

Annual Report & Accounts
2013/2014

South Yorkshire Passenger
Transport Pension Fund

“ Huge changes are taking place within the industry and the past twelve months has been occupied with preparing the Fund for those challenges ahead. ”

Contributing Members
251

Deferred Members
443

Pensioner Members
1,445

Total Contributions
4.2m

Net Assets of the Fund
196.6m

Total Membership
2,139

Regent Street
18

The New Scheme
2014

Annual Report & Accounts 2013/2014

Sheffield City Region
Combined Authority

Notes & Numbers

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South Yorkshire Passenger Transport Pension Fund

Report of the Clerk

Introduction

The rationale for establishing and maintaining local government pension funds is to ensure that over the long term they will have sufficient assets to meet all of the pension expectations of their contributors as they fall due but to do so in such a way that contribution rates can be kept as low as possible, as stable as possible and as affordable as possible. Such an aim is laudable but is frequently forgotten given all the other

pressures local government faces. However, embarking upon an actuarial valuation focuses the mind and the last twelve months has been no exception. Whilst investment returns exceeded the assumptions made by the Actuary in the 2010 valuation the impact in the fall of Government bond yields more than offset those gains. The rise in the cost of liabilities was always going to put pressure on the employer's contribution rate at a

time when it was facing a period of global uncertainty and serious operational headwinds. Whilst much of the fine tuning of the new 2014 Scheme is complex, it is clear that for some they now have an opportunity to earn a bigger pension than they did before and, at the same time, the introduction of the single tier pension and the end of "contracting out" in 2016 will also have significant implications for the employer.

The announced changes to the Local Government Pension Scheme (LGPS), moving away from a final salary to career average basis, resulted in a lot of work needing to be carried out to the Fund's administration systems and to those of the employer. But it is clear that Government intends to impose further change upon the LGPS.

During the year there was a consultation process on new governance arrangements at

individual fund level and a call for evidence focusing on improving investment returns and cutting costs and also visiting, albeit briefly, deficits as well.

The investment environment continued to be uncertain as the global economy struggled to return to sustainable growth. Such an environment provides opportunities as well as challenges and the Fund's investment strategy will be reviewed once the actuarial valuation is completed. During the

year the Authority revisited its responsible investment strategy but concluded that it was fit for purpose and reiterated its belief in positive engagement. It continues to support the Local Authority Pension Fund Forum in its campaigns on corporate governance.

Report of the Clerk

Management of the Fund

South Yorkshire Integrated Transport Authority (SYITA) was responsible for the administration of the South Yorkshire Passenger Transport Fund during the period under review. This report sets out the Fund's income and expenditure, and assets and liabilities, for the financial year ended 31 March 2014. However, the Authority was abolished by statute with effect from 31 March 2014 so this report has been produced by its successor authority, the Sheffield City Region Combined Authority.

Councillors who sit on LGPS administering authorities have comprehensive legal responsibilities for the prudent and effective stewardship of their funds and, in more general terms, have a clear fiduciary duty regarding the performance of these functions. Although

administering authorities are able to delegate functions to individual officers of the authority, to sub or joint-committees, or to authorised external fund managers, it is the case that the responsibility for policy and final investment decisions and general stewardship of their Fund rests with the administering Authority. The Authority must ensure that the administration of the Fund accords with the statutory framework the LGPS operates under. Members have a fiduciary duty to the contributors and beneficiaries of the Fund to ensure contributions are collected, that benefits are calculated properly and paid promptly and that any surplus monies are properly and prudently invested. Members also have a fiduciary duty to the council tax payers of South

Yorkshire in so far as any net expenditure of the Authority in any year which cannot be charged to the Fund is liable to be apportioned between the district councils. In addition, compensation payments in respect of non-statutory benefits are recoverable from the employer and are not borne by the Fund.

One of the key objectives of the Authority was to ensure effective stewardship of the Fund's affairs. In seeking to achieve this officers and members were aware that the landscape and regulatory framework governing the LGPS continues to change and grow in complexity and that the pace of change has noticeably quickened over the last few years. In recognition of these pressures the governance structure of the Fund is regularly reviewed.

SYITA established a Committee of six councillors to manage the Fund. The Committee determined strategic issues and monitored the Fund's everyday administration and management. It met at least six times a year. The Authority's and Committee meetings were open to the public. The Committee regularly met with representatives of the trades unions and the single employer. It appointed an independent investment advisor and an actuary and commissioned specific or retained advice from external consultants as and when required. It delegated its day to day responsibilities to its senior officer, the Clerk and Treasurer.

The Fund's membership is comprised of some of the former local authority employees and pensioners involved in transport services in the County in 1997.

It is, therefore, closed to new entrants and there is just one contributing employer which is First South Yorkshire Limited, a wholly-owned subsidiary of FirstGroup plc.

South Yorkshire Pensions Authority (SYPA) was awarded a contract to manage the Fund on the Authority's behalf and all aspects of pensions administration, including calculating and paying benefits, are performed by SYPA. The Fund's investments are managed either by SYPA or by Old Mutual Global Investors. Details of the Fund's investment operations are set out in the Statement of Investment Principles and further information regarding the Fund can be found on the Pensions Authority's website: www.sypensions.org.uk

Steve Pick retired as Clerk and Treasurer upon the abolition of SYITA. His duties and responsibilities have been transferred to some of the senior officers of the Combined Authority who are, in turn, officers of Barnsley and Sheffield councils. I have taken on the role of Clerk to the Authority, Eugene Walker is Finance Director and Andrew Frosdick is Solicitor and Monitoring Officer.



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the
PEOPLE

Report of the Clerk

Members as at 31st March 2014

BARNSELY



LABOUR
Councillor D Leech
(Vice Chair)


DONCASTER



LABOUR
Councillor M Jameson


CONSERVATIVE
Councillor R A Jones

ROTHERHAM



LABOUR
Councillor R Russell
(Chair)

SHEFFIELD



LIBERAL DEMOCRAT
Councillor I Auckland

LABOUR
Councillor L Bramall

Report of the Clerk

Members' Attendance and Training Records

One of the responsibilities of an administering authority is to ensure that all staff and Members charged with the financial management and decision making affecting its pension fund are fully equipped with the knowledge and skills to enable them to discharge their duties and responsibilities.

SYITA regarded Member training as a key priority and the approach adopted was a prudent and vigilant one. All newly appointed Members received induction training and all Members were required to attend

the Pensions Fundamentals training programme provided by the Local Government Employers organisation. Committee Members adopted a system of self-assessment in line with the recommendations contained within the Myners' Principles and if, as a consequence, training requirements were identified these were incorporated within the normal Committee cycle. Members were always free to discuss their training needs through the year.

Meetings of the Committee embraced a wide range of

topical issues, such as legislation changes, corporate governance matters, the assessment of liabilities, the economy etc and often incorporated presentations from independent advisors, such as the actuary, and consultants. Pensions Fundamentals' refresher courses were provided when needed. An ad-hoc programme of in-house training was also delivered by SYPA officers and additional training events, such as externally arranged conferences and seminars, were attended if they were appropriate.

Members' Attendance at Meetings 2013/14

	6 June	22 Aug	26 Sept	7 Nov	9 Jan	6 Mar
I Auckland	✓	x	✓	✓	✓	✓
L Bramall	✓	x	✓	✓	✓	✓
M Jameson	✓	✓	✓	✓	✓	x
A Jones	✓	✓	✓	✓	✓	✓
D Leech	✓	✓	x	✓	x	✓
R Russell	✓	✓	✓	✓	✓	x

Report of the Clerk

Member Training Events 2013/2014

Training Session	Date	I Auckland	L Bramall	M Jameson	A Jones
LGPS Trustees Conference	27/28.06.13				✓
Fundamentals Refresher Training	09.09.13			✓	
Read Faster Workshop	15.10.13		✓		
Effective Audit Committee	05.12.13	✓			✓

D Leech	R Russell
✓	✓
✓	✓

Report of the Clerk

Advisors and Officers

ACTUARY	Barnett Waddingham LLP	
AUDITOR	KPMG LLP Public Sector Audit	
BANKERS	Co-operative Bank	
CUSTODIAN	HSBC Securities Services	
EXTERNAL MANAGERS	Old Mutual Global Investors (UK) Limited	Developed Overseas Equities
	South Yorkshire Pensions Authority	UK Equities Fixed Interest Property Unit Trusts Emerging Overseas Equities
EXTERNAL ADVISORS	Pensions and Investment Research Consultants Limited	Corporate Governance/ Voting Execution
ADVISORS TO THE AUTHORITY	E Lambert	
OFFICER	S Pick	Clerk & Treasurer



The Figures



3

the
AUTHORITY

Report of the Clerk

Pensions Administration

It has been a busy year dominated by the preparation of LGPS 2014, the actuarial valuation and tendering for a new pensions administration system. Ordinarily you wouldn't attempt to work on all three issues at the same time but events were very much outside our control and we simply had no choice. It is therefore pleasing to report that we managed to complete all three projects on time and without a reduction in the standard of performance in our day to day activities.

Pensions Administration continues to be delivered by our in-house team based locally in Barnsley and in our four district satellite offices. This local approach allows us to provide a personal service to our members. Our Customer Service Excellence accreditation was up for renewal this year and I am pleased to report that we have retained the award for another three years. We achieved 100% compliance in all 57 monitored categories and were awarded 'compliance plus' for innovation in our spring newsletter to active members.

The Authority continues to operate a formal dispute resolution procedure in compliance with the Scheme regulations as well as a local customer service complaints procedure. During the year I am pleased to report that we had no formal disputes or complaints.

First South Yorkshire Limited is the sole employer in the Fund and is required to collect contributions from active scheme members. These contributions along with its own must be paid

no later than 19th of the following month to which the contributions relate. As in previous years, there were no arrears of contributions and no penalties for late payment levied.

Continuing the style we have developed over the last few years we built upon the statistical information provided within the report. Hopefully you will find these both interesting and informative.

Gary Chapman,
Head of Pensions Administration,
South Yorkshire Pensions Authority.



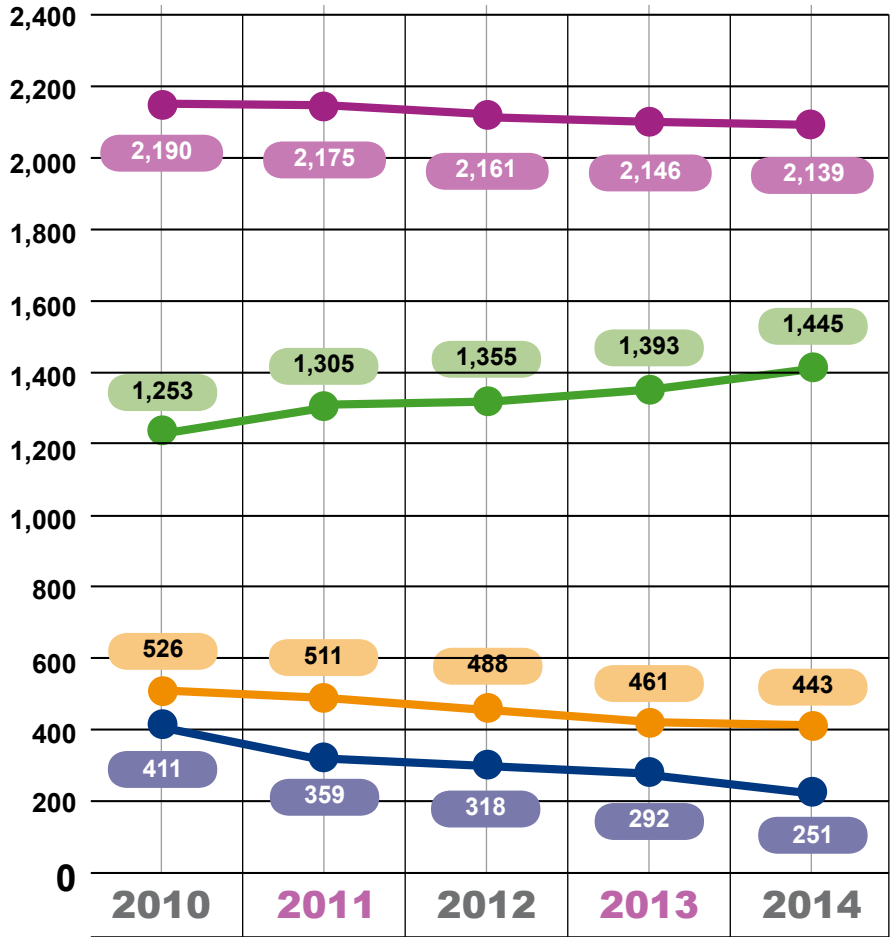
Report of the Clerk

Membership

The total number of members in the Fund has fallen to **2,139** compared with **2,146** at March 2013. As the Fund is closed to new members the trend of increasing scheme maturity continued, as to be expected. However, benefits are fully protected and no-one is at risk from this falling contributor base.

- The number of active members has fallen by **14%** to **251**.
- Pensioners (including dependants) have increased by **3.7%** to **1,445**.
- Deferred members (former members who have left their retirement benefits in the Fund until normal retirement age) have fallen by **3.9%** to **443**.

- Total membership
- Active Members
- Deferred Members
- Pensioners (including dependants)



Report of the Clerk

Your Fund Statistics

ACTIVE MEMBERS

	2013	2014
Gender	Female	6%
	Male	94%
Annual Salary	Up to £15,000	1%
	£15,001 - £30,000	94%
	£30,001 - £45,000	4%
	£45,001 - £65,000	0%
	Over £65,001	1%
Averages	Current Age	54
	Age Joined Fund	25
	Salary	£22,379.35
	Current Membership	29 years
Age Profile	36 - 40	1%
	41 - 45	6%
	46 - 50	16%
	51 - 55	27%
	56 - 60	41%
	61 - 65	9%
	66 - 70	Less than 1%

Report of the Clerk

Your Fund Statistics

DEFERRED MEMBERS

		2013	2014
Gender	Female	14%	14%
	Male	86%	86%
Averages	Current Age	50	51
	Annual Pension	£3,280.19	£3,366.75
Age Profile	36 - 40	Less than 1%	Less than 1%
	41 - 45	20%	16%
	46 - 50	28%	28%
	51 - 55	29%	31%
	56 - 60	21%	24%
	61 - 65	2%	1%

Report of the Clerk

Your Fund Statistics

PENSIONERS

(including dependants)

		2013	2014
Gender	Female	17%	18%
	Male	83%	82%
Averages	Current Age	67	68
	Age Pension Commenced	56	57
	Current Annual Pension	£5,653.63	£5,749.07
	Time in Receipt of Pension ...	11 years	11 years
Age Profile	0 - 50	2%	2%
	51 - 55	1%	1%
	56 - 60	7%	6%
	61 - 65	26%	25%
	66 - 70	31%	30%
	71 - 75	21%	22%
	76 - 80	10%	11%
	81 - 85	2%	3%
	86 - 90	0%	0%
	91 - 95	0%	0%
	96 - 100	0%	0%
	Oldest pensioner	84	85

Report of the Clerk

Retirement Analysis

During 2013/2014 we processed and paid 56 new retirement cases, compared to 48 in 2012/2013. A breakdown showing the types of retirements processed are listed opposite.

No pension or membership enhancements were granted by the employer for any of the retirement cases and the illhealth/incapacity retirement did not qualify for membership enhancement under the ill health provisions of the Scheme.

Type of Retirement	2012/13	2013/14
Voluntary (age 60 to 65)	45	46
Normal (age 65)	2	6
Late (over age 65)	0	1
Ill health/Incapacity	1	1
Early (with employers consent)	0	2

Report of the Clerk

Pensions Increase

Cost of living increases from Pension Increase Orders, applied to pension benefits (deferred and in payment) from the first Monday following the 5 April:

April 2010	April 2011	April 2012	April 2013	April 2014
0%	3.1%	5.2%	2.2%	2.7%

Employer Contribution Returns for 2013 - 2014

Employer	Employees (£) Contributions	Employers (£) Contributions	Deficit (£) Payment
First South Yorkshire Limited	393,464.72	1,330,447.49	2,291,666.63

Report of the Clerk

Service Delivery

Our performance in terms of meeting our published service standards over the year ending 31 March 2014 is given in the following table:

Key Service Standard	Target Days	Number Processed	In Time	Performance	Previous Years	
					2012 - 2013	2011 - 2012
General enquiries	5	42	42	100%	100%	100%
Additional benefits	12	0	---	---	100%	100%
Pension rights on divorce	5	5	5	100%	100%	100%
Retirement estimates	5	70	70	100%	100%	100%
Preserved benefits	20	12	12	100%	100%	100%
Transfers out	5	4	4	100%	100%	100%
Retirement benefits	5	64	64	100%	100%	100%
Death benefits	4	22	20	90.9%	100%	100%
All key tasks	----	219	217	99.1%	100%	100%

In addition to the key service standards opposite we have processed other items of casework during the year. These include changes to key membership data when scheme members have variations to their contracts of employment or leave to work with other scheme employers within the Fund. We are committed to ensuring our data is up to date and accurate and have developed a data

analysis tool which performs almost one hundred daily checks on all member records and reports on inconsistencies. We now have a dedicated team that investigates and clears these data queries.

