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Sarah Norman
Clerk

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NOTICE OF AUTHORITY MEETING

You are hereby summoned to a meeting of the South Yorkshire Pensions Authority to be held as a Virtual Meeting on Thursday 10 September 2020 at 10.00 am for the purpose of transacting the business set out in the agenda.

Sarah Norman
Clerk

This matter is being dealt with by: Gill Richards Tel: 01226 772806
Email: grichards@syjs.gov.uk

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Distribution

Councillors M Stowe (Chair), A Atkin, S Cox, A Law, J Mounsey, A Murphy, C Rosling-Josephs, A Sangar, A Teal, P Wray, N Wright and T Yasseen.

Contact Details

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SOUTH YORKSHIRE PENSIONS AUTHORITY

10 SEPTEMBER 2020 AT 10.00 AM - VIRTUAL MEETING

Agenda: Reports attached unless stated otherwise

SOUTH YORKSHIRE PENSIONS AUTHORITY

ANNUAL MEETING

11 JUNE 2020

PRESENT: Councillor M Stowe (Chair)
Councillor J Mounsey (Vice-Chair)
Councillors: A Atkin, S Cox, A Law, A Murphy, C Rosling-Josephs, A Sangar, A Teal, P Wray, N Wright and T Yasseen

Trade Unions: D Patterson (UNITE) and G Warwick (GMB)

Investment Advisors: A Devitt and L Robb

Officers: J Bailey (Head of Pensions Administration), N Copley (Treasurer), G Graham (Fund Director), G Kirk (Monitoring Officer), M McCarthy (Deputy Clerk), G Richards (Senior Democratic Services Officer), S Smith (Head of Investments), G Taberner (Head of Finance and Corporate Services) and C Tyler (Head of Governance)

Apologies for absence were received from N Doolan-Hamer (due to technical issues)

1 APPOINTMENT OF CHAIR FOR THE ENSUING YEAR

RESOLVED: That Councillor Mick Stowe be appointed as Chair of the Authority for the ensuing year.

2 APPOINTMENT OF VICE-CHAIR FOR THE ENSUING YEAR

RESOLVED: That Councillor John Mounsey be appointed Vice-Chair of the Authority for the ensuing year.

3 MEMBERSHIP OF THE AUTHORITY

A report was presented regarding the membership of the Authority.

The current membership of the Authority was:

Barnsley Councillors	**Doncaster** Councillors	**Rotherham** Councillors	**Sheffield** Councillors
M Stowe Neil Wright	S Cox J Mounsey P Wray	A Atkin T Yasseen	A Law A Murphy C Rosling- Josephs A Sangar A Teal

RESOLVED – That the membership of the Authority be noted.

4 QUESTIONS IN MEETINGS OF THE DISTRICT COUNCILS

A report was submitted to consider the appointment of representatives of the Authority to answer questions raised in meetings of the District Councils and to feedback District Council pensions issues at each meeting of the Pensions Authority.

The appointments and substitutes for 2020/21 were noted as follows:

Council	**Spokesperson**	**Substitute**
Barnsley MBC	Cllr M Stowe	Cllr N Wright
Doncaster MBC	Cllr J Mounsey	Cllr P Wray
Rotherham MBC	Cllr A Atkin	Cllr T Yasseen
Sheffield CC	Cllr A Law	Cllr A Sangar

It was noted that Cllr P Wray would resign his position as substitute Section 41 representative for Doncaster MBC when he was appointed the Civic Mayor for Doncaster and another member would be appointed.

RESOLVED – That the Section 41 appointments are agreed as detailed above.

5 APPOINTMENT OF COMMITTEES

A report was submitted to consider the appointment of the Authority's Committees and their Chairs for 2020/2021.

Membership was confirmed as follows:

Audit Committee

Cllr Alan Atkin
Cllr Steve Cox
Cllr Alan Law
Cllr John Mounsey (Chair)
Cllr Mick Stowe

Staffing, Appointments & Appeals Committee

Cllr Alan Atkin
Cllr Alan Law
Cllr John Mounsey
Cllr Andrew Sangar
Cllr Mick Stowe (Chair)

RESOLVED: That the membership of the Authority's Committees and their Chairs be agreed as detailed above.

CHAIR

SOUTH YORKSHIRE PENSIONS AUTHORITY

ORDINARY MEETING

11 JUNE 2020

PRESENT: Councillor M Stowe (Chair)
Councillor J Mounsey (Vice-Chair)
Councillors: A Atkin, S Cox, A Law, A Murphy, C Rosling-Josephs, A Sangar, A Teal, P Wray, N Wright and T Yasseen

Trade Unions: D Patterson (UNITE) and G Warwick (GMB)

Investment Advisors: A Devitt and L Robb

Officers: J Bailey (Head of Pensions Administration), N Copley (Treasurer), G Graham (Fund Director), G Kirk (Monitoring Officer), M McCarthy (Deputy Clerk), G Richards (Senior Democratic Services Officer), S Smith (Head of Investments) and G Taberner (Head of Finance and Corporate Services)

Apologies for absence were received from N Doolan-Hamer (due to technical issues)

1 APOLOGIES

The Chair welcomed everyone to the meeting.

Apologies were noted as above.

2 ANNOUNCEMENTS

G Graham informed Members that extra meetings would be arranged in September and October to discuss the pooling process for Property and the Fund’s Agriculture Portfolio.

Suggested dates would be circulated in the coming weeks.

3 URGENT ITEMS

None.

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

None.

5 DECLARATIONS OF INTEREST.

None.

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

None.

7 MINUTES OF THE AUTHORITY MEETING HELD ON 19 MARCH 2020

G Graham informed the Authority that the Climate Change and Responsible Investment policies had been deferred until September. These policies required considerable debate which didn't sit well in a virtual format. New information from Border to Coast was also expected shortly which could affect the debate.

RESOLVED – That the minutes of the meeting of the Authority held on 19th March 2020 be agreed as a true record.

8 CORPORATE PERFORMANCE REPORT - QUARTER 4 2019/20

G Taberner presented the Quarter 4 Corporate Performance report.

Members noted the following headlines:

- Significant progress had been made in delivering the Corporate Strategy.
- Long-term sickness absence levels were down on the previous year.
- Employer performance on data submission was improving.
- Investment performance had been hit by the Covid-19 market impact but was better than the benchmark.
- There had been a significant underspend against the budget, as detailed within the report, which was reserved for future improvements in service.

The impact of the office closure in March and the efforts to transfer staff to home working was evident in the performance figures for Quarter 4 and this was expected to continue into early 2020/21.

The Risk Register had been fully reviewed by SMT during the quarter and two risks had been revised upwards due to the impact of Covid-19.

In addition to the Corporate Risk Register, which was appended to the report, a specific risk register relating to the impact of Covid-19 on the ability of the Authority to achieve its objectives had been developed. This was included elsewhere on the agenda.

RESOLVED – That the report be noted.

9 THE PENSIONS AUTHORITY AND THE COVID 19 PANDEMIC

A report was submitted to update members on the impact of the Covid-19 pandemic on the Authority's operations.

In order to facilitate home working for all members of the Authority's staff, the ICT team had to procure, configure, issue and support the set-up of 65 laptops in a very short period of time.

In order to secure so many laptops in the required timescale it had been necessary to waive standing orders to go directly to suppliers. A waiver was also required to extend the licensing of the software that provided secure external access to the Authority's network. Subsequently, the Team had to secure an upgrade to the capacity of the Authority's internet connection and bring forward the scheduled replacement server which had become unreliable due to the increased load being placed on it as a result of remote working. The server replacement also required an urgent waiver of contract standing orders.

The report detailed measures taken in areas such as adapting the telephone system, the use of video conferencing and communications with Scheme members and employers, the Authority and the Local Pension Board, District Council Finance Directors.

Managers were in regular contact with the members of their team to ensure they had the support they needed.

The report outlined two areas of significant operational impact.

Firstly, the number of scheme member deaths had risen significantly during March and April. In the short term, as these cases represented the highest priority type of work, the need to process them had impacted on lower priority cases.

