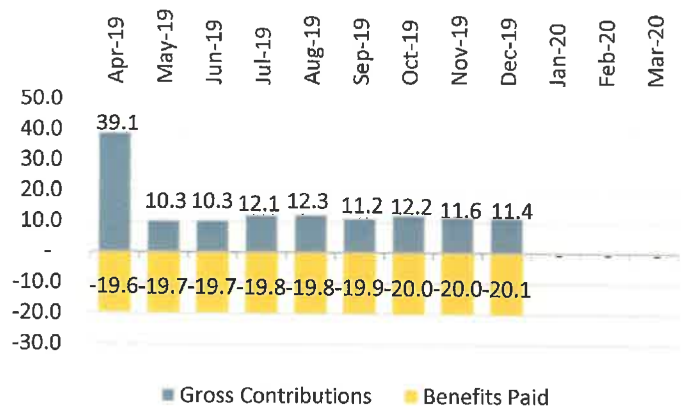
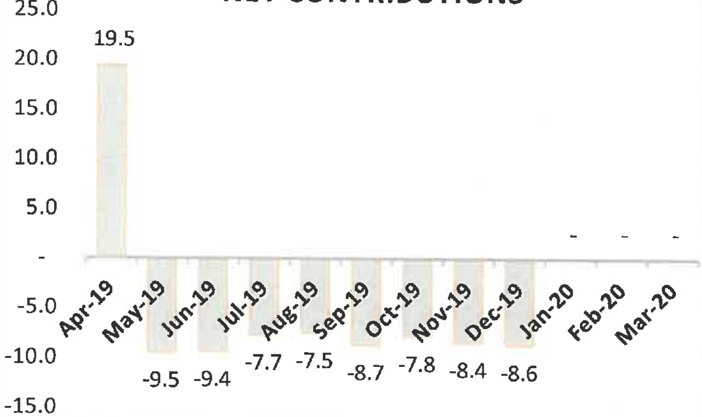
SOUTH YORKSHIRE PENSIONS AUTHORITY