We continue to provide newsletters to all members as well as information booklets and other web based information. Paying our pensioners is our top priority and we continue to do so

without fail. Annual pension forecasts are also issued to our active and deferred members.

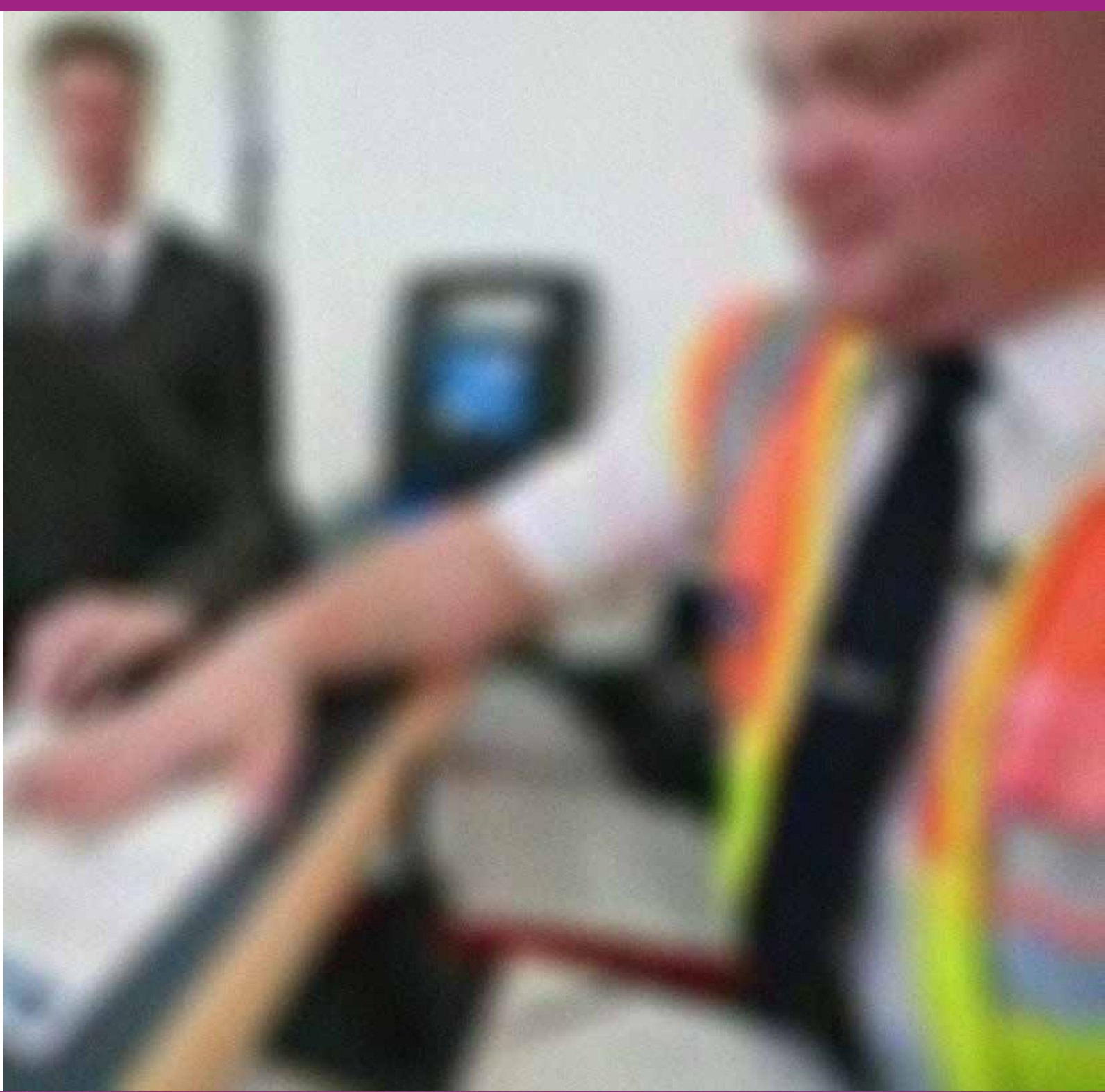
Report of the Clerk

Service Delivery continued

Our performance rating against satisfaction levels given by employers and members for 2012 - 2013 & 2013 - 2014.

	VERY SATISFIED		SATISFIED	
EMPLOYERS	52.9%	43.9%	47.1%	56.1%
MEMBERS	54.3%	71.9%	43.3%	23.7%
	2012 -2013	2013 -2014	2012 -2013	2013 -2014
	DISSATISFIED		VERY DISSATISFIED	
EMPLOYERS	0%	0%	0%	0%
MEMBERS	1.7%	3.5%	0.7%	0.9%
	2012 -2013	2013 -2014	2012 -2013	2013 -2014

The ratings shown are derived from responses to our many consultation questionnaires. Each questionnaire ends with a specific question about overall satisfaction with SYPA. Whilst satisfaction levels are currently high we are constantly striving to innovate and improve our overall service delivery.



Report of the Clerk

National Benchmarking

Each year we participate in a national pension administration benchmarking survey which measures our performance along with our cost effectiveness against 52 other Local Government Pension Funds. The results enable us to make relevant comparisons in order to monitor how effectively we administer the pension scheme.

Opposite is a summary of the latest results from the benchmarking report issued on 3 September 2013. Due to the timing of the report this will always be one year out of step with the period covered by the annual report.

The benchmarking results once again show our costs to be below average. This is something we

3 rd September 2013	
Cost per member <i>(Benchmarking average</i>	£20.03 £21.42)
Number of scheme members per staff member <i>(Benchmarking average</i>	3,994 3,863)
Number of employers <i>(Benchmarking average</i>	234 163)
SYPA retirees opting for maximum cash lump sum <i>(Benchmarking average</i>	87% 55%)
Staff with more than 15 years experience <i>(Benchmarking average</i>	43% 33%)

have consistently maintained over the last ten years and the 2013 result is the lowest since 2004. Whilst the results do not give an indication of the quality of service the member can expect to receive from us we know from our external verification (Customer Service Excellence) and our consultation surveys that this is highly rated too.

From the bare facts we can derive that, in terms of cost, our overall unit costs are below average as are our combined staff and payroll costs. Only our overheads are shown to be above average. The overall cost per member has reduced for the third consecutive year despite the fact that the amount of workload continues to increase.

Performance Comparison

Service	Benchmarking Target	SYPA	Average Fund
Letter giving transfer in quote	10 days	100%	87.9%
Letter giving transfer out quote	10 days	100%	89.8%
Process refund and arrange payment	5 days	98.2%	87.6%
Letter giving estimated retirement benefits	10 days	100%	90.8%
Letter giving actual retirement benefits	5 days	99.7%	89.5%
Process and pay lump sum retirement grant	5 days	99.7%	90.9%
Letter acknowledging death of member	5 days	100%	92.4%
Letter giving amount of dependants' benefits	5 days	100%	87.5%
Calculate and notify deferred benefits	10 days	95.3%	81.9%

In terms of performance, ours continues to be constantly higher than the average in each of the key service standards. It is also noteworthy that, unlike a significant number of funds, we are able to provide performance data across the whole range of services.

Report of the Clerk

Investment Management

Last year’s commentary hedged its bets by arguing that although the world’s financial markets had been propped up by symptomatic treatment rather than by a cure, the fact remained that the piles of money that the banks had created needed to go somewhere and equities were the least ugly alternative. The piece concluded that in such an environment investors would remain bullish and would do so as long as markets rose. Not much has changed! Perhaps the only thing that has, in fact, changed is a growing recognition of just how overblown the financial markets of 2008 had become and how difficult it is going to be to repair the damage such exuberance caused.

The near universality of asset overpricing then and its consequences remain the driving force of markets today. Although the stimulation provided by the central banks of the advanced economies has, at long last, started to deliver some respite (there are tentative signs that the global economy is recovering) the extent of the response remains disappointingly weak in a historical context. Moreover, the pick-up in growth hides significant regional inequalities.

Of course, it is important to remember that survival is under-appreciated and the Fund did more than survive: it actually performed well. Despite the

period being one during which managing to be both a successful buyer and a seller was not easy, the Fund outperformed its benchmark every quarter: for the year overall the Fund returned 4.9% compared to the benchmark return of just 1.8%.

The first part of the year was dominated by concerns over the withdrawal of or the scaling back of Quantitative Easing by the American central bank. Those fears never went away and the speed of ‘tapering’, as it became known as, was an undercurrent throughout the year. This was a major reason why the markets of the developed economies outperformed those of the

emerging markets. Another factor behind that split was anxiety over the pace and control of the downturn in China’s economy and its effect upon world trade. As the year progressed economic data in the developed economies generally improved so many equity markets overcame a mid-year wobble to close on or close to highs. Investors welcomed what they perceived to be greater stability and this led to an increased appetite for risk assets. Consequently, the demand for safe haven assets, such as sovereign bonds, reduced. As the year drew to a close geopolitical risks emerged which added to the pressures on developing markets.

Although it is recognised that the world is neither monolithic nor stagnant the Fund’s strategy remained largely unchanged. This decision was led by the special nature of the Fund’s benchmark which, in turn, reflects the maturity of the Fund. Although there is a need to ensure that there are sufficient protection assets within the portfolio to meet the actuary’s requirements the present historically low interest rate environment has contributed towards bonds becoming very expensive. Following discussions with the Fund’s advisor and actuary Members agreed that it was not opportune to rebalance the assets significantly and so for

most of the year the Fund was overweight in international equities and high yield bonds whilst it was light in UK equities and corporate bonds. In other words, there was little change to the Fund’s asset disposition over the period. Given the continuing outperformance of the overseas equity portfolios and strong returns from the property unit trust holdings this proved to be the correct route to follow. Nevertheless, it was necessary to trim those positions and the monies raised were reinvested in corporate and index linked bonds and used to meet pension requirements.

Report of the Clerk

Investment Management continued

Members began preliminary work on pre-empting the possible outcome of the actuarial valuation. It is important to ensure that the Fund's investment strategy is compatible with the assumptions that the actuary has used in determining his certificate. However, the valuation took longer than expected to finalise so that work has been delayed. It is unlikely to be concluded before the summer and will probably concentrate on ensuring that the amount and nature of the protection assets held is appropriate, given both the notional deficit remaining within the Fund and the pressures impinging upon the covenant strength of the sole contributing employer.

During the year Members undertook a review of the Fund's responsible investment policy in order to ensure that the Fund remained in the vanguard of this important topic. Members reiterated the Authority's long held belief that it is more responsible for a long-term investor to engage with the companies in which it invests in order to affect change than it is to divest. The Authority also believes that companies that observe sound corporate governance tend to produce the best shareholder returns over time.

It is expected that the challenging market dynamics will continue for some time. As the year progressed the belief grew that neither fixed income nor equity

markets appeared to have adequately priced in the potential downside risks to their valuations and as it drew to a close there did not appear to be a lot of inexpensive assets anywhere. The manager will endeavour to continue to deliver sound, cost effective management of the Fund in accordance with its long term horizons and requirements. It is recognised that to be around for the long term short term performance also has to be delivered. The art and skill lies in not being blown off course by short term turbulence but, instead, to focus upon the need to match the liabilities of the Fund.

John Hattersley,
Fund Director,
South Yorkshire Pensions Authority





4

investment
FIGURES &
REPORTS

Report of the Clerk

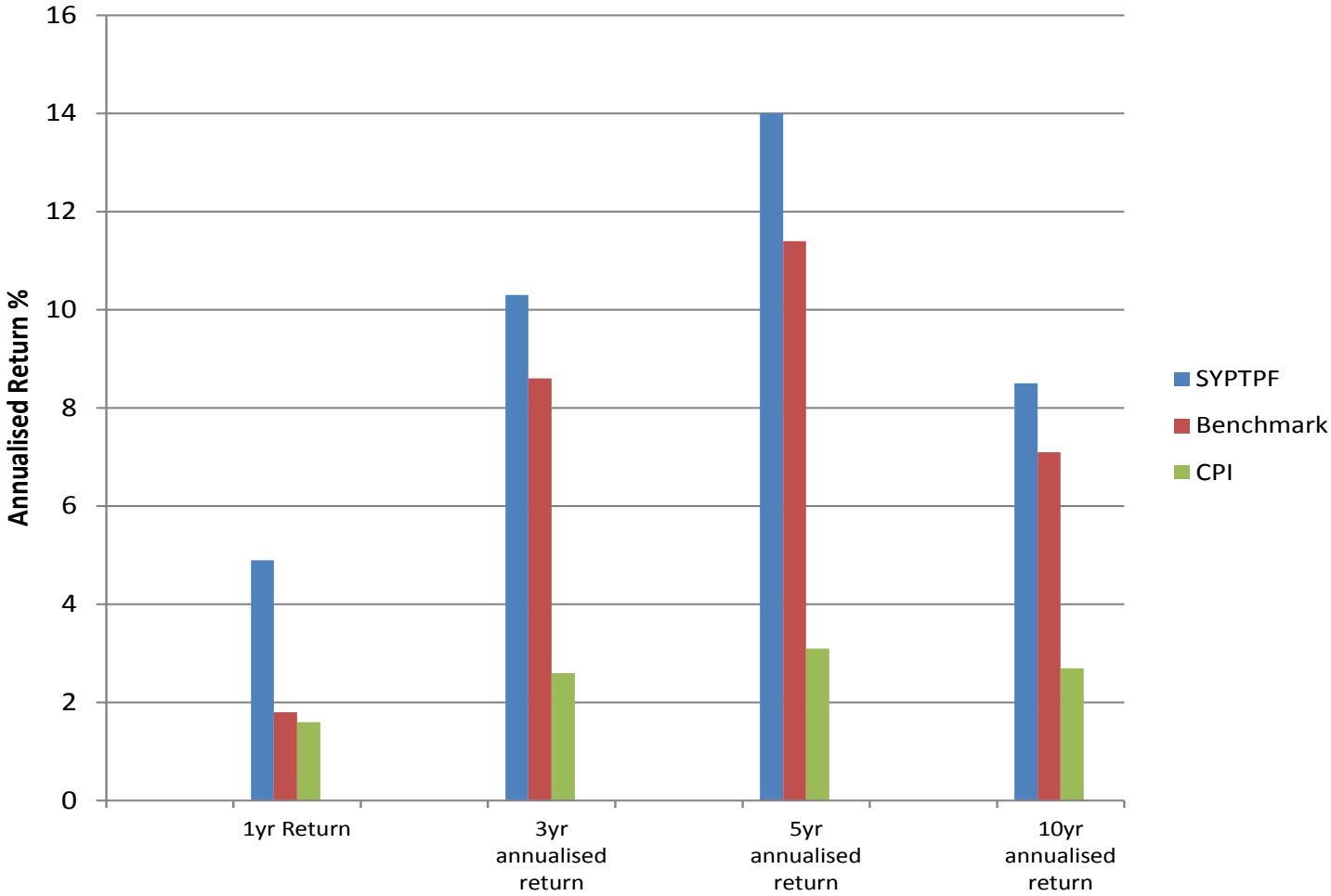
10 Year Annualised Figures - Comparison with Benchmark