The second area of operational impact was in relation to rent collection for the commercial property portfolio. Many businesses had seen their income dry up virtually overnight thus losing the ability to pay rents. The approach the Authority had taken, supported by Aberdeen Standard as the Authority's investment manager, had been to agree to move tenants to monthly payment on request to assist them in managing cash flow and to consider rent deferrals on a case by case basis.

RESOLVED – That the Authority:

i) Note the contents of the report and the actions taken to protect the Authority's services and staff in response to the Covid-19 pandemic.

ii) Endorse the waiving of contract standing orders, as set out in paragraph 5.3 of the report by the Director in order to protect the Authority's services and staff as a matter of urgency.

10 INDEPENDENT ADVISORS COMMENTARY

A Devitt provided a market commentary on events since the last Authority meeting.

Markets around the world had fallen dramatically in late March. They reached a low on 23rd March but since then had retraced a significant part of their lows, particularly in the US. While performance had been dominated by tech and so-called stay at home stocks, the latter half of May saw signs of life in value as well as small-cap stocks.

During the period oil prices collapsed into negative territory for the first time ever and unemployment in the UK was close to 2 million and was expected to top 3 million or 10% post furlough.

Sterling had remained under pressure throughout the period and the FTSE remained weak despite some recovery.

Central banks in the US, UK and Europe had responded to the situation quickly and governments had also responded to try and ease the burden on companies.

In terms of the South Yorkshire fund, the equity portfolio would have dropped and companies would be much less likely to pay dividend as they would want to conserve cash, therefore income from the equity markets was likely to be considerably constrained.

There would be a need to insure the fund against inflation, this could be done through real estate and property. The agriculture portfolio would be a good source of inflation hedge, similarly infrastructure would be a good long-term source of inflation hedging.

In terms of the outlook, the sheer volume of money pumped into the economy by central banks was not showing any signs of stopping. Interest rates were not expected to rise for a considerable length of time. This would affect investment decisions and there would be a need to seek out other risk areas.

The Chair thanked A Devitt for an informative presentation.

11 QUARTERLY REPORT TO 31 MARCH 2020

Members considered the Quarterly report to 31st March 2020.

S Smith reported that for the quarter the Fund returned -7.5% against the expected benchmark of -10.2% which gave a year to date return of -3.1% against an expected return of -4.5%. The value of the Fund was just under £8.2bn, without the equity protection policy this would probably have dropped to £7.9bn.

Looking at the outcome for the year, the Fund was down just over 3% which was a very good outcome given the way the markets moved in the last quarter.

During the quarter the Investment Grade Credit portfolio was transferred to Border to Coast. This commenced in February before most of the market turmoil. The transition period lasted approximately five weeks and was an extremely difficult programme to achieve but there was a very positive outcome as transaction costs were less than expected and the portfolio outperformed its benchmark for the period.

Members noted that the equity protection had been a benefit for the Fund last year but the decision had been made to let in roll off, this had occurred during the month of April. By then equity markets had started to recover and when all the options had expired there was an overall benefit of £43m. Overall, over the two-year period the equity protection had done what it was intended to do.

The funding level had fallen to around 94% at the end of March but, looking at the position now, the valuation at the end of May was £8.8bn which was only slightly below where it was in December.

Going forward over the next one to two quarters, the Authority would be looking to take money out of UK equities and also looking at the allocation to Index Linked gilts with a view to further reducing the Fund's exposure in this area.

RESOLVED – That the report be noted.

12 RESPONSIBLE INVESTMENT UPDATE QUARTER 4 2019/20

A report was submitted to update the Authority on responsible investment activity during the period January to March 2020.

The report contained details of the voting and engagement activity during the period.

In response to a question from Cllr Yasseen, G Graham explained that the next reports, which would cover the period to the end of June 2020 and subsequent quarters, would certainly contain information on the activity undertaken in response to the Black Lives Matter movement and other similar issues.

The report didn't pick up the full impact of the Covid-19 pandemic, however it referred to how some companies, particularly in Asia, had to change how they ran their Annual Meetings etc. but it didn't contain a lot of additional information on engagement given the way some companies had been behaving towards their workforces and suppliers. There would be a lot more emphasis on this in the future.

RESOLVED - That the Authority notes the activity undertaken in relation to responsible investment issues during Quarter 4 of the financial year.

13 PROCESS FOR POOLING PROPERTY INVESTMENTS

A report was submitted to set out, and gain approval for, the process leading up to decisions in relation to the pooling of the Fund's property investments.

Members were informed that, in line with the overall plan for pooling assets, Border to Coast was now developing proposals for products which would allow the pooling of property assets.

This would be a complex process and the Authority would need to make several decisions during the coming months; the process and timeline for this was detailed within the report.

Border to Coast was proposing to develop two products, a UK property fund and a Global property fund.

The UK fund would have two elements, one of which would be a traditional commercial property fund and the other would use funds to invest in specialist types of property, for example student accommodation. This would be a significantly larger direct property portfolio than SYPA had and would open up different types of assets in which to invest and should enable the Authority to improve the ESG characteristics of investments.

The Global product would be a traditional fund of funds, Border to Coast would partner with a fund manager to help select suitable products.

As detailed in the report, the modelling suggested that there would be no payback for SYPA for at least 10 years, and there were also issues around the risk/return characteristics which were currently being debated between the Partner Funds. The Partner Funds needed to agree what they wanted to enable Border to Coast to build the product.

Border to Coast would provide further background information on their proposed products in the form of a recorded webinar for members and this would be made available to members in due course.

L Robb commented that he hoped the Authority would support the proposal for Border to Coast to recruit a Head of Property so that he/she could shape the product rather than inherit it.

The ideal solution for SYPA would be UK property that delivered high net returns and more opportunities that offered some regional and specialist opportunities and an overseas fund with good partnering with external managers to provide good returns at an acceptable level of risk.

In answer to a question from Cllr Sangar, the Director confirmed that the development costs would be shared by all Partner Funds.

RESOLVED – That the Authority:

i) Approve the process leading up to a decision in relation to the pooling of the Authority's property investments as set out in the report.

ii) Note the line on learning materials to be provided by Border to Coast.

iii) Agree to support Border to Coast incurring further development costs in particular for the appointment of a Head of Property prior to formal approval of the product design.

14 VALUATION 2019 - REVIEW OF OUTCOMES

A report was considered that updated members on the final outcomes of the 2019 valuation process.

Members noted that the funding position as at the valuation date of 31st March 2019 showed a funding level of 99% as compared with 86% at the 2016 valuation.

The report referred to the national picture and, as the table within the report showed, there had been a general move towards 100% funding for the majority of LGPS funds.

With regard to SYPA's valuation, the table at section 5.7 in the report showed that, despite the fact that the Authority had a close to 100% funding position overall there was a significant variation between different categories of employers within the Fund.

The academy sector in particular still had low levels of funding especially where there had been issues around the timing of their conversion.

Although 148 employers had a reduction in contributions there were 317 employers whose contributions were increased.

With regard to the use of employer flexibilities, 43 employers had elected to pre-pay their monthly deficit payments, either on an annual or 3 year basis. A number of Multi-Academy Trusts were now paying a combined employer contribution rate for all the schools within the Trust.

Members were informed that 97% of employers had elected to build the expected McCloud judgement costs into their contributions from 1 April 2020. This would potentially significantly reduce the risk of underpayment and the administrative burden in terms of recouping the costs at a later date.

RESOLVED – That the Authority note the completion of the Valuation process and the range of outcomes that apply to both individual employers and to groups of employers in the Fund.

15 <u>REVIEW OF THE CONSTITUTION</u>

A report was submitted to secure approval for the Authority's updated Constitution.