QUARTERLY REPORT TO 31 DECEMBER 2019

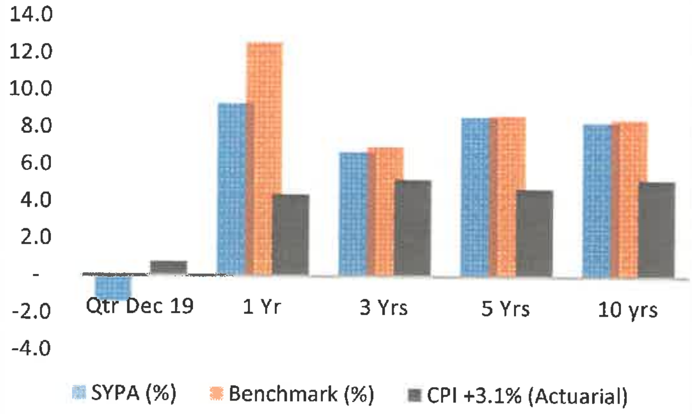
BREAKDOWN OF NET CONTRIBUTIONS



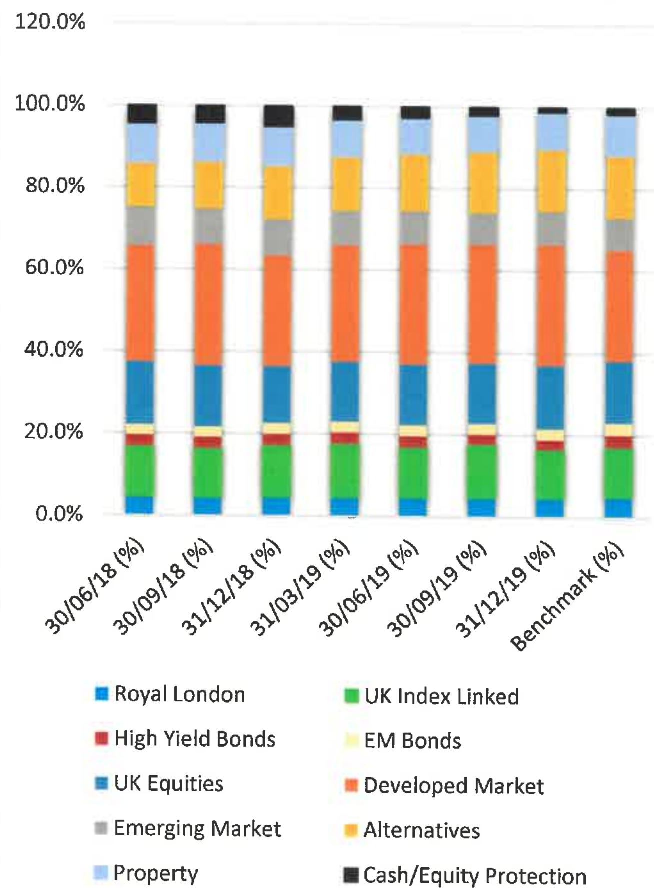
NET CONTRIBUTIONS



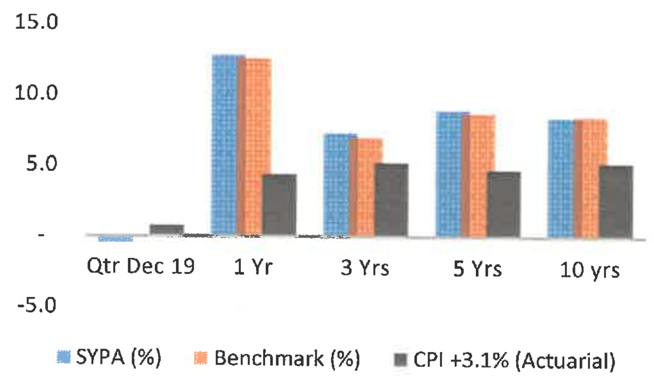
TOTAL FUND RETURN



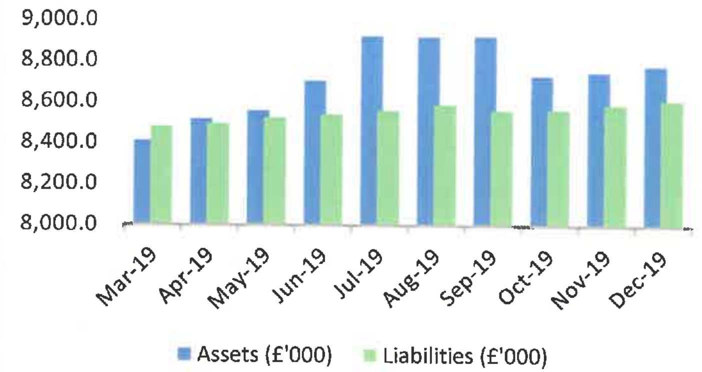
ASSET ALLOCATION



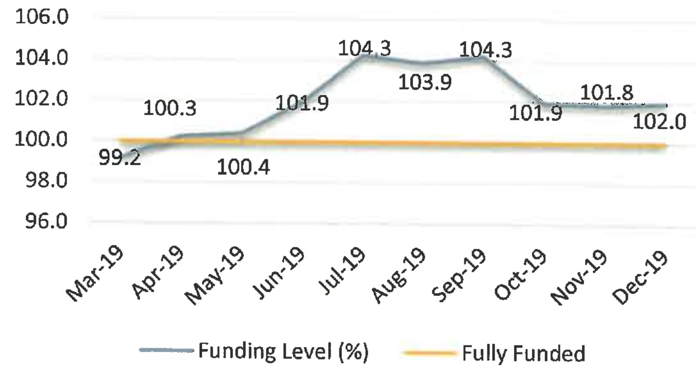
TOTAL FUND RETURN EXCL EQUITY PROTECTION



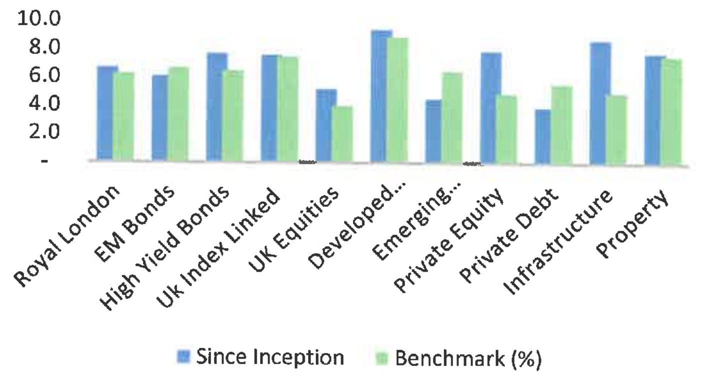
ASSET LIABILITY DATA SINCE MARCH 2019



FUNDING LEVEL %



ASSET PERFORMANCE BY TOTAL ASSET CLASS - SINCE INCEPTION



Market background

Articles of impeachment passed on President Trump was broadly ignored

Trade uncertainty faded with the US and China announcing an agreed "phase one" deal.

The Federal Reserve cut interest rates once in the quarter and then indicated that "the current stance of monetary policy is appropriate"

Christine Lagarde took over as president of the European Central bank

The General Election in the UK gave the Conservatives a clear majority on the mandate for Brexit. This means that the UK will exit the EU on 31 January 2020 with a "transition period" ending December 2020.