CATEGORY	1 Yr Return		3 Yr Annualised Return		10 Yr Annualised Return	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
UK EQUITIES	9.1	8.8	9.4	8.8	9	8.6
OVERSEAS EQUITIES	14.5	5.9	13.7	6.8	10.5	7.6
INDEX LINKED GILTS	-3.8	-4.8	9	8.7	6.9	6.6
CORPORATE BONDS	2	1.5	9.3	8.8	#	
PROPERTY UNIT TRUSTS	14.4	11.9	7.1	6.1	#	
CASH	0.5		0.5		3.1	
TOTAL RETURN	4.9	1.8	10.3	8.6	8.5	7.1

not invested in this area for the entire period

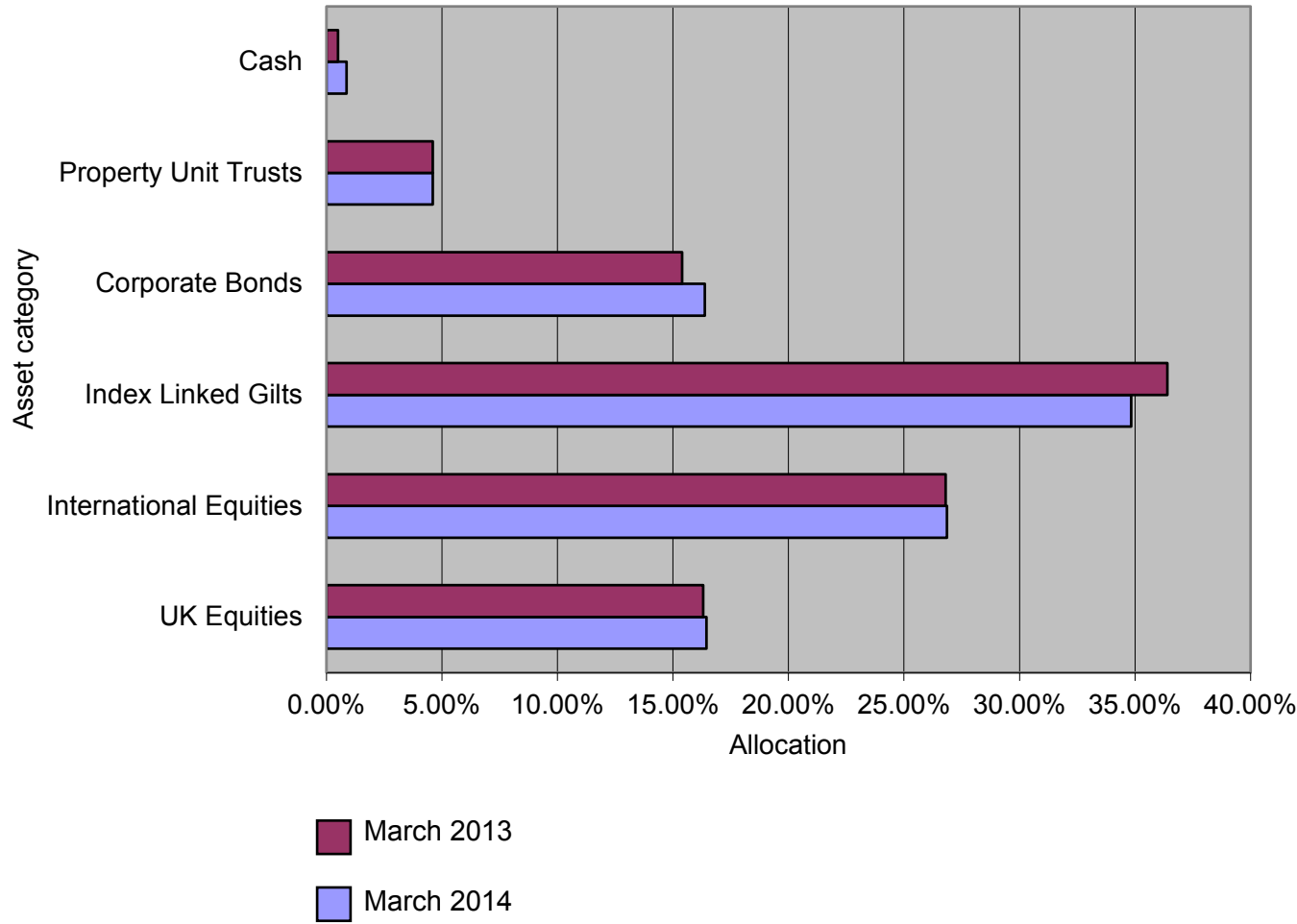
Report of the Clerk

Fund Performance



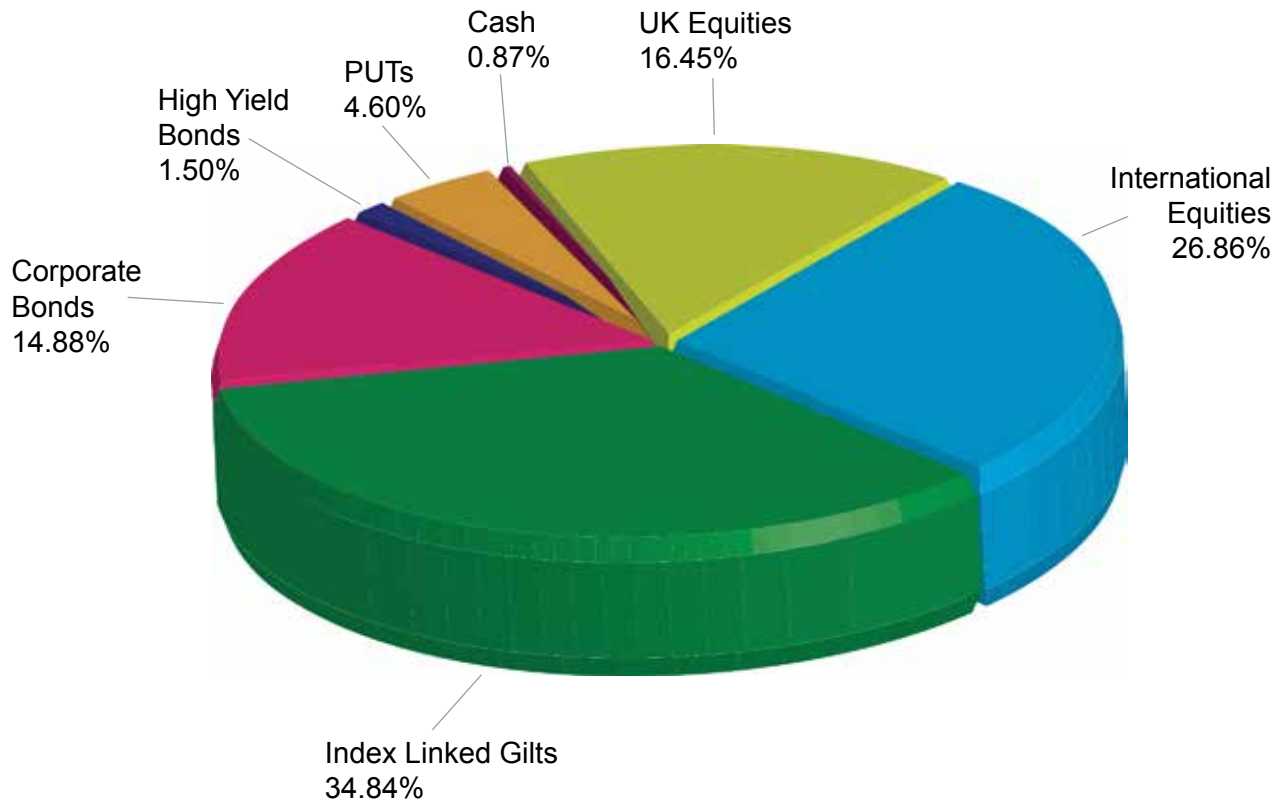
Report of the Clerk

Portfolio Weights



Report of the Clerk

Asset allocation by asset class as at 31 March 2014



Report of the Clerk

Ten largest directly held listed equity holdings by market value - at March 2014



Report of the Clerk

Ten largest directly held listed fixed interest bond holdings by market value:-

31 March 2014	£m
United Kingdom Index Linked 2.5% 2020	19.627
United Kingdom Index Linked 0.125% 2029	8.565
United Kingdom Index Linked 0.75% 2047	7.286
Network Rail Index Linked 1.375% 2037	5.249
United Kingdom Index Linked 0.625% 2040	4.914
Network Rail Index Linked 1.75% 2027	3.271
Nordic Invest Bank Index Linked 2.805% 2024	2.797
United Kingdom Index Linked 0.25% 2052	2.709
Southern Water Index Linked 3.706% 2034	2.407
National Grid Gas Index Linked 4.1875% 2022	1.796

Report of the Clerk

These two graphs illustrate in broad terms the strength of the recovery in equity markets after the 2008 financial crisis.

MSCI World Index 15 years



Source: Morningstar.

FTSE All-Share (UK) Index 15 years

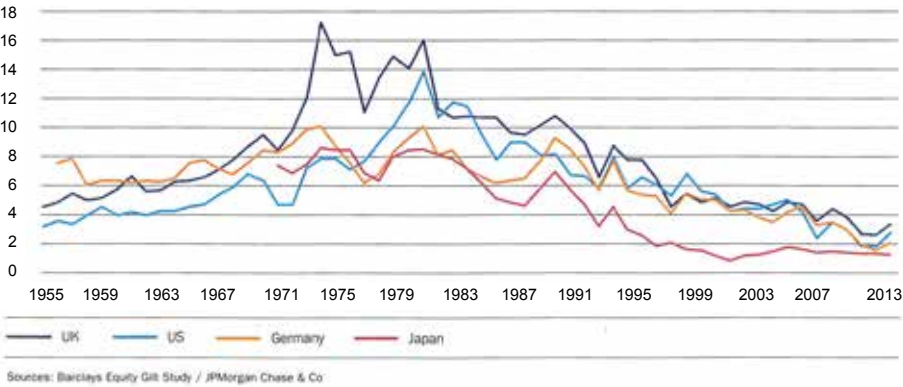


Source: Morningstar.

Report of the Clerk

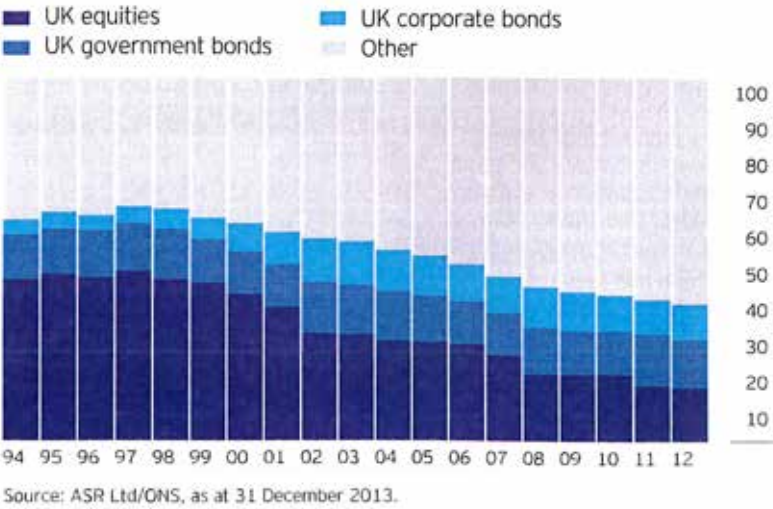
This graph traces the history of government bond yields for the major world economies. It shows that there has been a significant and prolonged fall since the early 1980s. Apart from illustrating the low interest returns current purchasers of such bonds will receive, it also shows that for many bonds issued at times of higher prevailing yields, there will be substantial capital losses as they trade back down to par over the remaining years of their lives.

Government Bond Yields



This chart indicates the asset allocation history of UK institutions and shows how the weighting given to UK equities has fallen from a peak in 1997 of almost 47% to about 15% by mid-2011. This is partly a function of the volatility of equities during the periods 2000-2003 and 2008-2009 but also reflects the pressure from regulators and actuaries on funds to increase their secured and less 'risky' income. This pressure has also, in part, contributed to the reduction in bond yields shown in the earlier graph.

Holdings as % of total assets by insurance companies, pension funds and investment trusts



Report of the Clerk

Property

The Fund does not hold any direct property assets but has a diversified portfolio of property funds.

The largest holdings by market value are shown below:

			£m
West of London PUT	London Office		2.128
F&C Fund Man Property Growth	Mixed		1.161
Hermes PUT	Mixed		0.973
Aviva UK Real Estate FoF	Mixed		0.730
Standard Life Shopping Centre Fund	Retail		0.693

Great George Street, London
Courtesy of Hermes Fund Managers





5

GOVERNANCE

Report of the Clerk

Corporate governance, responsible investing and shareholder activism

At its simplest corporate governance is about ensuring that the companies in which the Fund invests are using robust and responsible operational processes and policies. These are essential for financial success. At the same time the Fund recognises that social, environmental and external considerations can also affect financial return. There is evidence that those companies which adopt best practice in corporate governance matters ultimately outperform those that do not. Therefore, in order to reach its investment objectives the Authority decided to pursue such considerations when making investment decisions.

In order to act at all times in the best long-term interests of all its members the Authority looked to protect and enhance the economic value of the companies

in which it invests on their behalf. The Authority believed that there are some overarching principles of corporate governance that apply globally but recognised that practices do vary considerably. It acknowledged its responsibilities as an investor and considered how environmental, social and governance issues could be taken into account when managing investment portfolios. The Authority believed that the pursuit of standards of best practice aligns the interest of Fund members with those of fellow shareholders and with society as a whole and, therefore, would not actively disinvest from companies solely or principally because of social or ethical or environmental reasons. As responsible institutional investors the Fund seeks to influence companies' governance arrangements, environmental,

human rights and other policies by positive use of shareholder power. During the year the Committee reviewed its responsible investing policy and decided to publish a summary statement on its website. The Authority was also aware that, in response to a broader debate taking place regarding the concept of fiduciary duty arising out of the issues raised by the financial crisis, the Law Commission is consulting with stakeholders at the moment. It is awaiting the outcome with interest.

The Fund regards its voting rights as an asset and uses them carefully. The Authority established a set of voting guidelines which cover corporate governance issues and engaged a third party service provider to ensure that its votes are executed in accordance with

its policies. Its voting record is published on the Fund's website. The Authority reviewed its voting guidelines and shareholder engagement policies annually.

The Fund has limited resources and recognises that it is not always possible for it to conduct constructive engagement alone: therefore, it will enter into collaboration with other like-minded investors when the occasion warrants doing so and circumstances allow. The Authority was an active member and supporter of the Local Authority Pension Fund Forum and encouraged LAPFF in its campaigns and initiatives.

In 2009 the original Myners' Principles were reformed and adapted to meet the needs of the LGPS. Administering authorities are required to state compliance with these, on a 'comply or

explain basis', within their Statement of Investment Principles. There is no requirement that authorities implement every element of the Principles. SYITA did not fully comply because firstly, due to its closed status it decided that there was no advantage in compiling a business plan, and secondly, because it used the same practice for both actuarial and investment consultancy work: the latter reflected the historic position of the Fund. However, it did employ an additional independent advisor.

The Authority was supportive of the UK Stewardship Code and endorsed the 'comply or explain' approach it follows. The Authority believed it complied with the majority of the recommendations of the Code.

Report of the Clerk

Risk Management

The effective management of risk is a key consideration which lay at the heart of SYITA's operations and was reflected in the Authority's governance arrangements.

The Authority recognised that potentially the greatest risk the Fund faces is to have a fundamental mismatch between its assets and liabilities: the latter fall largely outside of its control. Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund whilst at the same time maximising the opportunity to achieve gains across the portfolio. The returns achieved from investment will, to a considerable degree, be determined by and reflect the level of risk which the Authority deemed to be acceptable when setting its strategy. Given the unique characteristics of the

Fund, the Authority determined a strategy which aims to reduce the level of uncontrolled risk in such a manner that is appropriate with its liability structure. This is partly achieved through asset diversification thereby reducing exposures to market risk (price risk, currency risk and interest rate) and this is reflected in the Fund's customised benchmark. The Fund has also employed a de-risking mechanism which is triggered when movements in the value of assets indicates that the mix between growth and protection portfolios needs to be adjusted. This mechanism was temporarily placed on hold whilst the actuarial valuation was carried out but will probably be reinstated as part of the asset and liability review during 2014. Liquidity risk is also managed to ensure that the Fund's forecast cash needs are met. The

benchmark, which reflected the risk and return expectations of the Authority, is reproduced within the Statement of Investment Principles. It is, of course, not possible to control the absolute return on investments. Over the longer term, however, by recognising the types of risks outlined the Authority sought to achieve the returns required to achieve the objectives of the Funding Strategy Statement (FSS). Further information regarding those objectives and how they relate to the actuarial valuation can be found in the FSS. Both the Authority and the appointed manager have established risk management policies. These were regularly reviewed by officers. The Committee considered risk matters at all of its meetings. The Authority recognised that risk was inherent in many of its

Publications

activities and sought to control risk rather than try to eliminate it. Without taking risks it will be difficult for the Fund to achieve the performance it needs if it is to meet its objectives.

