



South Yorkshire Pensions Authority investments assistant director, Andrew Stone

Please tell us about the South Yorkshire Pensions Authority (SYPA).

The SYPA was established in 1988 to administer the South Yorkshire Pension Fund as part of the Local Government Pension Scheme (LGPS). Our work is structured around three key areas: Supporting members of the fund, investing the fund's assets and managing and developing our organisation. SYPA is unique among LGPS administering authorities as the only democratically accountable, standalone pensions organisation in the UK, with 180,000 scheme members and over £11 billion in assets under management. We are also a member of the Border to Coast Pensions Partnership (BCPP), collaborating with 10 other LGPS administrators.

What strategic initiatives has the SYPA undertaken to enhance its investment portfolio, and how has this impacted the fund's overall performance?

Overall our approach to investment risk is modest and diversification is a key element of this.

SYPA has been a long-term investor in alternative asset classes (chiefly private equity, private credit and infrastructure) which have provided attractive returns

Driving change

✓ South Yorkshire Pensions Authority investments assistant director, Andrew Stone, discusses the fund's investment strategy, its approach to responsible governance, and the evolving landscape of the Local Government Pension Scheme

and reduced concentration risk from our allocations to equities and bonds. Taking infrastructure as an example, we have made commitments of over £1 billion to BCPP's offerings in this asset class, which incorporates investments enabling or benefitting from the move to a lower carbon economy, and those designed to meet the growing demands of the digital revolution.

Within our alternative investment allocation, SYPA has established a climate impact portfolio, including renewable energy generation, natural capital (such as forestry and agriculture) and other climate opportunity-related assets.

Furthermore, SYPA has, and is in the process of further developing, a portfolio of local impact investments. In addition to providing the required investment returns, this portfolio is seeking to achieve a genuine impact in South Yorkshire (and more widely) that is measurable by the likes of job creation, increasing supply of housing, office and industrial space and boosting small and medium-sized businesses. It is our belief that reporting in this area should follow the Place Based Impact Investing Framework developed on behalf of the Impact Investing Institute.

Could you explain SYPA's approach to environmental, social, and governance (ESG) considerations in its investment decisions?

SYPA is a firm believer in responsible investment, which involves incorporating ESG considerations into the decision-

making process, and practicing investment stewardship to better manage risk and generate sustainable, long-term returns. We believe that this approach is entirely consistent with securing the long-term investment returns required, and that it is therefore in the best interests of both scheme members and employers.

SYPA has recently been confirmed as a signatory to the UK Stewardship Code, a significant milestone that highlights our ongoing commitment to responsible investment and transparency.

The UK Stewardship Code sets the highest standards for stewardship in the investment industry. It ensures that asset owners, asset managers and service providers act responsibly and effectively to create long-term value for UK savers, pensioners, and the institutions that support them.

Engagement with investee companies is undertaken by BCPP on SYPA's behalf. The intention is that engagement should have clear objectives, be time limited and link to clear consequences where necessary.

Can you discuss any collaborative efforts or partnerships the SYPA has engaged in to strengthen its operations and achieve its objectives?

In terms of stewardship and engagement of our investments, SYPA maintains overall responsibility – but the implementation of policy is delegated to BCPP. SYPA's role is to undertake monitoring, scrutiny and challenge to ensure that the objectives of its policy are

delivered, with a review taking place at least annually.

We view voting rights as an asset to SYPA and, in partnership with BCPP, use them carefully to promote and support good corporate governance principles with the aim of voting in all markets. A specialist proxy voting adviser, Robeco, has been appointed by BCPP to provide analysis of voting and governance issues and to ensure that votes are executed in accordance with policies. The proxy voting adviser will implement a set of detailed voting guidelines provided by BCPP and agreed by the partner funds. The voting guidelines are administered and assessed on a case-by-case basis.

A recent example of engagement relates to water utility companies. The water utility sector faces significant financial and reputational risk, with regular negative media coverage of sewage pollution into rivers and seas, and water and sewerage companies receiving a record amount in fines for pollution incidents in recent years.

In 2023, BCPP joined a collaborative engagement initiative with the UK water utility sector, co-ordinated by Royal London Asset Management. The aim was to improve practice, define best practice, and encourage a faster pace of change in companies persistently lagging. Specific areas of focus include sewage pollution, water leakage, climate change mitigation, and adaption including nature-based solutions, biodiversity, antimicrobial resistance, and industry collaboration.

All 11 UK water utility companies were subject to engagement, with BCPP leading the engagement with Yorkshire Water and Northumbrian Water on behalf of the collaboration. BCPP met with Yorkshire Water several times, including with the chief financial officer and various directors, to discuss their assessment of the company against a set of sector expectations.

The discussion focused on areas that had identified as priorities: Pollution and maintenance of good asset health,

sustainable water abstraction, and biodiversity targets and net gain.

The company's response has been positive, and BCPP and SYPA both welcomed Yorkshire Water's announcement that it is bringing forward sewage infrastructure investment in Scarborough and the surrounding area, which the engagement had highlighted as in need of attention. Northumbrian Water also responded to engagement with further disclosure on areas the assessment had identified for priority action. All 11 water utility companies were reassessed following this activity, with engagement continuing.

How has the SYPA used technology to enhance its governance and reporting processes, and what benefits have been realised from these technological advancements?

In relation to governance, the authority uses technology for administering the democratic process with meetings streamed live on our website. The webcast available to view afterwards and meeting papers published online – all standard practice for local authorities.

We also make use of an online learning platform and a reading room for the delivery of e-learning and technical and training resources for authority elected members and Local Pension Board members to support the development and maintenance of their knowledge and understanding.

The authority is currently harnessing the benefits of using reporting tools and data analysis to enhance our performance management framework and ensure that management time and attention is freed up from the tasks of collating data and is instead focused on understanding what the data is telling us and taking actions accordingly. This work is also leading to benefits in enhancing the quality of reporting – both the visual presentation and the narrative analysis and explanation provided for our stakeholders.

Chancellor, Rachel Reeves, has proposed merging the UK's council pension schemes into larger 'pension megafunds' to improve investment in sectors like infrastructure. What is SYPA views on this and benefits for members?

Overall, SYPA is broadly positive on the proposals laid out, albeit the devil is in the detail – and there are still some details to be addressed. In particular around how the LGPS funds' investment beliefs and risk appetite will be reflected, as further pooling inevitably leads to compromises being required.

We believe it is positive that strategic asset allocation will remain with SYPA because it is the pension funds that are responsible for, and accountable to, scheme members, employers, and local taxpayers for the payment of pensions. It is also essential that the LGPS funds and their pooled managers work closely together in a constructive and collaborative manner on the development of investment strategy and its implementation. This has been, and will continue to be, the foundation of our approach.

Looking ahead, what are the SYPA strategic priorities for the next couple of years, and how does it plan to address emerging challenges in the pension fund landscape?

Overall, SYPA's objective is to deliver a sustainable and cost-effective pension for its members and employers, delivering high levels of customer service and strong investment returns to facilitate stable contributions. This means our priorities span a wide range of themes across pensions administration (including the implementation of the McCloud remedy and pensions dashboards), investment, governance and partnerships, and the development of our own organisation and people.

Written by Paige Perrin