Equity markets responded positively to these events

Bond markets reflected the better mood as government bond yields rose, ie pricess fell. Corporate bonds outperformed government bonds.

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Fund Valuation

as at 31 December 2019

	Sep-19 £m	%	Quarterly Net Investment	Dec-19 £m	%	Benchmark %	Range %
FIXED INTEREST							
Royal London	428.6	4.8	3.3	423.8	4.8	5	
UK ILGs	1140.2	12.8	-9.6	1014.5	11.6	12	
High Yield Bonds	216.5	2.4	-11.4	205.5	2.4	3	
EM Bonds	238.1	2.7	-6.1	230.6	2.6	3	
TOTAL	2023.4	22.7	-23.8	1874.4	21.4	23	18-28
UK EQUITIES	1298.0	14.6	0.0	1353.6	15.4	15	10 _ 20
INTERNATIONAL EQUITIES							
Developed Market - BCPP	2473.8	27.8	0.0	2506.7	28.6	27.125	
Developed Market - SYPA	115.2	1.3	-35.2	80.1	0.9		
Emerging Market - BCPP	681.0	7.6	0.0	711.1	8.1	7.875	
Emerging Market - SYPA	18.0	0.2	-1.9	15.9	0.2		
TOTAL	3288.0	36.9	-37.1	3313.8	37.8	35	30-40
PRIVATE EQUITY							
BCPP	7.6		-0.2	6.8			
SYPA	613.3		6.1	594.6			
TOTAL	620.1	7.0	29.0	601.4	6.9	7	2-12
PRIVATE DEBT FUNDS	359.1	4.0	14.6	361.0	4.1	3.5	0-8.5
INFRASTRUCTURE							
BCPP	1.9		2.6	4.3			
SYPA	366.3		11.9	368.0			
TOTAL	368.2	4.1	14.5	372.3	4.2	5	0-10
PROPERTY	768.3	8.6	33.1	796.4	9.1	10	7-13
CASH	256.4	2.9		245.1	2.8	1.5	0-10
EQUITY PROTECTION (EPO)	-68.5	-0.8		-149.3	-1.7		
TOTAL FUND	8913.8	100.0		8768.7	100.0	100	
COMMITTED FUNDS TO ALTERNATIVE INVESTMENTS	1042.5			975.9			

Asset Allocation Summary

£23m was raised from across the bond portfolios with £10m of this being raised from index-linked gilts. The other transactions were the redemption of some short dated bonds and the sale of some investment trusts that we held which would not be transitioned to Border to Coast. Index-linked gilts are the asset class that the Fund holds for inflation protection and we aim to maintain a neutral weighting. They are not cheap as an asset class and after a period of strong performance we reduced the overweight position that had developed.

£37m raised from the residual overseas portfolios and together these funded the £58m net investment across the alternative portfolios.

Within the property portfolio we made a net investment of £33m. The rationalising of the portfolio continued with the sale of two smaller retail units in Ipswich and London but we completed the purchase of Hartwell House the Bristol office unit mentioned in the last quarterly report and also made a £5m capital payment to the development at Fort Kinnaird Motor Village.

This leaves the Fund with an underweight position to bonds, alternative funds and property, and an overweight position to international equities and cash.

The change in weightings over the last few quarters can be seen in the next chart. The Fund has been very close to its benchmark weightings for most asset classes over this period although it can be seen that it has gradually been increasing its weighting to alternatives at the expense of quoted equities.