Diana Terris
Clerk

As required by the LGPS Regulations a number of statutory documents are published by the Authority separately. The Government has recognised that amalgamating all of the prescribed disclosures into the annual report will result in an unwieldy document and has advised that the statutory requirement to publish these can be satisfied via references to them within the report. Accordingly, although the Statement of Investment Principles, Voting Guidelines and Responsible Investment Policy Statement are incorporated into this document all the others can be found on the Authority's website (www.sypensions.org.uk):-

- Consultation and Communication Policy
- Funding Strategy Statement
- Shareholder Engagement Statement
- Governance Compliance Statement



6

the REPORTS

Report of the Advisor 2013 - 2014

Benjamin Franklin famously wrote 'In this world nothing can be said to be certain, except death and taxes.' However, a year or so ago on behalf of the Fund, I attended a London seminar on longevity where a leading US scientist - certainly a radical but far from being a total crackpot - insisted with coherent arguments that there were people already born who would live to over 750 years and the average future lifespan could easily be in excess of 1000 years! Even if only partially true, I hardly need say what a devastatingly detrimental effect this would have on the funding and financing of a typical pension scheme. As regards taxation - the other so-called certainty - there have recently been a number of high profile press stories on global brand companies who have significant businesses in the UK

yet - due to clever international accountancy - effectively pay no UK corporation tax. Perhaps the certainty of death and taxes can be challenged?

More relevantly the Franklin quotation is pre-dated by a couple of millennia with the equally famous 'Change is the only constant in life' credited to a Greek philosopher Heraclitus of Ephesus. I have much more empathy with his sentiment as, in my experience, pension funds and their investment policies are constantly being challenged to change, not least by Governments who have a very different - and much shorter - view of 'long' when used in the context of 'long term funds' and/or 'long term investment'.

It is about three years since the (now Lord) Hutton report into the financing of public sector pension schemes, most of which are

unfunded with the LGPS (Local Government Pension Scheme) - of which this Fund is part - a significant exception in being funded. Hutton's report called for an investigation into the 'benefits of co-operative working between LGPS funds' with a view to making savings. The DCLG (Department of Communities and Local Government) have run with this goal re-expressed as:

(Primary) Improved investment returns and reduced pension deficits.

(Secondary) Investment fee and administration cost savings.

Increased flexibility of investment strategies while also facilitating infrastructure investment.

Better in-house resources.

To further pursue these goals DCLG began with a 'call for evidence'. During this phase the above goals were, more or less, shortened to 'save costs' which in

the context of pension schemes means cost savings on asset management fees which account for c90% of the total costs involved in running a typical scheme. DCLG subsequently issued consultation in May 2014 on several proposals designed to challenge LGPS funds to make savings in the following specific ways:

- By setting up CIVs (Common Investment Vehicles - a form of pooling funds, without merging, to benefit from increased scale);
- Greater use of passive management for listed securities such as equities and bonds, as the investment fees are normally considerably lower than for active management. In aggregate, the LGPS only matches benchmark indices so there is no added value in aggregate from paying the higher active management fees.

- Removal over time of the extra layer of fees incurred from 'fund of funds and/or manager of managers' - and hence more efficient investment - in a range of alternative investments such as property, Private Equity, hedge funds, infrastructure and so on.

The welcome news is that DCLG seem to have dismissed the idea of fund mergers, which would have been a regulatory nightmare and taken a long time to effect. The reason given for the change of tack is mainly due to the strong feelings expressed by the funds themselves that they currently have - and should continue to have - clear local accountability.

In terms of this particular Fund its relatively small size (c£200Mn) suggests it could potentially benefit from pooling. However, the Fund already benefits from the full spectrum of resources and

investment skills of the 'in-house' asset manager (South Yorkshire Pensions Authority) which, along with its management of the main South Yorkshire fund (c£5.5Bn), manages over 70% of this Fund. The remaining 30% is managed by the Fund's sole external asset manager, Old Mutual Global Investors. As I have commented upon several times, the Fund - while clearly part of the LGPS - has much more in common in investment policy with a private sector fund. Advanced maturity, closed to new entrants and a single sponsor has led the Fund to progressively de-risk its asset strategy as evidenced by the Fund's current exposure to growth (equities and property) and defensive assets (bonds) being about 50: 50% whereas the average LGPS fund is more like 75:25% respectively.

[Continues overleaf >>](#)

Report of the Advisor 2013 - 2014

As the Fund's investment policy is so bespoke - for example many of the bonds held broadly match specific duration liabilities - how other funds invest is of much less relevance. The Fund has no exposure to 'alternatives' other than its small holding in property unit trusts and while it does not have passive management it can demonstrate significant added value from active management.

To March 2013 (the equivalent figures for March 2014 are not yet available) WM - the Fund's performance measurer who measure the vast majority of LGPS funds - record that the Fund's returns over 3, 5 and 10 years rank it in the top 15% of all LGPS funds, despite its more defensive strategy which it also confirms. Even more impressively the Fund has beaten its strategic benchmark - through the added-value of active management -

by over 1% pa over the 3, 5 and 10 years. While these outperformances, which are rare enough in the pension fund investment world, are 'before' the Fund's asset management fees they have been relatively modest and considerably below average. In summary, this Fund's returns are relatively high from relatively low risk, and obtained with lower than average fees. I therefore conclude that this Fund has no obvious benefit to gain from the current thrust of the DCLG restructure consultation and is already an exemplar of good investment management. Long may it continue.

Eric Lambert



Statement by the Consulting Actuary

Actuarial valuations of the South Yorkshire Passenger Transport Pension Fund are carried out every three years, under the Local Government Pension Scheme Regulations. The latest completed valuation was carried out as at 31 March 2013.

The main purpose of the valuation is to check that the funding is on track and to review the employer’s (First South Yorkshire Limited) contribution rate. The valuation involves a large number of assumptions concerning the future development of the Fund’s assets and liabilities (i.e. the benefits payable). The 2013 valuation was made using the following financial assumptions:

Rate of return on investments:	
- pre retirement	6.6% per annum
- post retirement	5.5% per annum for current pensioners
	3.6% per annum for future pensioners
Rate of pay increases:	3.6% per annum
Rate of increases to pensions (above the Guaranteed Minimum Pensions)	2.5% per annum for current pensioners 2.7% per annum for future pensioners
Valuation of Assets	Market Value

The 2013 valuation showed that the assets were 86% of the value of the accrued liabilities based on the assumptions above. This percentage funding level is the same as that revealed at the 2010 valuation, but the amount of the shortfall has increased by over £6million. This is mainly due to the use of different actuarial assumptions to calculate the accrued liabilities, which more than offset the better than expected investment returns achieved over the period from 31 March 2010 to 31 March 2013.

The employer will pay contributions designed to bring the Fund back to a fully funded position over the 10 year period from the valuation date of 31 March 2013 if the assumptions are borne out in practice. Future payments will be made at an annual rate of £1.5 million, gradually stepping up each year thereafter to become £3.5 million by March 2019.

The 2013 valuation also revealed the contribution rate payable to the Fund by the employer with effect from 1 April 2014. This increased to 23.1%

of Pensionable Pay for the accrual of benefits from 1 April 2014 to 31 March 2017. The contribution rate allows for the change in benefits in the Local Government Pension Scheme from 1 April 2014, and was calculated using the projected unit actuarial method with a 3 year control period.

Further details are set out in the actuary’s valuation report dated 28 March 2014 and the Funding Strategy Statement prepared by the Administering Authority. The financial position of the Fund and the contribution rate payable to the Fund by the employer will be reviewed at the next actuarial valuation due as at 31 March 2016.

The Fund’s retirement experience is monitored by the Administering Authority and additional contributions will become due if necessary to protect the Fund against adverse retirement experience.

Barnett Waddingham LLP, May 2014

Independent Auditor’s Report

to the members of South Yorkshire Integrated Transport Authority on the pension fund financial statements published with the pension fund annual report

We have examined the pension fund financial statements for the year ended 31 March 2014 on pages 76 to 118.

Respective responsibilities of the Section 151 Officer and the auditor

As explained more fully in the Statement of Responsibilities, the Section 151 Officer is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report and Accounts with the pension fund financial statements included

in the annual published Statement of Accounts of South Yorkshire Integrated Transport Authority, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

In addition, we read the information given in the Pension Fund Annual Report and Accounts to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the administering authority’s annual published Statement of Accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published Statement of Accounts of South Yorkshire Integrated Transport Authority for the year ended 31 March 2014 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Matters that we are required to report by exception

The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- the information given in the Pension Fund Annual Report and Accounts for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 8 of the Audit Commission Act 1998 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

John Graham Prentice
for, and on behalf of, KPMG
LLP Appointed Auditor

Chartered Accountants

1 The Embankment
Neville Street
Leeds
LS1 4DW
30th September 2014



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the
FINANCE

South Yorkshire Integrated Transport Authority (ITA) Statement of Accounts

Statement of Responsibilities

The ITA's Responsibilities

The ITA is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In the ITA, that officer is the Clerk and Treasurer;
- manage its affairs to secure the economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

Signed on behalf of the Integrated Transport Authority by the Chair of the Audit Committee:

Date: 29th September 2014

South Yorkshire Integrated Transport Authority (ITA) Statement of Accounts

Statement of Responsibilities

The Section 151 Officer Responsibilities

The Section 151 Officer is responsible for the preparation of the ITA's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the Statement of Accounts, the Section 151 Officer has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code.

The Section 151 Officer has also:

- kept proper accounting records which were kept up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the attached Statement of Accounts presents a true and fair view of the financial position of the ITA at 31 March 2014 and its income and expenditure for the year then ended.

E. Walker CPFA, Section 151 Officer

Date: 29th September 2014

Fund Account

2012/2013 £'000		2013/2014 £'000	£'000	Note
Dealings with members, employers and others directly involved in the Fund				
3,893	Contributions receivable	4,248		7
50	Transfers in from other pension funds	31		8
3,943			4,279	
(9,953)	Benefits payable	(10,120)		9
(66)	Payments to and on account of leavers	(254)		10
(156)	Administration expenses	(157)		11
(10,175)			(10,531)	
(6,232)	Net additions/(withdrawals) from dealings with members		(6,252)	
Returns on investments				
5,039	Investment income	5,472		12
21,535	Profit and losses on disposal of investments and changes in value of investments	3,916		14
(28)	Taxes on income	(34)		12
(504)	Investment management expenses	(660)		13
26,042	Net returns on investments		8,694	
19,810	Net increase (decrease) in the net assets available for benefits during the year		2,442	
174,410	Net assets of the Fund at 1 April		194,220	
194,220	Net assets of the Fund at 31 March		196,662	

Net Assets Statement

31 March 2013 £'000		31 March 2014 £'000	£'000	Note
Investment assets				
29,807	Fixed Interest Securities	31,980		
82,509	Equities	83,909		
70,176	Index-Linked Securities	68,036		
8,862	Pooled Investment Vehicles	8,981		
332	Cash - Foreign currency	557		
873	Cash - Sterling	1,815		
1,457	Other investment balances	1,326		
194,016			196,604	
Investment liabilities				
(-)	Other investment liabilities	(-)		
(-)			(-)	
194,016	Net investment assets		196,604	16
294	Current assets	348		
-	Long Term Debtors	-		
294			348	21
(90)	Current liabilities		(290)	22
194,220	Net assets of the Fund available to fund benefits at 31 March		196,662	

Notes to the Pension Fund Accounts

1. Description of the Fund

a) General

The South Yorkshire Passenger Transport Pension Fund (“the Fund”) is part of the Local Government Pension Scheme (LGPS). It is a contributory defined benefit pension scheme. Each constituent LGPS fund is managed by an administering authority: in this case it is the South Yorkshire Integrated Transport Authority (“the Authority”).

The Authority has appointed South Yorkshire Pensions Authority (SYPA) to manage the day-to-day affairs of the Fund. This includes all aspects of pensions administration, including the calculation and payment of benefits, and the overall management of the Fund. The Authority has, in addition to SYPA, appointed Old Mutual Global Investors as an investment manager. More information is shown in Note 16. Barnett Waddingham LLP is the Fund’s retained actuary and Eric Lambert has been employed as an independent investment advisor. All of these appointments are governed by management agreements in accordance with LGPS Regulations and are kept under review.

The Authority has delegated its administering authority duties and responsibilities to a specialist Committee of six Authority councillors. Committee meetings are held at least quarterly and Authority and SYPA officers and independent advisors usually attend.

The Fund has only one contributing employer, First South Yorkshire Limited, and 2,139 members (see note 1b).

The Fund’s Statement of Investment Principles (SIP) and Funding Strategy Statement (FSS) were reviewed during the year. Copies of both are posted on the Fund’s website (www.sypensions.org.uk).

b) Membership

The following summarises the position with regard to membership as at 31 March:

	31 March 2014	31 March 2013
Active Contributors	251	292
Pensioners & Dependents	1,445	1,393
Deferred Pensions	443	461
Totals	2,139	2,146

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2014. Under the new LGPS scheme active member contribution rates will range from 5.5% to 12.5%, still maintaining an average of 6.5% with effect from 1 April 2014.

Employee contributions are matched by employer’s contributions which are set based on triennial actuarial funding valuations. The rates applying in 2013/14 were set in the valuation as at 31 March 2010 and employer contributions for 2013/14 were 21.5% of pensionable pay. The latest actuarial valuation was as at 31 March 2013 and the Employer’s contribution rate required to cover the cost of accruing benefits and expenses is 23.1% of pensionable pay from 1 April 2014.

Notes to the Pension Fund Accounts

d) Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service. There are a range of benefits provided under the scheme including early retirement, disability pensions and death benefits.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011. The main benefits are summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3/80 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

LGPS 2014

The LGPS scheme changes with effect from 1 April 2014 and benefits and contributions will change.

The main changes are:-

- Move to Career Average – pensionable pay for each year is used to calculate the pension accrual for that year. Each year’s pension accrual is then revalued (increased) by inflation, then each year’s revalued pension accrual is added together to arrive at the total pension to build up a Pension Account.
- Accrual rate of 1/49
- Contribution rates for employees (9 bandings) ranging from 5.5% to 12.5%

2. Basis of preparation

The Statement of Accounts summarises the Fund’s transactions for 2013/14 and its position at the year end of 31 March 2014. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is recognised by statute as representing proper accounting practice.

The accounts summarise the transactions of the Fund and show the net assets at the disposal of the Fund. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 20 of these accounts.

Notes to the Pension Fund Accounts

3. Accounting policies

Fund account - revenue recognition

A. Contributions income

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

B. Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see note 8).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

C. Investment Income

i. Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial

instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii. Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an investment asset.

iii. Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an investment asset.

iv. Movement in the net market value of investments
Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account – expense items

D. Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

E. Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

F. Administration expenses

All administration expenses are accounted for on an accruals basis. All costs incurred by SYPA (the Fund Manager) in respect of administration expenses are charged directly to the Fund.

G. Investment management expenses

All investment management expenses are accounted for on an accruals basis. Fees of the overseas equity portfolio manager are fixed, however the Authority has negotiated that an element of their fee be performance related. This performance related fee was £0.341m in 2013/14 (£0.268m in 2012/13).

All costs incurred by SYPA (the Fund Manager) in respect of investment management expenses are charged directly to the Fund.

Notes to the Pension Fund Accounts

Net assets statement

H. Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the Fund. The values of investments as shown in the net assets statement have been determined as follows:

i. *Market-quoted investments*
Quoted securities are valued at closing bid prices on the relevant stock market.

ii. *Fixed interest stocks*
Fixed interest stocks are included in the valuation on a “clean” basis (that is, excluding the value of interest accruing from the previous interest payment date to the valuation date).
The “clean” basis has been used for accounting for fixed interest stocks, including for purchase and sale activity on these stocks, as it enables the capital and income elements of total investment returns to be accounted for distinctly.

iii. *Unquoted investments*
The fair value of investments for which market quotations are not readily available is determined as follows:
Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.
Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
Directly held investments include investments in limited partnerships, shares in unlisted companies, trust and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation

of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
Investments in private equity funds and unquoted listed partnerships are valued based on the Fund’s share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines

set out by the British Venture Capital Association or other professional bodies.
iv. *Limited partnerships*
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
v. *Pooled investment vehicles*
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

I. **Foreign Currency transactions**
Dividends, interest and purchases and sales of investments in

foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period. Any gains or losses arising on conversion or translation are dealt with as part of the change in market value.

J. **Cash and cash equivalents**
Cash comprises cash in hand and demand deposits.
Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Notes to the Pension Fund Accounts

K. Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of liability are recognised by the Fund.

L. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed at the period end using a roll forward of the results of the triennial valuation (as at 31 March 2013) allowing for the different financial assumptions required under IAS19. As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by

way of a note to these accounts (Note 20).

M. Additional Voluntary Contributions (AVCs)

In accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009 No 3093) contributions to AVCs have not been included in either the Authority's Fund Account or Net Assets Statement, as they are paid directly to the AVC providers by employers of contributors. AVCs are specifically for the provision of additional benefits for individual contributors. AVC funds returned to the scheme and benefits paid as a result of this are included in the Fund account as part of Transfer values received and benefits paid respectively. Details of AVC investments are however shown in Note 23.