Members were informed that a review of the whole suite of constitutional documents had been undertaken. This had included:

- Incorporating all parts of the Constitution into a single document.
- A number of internal consistencies had been addressed and some policy documents removed from the Constitution, although they remained part of the policy framework.
- Additional; sections had been incorporated into the Constitution:
    - Officers' Code of Conduct.
    - A Pensions Authority specific Conflicts of Interest policy.
    - Protocols on the operation of the Monitoring Officer and s73 officer roles.
    - Incorporation of the newly approved member allowances scheme.
    - The addition of a section setting out the management structure.
- The broad provisions of the Constitution remained the same. However, a number of additions had been made. These included:
    - In light of the actions that were required to deal with the response to the Covid-19 situation, the addition of specific powers for officers to take the actions required to safeguard the Authority's assets and services in the event of a civil emergency.
    - The addition of an additional lower tier in the approval hierarchy for debt write-offs.
    - The addition of the Deputy s73 officer (the Head of Finance and Corporate Services) as an officer able to sign and seal documents.

RESOLVED – That the Authority:

i) Approve the updated Constitution as detailed at www.southyorks.gov.uk

ii) Authorise the Monitoring Officer to make future presentational and factual amendments without reference to the Authority.

16 AUDIT COMMITTEE ANNUAL REPORT 2019/20

The Authority considered its Audit Committee's Annual Report which had been produced to provide stakeholders with information on the work of the Committee during 2019/20 and to support the process of assurance gathering required in order to produce the Authority's Annual Governance Statement.

The report outlined the Committee's:

- Roles and responsibilities.
- Membership and attendance.
- Work Programme.

RESOLVED – That the report be noted.

CHAIR

Table of Contents

Cognitive Dissonance: the state of having inconsistent thoughts, beliefs, or attitudes, especially as relating to behavioural decisions and attitude change

Highlights:

- **As we look back on the summer of 2020 and what is, so far, a truly extraordinary year, what is striking is the number of conflicting realities that we are continuing to deal with. One is the ongoing state of disruption, as some public venues remain shuttered while air travel and tourism continues despite quarantine requirements and green lists. Beaches are full as office buildings sit empty and financial districts are a shadow of their former selves.**
- **The other source of conflict is the relentless march upwards of the US stock market, mainly driven by tech and healthcare stocks, as seen below, while the European stock market remains weak year to date despite a better macro backdrop in terms of coordinated monetary support. Gold and related stocks are also soaring year to date – perhaps in response to fears of monetary debasement as interest rates remain low and government spending surges.**
- **At a corporate level fortunes are mixed, in what some have termed the "K-shaped recovery". While certain "knowledge workers" have seamlessly transitioned to a remote working regime, the service and retail industries have seen tremendous pain, and lay-offs. This will exacerbate inequality in society as well as leading to diverging corporate fortunes. Looking at corporate fortunes through the lens of the bond market suggests that demand for high yield debt remains strong, with some notable exceptions in hospitality and energy**
- **When it comes to Covid-19 itself, case numbers continue to rise, more in clusters than in waves for now, while ICU admissions are modest and death rates remain far lower than in the Spring. Progress continues towards various therapeutic treatments (including recently convalescent plasma) and vaccines although the time frame remains uncertain as does the predicted duration of the "new normal".**

- **Geopolitically, US/China trade tensions continue although as of late August seemed to be thawing despite a flare-up over TikTok, as do concerns around Hong Kong's status, while a massive explosion in Beirut in early August augmented the fractions and near collapse in that region and pro-democracy protests in Belarus gained global attention.**
- **Time has moved more slowly for private assets – which live less in a mark to market world and are more based on long term trends.**

Current Macro Snapshot

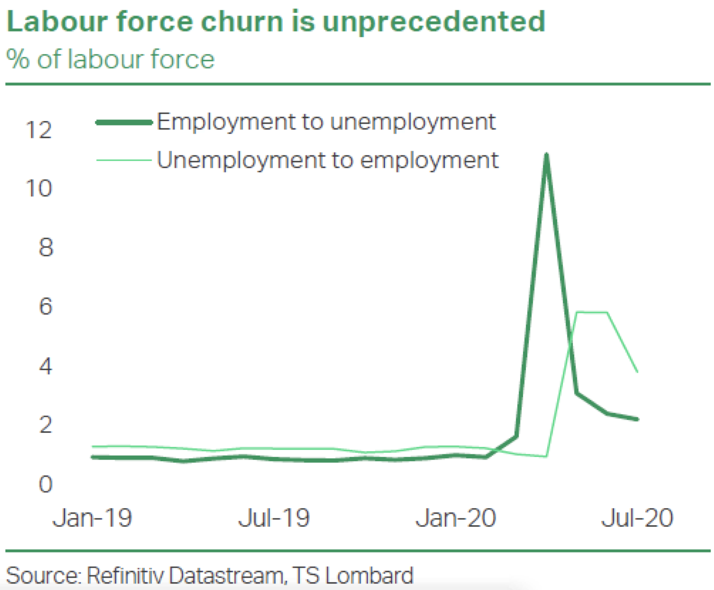
Coronavirus, as Autumn looms, confusion remains
At the date of our last quarterly update the global deaths and case numbers from Covid-19 had risen to 362,000 and 5.9 million, respectively, and testing was ramping up, while lockdowns were only at the start of their unwinding and in the UK they remained in full effect. Now as we look back on the summer, as of late August, the global deaths and case numbers from Covid-19 have risen to 817,000 and 23.8 million, respectively, and the pattern globally is similar – rising case numbers due to clusters in areas such as meat packing plants and factories with a high incidence of asymptomatic cases and a patchy contact tracing regime. Lockdowns have passed, for the most part, in most of the developed world, with the notable exception of New Zealand and the state of Victoria in Australia, which remains in a strict 6-week lockdown. As most of the Northern Hemisphere contemplates returning to school, considerable restrictions remain in place and it remains to be seen whether schools will return in person or whether the ongoing low hospitalization rates will result in fewer restrictions over time

Political discontent and a flipped US election script
As nerves remain frayed from a disrupted year and furlough payments are under scrutiny, especially in the UK, domestic governments are under intense pressure both to streamline messaging and strike a balance between risk and economic activity. In the US the presidential election script has flipped as President Trump has been blasted for a less than empathetic approach to the unfolding Covid-19 crisis and, lately, issues at the post office which could cast a cloud over postal voting at the upcoming election. Currently, Joe Biden, the democratic challenger, leads in most battleground states, although the record stock market levels may provoke a return to the "it's the economy, stupid", narrative, that, pre-Covid, seemed likely to propel President Trump to another victory.

What shape will the economic recovery be?
As the V-shaped market recovery recedes in the rear-view mirror, the consensus is moving away from a V-shaped recovery in the economy. 2Q GDP figures were staggering in their scope around the world – while Spain lost 18.5% of its GDP (and one fifth of its consumption) while the US economy had its worst quarter on record, contracting 32.9% between April and June. [1] Many of these declines were from lower export numbers and lower capital investment. The numbers from the UK were equally dire, as GDP contracted by 20.4% in the 2Q, its most ever, although there was an 8% rebound in June.

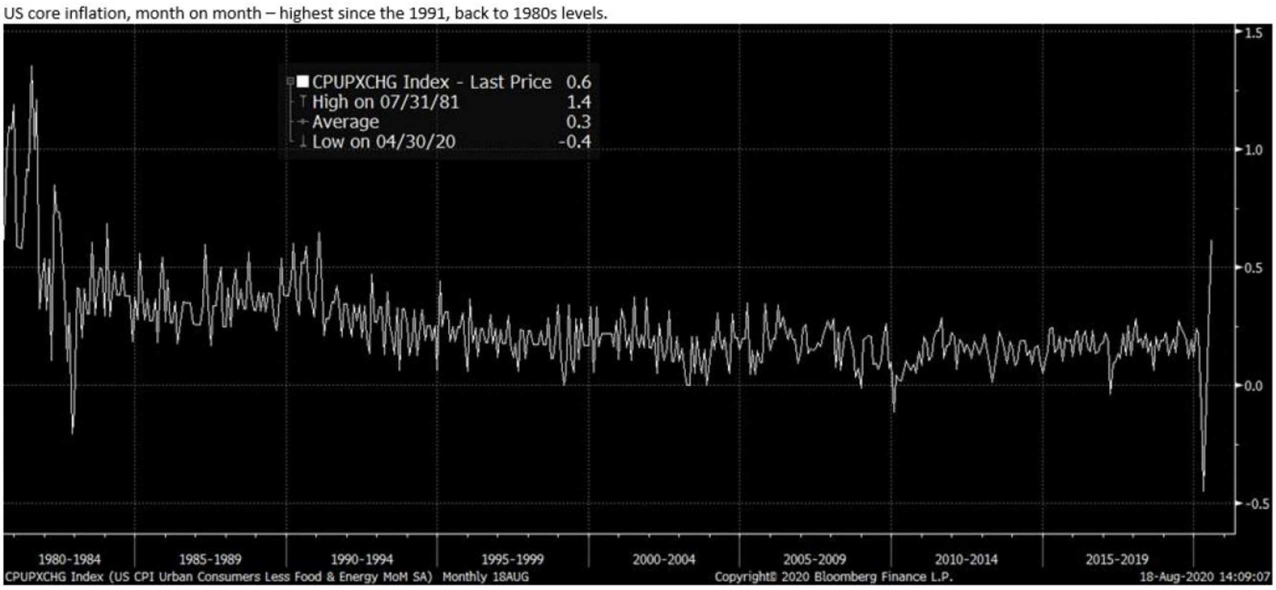
UK GDP growth, Quarter 1 (Jan to Mar) 2005 until Quarter 2 (Apr to June) 2020.
Office for National Statistics