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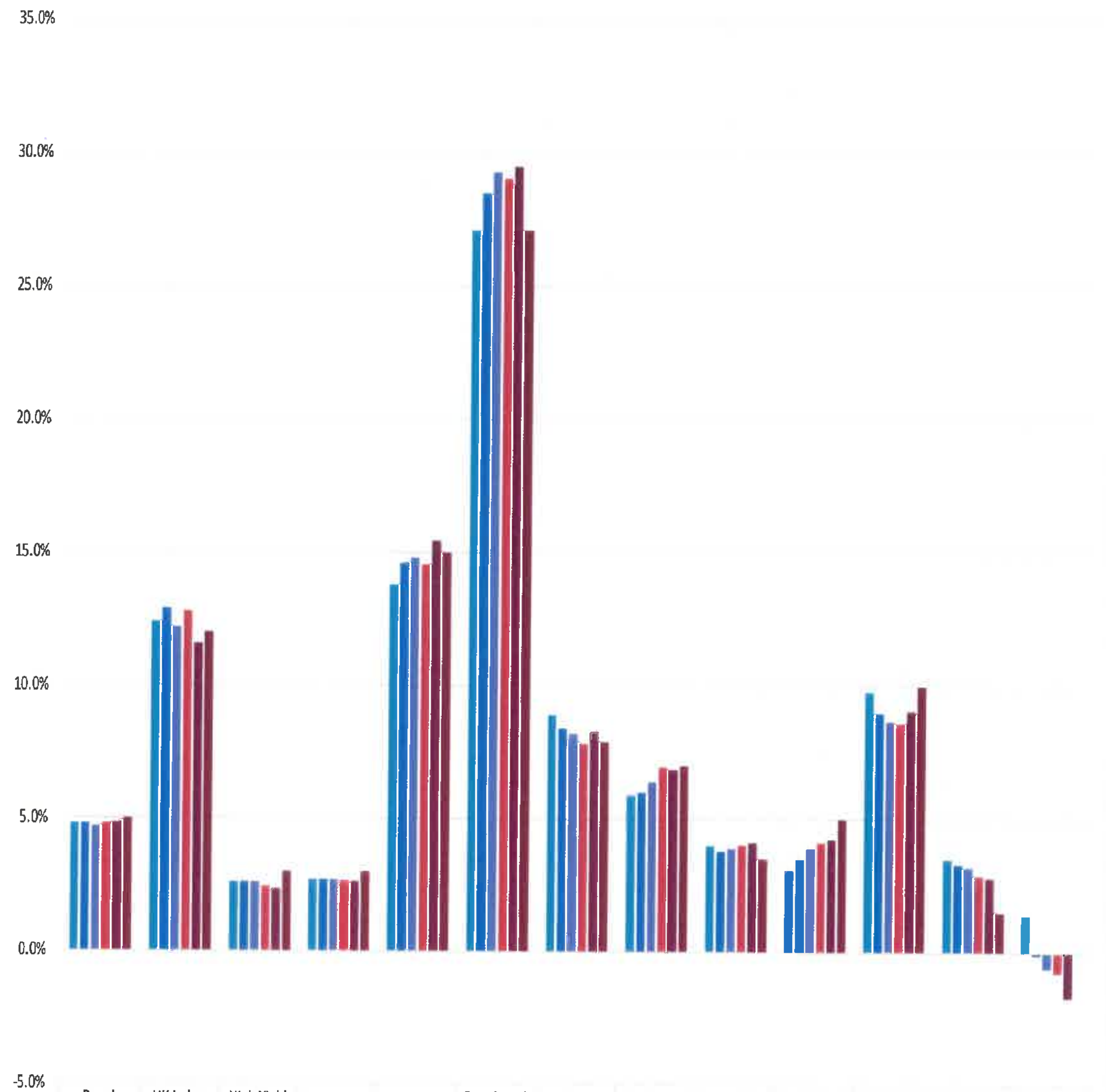

	Royal London	UK Index Linked	High Yield Bonds	EM Bonds	UK Equities	Developed Market	Emerging Market	Private Equity	Private Debt	Real Assets	Property	Cash	Equity Protection
31/12/18 (%)	4.8%	12.4%	2.6%	2.7%	13.8%	27.1%	8.9%	5.9%	4.0%	3.1%	9.8%	3.5%	1.4%
31/03/19 (%)	4.8%	12.9%	2.6%	2.7%	14.6%	28.5%	8.4%	6.0%	3.8%	3.5%	9.0%	3.3%	-0.1%
30/06/19 (%)	4.7%	12.2%	2.6%	2.7%	14.8%	29.3%	8.2%	6.4%	3.9%	3.9%	8.7%	3.2%	-0.6%
30/09/19 (%)	4.8%	12.8%	2.4%	2.7%	14.6%	29.1%	7.8%	7.0%	4.0%	4.1%	8.6%	2.9%	-0.8%
31/12/19 (%)	4.8%	11.6%	2.3%	2.6%	15.5%	29.5%	8.3%	6.9%	4.1%	4.3%	9.1%	2.8%	-1.7%
Benchmark (%)	5.0%	12.0%	3.0%	3.0%	15.0%	27.1%	7.9%	7.0%	3.5%	5.0%	10.0%	1.5%	0.0%

31/12/18 (%) 31/03/19 (%) 30/06/19 (%) 30/09/19 (%) 31/12/19 (%) Benchmark (%)

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Performance Summary

For the quarter to the end of December, the Fund returned -1.4% against the expected benchmark return of 0.0% which gives a year to date return of 4.7% against an expected return of 6.3%

Looking at the Fund ex equity protection we showed an underperformance of the benchmark giving a return of -0.5%. The underperformance was due to stock selection as asset allocation was neutral over the period.

The breakdown of the stock selection is as follows:-

Bonds	0.1%
Total equities	0.2%
Alternative Assets	-0.7%

Now looking at the equity protection strategy, the nominal value of the portfolio which was protected rose in value over the quarter by 2.7% and the value of the options detracted by £80.8m from the value of the Fund. This effectively reduced the return to the fund by 0.9%.