4. Critical judgements in applying accounting policies

Pension Fund liability

The pension fund liability is calculated every three years by the Fund's actuary, Barnett Waddingham, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with financial standards. Assumptions underpinning the valuations are agreed with the actuary and are disclosed in Notes 19 and 20. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions made about the future and other major sources of estimation uncertainty

The Pension Fund Accounts contain estimated figures that are based upon assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with

certainty, actual results could be materially different from the assumptions and estimates. The one item in the Pension Fund Accounts at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Barnett Waddingham) is engaged to provide the fund with expert advice about the assumptions to be applied.	The funding level at the 2013 actuarial valuation was 86%. The effects on the funding level of changes in individual assumptions can be measured. For instance, no allowance for asset performance in excess of gilt yields reduces the funding level by 13% (£37.5m). A 1.5% increase in mortality long term rate of improvement would reduce the funding level by 2% (£5.3m).

Notes to the Pension Fund Accounts

6. Events after the Balance sheet date

On the 1st April 2014 Statutory Instrument 863 (2014) brought into law the Barnsley, Doncaster, Rotherham and Sheffield Combined Authority Order. This Order created a Combined Authority (CA) for the area and at the same time dissolved the South Yorkshire Integrated Transport Authority (ITA). The Order conferred and imposed upon the CA the powers, competencies, functions and assets and liabilities of the ITA. However, as the Order did not affect the operational continuity of the ITA's powers, these Fund accounts have been completed on a going-concern basis.

The 31st March 2014 Net Assets of the Fund, as represented in these financial statements, will form part of the opening balances in the Pension Fund Accounts that are incorporated into the CA financial statements for financial year 2014/15.

7. Contributions receivable

Contributions represent the total amount receivable from First South Yorkshire Limited in respect of its own contributions and those of its pensionable employees.

When First South Yorkshire Limited (the Employer) retires staff early, on redundancy or efficiency grounds, a strain on the Fund is generated through the early payment of their benefits. From 1 April 1999 the Authority implemented a scheme that requires the employer to reimburse the fund for that strain by making capital injections over a phased period of up to 3 years. These capital injections are accounted for in full when they occur.

Analysis of contributions receivable:-	2013/14 £'000	2012/13 £'000
From Employers		
Normal Contributions	3,849	3,466
Additional cost of early retirement	-	-
	3,849	3,466
From Members	399	427
	4,248	3,893

8. Transfers In

	2013/14 £'000	2012/13 £'000
Individual transfers in from other LGPS funds	-	-
Individual transfers in from other schemes	31	50
Totals	31	50

9. Benefits payable

Analysis of benefits payable:-	2013/14 £'000	2012/13 £'000
Retirement Pensions	7,981	7,628
Commutation of benefits and lump sum retirement benefits	1,977	1,958
Lump sum death benefits	162	367
Totals	10,120	9,953

Notes to the Pension Fund Accounts

10. Payments to and on account of leavers

	2013/14	2012/13
	£'000	£'000
Individual transfers out to other LGPS funds	67	-
Individual transfers out to other schemes	187	66
Refunds of contributions	-	-
Totals	254	66

11. Administration Expenses

	2013/14	2012/13
	£'000	£'000
Benefits Administration	40	43
General Administration	107	67
VAT Liability	10	46
	157	156

The General Administration cost includes fees payable to the Fund’s auditor KPMG of £21,000 (£21,000 in 2012/13)

12. Investment Income

	2013/14	2012/13
	£'000	£'000
Interest from fixed interest securities	1,597	1,538
Dividends from equities	2,537	2,126
Income from index-linked securities	1,001	972
Income from pooled investment vehicles (property)	343	404
Interest on cash deposits	5	3
Other	(11)	(4)
	5,472	5,039
Irrecoverable withholding tax -equities	(34)	(28)
Total Investment Income	5,438	5,011

13. Investment Management Expenses

	2013/14	2012/13
	£'000	£'000
South Yorkshire Pensions Authority	87	91
Old Mutual	369	295
Other Management Expenses	159	118
VAT Liability	45	-
	660	504

Notes to the Pension Fund Accounts

14. Change in Market Value of Investments

The change in market value of investments during the year comprises all the increases and decreases in the market value of investments held at any time during the year, including all realised and unrealised profits and losses.

	Mkt Value at 1/4/13	Purchases at Cost	Sale Proceeds	Change in Mkt Value	Mkt Value at 31/3/14
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	29,807	8,214	(5,058)	(983)	31,980
Equities	82,509	97,345	(103,681)	7,736	83,909
Index-Linked Securities	70,176	12,525	(10,948)	(3,717)	68,036
Pooled Investment Vehicles	8,862	-	(811)	930	8,981
	191,354	118,084	(120,498)	3,966	192,906
Cash - Foreign currency	332			(50)	557
Cash - Sterling	873				1,815
Other investment assets	1,457				1,326
Other investment liabilities	-				-
NET INVESTMENT ASSETS	194,016			3,916	196,604

Previous Year Comparative

	Mkt Value at 1/4/12	Purchases at Cost	Sale Proceeds	Change in Mkt Value	Mkt Value at 31/3/13
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	27,667	5,645	(6,021)	2,516	29,807
Equities	70,347	82,459	(83,512)	13,215	82,509
Index-Linked Securities	64,641	2,281	(2,679)	5,933	70,176
Pooled Investment Vehicles	9,013	-	(16)	(135)	8,862
	171,668	90,385	(92,228)	21,529	191,354
Cash - Foreign currency	370			6	332
Cash - Sterling	795				873
Other investment assets	1,385				1,457
Other investment liabilities	-				-
NET INVESTMENT ASSETS	174,218			21,535	194,016

Notes to the Pension Fund Accounts

15. Investment Position

The Fund’s market value (not including current net assets) rose during the year and closed at £196.6m (£194.0m in 2012/13) producing an overall return of 4.9% (15.8% in 2012/13). The Fund’s benchmark return was 1.8% (13.2% in 2012/13).

Although the early part of the year was marked by concerns over the withdrawal of or the scaling back of Quantitative Easing by the American central bank and the latter part by the slowdown of growth in China and other emerging markets the background was of a gradual improvement in the fortunes of the developed economies. The Fund’s strategy remained largely unaltered and there was little change to the Fund’s asset disposition over the period. This decision was led by the special

nature of the Fund’s benchmark which, in turn, reflects the maturity of the Fund. Given the continuing outperformance of the overseas equity portfolios and strong returns from the property unit trust holdings this proved to be the correct route to follow.

An analysis by investment manager is shown in Note 16.

The total value of purchases and sales made during the year is as follows:

	2013/14	2012/13
	£’000	£’000
Purchases	118,084	90,385
Sales	120,498	92,228

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Fund such as fees,

commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £153,618 (£94,496 in 2012/13). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

16. Net Investment Assets

	31/03/14	31/03/13
	£’000	£’000
Fixed Interest Securities		
UK corporate bonds	31,980	29,807
Equities		
UK quoted	32,125	31,330
Overseas quoted	51,784	51,179
	83,909	82,509
Index Linked Securities		
UK public sector quoted	57,904	48,816
UK corporate bonds	10,132	21,360
	68,036	70,176
Pooled Investment Vehicles		
UK Property	8,981	8,862
Cash - Foreign currency	557	332
Cash - Sterling	1,815	873
Other investment assets (broker balances, outstanding dividend entitlement and recoverable withholding tax)	1,326	1,457
Other investment liabilities (broker balances)	-	-
Total Investment Assets	196,604	194,016

Notes to the Pension Fund Accounts

The Fund has one investment that represents more than 5% of the net assets of the Scheme:

2013/14

Security	Holding	Valuation £'000	% of total fund
Treasury Index Linked 2020	5,395,000	19,627	10.0

2012/13

Security	Holding	Valuation £'000	% of total fund
Treasury Index Linked 2020	6,475,000	25,407	13.1

Analysis of the market value of investments by investment manager at 31 March 2014.

Manager	£'000	%
South Yorkshire Pensions Authority	148,036	75.30
Old Mutual (overseas equities)	48,568	24.70
Investments at market value	196,604	100.00

17. Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

The Fund’s financial instruments are the investment assets and debtors and creditors, these are all disclosed on the Net Assets Statement. The assets and debtors are all carried at fair value. The creditors are carried at amortised cost.

Notes to the Pension Fund Accounts

a) Classification of Financial Instruments

The items in the Net Assets Statement are made up of the following categories of financial instrument:

	31 March 2014 £'000	31 March 2013 £'000
FAIR VALUE THROUGH PROFIT OR LOSS		
Financial Assets		
Fixed Interest Securities	31,980	29,807
Equities	83,909	82,509
Index-Linked Securities	68,036	70,176
Pooled Investment Vehicles	8,981	8,862
Other investment balances	1,326	1,457
Total	194,232	192,811
Financial Liabilities		
Other investment balances	(-)	(-)
Total	(-)	(-)
LOANS AND RECEIVABLES		
Financial Assets		
Cash – Foreign currency	557	332
Cash - Sterling	1,815	873
Current assets	348	294
Total	2,720	1,499
FINANCIAL LIABILITIES AT AMORTISED COST		
Financial Liabilities		
Current liabilities	(290)	(90)
Total	(290)	(90)

See Note 3(H) re method of valuation of asset classes. Debtors and creditors are included at cost.

b) Net gains and losses on Financial Instruments

	31 March 2014 £'000	31 March 2013 £'000
Financial Assets		
Fair value through profit and loss	3,966	21,529
Loans and receivables	(50)	6
Financial Liabilities		
Fair value through profit and loss	(-)	(-)
Financial liabilities measured at amortised cost	-	-
Total	3,916	21,535

Notes to the Pension Fund Accounts

c) Fair value of Financial Instruments

The following table summarises the carrying values of the categories of financial assets and liabilities presented in the Net Assets Statement:

	Carrying amount 31 March 2014 £'000	Fair Value £'000	Carrying amount 31 March 2013 £'000	Fair Value £'000
Financial Assets				
Trading and other financial assets at fair value through profit or loss	194,232	194,232	192,811	192,811
Loans and receivables	2,720	2,720	1,499	1,499
Total financial assets	196,952	196,952	194,310	194,310
Financial Liabilities				
Trading and other financial assets at fair value through profit or loss	(-)	(-)	(-)	(-)
Financial liabilities at amortised cost	(290)	(290)	(90)	(90)
Total Financial Liabilities	(290)	(290)	(90)	(90)

See Note 3(h) for method of valuation for asset classes. Debtors and creditors are included at cost.
Gains/losses are reflected in the change in market value and in investment income in the Fund Account (See Note 14).

d) Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. Previously we classified fixed income instruments as level 1 but on reflection this year they have been classified as level 2 because of the composite pricing of these instruments. Previous year figures have been amended to reflect this change.

Level 1
Financial instruments at Level 1 are those where the fair value are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. This includes composite prices for fixed income instruments and fund net asset value prices.

Level 3
Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's

valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgment in determining appropriate assumptions. Investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association or other professional bodies.

Notes to the Pension Fund Accounts

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

2014	Quoted market price	Using observable inputs	With significant unobservable inputs	
Value at 31 March 2014	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets				
Financial assets at fair value through profit or loss	85,235	108,997	-	194,232
Loans and receivables	2,720	-	-	2,720
Total financial assets	87,955	108,997	-	196,952
Financial Liabilities				
Financial assets at fair value through profit or loss	(-)	(-)	(-)	(-)
Financial liabilities at amortised cost	(290)	(-)	(-)	(290)
Total Financial Liabilities	(290)	(-)	(-)	(290)
Net financial assets	87,665	108,997	-	196,662

Previous Year Comparative

2013	Quoted market price	Using observable inputs	With significant unobservable inputs	
Value at 31 March 2013	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets				
Financial assets at fair value through profit or loss	83,966	108,845	-	192,811
Loans and receivables	1,499	-	-	1,499
Total financial assets	85,465	108,845	-	194,310
Financial Liabilities				
Financial assets at fair value through profit or loss	(-)	(-)	(-)	(-)
Financial liabilities at amortised cost	(90)	(-)	(-)	(90)
Total Financial Liabilities	(90)	(-)	(-)	(90)
Net financial assets	85,375	108,845	-	194,220

Notes to the Pension Fund Accounts

18. Nature and extent of risks arising from Financial Instruments

The Fund’s activities expose it to a variety of financial risks:

- market risk - the possibility that financial loss might arise for the Fund as a result of changes in such measures as interest rates and stock market movements.
- credit risk - the possibility that other parties might fail to pay amounts due to the Fund
- liquidity risk - the possibility that the Fund might not have funds available to meet its commitments to make payments

The management of risk is described within the Fund’s Statement of Investment Principles (SIP) which is included in the published report and accounts and also posted on the Fund’s website (www.sypensions.org.uk).

It centres upon the adoption of an investment strategy, as represented by the Fund’s customised benchmark, which is appropriate to meet the objectives of the Funding Strategy Statement. It focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the resources available to fund services.

The Fund Manager’s (SYPA) treasury management activities are governed by the Local Government Act 2003 and the Fund has broadly adopted CIPFA’s Treasury Management Code of Practice. The annual Treasury Management Strategy was approved by SYPA in March 2013.

As a pension fund the primary risks which affect it are market risk and credit risk.

a. Market Risk

Market Risk – Price Risk –

The Fund publishes its SIP which details how the real risk of negative returns due to price fluctuations is managed.

Because different asset classes have different risk and return characteristics they will react differently to external events and will not necessarily do so in a pre-determined or correlated manner to each other. No single asset class or market acts in isolation from other assets or markets. It is, therefore, extremely difficult to meaningfully estimate the consequences of a particular event in a particular asset on other asset classes. It is important to recognise that returns, volatility and risks vary over time.

In order to minimise the risks associated with market movements the Fund is well

diversified across asset classes and within individual portfolios and constantly monitored and reviewed.

Price risk – sensitivity analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. ‘Riskier’ assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome depends largely on the Fund’s’ asset allocations. Based on this the following movements in market price risk are reasonably possible for the 2014/15 reporting period.

Asset type	Potential market movements (+/-)	
	31 March 2014	31 March 2013
Bonds	6.00%	5.89%
UK Equities	12.26%	13.23%
Overseas Equities	11.62%	12.78%
Index Linked securities	8.10%	9.38%
Property (unit trusts)	3.11%	4.62%

This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Notes to the Pension Fund Accounts

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows:

Asset type	Value as at 31 March 2014	Percentage change	Value on increase	Value on decrease
2014	£'000	%	£'000	£'000
Bonds	31,980	6.00	33,899	30,061
UK Equities	32,125	12.26	36,064	28,186
Overseas equities	51,784	11.62	57,801	45,767
Index linked securities	68,036	8.10	73,547	62,525
Property (unit trusts)	8,981	3.11	9,260	8,702
Cash - Foreign currency	557	0	557	557
Cash - Sterling	1,815	0	1,815	1,815
Other investment assets	1,326	0	1,326	1,326
Net investment assets	196,604		214,269	178,939

Previous Year Comparative

Asset type	Value as at 31 March 2013	Percentage change	Value on increase	Value on decrease
2013	£'000	%	£'000	£'000
Bonds	29,807	5.89	31,563	28,051
UK Equities	31,330	13.23	35,475	27,185
Overseas equities	51,179	12.78	57,720	44,638
Index linked securities	70,176	9.38	76,759	63,593
Property (unit trusts)	8,862	4.62	9,271	8,453
Cash - Foreign currency	332	0	332	332
Cash - Sterling	873	0	873	873
Other investment assets	1,457	0	1,457	1,457
Net investment assets	194,016		213,450	174,582

Notes to the Pension Fund Accounts

Market Risk – Interest Rate Risk – This primarily impacts upon the valuation of the Fund’s bond holdings and, to a lesser degree, the return it receives on cash held. A rise in interest rates would lead to the income earned on variable rate investments increasing but would cause the value of fixed rate investments to fall. The Fund’s correlation to interest rates will vary depending upon the profile of investments held.

The Fund manages its cash investments with a view to obtaining the best returns possible whilst ensuring the security of the deposits. The Fund also holds foreign currency balances which could be affected by interest rate movements but are more sensitive

to exchange rate movements (see Market risk – Currency risk).

The Fund’s direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2014	As at 31 March 2013
	£’000	£’000
Cash - Sterling	1,815	873
Total	1,815	873

Interest rate risk – sensitivity analysis
The Authority recognises that interest rates can vary and can affect both income to the fund and the value of the net assets.

The one standard deviation of the 10 year government bond yield (annualised) amounts to just over 0.9%.