It is clear that up to a decade of growth will be wiped out in just one quarter. The task of rebuilding ahead can be illustrated by looking at labour markets – in the US there have been a net 13.2 m jobs lost and while 1.5 m were added last month, on this basis 9 months of similar growth would be required to recover the lost jobs, and this might be considered a best case scenario. The extraordinary impact that lockdown had on unemployment, has led to an unusual amount of churn in the labour market in the US:



Recovery plans diverge and inflation simmers in a surprising turn
While in the US there remains somewhat of an impasse with respect to the next round of stimulus, in Europe the Recovery Fund, agreed on July 21st, represented a cohesive policy response that shored up sentiment in the region's markets and the Euro. Inflation remains under scrutiny as supply chain disruptions have translated to higher costs of staples such as food and in particular meat, while a commitment to "lower for longer" interest rates suggests that central banks may be willing to tolerate higher inflation going forward. US core inflation is currently at the highest since 1991, and back to 1980 levels.

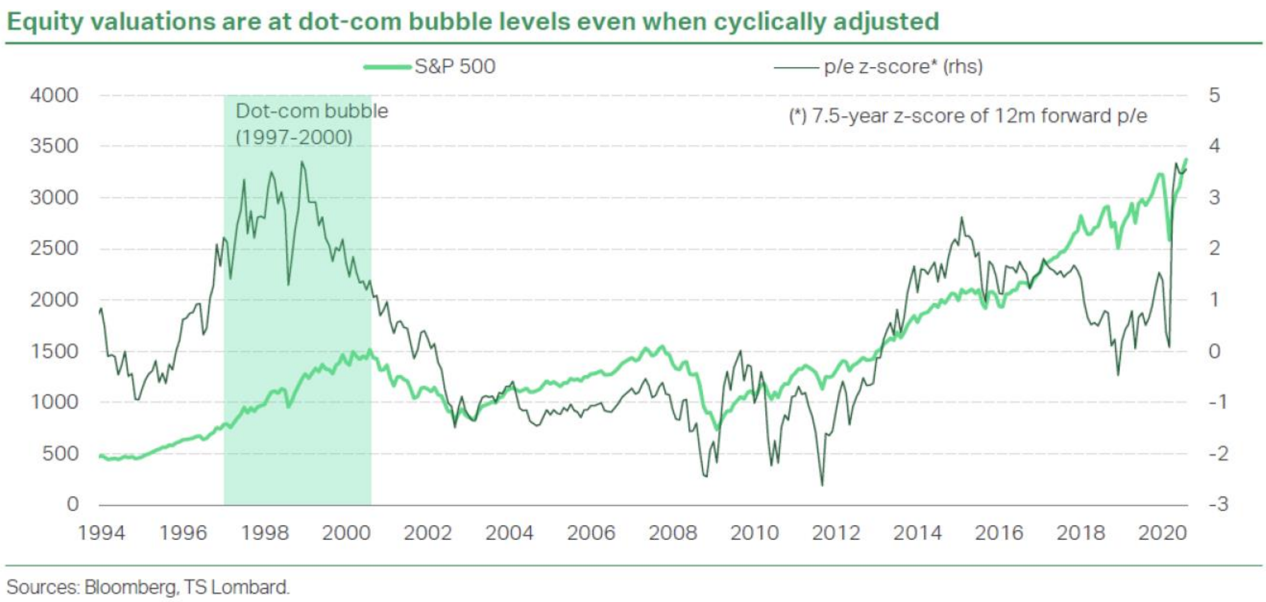
This marks a stark turnaround from only 3 months ago, when the expectation of lower demand seemed likely to result in more deflation than inflation. One shift is housing – while housing represents a significant share of the inflation basket and was originally anticipated to fall over the next 12-18 months, instead the housing market has been strong and even rallying in the US.



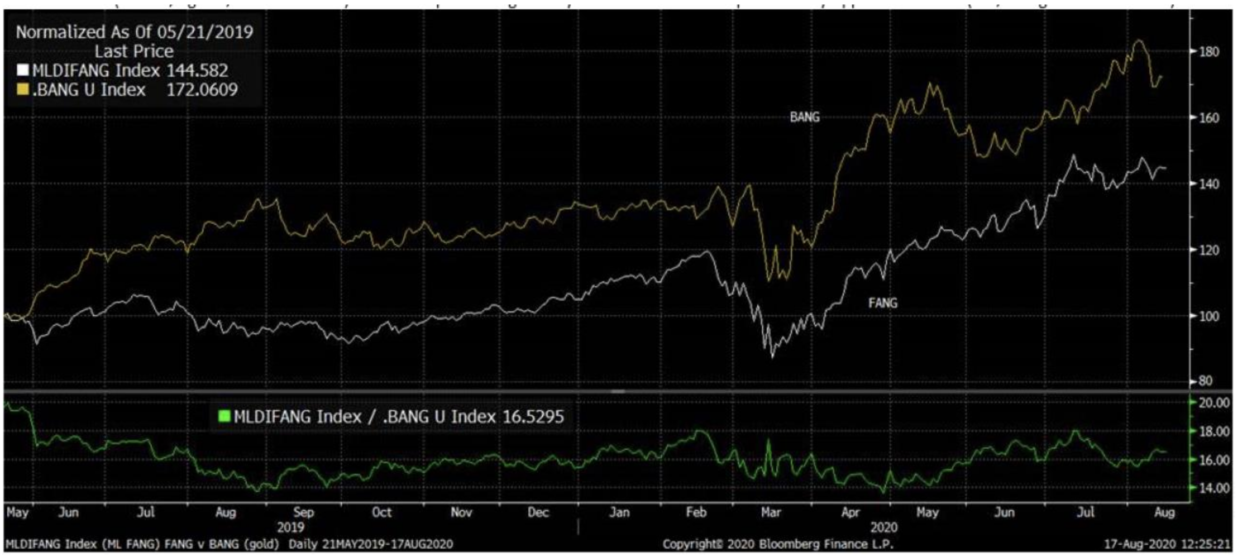
Source: Bloomberg

US Markets hit new record highs, but more cognitive dissonance

Both the S&P 500 and the Nasdaq saw record highs this month, but the strength remains heavily focused on tech and healthcare stocks as the chart below shows, in terms of flows as well as the dominance of a few large stocks. There is still some concern that the market has hit "bubble" territory, when compared to the dot-com bubble prior to the crash of 2000-2002 in terms of the forward P/E multiple.



The chart below illustrates the ongoing dominance of the FANGS, but it is also interesting to see how much gold related stocks (the so-called BANGS (Barrick, Agnico, Newmont Gold)) have performed, with this segment outperforming FANG year to date.