The indicative funding level as at 31 December was 102.0%.

The performance of the Fund can be seen in detail in the following slides.

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Performance

as at 31 December 2019

	Qtrly Performance		Financial Y.T.D.	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Royal London	(1.1)	(0.7)	5.3	5.0
UK ILGs	(10.2)	(10.4)	0.2	0.2
High Yield Bonds	1.2	(0.7)	6.0	5.0
EM Bonds	0.3	(0.3)	4.8	3.9
TOTAL	**(5.8)**	**(5.8)**	**2.5**	**2.6**
UK EQUITIES	**4.3**	**4.2**	**9.9**	**8.9**
INTERNATIONAL EQUITIES				
Developed Market - BCPP	1.3	1.0	11..3	10.9
Developed Market - SYPA	0.6	1.0	9.7	10.9
Emerging Market - BCPP	4.4	3.4	6.1	6.7
Emerging Market - SYPA	1.0	3.4	(18.9)	6.7
TOTAL	**1.9**	**1.5**	**9..8**	**10.0**
PRIVATE EQUITY	**(4.1)**	**0.7**	**8.3**	**3.6**
PRIVATE DEBT FUNDS	**(3.3)**	**0.7**	**8.2**	**3.6**
INFRASTRUCTURE	**(2.5)**	**0.7**	**3.9**	**3.6**
PROPERTY	**0.3**	**0.6**	**1.3**	**1.8**
CASH	**0.1**	**0.1**	**0.4**	**0.4**
TOTAL FUND excl EPO	**(0.5)**	**0.0**	**6.4**	**6.3**
EQUITY PROTECTION (EPO)				
TOTAL FUND	**(1.4)**	**0.0**	**4.7**	**6.3**

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Performance attribution

For the quarter, the Fund returned -1.4% which was behind the expected return of the benchmark, with the Fund valuation falling from £8913.8m to £8768.7m.

Bonds
Stock selection was mixed across the portfolios but overall was positive.

UK Equities
The performance was in-line with the benchmark.

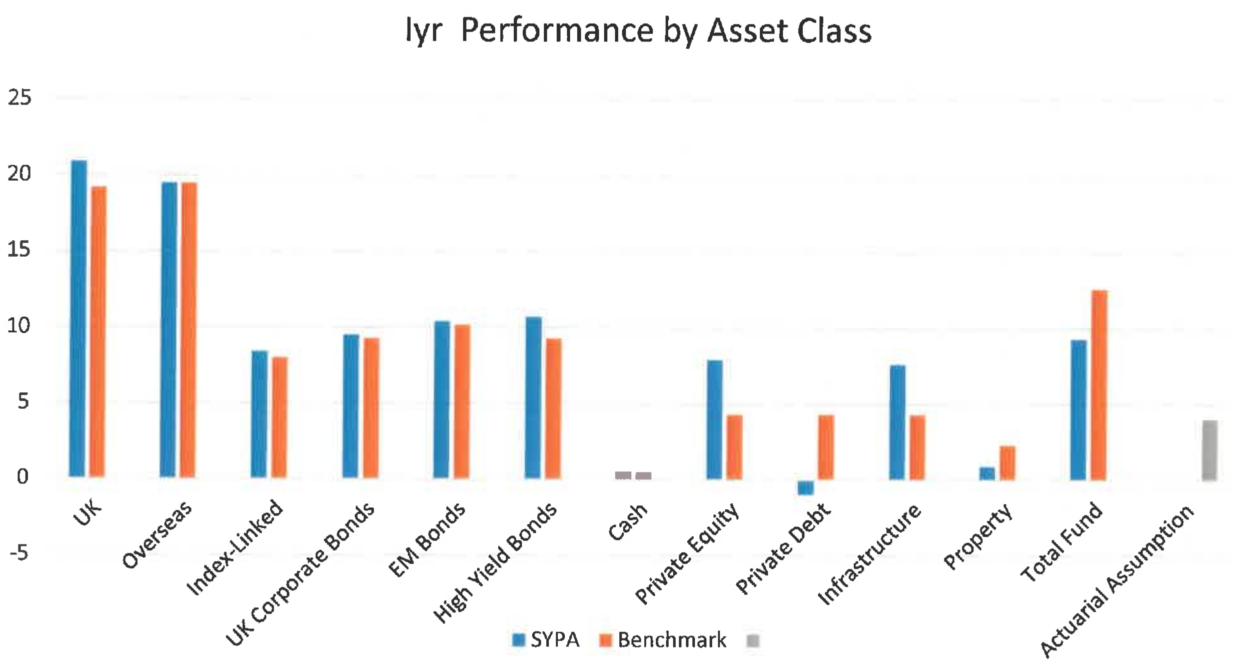
Overseas Equities
Stock selection was ahead of the benchmark. The residual portfolios are being sold down and are not expected to perform in-line with the benchmark.