The following analysis assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets of a +/- 0.9% (0.87% at 31 March 2013) change in interest rates:

Asset type	Carrying amount as at 31 March 2014	Change in year in the net assets	
2014	£’000	+0.9% £’000	-0.9% £’000
Cash - Sterling	1815	16	(16)
Total change in assets available	1815	16	(16)

Asset type	Carrying amount as at 31 March 2013	Change in year in the net assets	
2013	£’000	+0.87% £’000	-0.87% £’000
Cash - Sterling	873	8	(8)
Total change in assets available	873	8	(8)

Notes to the Pension Fund Accounts

Market Risk – Currency Risk – the Fund holds cash balances in foreign currency and has investments quoted in foreign currency. The risk of exchange rate movements is accepted as part of the overall management strategy of the Fund.

The following table summarises the Fund’s currency exposure as at 31 March 2014 and as at the previous year end:

Currency exposure - Asset type	Asset value as at 31 March 2014	Asset value as at 31 March 2013
	£'000	£'000
Overseas quoted securities	51,784	51,179
Overseas property funds	-	-
Cash - Foreign currency	557	332
Total overseas assets	52,341	51,511

Currency risk – sensitivity analysis

The potential volatility of the aggregate currency exposure within the fund based on historical data for the last 3 years associated with foreign exchange rate movements is 7.91% (7.73% at 31 March 2013).

A 7.91% (7.73%) strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets as follows:

Currency exposure – Asset type	Asset value as at 31 March 2014	Change in year in the net assets	
2014	£'000	+7.91% £'000	-7.91% £'000
Overseas quoted securities	51,784	55,880	47,688
Overseas property funds	-	-	-
Cash - Foreign currency	557	601	513
Total change in assets available	52,341	56,481	48,201

Currency exposure – Asset type	Asset value as at 31 March 2013	Change in year in the net assets	
2013	£'000	+7.73% £'000	-7.73% £'000
Overseas quoted securities	51,179	55,136	47,223
Overseas property funds	-	-	-
Cash - Foreign currency	332	358	306
Total change in assets available	51,511	55,494	47,529

Notes to the Pension Fund Accounts

b. Credit Risk

Credit Risk - arises from deposits with banks and financial institutions, as well as credit exposures to the Fund's customers. The risk is minimised through the SYPA Treasury Management Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum criteria set by SYPA. The Treasury Management Strategy also imposes a maximum sum to be invested with each institution. In practice the Fund holds minimal cash balances. Counterparties must have a short term debt credit rating of F1 or better.

The Fund's benchmark allows for cash at 31 March 2014 to a maximum of 5% of the Fund (actual cash holdings were 0.9%).

Interest received on advances during 2013/14 was £4,464 (£1,843 in 2012/13) at an average rate of 0.35% (0.35% in 2012/13) (as the Fund maintains short term deposits only, the rate of interest is closely aligned to the Bank of England base rate which has remained at 0.5% since March 2009). For illustration purposes an increase of 0.25% in interest rates achieved would have resulted in an increase of £3,188 (£1,316) in interest received provided that bank balances had remained the same.

c. Liquidity Risk

Liquidity Risk - the Fund ensures it has adequate cash resources to meet its commitments. This is particularly the case for cash to meet pensioner payroll costs and investment commitments.

The Fund has immediate access to its cash holdings with a majority of cash being deposited for no longer than a week and no cash being deposited for more than a month. Also the Fund holds Government bonds amounting to £57.9m (£48.8m at 31 March 2013) which can be realised within a week in normal market conditions, if necessary, to meet expected or unexpected demands for cash.

All financial liabilities are due to be paid in less than one year.

19. Actuarial Position

In accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008, Barnett Waddingham, the consulting actuary, carried out an examination of the financial position of the Fund as at 31 March 2013. The market value of the Fund's assets at the date of the valuation was £194.220m. The previous valuation had been completed as at 31 March 2010 (market value £158.374m).

The assumptions adopted are (2010 valuation assumptions shown in brackets):-

Financial assumptions

	(non-pensioner/ pensioner)	
Price inflation RPI	3.6% / 3.4%	(3.6%)
Price inflation CPI	2.7% / 2.5%	(3.0%)
General earnings increases	3.6%	(3.85%)
Investment return		
- before retirement	6.6%	(6.5%)
- after retirement	3.6% / 2.8%	(5.5%)

Demographic assumptions

Mortality table	120% S1PA	
Ill-health mortality table	120% S1PA + 6 years	
Mortality projections	CMI_2012 long term rate of improvement 1.0% pa	(CMI_2009 long term rate of improvement 0.5% pa)
Allowance for cash commutation	70% of members elect to take maximum cash	

The funding objective is to ensure that the funding level is 100% and that the long term future contribution rate is relatively stable over time.

On an ongoing basis, the Fund had a valuation deficit in respect of past service rights of £32.8m at 31 March 2013 (£26.5m at 31 March 2010). This represents a funding level of 86% (86% at 31 March 2010).

The contribution rate payable by First South Yorkshire Limited has been calculated at 23.1% (21.5% in 2010) per annum and will be effective throughout the three year period 1 April 2014 to 31 March 2017.

Notes to the Pension Fund Accounts

20. Actuarial Present Value of Promised Retirement Benefits

IAS26 requires the present value of the Fund's promised retirement benefits to be disclosed. To assess the value of the liabilities as at 31 March 2014 the actuary has rolled forward the value calculated for the triennial valuation as at 31 March 2013 allowing for the different financial assumptions required under IAS19.

The financial assumptions used for the purposes of the calculations are shown in the table below:-

	31 March 2014	31 March 2013
CPI increases	2.6% p.a.	2.5% p.a.
Salary increases	3.5% p.a.	3.55% p.a.
Pension increases	2.6% p.a.	2.5% p.a.
Discount rate	4.3% p.a.	4.1% p.a.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2014 without completing a full valuation. However the actuary is satisfied that the approach of rolling forward the previous valuation results to 31 March 2014 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. There appears to be no evidence that this approach is not appropriate.

On this basis, the value, for IAS26 purposes, of the Fund's promised retirement benefits as at 31 March 2014 was £209.26m (£219.592m as at 31 March 2013) giving a net liability of £12.598m (£25.372m as at 31 March 2013)..

The Actuarial Present Value of Fund Obligation consists entirely of Vested Obligations.

21. Current Assets

Debtors:

	31 March 2014	31 March 2013
	£'000	£'000
Contributions due - employers	227	188
Contributions due - employees	5	6
Additional costs of early retirement	-	-
Sundry debtors	116	100
	348	294

Analysis of debtors:

	31 March 2014	31 March 2013
	£'000	£'000
Central government bodies	55	42
Other local authorities	232	213
Public corporations and trading funds	-	-
Other entities and individuals	61	39
	348	294

There are no long term debtors.

Notes to the Pension Fund Accounts

22. Current Liabilities

Creditors:

	31 March 2014	31 March 2013
	£'000	£'000
Benefits Payable	213	41
Sundry creditors	77	49
	290	90

Analysis of creditors:

	31 March 2014	31 March 2013
	£'000	£'000
Other local authorities	42	25
Public corporations and trading funds	9	11
Other entities and individuals	239	54
	290	90

23. Additional Voluntary Contributions

Additional Voluntary Contributions (AVCs) made by pension fund contributors are managed by Equitable Life, Scottish Widows and Prudential. The Fund value of AVCs with these managers and contributions received during the year are shown opposite:

	Fund Value		Contributions received	
	31/3/14	31/3/13	2013/14	2012/13
	£'000	£'000	£'000	£'000
Equitable Life	10	39	-	2
Scottish Widows	203	194	3	2
Prudential	-	-	-	7

Notes to the Pension Fund Accounts

24. Related Party Transactions

There are no material transactions with related parties other than those which have been properly recorded and disclosed elsewhere in the accounts.

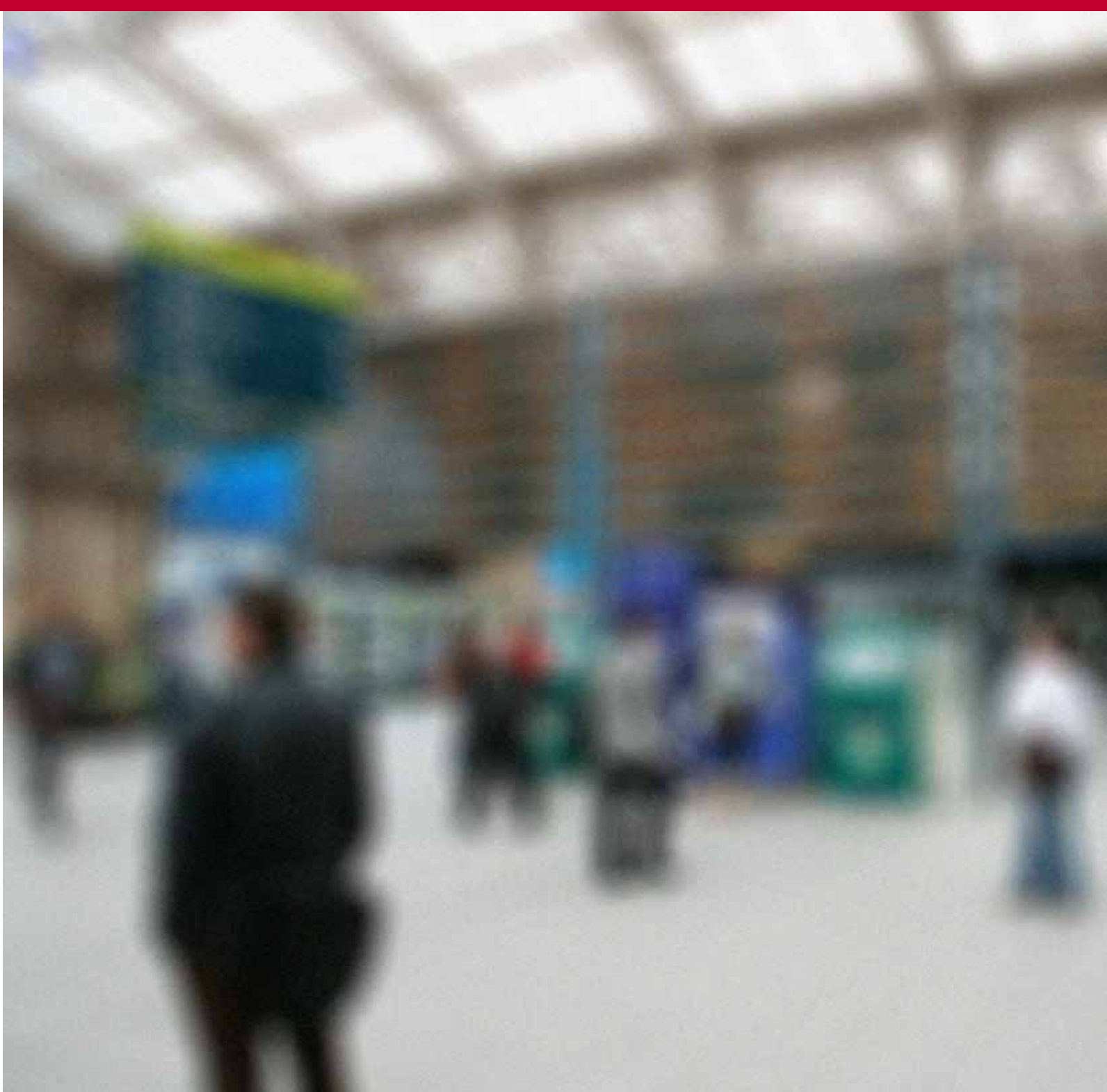
The employer, First South Yorkshire Limited, is a related party to the Fund and has material transactions with the Authority during the year in the form of contributions described elsewhere in the accounts.

The fund managers are related parties to the Fund and fees paid to them are included in Investment management expenses (see Note 13).

25. Compensation Payments

The Fund makes compensation payments in respect of non-statutory pension benefits (e.g. ‘added years’). These costs are not chargeable to the Fund, but are recovered from First South Yorkshire Limited.

During 2013/14, the Fund made payments in respect of non-statutory pension benefits of £110,062 (£111,457 in 2012/13).





Policies & PRINCIPLES

Statement of Investment Principles

at 1st October 2013

1) Background

1.1
The Local Government Pension Scheme (LGPS) is established and governed by statute and its purpose is to provide death and retirement benefits for all eligible employees. It is a nationwide contributory, defined benefit occupational pension scheme administered at a local level by a number of so-called administering authorities. This Authority became an administering authority of the LGPS following the publication of Statutory Instrument 1993 No 2783 in 1993. Administering authorities are required to publish a Statement of Investment Principles which records the investment policy of the Fund and which refers to certain stipulated key issues.

1.2
This Statement meets those obligations and in preparing it the Authority has consulted those persons it considered appropriate.

1.3
The Authority has established policies on corporate governance and voting matters.

2) Introduction

2.1
The investment powers of the Authority are vested in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009: SI 2009/3093 (“the Regulations”) which sets out what the Authority must consider when carrying out its responsibilities as an administering authority. In addition, common law requires the Authority to manage the Fund in the best financial interests of its members and beneficiaries at all times.

2.2
The Authority has established a Committee to manage the Fund on its behalf and has granted it all the powers it needs. The Committee is comprised of six councillors drawn from the Authority and selected in accordance with the Authority’s Constitution.

2.3
The Committee is responsible for setting the strategic asset allocation of the Fund but has delegated its day to day management responsibilities to its senior officer, the Clerk and Treasurer. The Committee meets not less than four times per year: it also liaises with representatives of the employer and the trades unions at least quarterly. As well as obtaining advice from Authority officers and its external managers it has also appointed an independent advisor to advise

it on investment matters and an actuary to prepare actuarial valuations and to advise it on all liability issues. However, the ultimate responsibility for investment strategy rests with the Authority.

2.4
The Authority has appointed two external managers to run its investment portfolios. One manager is responsible for publicly listed developed market overseas equities whilst the other, South Yorkshire Pensions Authority, manages all other asset classes and monitors the Fund’s funding level. The latter also provides administrative and advisory services to the Authority. These arrangements are governed by separate management agreements.

3) Investment objectives and the management of investment risk

3.1
The main investment objective of the Fund is to ensure that over the long term it will have sufficient assets to meet all of its pension liabilities as they fall due. This objective is more fully explained in the Authority’s Funding Strategy Statement [FSS] (which needs to be read in conjunction with this Statement) which is derived from the triennial actuarial valuations of the Fund. The crux of the FSS is the need to achieve a future funding level of 100% or better whilst maintaining employer contribution rates to be kept as low and reasonably stable and affordable as possible. Accordingly, the Authority manages the Fund from a long term viewpoint and endeavours to maximise

its returns but, at the same time, operates within a closely controlled range of acceptable risks.

3.2
In order to ensure as far as possible that the investment strategy is appropriate for the Fund’s liabilities the Authority has created its own bespoke or customised benchmark. This benchmark acts as a framework and is adopted only after analysing the Fund’s liability structure in detail. It is reviewed at least every three years and always after the statutory actuarial valuation. Changing circumstances can often, but not always, warrant a formal review and one is conducted whenever necessary.

Statement of Investment Principles

at 1st October 2013

3.3
The investment strategy is developed by reference initially to the valuation of liabilities measured on a risk free basis but then adjusted to make allowance for the Authority’s appetite for risk. The investment strategy is determined based on the expected return on asset classes (for equities, bonds, property etc.) within the appetite for risk as measured by the dispersion (likely range) of these returns. The Authority is satisfied that the investment strategy has a sufficient probability of meeting its return targets over the long-term and it is expected that the Fund’s investment returns will be at least in line with these assumptions and those published in the FSS.

3.4
Without taking risks it will be difficult for the Fund to achieve the performance it needs if it is to meet its objectives. The Authority recognises that risk is inherent in any investment or operational activity and seeks to control risk rather than try to eliminate it. The approach taken, aims to mitigate risk without compromising returns. In order to generate the required investment returns necessary to match the growth in liabilities this implies that the Fund will continue to take an active risk relative to its liability profile.

3.5
There are many types of risk but the following are the key ones which are regularly monitored by the Authority.

3.6
There is counterparty risk in every transaction and the Authority aims to control this by using reputable service providers who operate effective controls. It has appointed an external bank to have custody of the Fund’s publicly listed financial securities: otherwise, its investments in collective investment vehicles are held directly. Where advisory or management agreements are entered into these are fully documented and accord with best practice and the Fund’s internal operating procedures are subject to independent audit. The Authority has appointed an independent investment advisor to assist it in the scrutiny of its investment management activity and has appointed an independent party to provide performance measurement services.