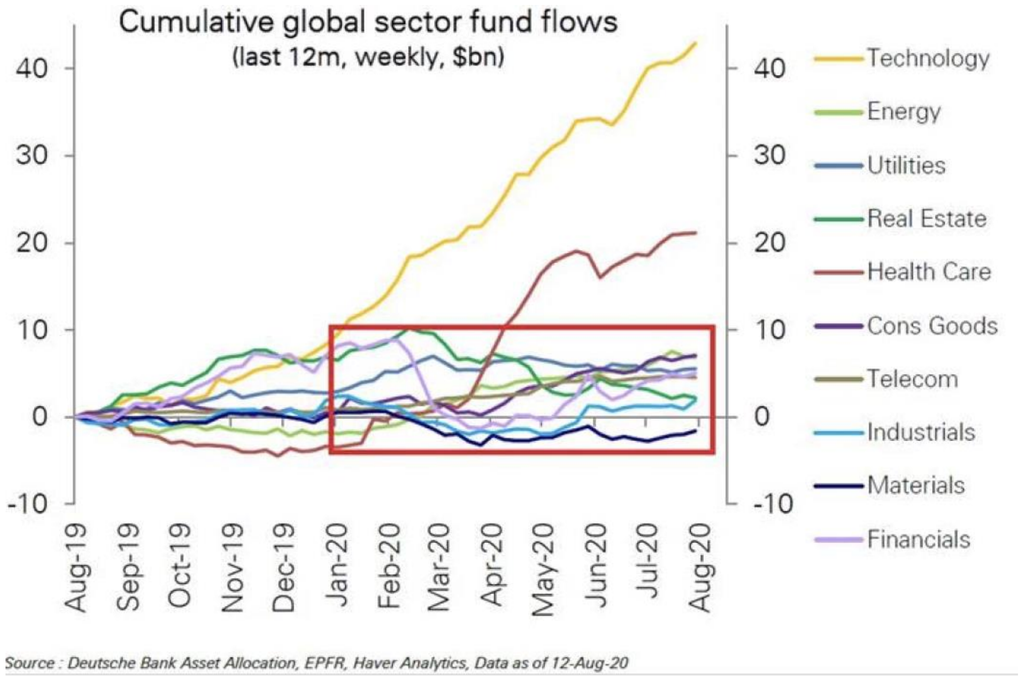


Source: Bloomberg

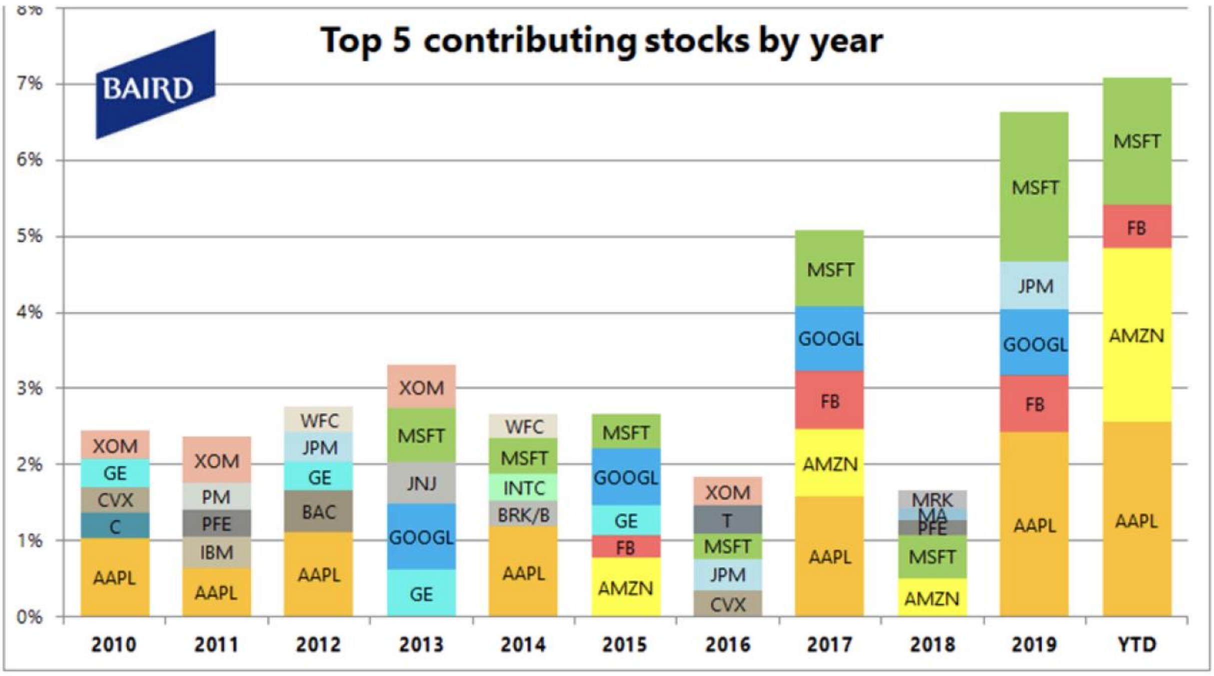
Notable underperformers have been the oil and gas sector, due to a high level of volatility amid the demand fluctuations due to the pandemic. The FTSE oil and gas sector is at multi-decade lows, at levels last seen in 1986 and 1992.

Source: Bloomberg

As the chart below shows, investor sentiment has been solidly behind healthcare and tech stocks, in the US, with other sectors seeing virtually no inflows. This is an extraordinary distortion and suggests that the support for the market at these levels may be tenuous.

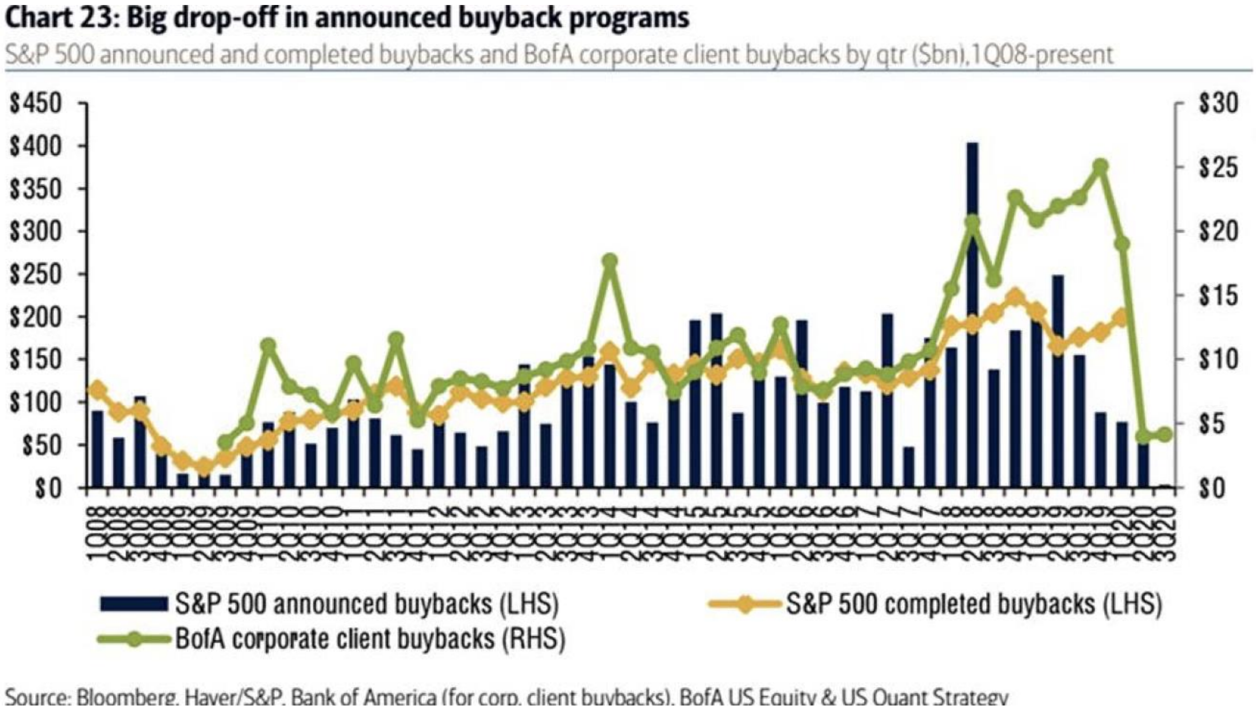


The chart below also illustrates how different stocks have represented the bulk of the market strength:

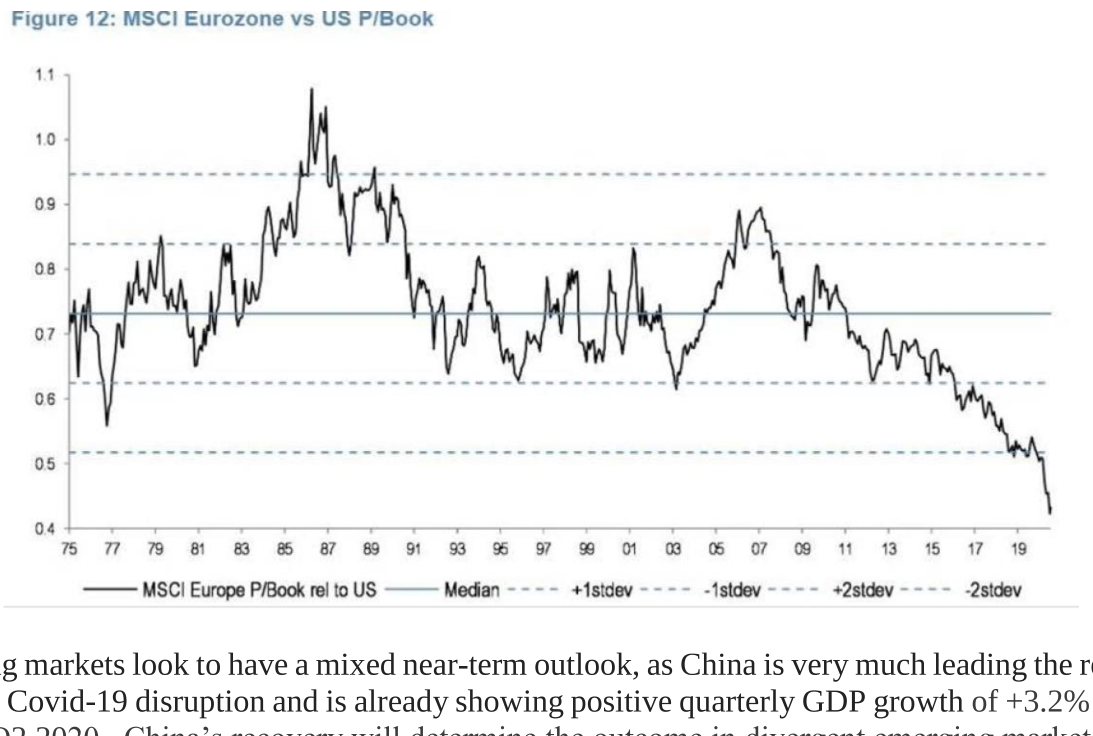


Source: Baird

Some analysts have signalled caution at what they perceive to be frothy, overly-exuberant behaviour such as the reframing of old economy stocks with elements of the new “buzz words” of the era – such as ESG, sustainability, and new tech-like growth. This may indicate that the market is priced to perfection. Another notable shift in technicals is the slow-down in share buybacks – as the chart below indicates. Share buy-backs, when a company buys back its own stock, were pervasive in 2018-2019 as corporations sought to return cash to shareholders after enjoying new corporate tax cuts. They acted as an important source of demand which drove markets higher, and were frowned upon as balance sheets came under scrutiny in the early days of the Covid-19 pandemic. The removal of this demand feature makes the recent run-up in markets even more remarkable



Global divergences
US markets have run up notably more than European markets this year, as the valuation comparison below shows. The differential between the markets is now quite significant, which is particularly curious in light of the considerably more robust European backstop in the form of the European Recovery Fund.



Emerging markets look to have a mixed near-term outlook, as China is very much leading the recovery from the Covid-19 disruption and is already showing positive quarterly GDP growth of +3.2% year on year in Q2 2020. China's recovery will determine the outcome in divergent emerging markets, while some markets, such as in Latin America and South Africa look impaired in the medium term at least. An interesting data point on the likely medium and long-term outlook for emerging markets though is the differential in infrastructure spending that is coming up as can be seen below. As meaningful investments in infrastructure (including data networks) in emerging markets dwarf those of developed markets (see below) there is a real likelihood that gaps in productivity will start to close. The UK commitment is notable here as a % of GDP among its peers.

	Allocation (USD)	% of GDP	Timeline
India	1.44 tn	53	2024
Indonesia	412 bn	37.5	2024
Taiwan	12 bn	2	2023
Malaysia	23 bn	7.2	No timeline
Turkey	336 bn	38.6	2023
South Korea	3.6 bn	0.2	2019
China	4 tn	33.5	No timeline
Mexico	45 bn	3.9	2024
Brazil	68 bn	3.4	2020
	Approx US$10 tn		

	Allocation (USD)	% of GDP	Timeline
Canada	260 bn	15	2028
EU	1.2 tn	6.4	2027
Germany	170 bn	4.5	2023
UK	850 bn	31.5	2030
Japan	68 bn	1.4	2020
US	2 tn	10	Not approved, no timeline but bipartisan support
	Approx US$4.5 tn		

ource: Refinitiv, Credit Suisse, January 2020.

Currency movements:
The USD had a relatively weak quarter, reaching a two-year low in July, while Sterling rose 6.5% against the currency over the past 3 months and the Euro gained even more (+7.6%). Most of this was due to signalling from the US Fed about lower interest rates as well as the poor news relating to the Covid-19 pandemic in the US in particular. This will impact the global non-Sterling assets in the portfolio leading to an erosion of returns in Sterling terms. The chart below shows the meaningful move off the bottom in late March of 1.14.85. Sterling is currently near the top of its 52-week range.

Source: Marketwatch

Individual Asset Class Performance

- Equities
- Fixed income
- Private Assets: Spotlight on Private Credit

Equities: Global differences persist and grow larger

Following the decisive move into V-shaped recovery territory over the course of the second quarter, June was a fairly flat month, although clearly driven by the “stay at home” stocks such as Zoom and Peloton, the at-home fitness equipment manufacturer. The UK stock market was lack lustre in comparison due to the dominance of banking and energy stocks in its mix.

In July there was notable divergence in global equity markets. The US market continued to add impressive gains, despite an appalling GDP number for the second quarter and indications that the Covid-19 outbreak was far from under control, even in states that had looked to have well managed the outbreak initially. The US dollar weakened and this drove strength in Emerging Markets, which tend to benefit from a weaker dollar. The Nasdaq is up a staggering 28% for the year to date, while the S&P is up just over 6.5% and the Dow Jones Industrial Average is flat to slightly negative. Emerging markets are also in positive territory with a return of close to 10% for the Shanghai Composite, while the Hang Seng continues to suffer from the overhang of unrest there, and is down by around the same amount.