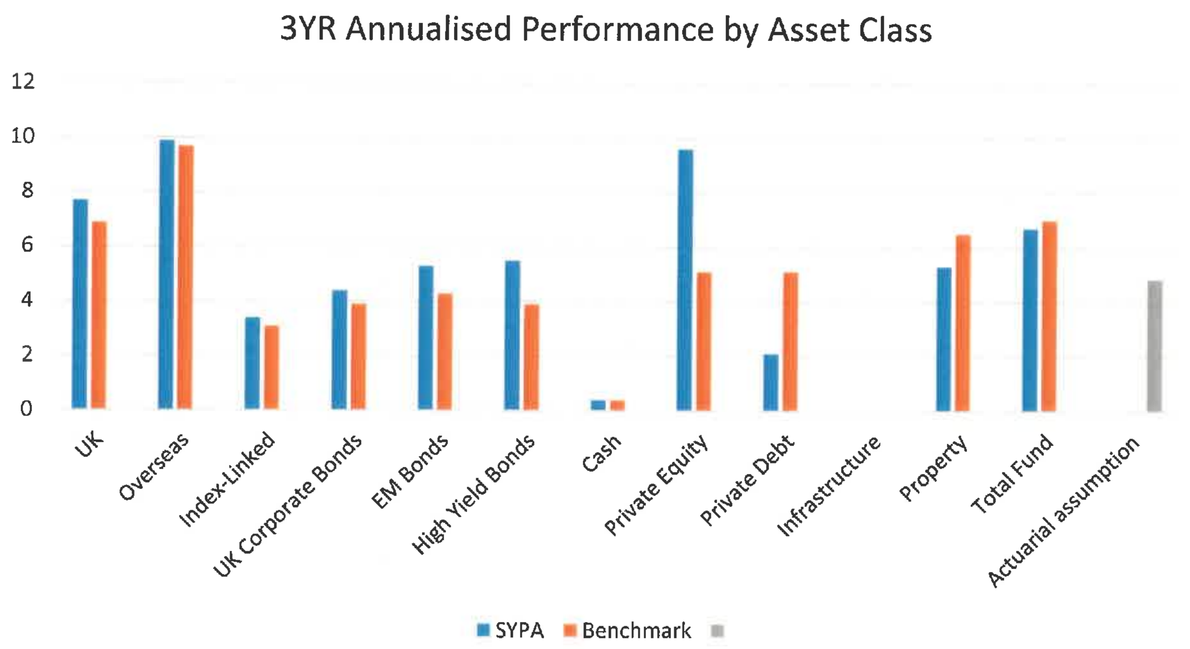
Alternatives
The performance across all the portfolios was negative due to the currency impact of the underlying investments.

Property
Performance was slightly behind with the benchmark.

Equity Protection
With the continued improvement in equity markets the equity protection strategy detracted value from the Fund.

Performance-Medium term





Equity Protection

The equity protection strategy generated a negative return over the quarter given the rise in the financial markets. The strategy impacted the Fund value by £80.9m, which detracted from overall performance by 0.9%.

The gap in valuation between the equity protection strategy and the underlying equities has varied over the period. When markets fall there has been a positive impact but more recently as markets have risen strongly we can see that there is now a negative impact for the Fund. At the end of December this negative impact was £149.3m.