3.7
Investing overseas exposes the Fund to fluctuations in exchange rates but allows it to spread risk across global markets and sectors and potentially enhance returns. The Fund’s customised benchmark regulates such exposure: however, the Authority has decided not to hedge its overseas currency risk.

3.8
There is a risk that the value of Fund assets will not match the increase in its liabilities which could result in a deteriorating financial position. This is known as funding risk. An inappropriate strategy may lead to poor performance which is a relative risk. This can largely be controlled by granting the Fund’s managers sufficient freedom to meet their targets but setting them range constraints. Poor absolute returns stemming from

market conditions cannot always be avoided but the effect can be minimised by diversifying the Fund’s portfolios across a broad spectrum of assets and markets.

3.9
Because different classes of asset have different risk and return characteristics and sensitivities to changes in financial factors, in particular to inflation and interest rates, it is important that the Fund’s strategy takes into account these expected differences and the correlation between them. It is important to recognise that returns, volatility and risks vary over time.

3.10
The adoption of a customised benchmark, as previously described, is an integral part of the risk management process. The current customised benchmark was approved in April

2011 and became effective from 1 October 2011: it is as follows:-

UK Equities	18.0
Overseas Equities	22.0
UK Corporate Bonds	16.5
High Yield Bonds	0.0
UK Index-Linked	38.5
Property Funds	5.0
Cash	0.0

3.11
Demographic factors including the uncertainty around longevity/ mortality projections (e.g. longer life expectancies) can also contribute to funding risk. It is recognised that there are limited options currently available to fully mitigate or hedge this aspect of risk. The Funding Strategy Statement, formal triennial actuarial valuations and periodic updates allow the Authority to keep track of the Fund’s liabilities.

Statement of Investment Principles

at 1st October 2013

3.12
There is also liquidity or market risk associated with the volatility of prices in certain assets and under certain market conditions. Part of the Fund is held in securities that can be realised quickly in normal market conditions, if necessary, to meet expected or unexpected demands for cash. The Authority is aware of the liquidity constraints that affect individual asset classes and manages its cashflows to ensure future payments can be met.

3.13
The financial capacity and willingness of the sponsoring employer to support the Fund is a key consideration and one which is regularly reviewed by the Authority. Whilst ensuring the stability of the employer's contribution rates is a leading objective it is recognised that absolute cost to the employer

is also important. This implies that the employer will undertake to adopt appropriate and economic policies in those areas where it has discretion and where the costs of its actions fall directly or indirectly on the Fund.

3.14
There are other non-financial but financially material risks which can affect Fund performance such as corporate governance and environmental issues and governmental or regulatory intervention. The Authority has developed a Responsible Investment strategy in recognition of this.

3.15
In addition to the above benchmark, the Committee has agreed to implement a de-risking mechanism designed to assist the Fund to gradually de-risk its investments as the liabilities of the Fund continue to mature. The Fund's approximate funding position is monitored against a projection of the expected funding level on a quarterly basis. The projection of funding level acts as a trigger for any de-risking and when a trigger is reached the above benchmark will shift by a pre- determined amount. The manager will seek verification from the Fund's advisers if they believe a trigger has been reached before a de-risking switch is implemented. The manager may propose additional de-risking should such an opportunity arise.

4) Organisational matters and management arrangements

4.1
The Regulations define the types of investments the Fund can hold and places limits on the proportion of the Fund that can be invested in them. The Authority does not participate in stock lending.

4.2
The Fund is wholly managed by external fund managers. The fees payable are determined either by a tender process or by their

Regulatory status. The Authority reviews the terms to satisfy itself that the fees are in line with, or better than, best market practice. Performance related fees are negotiated when it is thought to be in the best interests of the Fund to do so. The managers are subject to detailed management agreements which clearly state the terms of their appointment and the objectives and targets that they are set. These individual benchmarks are consistent with the overall customised benchmark of the Fund.

4.3
As already stated, the Authority ensures that the portfolios are widely diversified and that liquidity constraints are taken full cognisance of at all times.

4.4
The fees payable to the Authority's professional advisors, including the actuary, and the custodian bank are negotiated upon appointment and reviewed as appropriate: they may vary according to the nature of the work commissioned.

Statement of Investment Principles

at 1st October 2013

4.5 The current management arrangements are:-

Investment		
Name of Manager	Nature of Brief	Agreement Date
South Yorkshire Pensions Authority	Fixed Income/ UK and EM Equities/ Property UTs/Funding	September 2011
Old Mutual	Developed Overseas Equities	April 2004*
Name of Advisor	Nature of Brief	Appointed
Pensions & Investment Research Consultants Ltd	Corporate Governance /Voting execution	January 2012

Custodial

The custody and safekeeping of those assets not directly held by the Authority is provided by the following custodian:-

Name of Custodian	Date of Signed Client Agreement
HSBC	March, 1996*

Actuarial

Name of Actuary	Date of Appointment
Barnett Waddingham	September 2011

*Date of original appointment. Contractual arrangements amended since.

5) Responsible Investment

5.1

The Authority acts at all times in the best long-term interests of all its members and looks to protect and enhance the economic value of the companies in which it invests on their behalf. It believes that there are some overarching principles of corporate governance that apply globally but recognises that practices vary considerably. It recognises its responsibilities as a long-term investor and has considered how environmental, social and governance issues can be taken into account when managing investment portfolios but does so within the duties placed upon it under statute and general legal principles. The Authority believes that the pursuit of standards of best practice aligns the interest of Fund members with those of fellow shareholders and with

Statement of Investment Principles

at 1st October 2013

society as a whole and, therefore, will not actively disinvest from companies solely or principally because of social or ethical or environmental reasons. The Authority has published a separate Responsible Investment policy statement.

5.2

The Authority recognises the importance of the voting rights attached to its shareholdings and exercises its votes on its British listed equity investments whenever possible. The Authority has published its own voting policy and this is regularly reviewed. Voting decisions, nonetheless, are made on a case-by-case basis bearing in mind a company's circumstances. It has appointed a contractor to ensure that its votes are effectively executed and voting decisions are published on the Fund's website.

Constructive shareholder engagement, with the aim of promoting and supporting good corporate governance principles and practice, will be pursued whenever circumstances and constraints allow. The Authority's Shareholder Engagement Statement recognises that its expectations are based upon the legal and regulatory framework of the market in which the company operates.

5.3

The Fund will liaise with other shareholders and investors to pursue its goals. It is an active member of the Local Authority Pension Fund Forum and will join other collaborative pressure or lobbying groups if it feels it is appropriate to do so.

5.4

Under Regulations issued in 2009 administering authorities of the LGPS are required to report their compliance against the Myners' Principles. The six Principles are intended to guide institutional investors on matters such as investment, scheme governance, disclosure and consultation. There is no requirement that authorities implement every element of the Principles but they should be regarded as best practice.

5.5

The Authority publishes a separate paper outlining its compliance with the Principles. In summary, the Authority complies fully with Principles 3 to 6 inclusive and substantially complies with Principles One and Two. Because the Committee has approved a structured de-risking programme and given the fact

that the Fund is closed to new entrants it has determined that there is no need to formulate a medium term business plan as required under Principle 1. The frequent review of the actuarial liability profile provides an adequate framework for future planning. The Authority employs the same partnership to provide actuarial and investment consultancy services so it does not fully comply with Principle 2. This appointment reflected the established relationships of the parties at the time of the Fund's formation and the Authority is of the view that the specific needs of the Fund outweigh other considerations when it comes to this issue.

5.6

The Authority is supportive of the UK Stewardship Code and endorses the 'comply or explain' approach it follows. The Authority believes it complies with the majority of the recommendations of the Code.

6) Consultation and review

6.1

This Statement needs to be read in conjunction with the investment section of the Fund's annual report and the risk disclosures contained within the Fund's accounts. It is kept under regular review by the Board. A revised Statement will be published when there has been any material change of policy or where circumstances require it

to do so. Significant changes are only made after consultation with the leading employers and the Authority's advisors.

6.2

Copies of this statement and the Authority's investment powers are supplied to the managers and custodian so that they are aware of any constraints it imposes on them. The Statement is published on the Fund's website and copies are made available to members upon request.

Responsible Investment: Corporate Governance Policy at September 2013

Voting Guidelines- Introduction

The Authority acts at all times in the best long-term interests of all its members and looks to protect and enhance the economic value of the companies in which it invests on their behalf. It believes that there are some overarching principles of corporate governance that apply globally but recognises that practices vary considerably. It recognises its responsibilities as an investor and has considered how environmental, social and governance issues can be taken into account when managing investment portfolios. It believes that the pursuit of standards of best practice aligns the interest

of Fund members with those of fellow shareholders and with society as a whole and, therefore, will not actively disinvest from companies solely or principally because of social or ethical or environmental reasons. In seeking to achieve its investment objectives the Authority recognises the importance of the voting rights attached to its British listed investments and exercises them whenever possible. The Authority's voting policy is regularly reviewed and published as is its shareholder engagement statement. Although votes are generally cast in favour of

incumbent boards voting is assessed on a case-by-case basis and in the light of a company's unique circumstances. It has appointed a contractor to ensure that its votes are effectively executed and voting decisions are published on the Fund's website. Constructive shareholder engagement, with the aim of promoting and supporting good corporate governance principles and practice, will be pursued regularly reviewed and published as is its shareholder engagement statement. Although votes are generally cast in favour of incumbent boards voting is

assessed on a case-by-case basis and in the light of a company's unique circumstances. It has appointed a contractor to ensure that its votes are effectively executed and voting decisions are published on the Fund's website. Constructive shareholder engagement, with the aim of promoting and supporting good corporate governance principles and practice, will be pursued whenever circumstances and constraints allow. The Authority's expectations are based upon the legal and regulatory framework of the market in which the company operates.

The voting guidelines reflect the six key themes which appear on the agenda of company meetings. These are:-

- Boards and directors
- Auditors and audit related issues
- Capital structure
- Remuneration and benefits
- Social, ethical and environmental issues
- General corporate governance matters

The following notes highlight the main issues considered by the Authority when determining its voting policy, the Authority's preferred outcome and the methodology employed to translate the policy into votes. They are not exhaustive. Because the Authority is well aware of the inherent difficulties of imposing too rigid a guideline on a wide range of situations, the guidelines will be interpreted flexibly according to the specific circumstances of each company and meeting. The guidelines are reviewed annually or as and when events make such a review appropriate.

Responsible Investment: Corporate Governance Policy

Section One- Listed Companies (excluding Investment Trusts)

1. Reports and Accounts

If the Chairman (see 5 below) is not standing for election vote against the proposal to adopt the report and accounts where:-

- 1. The roles of Chief Executive and Chairman are combined (unless temporary and specifically justified in the report)
- 2. NEDs comprise less than one half of the board, excluding the Chairman (unless the situation is temporary and there is evidence that new NED(s) are to be appointed).
- 3. The company has made a political donation that has not been authorised by shareholders
- 4. The Board consists of fewer than three directors or exceeds eighteen
- 5. The audit committee is not fully independent, except for companies outside of FTSE350 where the committee is comprised of fewer than two

- thirds non-executive directors (unless the situation is temporary and there is evidence that new NED(s) are to be appointed)
- 6. There is an executive director on the remuneration committee.
- 7. The Chairman is not independent upon appointment

Vote against the proposal to adopt the report and accounts where:-

- 8. There is no UK Corporate Governance Code ("Code") compliance or appliance statement
- 9. There are dual voting rights for ordinary shares
- 10. A new director is not put to the vote at the first meeting
- 11. Directors are insulated from election and are not standing
- 12. The accounts have been qualified
- 13. The auditors have been replaced upon a qualification to the accounts

- 14. There is non-compliance with other relevant legal/regulatory requirements
- 15. A dividend has been declared and the dividend is not put to the vote
- 16. Audit, remuneration and nomination committees do not exist
- 17. The remuneration report has not been put to shareholders for the vote
- 18. There is no quantifiable environmental reporting (does not apply to investment trusts)
- Abstain on the proposal to adopt the report and accounts where:-
- 19. Board evaluation is not carried out
- 20. There is no statement regarding the company's policy on board diversity

2. Dividend Policy

Vote against where earnings do not cover proposed dividend

before exceptional items and no clear justification given.

3. Political Donations

Vote against all resolutions to approve political donations.

4. Takeovers, Mergers, Acquisitions, Disposals

Query resolutions related to takeovers, mergers, acquisitions and disposals and other capital restructuring. Take into account the governance profile of board responsible for making the recommendation and the effect on shareholder interests.

5. Chairman

Vote against the chairman when:

- 1. The roles of Chief Executive and Chairman are combined (unless temporary and specifically justified in the report)
- 2. The Chair has been a former director or employee of the same company and the time lapse is less than five years

- 3. There is no resolution to approve the report and accounts

- 4. NEDs comprise less than half of the board, unless the situation is temporary and there is evidence that new NED(s) are to be appointed (if no Chairman is standing vote against report and accounts, see 1.1 above)

- 5. The Chairman is not independent upon appointment
- 6. The Board consists of fewer than three directors or exceeds eighteen
- 7. The audit committee is not fully independent, except for companies outside of FTSE350 where the committee is comprised of fewer than two thirds non-executive directors (unless the situation is temporary and there is evidence that new NED(s) are to be appointed)
- 8. The company has made a political donation that has not been authorised by shareholders

- 9. There is an executive director on the remuneration committee

6. Non-Executive Directors

Vote against non-executive director where not independent even if by so voting it will lead to the number of NEDs falling below at least one half of the board.

7. Audit Committee Members

Vote against any member of the audit committee who has a link with the auditors (unless ten years has elapsed since the association).

8. Biographical Information

Vote against a director where:

- 1. Insufficient biographical information has been provided to allow shareholders to exercise judgement
- 2. Concerns have been identified as to the suitability of a director

Responsible Investment: Corporate Governance Policy

Section One- Listed Companies (excluding Investment Trusts)

- 3. More than five other directorships are held, except the CEO where no more than one other should be held
- 4. Less than 50% of meetings have been attended

9. Non-Executive Directors' Independence

Vote against a director where:

- 1. The director is not subject to re-election every year unless an explanation is given, except for companies outside of FTSE350 where the director is not subject to re-election at least every three years
- 2. They were a former executive of the company and the time lapse has been less than five years
- 3. The director has or has had a material business or professional relationship with the company and the time lapse has been less than three years
- 4. The director has been on the board for nine years or more

- 5. The director is linked to the controlling shareholder if independent directors comprise 50% or less of the board except where mechanisms are in place to prevent linked directors forming a majority for votes on major decisions
- 6. There are other reasons where independence is seen to be impaired
- 7. They receive remuneration other than Board fees and the reimbursement of expenses (ie bonuses, share options, consultancy fees etc)
- 8. They have close family ties with any of the company's advisers, directors or senior employees
- 9. They hold cross-directorships with other directors

10. Service Contracts

Vote against directors with service contracts of more than one year or where liquidated damages exceed one year's

remuneration unless initial appointment is for a maximum period of two years and reduces to one year or severance payments equivalent to one year. Also vote against chairman of remuneration committee.

11. Alterations to Share Based Incentive Schemes

Vote against new or amended share based incentive schemes if:

DISCLOSURE

- 1. No disclosure and justification for performance targets in long term schemes
- 2. No disclosure of targets and % payout for annual bonus scheme (if bonus paid) in the previous financial year
- 3. Unexplained discretionary bonus paid or any non-performance related bonuses (eg golden hellos) or ex-gratia payment

POTENTIAL EXCESSIVENESS

- 4. Any long term bonus scheme which may award more than 100% of salary in any year
- 5. Any annual bonus scheme that may award more than 100% of salary in any year
- 6. Any combination of incentive schemes that may award more than 150% of salary in any year (consideration should be given to companies with low base salaries)

PERFORMANCE TARGETS

- 7. Primary performance target of real EPS is not sufficiently demanding
- 8. Primary performance target using a vesting scale which pays out 20% or more of salary at median. Maximum vesting for less than 80th percentile performance
- 9. Use of only one performance criterion for a long-term scheme
- 10. Options re-priced (down) during the year

ISSUANCE

- 11. The maximum issuance of shares under incentive schemes is not to exceed 10% of issued capital

Abstain against new or amended schemes if there is no scheme that enables all employees to benefit from business success and no explanation for this is offered.

12. Employee Share Save Schemes

Abstain on votes for the establishment, renewal or extension of employee share save schemes where they are not open to all employees.

13. Remuneration Policy or Report

This guideline affects resolutions that put the Remuneration Policy or Report to the vote.

