. Members were asked if they would be minded to approve the reappointment. Members were advised that should they approve this, the process would be for the Appointments and Appeals Committee to resolve the terms of the re-appointment.

**RESOLVED: Members**

- a) **Noted the changed circumstances of the Authority's remaining independent investment adviser resulting in the need to make a further appointment.**
- b) **Agreed to the ending of Mr Castledine's contract on 30th May 2024.**
- c) **Commented on the options available for the appointment process for independent investment advisers as set out in para 5.4 and 5.5**
- d) **Noted that officers will review the terms and conditions of appointment considering movements in the marketplace for these roles prior to advertising**
- e) **Agreed to reappoint Ms Aoifinn Devitt as an Independent Adviser from a date to be agreed by the Director.**

28 DIRECTOR'S APPRAISAL

A report on the appraisal of the Director's annual performance was presented for members to consider.

**RESOLVED: Members:**

- a. **Noted the review of the Director's performance over the year.**



**b. Approved the objectives for the coming year set out in the body of the report.**

29 PUBLIC QUESTIONS

**Questions from members of the public**

**Question 1 – Ms Janet Milton**

*With the potential for a new government from 5th July, does the committee expect there to be any changes in how the path to net zero will be achieved? Might it be hastened - do they foresee any barriers or opportunities?*

**Response**

Without the detail of how policy might change under a new government of any party it is not possible to definitively answer this question. However, the Authority continues to believe that investment in the climate transition represents a significant opportunity to deliver the returns required to meet the liabilities of the Pension Fund and this belief is reflected in the current strategic asset allocation.

**Question 2 – Mr Finn Cross**

*In the past two years Border to Coast Pension Partnership (BCPP) has built a £50 million position in ConocoPhillips (COP) in the Global Equity Alpha fund. This company is a major player in the Athabasca Tar Sands and has recently doubled its tar sands assets to become the largest or second largest owner of tar sands reserves in the world. However, it is able to avoid breaching the exclusion test applied by BCPP as, even though it has such a large stake in tar sands, they do not constitute 25% of its revenue. We understand that South Yorkshire Pension Authority are opposed to tar sands investments. What measures will you take to ensure that you are able to exclude the worst culprits, such as COP, from your investment portfolio?*

**Response**

SYPA has exposure to Conoco Phillips (COP) through its holding in the Border to Coast Overseas Developed Fund.

Border to Coast's rationale (as the fund manager) for the position in Conoco Phillips is as follows:

*COP has built a reputation for disciplined, shareholder return focused capital allocation and operates in areas with relatively low levels of geopolitical risk. COP's large proven low-cost reserves give the company a competitive advantage at low crude oil prices while limited use of hedging should lead to strong cash flow generation during higher commodity price environments.*

- COP is one of highest quality oil producers with low leverage, relatively higher ROIC and strong capital allocation policy – including in the Permian Basin (relatively cleaner oil) but also returning capital to shareholders.*
- Current and future revenue expected to have meaningful contribution from Natural Gas/LNG – considered a key component in the energy transition.*
- As a result, meaningful growth investment is being made by the company into LNG (e.g. Qatar) and in areas of lesser carbon intensity (e.g. Permian Basin).*
- Set targets to reduce operational GHG by 2025 and has expanded its intensity targets to include non-operated assets. A 2050 Net Zero target is also in place, with a goal to reduce operational emissions intensity by 35-45% by 2030.*

- o *The Company's methane emissions were reduced by 72% from 2015 – 2022.*
- o *MSCI rate the Company as “AA”, recognising the firm's net zero target, improving emissions to sales, and firm commitment to achieving a best-in-class safety record – and is assessed as being above-average on managing carbon emissions, Toxic Emissions/Waste and community relations. MSCI note it has a lower operational carbon intensity compared to global peers. Additionally, the company reports a gender pay gap and links compensation to ESG targets. COP's AA rating is above peers Exxon and Chevron*
- *TPI gives COP their highest rating for Strategic Assessment – which includes board oversight of Climate Policy, support for international efforts to mitigate climate change and verified emissions data.*

Border to Coast explain the operation of the revenue threshold approach in relation to this company as follows:

*Our exclusions approach included in our RI Policy is a tool to help achieve our responsible investing and net zero aims. In January 2024, as part of strengthening our responsible investment policies to support ESG considerations (including climate change) we lowered exclusion thresholds on revenue generated from thermal coal and oil sand production, from 75% to 25%. In addition, we extended our exclusion policy to cover thermal coal power generation, reflecting Just Transition principles by differentiating between developed and emerging markets.*

*With regards to COP, in 2023 Oil Sand/bitumen reserves significantly increased from 216 MBOED (t Millions of Barrels of Oil Equivalent) to 410 MBOED following completed acquisition of Surmont. COP's Canadian assets (including Tar Sands) accounted for around seven percent of 2023 total liquids production, and three percent of natural gas. COP's total proven Bitumen reserves of 410 MBOED account for around six percent of the company's total proven reserves. These statistics are produced by COP and can be found in the annual 10k form.*

*Lag in updates to CDP and MSCI mean we do not currently have 2023 figures for % oil sands/bitumen revenue. COP produced 81 million barrels per day of Bitumen in 2023 accounting for approximately 13% of COP's revenue, with the fall in Bitumen prices and expected higher oil revenue we do not expect COP to breach the 25% revenue exclusion policy but will review when updated data is available.*

*We will continue to monitor the impact of our strengthened policies and as part of our annual RI policy review process we will analyse the impact. We are also closely monitoring the status of the consultations on the newly released UK Transition Plan Taskforce's sector-specific guidance for preparers and users of climate transition plans.*

Border to Coast engages extensively with companies in the oil and gas sector and this year's voting guidelines include a strengthened voting approach to these companies including publicly pre-declaring climate votes ahead of AGM's which builds momentum in relation to particular resolutions to be debated.

In May Border to Coast made public that they would be voting against the re-election of the Chair of the Board of COP, explaining that this was due to the company not including relevant Scope 3 emissions in its net zero targets, its target not being aligned with limiting global warming to 1.5<sup>o</sup>C, and that the company fails to meet key benchmarks for its decarbonisation strategy.

The Authority is not, acting alone, able to change the way in which exclusion policies such as that in relation to tar sands are set. However, it has been successful in the last two years in influencing a significant reduction in the revenue threshold (the most common means of defining exclusions) applied to companies operating in this space. The Authority will continue to push in debates on the revision of the relevant collective policies for the setting of the revenue threshold for pure coal and tar sands at 0.

CHAIR

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