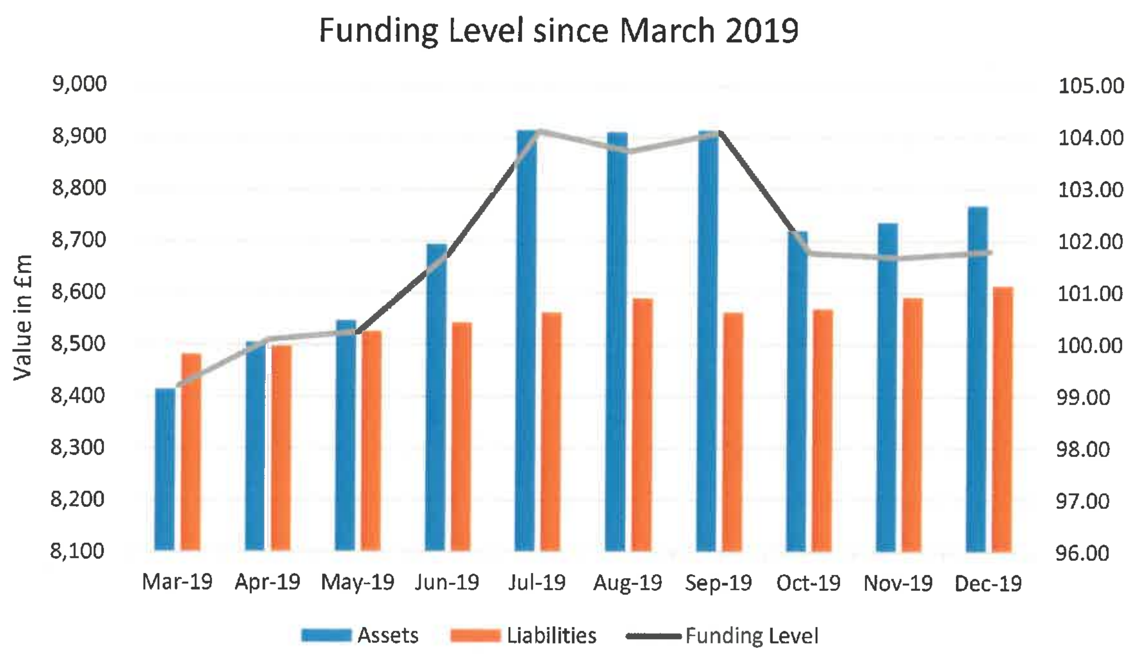
Funding Level

The funding level as at 31 December 2019 has decreased to around 102%.

The breakdown is as follows:

Fund's Assets:
As at 31 Dec 2019: £8,7682.3m
As at 30 Sep 2019: £8,927.3m
A decrease of £145.0m.

Funds Liabilities:
As at 31 Dec 2019: £8,613.3m
As at 30 Sep 2019: £8,563.3m
An increase of £50m.



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Outlook

The global economy remains weak but there are some signs of stabilisation and risk markets are performing well. There is a lot of event risk to get through in the coming months – US/China trade talks have further to go and Trump may turn his attention to the EU; Brexit moves to the next stage, which could be equally as difficult as the withdrawal agreement and in the US the election will get into full swing. Markets appear to be complacent about these risks so a correction is possible.

UK Equities

Some of the Brexit uncertainty has disappeared given the election result and Brexit now scheduled for 31st January. However the withdrawal process continues until the end of 2020 and now the initial rally has subsided there may be little progress from here in the short term. Look to keep neutral position.

Overseas equities

Global economic growth continued to soften during the quarter but leading indicators have shown some signs of stabilisation. The yield curve in the US is no longer inverted and recent positive developments in trade disputes have reduced uncertainty for export-oriented economies in both developed and emerging markets. Whilst political uncertainty has reduced in Europe, the impending US election is likely to drive sentiment.

Global inflation remains relatively benign and although recent increases in commodity prices will cause upward pressure, excess production capacity and weakening labour markets suggests that inflation will remain contained. Monetary conditions have become more accommodative in recent months, as inflation and interest rate expectations have fallen in response to weaker global economic growth. Concern remains that further quantitative easing risks merely boosting asset prices. Even though we have high rates of government debt it is now becoming likely that fiscal policy will be used to stimulate growth.

Following the rebound in markets at the end of 2019, valuations are now significantly above their long term averages in most markets and although there is expected to be some earnings growth in 2020 it is still questionable as to whether these multiples will lower substantially.

Outlook

We expect market conditions to remain volatile, with a slowdown in global economic growth punctuated by rising and falling trade tensions and additional monetary and fiscal stimulus. We remain more weighted to overseas equities than to UK equities.

Will be reducing to fund the drawdowns to the alternative assets.

Bonds

The risk-off rally in government bonds pushed valuation levels to extremes in many markets – the recent pull back only makes markets slightly less expensive. In pretty much all bond markets, yields are very low and likely to stay low. Spreads in the corporate bond market (Investment Grade and High Yield) indicate little stress. However, the relative outperformance of BB credits versus CCC in the high yield market indicates investors are being cautious in their approach to the hunt for yield.

Risk free assets are very unappealing and credit spreads in riskier bonds especially are too low for them to be attractive to long term investors.

The transition of the Investment grade credit portfolio will take place during Q1 2020 and due to the inflow of early contributions from Sheffield we will be investing an extra £25m into this portfolio and also looking to add monies to the PIMCO Diversified Income Fund. We prefer equities or alternatives to gilts for the long term. Overall we will look to maintain a neutral weighting to index-linked gilts and remain underweight the other bond portfolios.

Real Estate

During the quarter ASI have increased their anticipated 3 year forecast returns from 1% to 1.9% reflecting the decisive election result which has removed a layer of political uncertainty from the economic outlook. However, the Brexit related risks have now been postponed until the end of 2020.