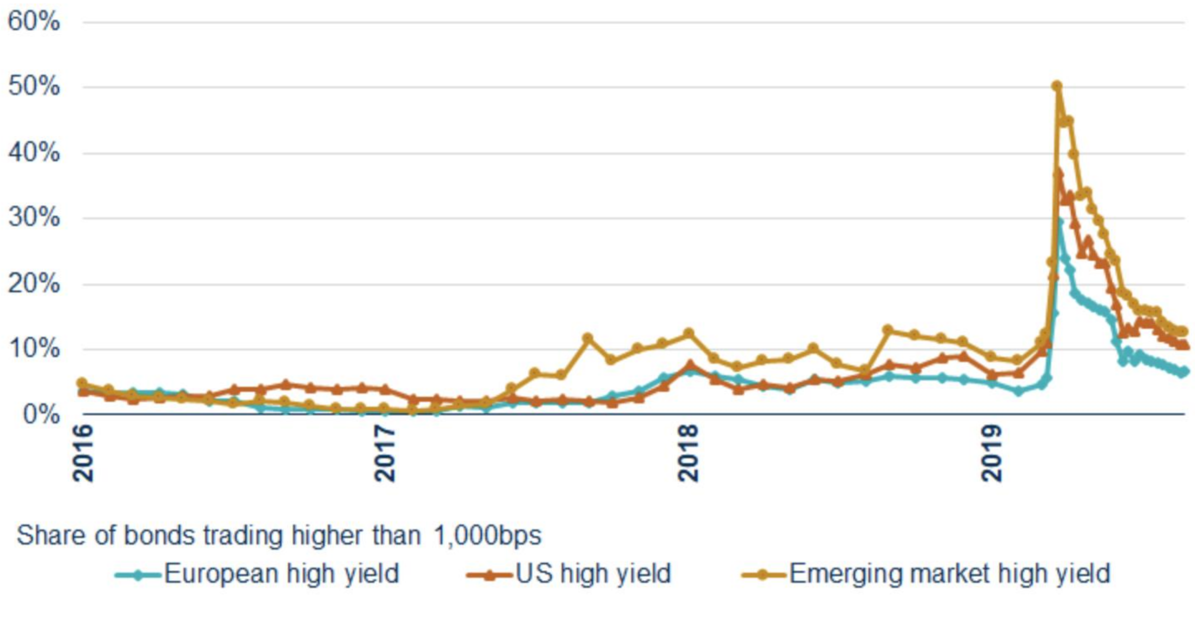
In contrast, the Eurozone and UK markets were weak, as their own negative GDP numbers loomed, while rising virus levels and volatile quarantine requirements and travel restrictions meant that certain areas were likely to see less convincing economic recoveries. The FTSE remains -20% year to date as at August 26, while the Eurostoxx has added 6% over the past 3 months and is now down only 10%. This perhaps reflects the less severe hit to GDP experienced by countries such as Germany (-10% compared to -18% for Spain) and the sizeable positive impact to sentiment of the European Recovery Fund.

Fixed Income/Credit: low rates drive demand, US high yield sees its best month in nine years

The central bank funding commitments have shored up credit markets, by dampening volatility and boosting inflows, as have the commitment to keep interest rates lower. The outlook for credit markets is also bolstered by stronger earnings, as overall more visibility has entered and enabled better forecasting, although cash flows remain depressed.

Within high yield indices the average strength has improved as fallen angels have continued to drop out of investment grade, and weaker names are removed from the index through defaults.

It is also interesting to note that the "distress ratio" which looks at the share of bonds trading at a discount (due to expected distress or default risk) is trading at back to normal levels, even in emerging markets.



Source: ICE Bond Indices, as at August 2020.

This is matched by a decline in yields (see below), reflecting solid demand, and the fact that the asset class of US high yield had its best month in 9 years in July.

Private Assets: Spotlight on Private Credit

As noted above, as the distress ratio has fallen in fixed income, it has equally been less of a concern in private credit although idiosyncratic risk will remain in areas such as hospitality and services. In general the managers in this area cite the "multiple thumbs on the scale" of government and central bank intervention to have distorted the real performance trajectory of assets, allowing private credit players to have more of an "amend, extend" and even "pretend" reality as managers move from chaos to stabilization mode.[1] Many managers expect that it is too early to see the true impact of the crisis on markets although most

Private credit is expecting to benefit from banks pulling back in lending, as well as the large body of dry powder that has built up in recent years as investors seek higher yielding credit assets. Other operators also expect the opportunity set in distressed debt to open up, as more constrained debt holders are forced to offload holdings. A clear indication of demand is the report from Preqin that global fund raising in distressed debt and special situations strategies rebounded to $34 billion in the second quarter from a multi-year low of $22 billion in the previous quarter. For many investors in this area, there is now an ability to be far more selective about investment opportunities – and to focus on companies that have shown themselves to be more resilient in recent months.

[1] https://www.pionline.com/alternatives/private-debt-managers-see-stellar-opportunities-asia-despite-uncertainties

Outlook

So where do we go from here?

Each quarter I revisit the outlook made in the previous quarterly update and throughout 2020 the outlooks have been couched in the uncertainty around the scale of the Coronavirus outbreak as well as how economies will rebuild. With every month we seem to learn more, but uncertainties still loom. As vaccine trials continue and new therapies are developed, there is hope on the horizon and markets react accordingly. However, there are also mixed messages around the efficacy of a vaccine, and the need for mandatory policies on vaccination as well as for multiple boosters. Meanwhile, students prepare to return to school with a checkered set of policies for social distancing, PPE, distance learning (in universities) and other radical changes. And still we wait the outcome from the pending easing of furlough payments are eased and the true impact on employment is revealed (likely to be late in the year). In the months ahead it will also be interesting to watch for the following:

- **How long do Covid disruptions continue?** Despite a return to tourist activities in the summer office blocks are empty, public transport is considered high risk and mass events remain cancelled for the foreseeable future. As the days shorten and grow cooler and activities move indoors it seems inevitable that cases will rise but it remains to be seen whether action will be coordinated as it was in the Spring (even if inadvertently) or divergent. While some countries such as France and Italy have pledged not to shut down again, others remain more open to it, and quarantines have essentially smothered trans-Atlantic travel as well as short-haul business flights.

- **Corporate Confidence** We cited last quarter Marks and Spencers' "never the same again" strategic shift in its business model, which has already seen large scale layoffs. On the other hand retail delivery services (such as Tesco) are hiring by the 1000s and this indicates a re-tooling that, as in the case of much this year, is happening at warp speed, just as consumers have adapted to mask-wearing. Some corporates though, which were already under pressure, are now either throwing in the towel or on life-support as "zombie companies". Some have blamed this on an overly zealous focus on liquidity and not solvency, as instead of focusing on whether a company should exist in its current state the short-term focus has been on enabling it to stay current on its cash needs. It is true that much of the pandemic related crisis revealed a liquidity crisis in the near term as revenues were paused, but perhaps this tidal wave of corporate loans and stimulus payments, as well as paycheck protection, provided a lifeline that some corporates should never have received. Over coming weeks it will be important to watch how corporates are dealing with the new shape of customer demand and whether they evince the confidence to stay the course.

- **Close to decision time in US politics** The Covid-19 outbreak has become increasingly politicized in the US, and as election time nears the rhetoric is getting increasingly divisive. Meanwhile another country, New Zealand, has used the Covid-19 lockdown to delay their election, and regime change does not seem imminent throughout Europe, or much of Asia currently. As the challenger, Joe Biden, is an erstwhile moderate Democrat, albeit one whose policy positions have been pulled to the left, it is unclear how markets would view a Biden victory. The message he is sending is one of "healing" of the rifts in the country and around the world in terms of the US position in foreign affairs, so it can be expected tha the net impact of a Biden victory would be neutral to positive. This will be a source of risk and volatility though as November nears.

***

August 26, 2020

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SOUTH YORKSHIRE PENSIONS AUTHORITY