Vote against the report where:

- 1. There is no remuneration committee

COMMITTEE COMPOSITION

- 2. There is an executive director on the Committee

DISCLOSURE

- 3. No disclosure and justification for performance targets in long term schemes
- 4. The nature of performance measures are not disclosed
- 5. Unexplained discretionary bonus paid or any non-performance related bonuses (eg golden hellos) or ex-gratia payment
- 6. Significant change in policy during the year that is not explained
- 7. New share scheme (including personal scheme) has been or is to be introduced and has not been put to the vote

CONTRACTS

- 8. Contracts policy not in line with best practice (see guideline 11 above)

Responsible Investment: Corporate Governance Policy

Section One- Listed Companies (excluding Investment Trusts)

- 9. No explanation and justification for compensation paid during the year
- 10. There are liquidated damages or change in control provisions in excess of one year

POTENTIAL EXCESSIVENESS

- 11. Any long term bonus scheme which may award more than 100% of salary in any year
- 12. Any annual bonus scheme that may award more than 100% of salary in any year
- 13. Any combination of incentive schemes that may award more than 150% of salary in any year (consideration should be given to companies with low base salaries)
- 14. Bonuses are pensionable and the scheme is defined benefit
- 15. Bonuses are paid when the company has made a loss

PERFORMANCE TARGETS

- 16. Primary performance target is not sufficiently demanding

- 17. Primary performance target using a vesting scale which pays out 20% or more of salary at median
- 18. Maximum vesting for less than 80th percentile performance
- 19. Use of only one performance criterion for a long-term scheme
- 20. Options re-priced (down) during the year

Abstain where:

- 21. There is no scheme that enables all employees to benefit from business success unless a full explanation is offered
- 22. Performance targets are changed retrospectively
- 23. Other contentious issued have been identified

14. APPOINTMENT OF AUDITORS

Vote against auditors where:

- 1. Non-audit fees are more than 75% of audit fee in the year

- under review and on a three year aggregate basis unless full explanation is offered in the accounts
- 2. The finance director has a link with the auditors (unless five years has elapsed since the association)
- 3. The auditor has missed an issue which resulted in a restatement

Abstain on the auditors where:

- 4. Non-audit fees are not disclosed on a global basis regardless of the size of non-audit fees
- 5. The auditors have been replaced upon a qualification to the accounts

It is to be assumed that all non-audit fees are unacceptable apart from sums received for regulatory, takeover and merger or tax compliance work and identified as such.

15. Scrip Dividend

Generally vote for scrip dividend resolutions but vote against if no cash dividend alternative.

16. Share Repurchase/Buy Backs

Vote against share repurchase where:

- 1. Authority exceeds 15% of issued share capital
- 2. Disclosure fails to meet Listing Rule requirements
- 3. It is not in the best interest of shareholders

Abstain on the share repurchase where the resolutions require any ordinary majority only.

17. Authority to Issue Shares

Vote against share issue where:

- 1. Authority exceeds 66% of share capital (after share schemes, warrants and convertible shares)
- 2. Disclosure fails to meet Listing Rule requirements

- 3. Where company has done a “cashbox” placing in excess of 5% of share capital

18. Disapplication of Pre-emption Rights

Vote against share issue where:

- 1. Authority exceeds 5% of share capital
- 2. Disclosure fails to meet Listing Rule requirements

19. Increase Authorised Share Capital

Abstain on resolution to increase share capital if no explanation for seeking the authority is disclosed.

20. Articles of Association

Vote according to best practice on resolutions to adopt new articles or amend existing articles where the changes adversely affect accountability to shareholders or are otherwise not in the interests of shareholders on balance.

Vote against proposals to amend borrowing limits if it is not justified in the meeting documents and the limit is not excessive.

21. New Employee Share Option Scheme (ESOP)

Support if it applies to all employees in practice and is within institutional guidelines.

22. Discretionary Payment to Directors

Vote against unless part of a payment under an existing scheme for which performance targets were published and disclosure is sufficient to show how these were achieved.

23. Liability of Auditors to be Capped

Vote against any resolution seeking to agree a cap on the liability of the auditors.

Responsible Investment: Corporate Governance Policy

Section Two- Listed Investment Trusts

1. Report and Accounts

If the Chairman (see 4 below) is not standing for election vote against on the proposal to adopt the reports and accounts where:

- 1. NEDs comprise less than one half of the board (unless the situation is temporary and there is evidence that new NED(s) are to be appointed)
- 2. The company has made a political donation that has not been authorised by shareholders
- 3. Where the size of the Board consists of fewer than three directors or exceeds seven
- 4. The Chair does not meet the independence standard set out in section 8
- 5. Executive Chairman (or quasi exec Chairman) and no NED appointment in prospect
- 6. The contract with the management company exceeds one year
- 7. The management contract has not been reviewed within the last year

8. The company has made a political donation that has not been authorised by shareholders

If the Chairman or most senior member of the committee is not standing for election vote against on the proposal to adopt the report and accounts where:

- 9. The audit committee is not wholly comprised of less than two thirds non-executive directors (unless the situation is temporary and there is evidence that new NED(s) are to be appointed)
- 10. There is an executive director on the remuneration committee

Vote against the proposal to adopt the report and accounts where:

- 11. There is no Code compliance or appliance statement
- 12. Where there are dual voting rights for ordinary shares
- 13. Where a new director is not put to the vote at the first meeting

14. Directors are insulated from election and are not standing

15. The accounts have been qualified

16. The auditors have been replaced upon a qualification to the accounts

17. There is non-compliance with other relevant legal/regulatory requirements

18. Where a dividend has been declared and the dividend is not put to the vote

19. Audit and management engagement committees do not exist

20. Where more than one director has served for nine years or more

21. The company has made a political donation during the year which has not been approved by shareholders (if no Chairman is standing vote against report and accounts, see 1.1 above)

22. The remuneration report has not been put to shareholders for the vote

23. The company does not have an institutional voting policy and does not publicly disclose voting activity

24. The company does not disclose its policies regarding social, environmental and ethical issues covering the companies in which it invests.

2. Dividend Policy

Vote against where revenue (less management fee) does not cover proposed dividend and no clear justification given.

3. Political Donations

Vote against all resolutions to approve political donations.

4. Directors

CHAIRMAN

Vote against the Chairman when:

- 1. The Chair does not meet the independence standard set out in section 7
- 2. There is no resolution to approve the report and accounts

3. NEDs comprise less than one half of the board, unless situation is temporary and there is evidence that new NED(s) are to be appointed (if no Chairman is standing vote against report and accounts, see 1.1 above)

4. Executive Chairman (or quasi exec Chairman and no NED appointment in prospect

5. The size of the Board consist of fewer than three directors or exceeds seven

6. The contract with the management company exceeds one year

7. The management contract has not been reviewed within the last year

8. The company has made a political donation that has not been authorised by shareholders

9. The audit committee is not fully independent, except for companies outside of FTSE350 where the committee is comprised of fewer than two

thirds non-executive directors (unless the situation is temporary and there is evidence that new NED(s) are to be appointed)

If there is no remuneration report vote against the Chairman where:

10. There is an executive director on the remuneration committee

5. Biographical Information

Vote against a director where:

- 1. Insufficient biographical information has been provided to allow shareholders to exercise judgement
- 2. Concerns have been identified as to the suitability of a director
- 3. Less than 50% of meetings have been attended

6. Non-Executive Directors' Independence

Vote against a director where:

- 1. The director is not subject to re-election at least every three years

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Section Two- Listed Investment Trusts

- 2. They are a current or former executive of the company or management company and the time lapse has been less than three years
- 3. The director sits on more than two trusts managed by the same management company
- 4. The director has had a material business or professional relationship with the company or management company and the time lapse has been less than three years
- 5. The director has been on the board for nine years or more and the company has no published policy on tenure
- 6. The director is linked to the controlling shareholder if independent directors comprise 50% or less of the board except where mechanisms are in place to prevent linked directors forming a majority for votes on major decisions

7. Service Contracts

Vote against directors with service contracts of more than one year.

8. Remuneration Policy or Report

This guideline affects resolutions that put the Remuneration Policy or Report to the vote.

Vote against the report where:

COMMITTEE COMPOSITION

- 1. There is an executive director on the Committee

DISCLOSURE

- 2. No disclosure and justification for performance targets in long term schemes
- 3. No disclosure of targets and % payout for annual bonus scheme (if applicable) in the previous financial year

CONTRACTS

- 4. Contracts policy not in line with best practice
- 5. No explanation and justification for compensation

paid during the year

- 6. There is no objective to reduce contracts to one year for all executive directors (new or existing)

- 7. Newly appointed executive directors have been awarded fixed term contracts in excess of one year

- 8. There are liquidated damages or change in control provisions in excess of one year

- 9. Directors bonuses are pensionable and the scheme is defined benefit

- 10. Other contentious issues have been identified

9. Appointment of Auditors

Vote against auditors where:

- 1. Non-audit fees are more than 75% of audit fee in the year under review and on a three year aggregate basis unless full explanation is offered in the accounts

- 2. Any director on the audit committee has a link with the auditors (unless ten years has elapsed since the association)

Abstain on the auditors where:

- 3. Non-audit fees are not disclosed on a global basis regardless of the size of non-audit fees
- 4. The auditors have been replaced upon a qualification to the accounts

It is to be assumed that all non-audit fees are unacceptable apart from sums received for regulatory, takeover and merger or tax compliance work and identified as such.

10. Scrip Dividend

Generally vote for scrip dividend resolutions but vote against if no cash dividend alternative.

11. Share Repurchase/Buy Backs

Vote against share repurchase where:

- 1. Authority exceeds 15% of issued share capital
- 2. Disclosure fails to meeting Listing Rule requirements

Abstain on the share repurchase where the resolutions require any ordinary majority only.

12. Authority to Issue Shares

Vote against issue where:

- 1. Authority exceeds one third of share capital (after share schemes, warrants and convertible shares)
- 2. Disclosure fails to meet Listing Rule requirements

13. Disapplication of Pre-emption Rights

Vote against share issue where:

- 1. Authority exceeds 10% of share capital
- 2. Disclosure fails to meet Listing Rule requirements

14. Increase Authorised Share Capital

Abstain on resolution to increase share capital if:

- 1. No explanation for seeking the authority is disclosed
- 2. The resolution includes authority for directors to act where their actions may raise concerns which are unrelated to the consequences of the share capital increase (bundled)

15. Articles of Association

Vote according to best practice on resolutions to adopt new articles or amend existing articles where the changes adversely affect accountability to shareholders or are otherwise not in the interests of shareholders on balance.

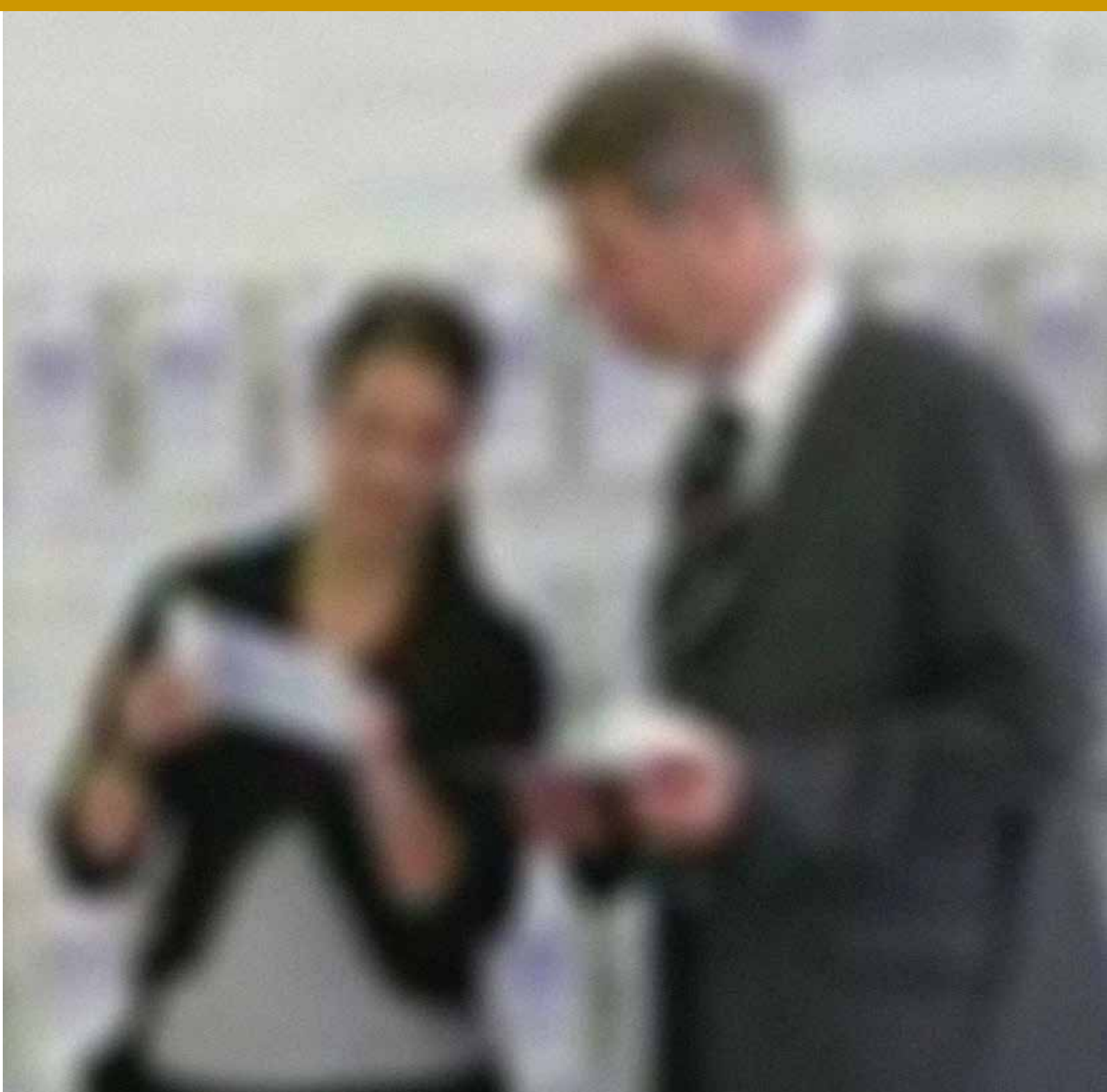
Vote against proposals to amend borrowing limits if it is not justified in the meeting documents and the limit is not excessive.

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Section Three- Listed Exchange Traded Funds (ETFs)

Due to the nature of the entity it is the policy of the Authority not to vote at all on any issue at any meeting of a listed Exchange Traded Fund.

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Responsible Investment Policy

In terms of managing the South Yorkshire Passenger Transport Pension Fund the Authority’s primary objective is to ensure that the Fund can meet its pension liabilities. In order to achieve that it has to produce superior financial returns without taking on undue levels of risk and to do so within the legislative and operational constraints which govern the operation of the Fund.

Capturing the required investment returns involves identifying opportunities that offer greater than normal reward and the Authority believes that businesses that operate to high standards of corporate social responsibility (CSR) have the potential to protect and enhance investment returns. The Authority supports the view that environmental, social and governance best practice should be encouraged so long as the

potential for financial return is not reduced or risk isn’t increased. It favours companies committed to high standards of CSR and to the principles of sustainable development. The Authority believes that good corporate governance includes the management of the company’s impact on society and the environment, as these are increasingly becoming a factor in contributing towards maximising long term shareholder value.

Environmental, social and governance (ESG) factors can be integral to the long-term sustainability of businesses regardless of where they are listed or the countries in which they operate. Given that significant ESG issues play out over the medium to longer term, it is important that investors consider companies’ approaches to these issues on a case by case basis.

However, the Authority must be cognisant of its legal and statutory obligations and responsibilities and it applies its responsible investment policy within that context. One of those duties is to ensure a proper diversification of investments and, therefore, it has determined not to actively invest or disinvest from companies solely or largely for social, governance or environmental reasons. Instead, it adopts a positive engagement approach whereby social, environmental and governance matters are discussed with company management with the aim of improving procedures and attitudes. The Authority believes that this is the most effective way to improve the attitude of business towards CSR. In the Authority’s view, simply divesting from particular companies is a denial of responsibility.

Considerations such as these have led the Authority to develop a policy that revolves around using its shareholder power and influence, either singly or in collaboration with other like-minded institutional investors, by voting and using other contacts to positively influence company behaviour. It acknowledges the arguments occasionally put forward by special interest groups on specific ESG issues but it will not allow such considerations to detract it from undertaking its statutory and fiduciary duties. This approach does not prevent the Authority from applying social, environmental or governance criteria on a case by case basis if considered appropriate.

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Produced by
South Yorkshire Pensions Authority ·
18 Regent Street ·
Barnsley ·
S70 2HG ·
Telephone 01226 772923 ·



www.sypensions.org.uk
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