The forecasts anticipate that property will deliver negative capital and total returns in year 1, a marginally positive total return in year 2 and positive capital and total returns in year 3.

Income is expected to remain the focus for investors and ASI do not expect that there will be any material change to the investment themes that they have been advocating over the past year until there is more clarity on the macroeconomic outlook.

Outlook

Real Estate cont.

Will continue to reduce the Fund's retail weighting and will look to make further acquisitions in the industrial sector or assets with long dated income in one of the alternative sectors.

Alternatives

The alternative investment market which includes investments within private equity, private debt and infrastructure, generally generates above market returns and with the pension fund currently slightly underweight in this sector, we are looking to add further investments into this asset class.

Cash

The deployment of cash to alternatives should see the continued reduction in cash balances.

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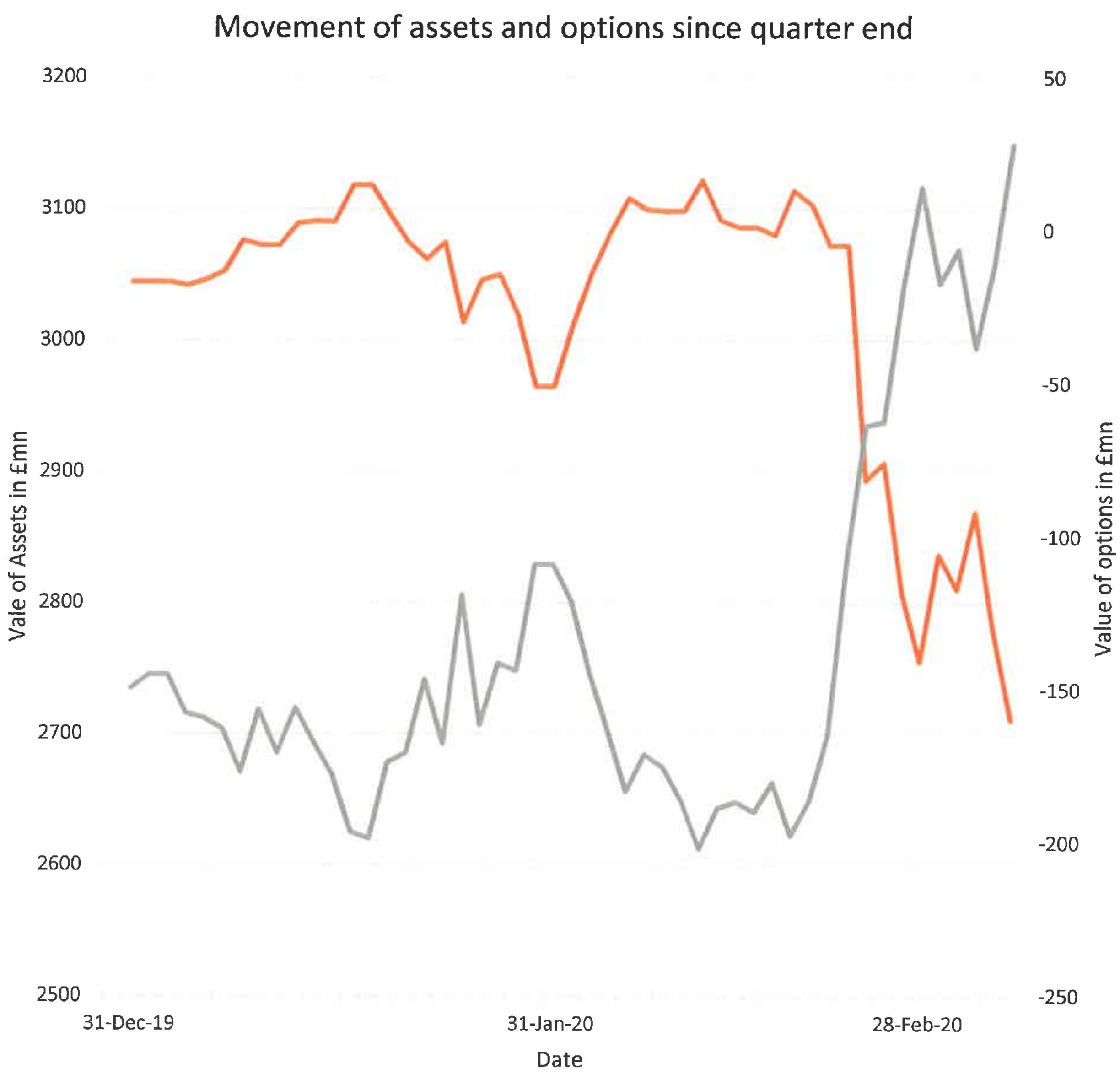

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