QUARTERLY REPORT TO 30 JUNE 2020

lgps

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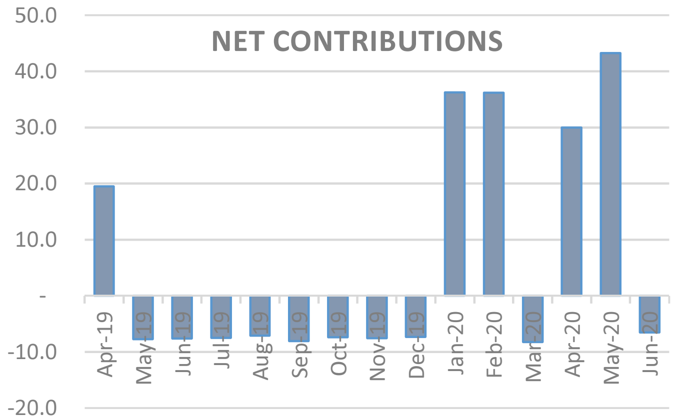
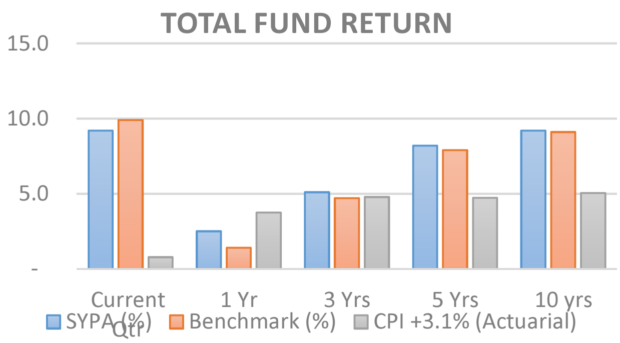
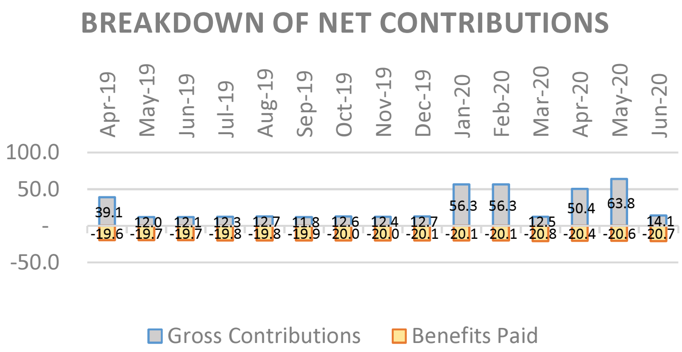
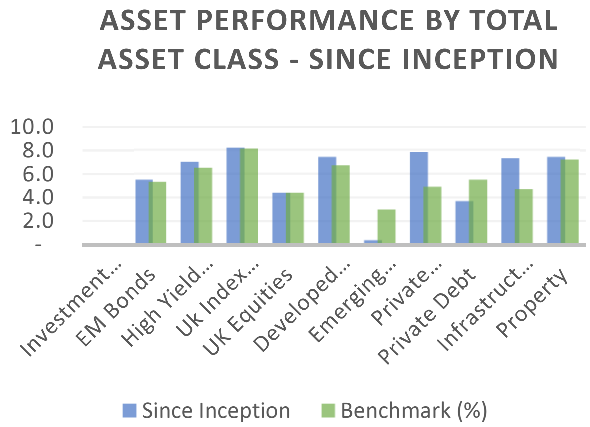
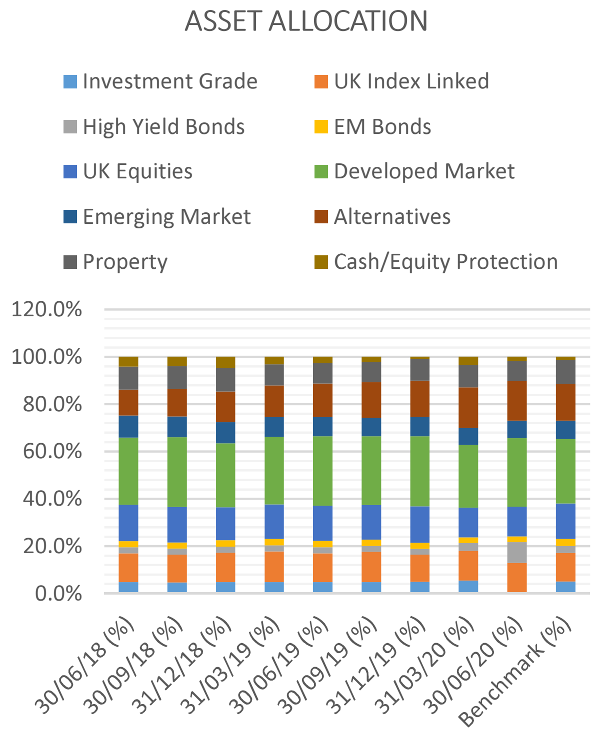
CUSTOMER SERVICE EXCELLENCE CSE

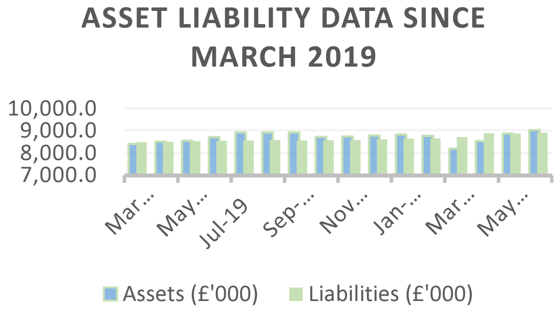

NET CONTRIBUTIONS
50.0
40.0
30.0
20.0
10.0
-
-10.0
-20.0
Apr-19
May-19
Jun-19
Jul-19
Aug-19
Sep-19
Oct-19
Nov-19
Dec-19
Jan-20
Feb-20
Mar-20
Apr-20
May-20
Jun-20

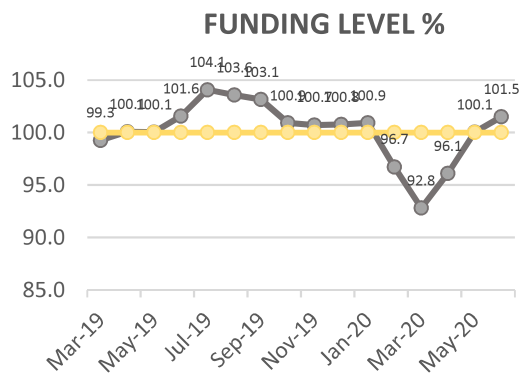

TOTAL FUND RETURN
15.0
10.0
5.0
-
Current Qtr
1 Yr
3 Yrs
5 Yrs
10 yrs
SYPA (%)
Benchmark (%)
CPI +3.1% (Actuarial)


BREAKDOWN OF NET CONTRIBUTIONS
Apr-19
May-19
Jun-19
Jul-19
Aug-19
Sep-19
Oct-19
Nov-19
Dec-19
Jan-20
Feb-20
Mar-20
Apr-20
May-20
Jun-20
100.0
50.0
-
-50.0
39.1
12.0
12.1
12.3
12.7
11.8
12.6
12.4
12.7
56.3
56.3
12.5
50.4
63.8
14.1
-19.6
-19.7
-19.7
-19.8
-19.8
-19.9
-20.0
-20.0
-20.1
-20.1
-20.1
-20.8
-20.4
-20.6
-20.7
Gross Contributions
Benefits Paid


ASSET PERFORMANCE BY TOTAL ASSET CLASS - SINCE INCEPTION
10.0
8.0
6.0
4.0
2.0
-
Investment...
EM Bonds
High Yield...
Uk Index...
UK Equities
Developed...
Emerging...
Private...
Private Debt
Infrastruct...
Property
Since Inception
Benchmark (%)


ASSET ALLOCATION
Investment Grade
UK Index Linked
High Yield Bonds
EM Bonds
UK Equities
Developed Market
Emerging Market
Alternatives
Property
Cash/Equity Protection
120.0%
100.0%
80.0%
60.0%
40.0%
20.0%
0.0%
30/06/18 (%)
30/09/18 (%)
31/12/18 (%)
31/03/19 (%)
30/06/19 (%)
30/09/19 (%)
31/12/19 (%)
31/03/20 (%)
30/06/20 (%)
Benchmark (%)


ASSET LIABILITY DATA SINCE MARCH 2019
10,000.0
9,000.0
8,000.0
7,000.0
Mar-...
May-...
Jul-19
Sep-...
Nov-...
Jan-...
Mar-...
May-...
Assets (£'000)
Liabilities (£'000)


FUNDING LEVEL %
105.0
100.0
95.0
90.0
85.0
99.3
100.1
100.1
101.6
104.1
103.6
103.1
100.9
100.7
100.8
100.9
96.7
92.8
96.1
100.1
101.5
Mar-19
May-19
Jul-19
Sep-19
Nov-19
Jan-20
Mar-20
May-20

Market background

This quarter saw global equity markets surging upwards supported by cheap money and investor optimism.

All equity markets had strong returns and for us as a UK investor this was further supported by a weak sterling.

All primary asset classes except for property had positive returns.

Volatility has been high over the last six months but this is expected to decrease as markets and the world stabilises.

Fund Valuation

Please note that since we reported last year’s performance to you we have restated the Final Valuation at March to account for all the alternative funds March statements.

The Valuation reduced from the reported £8189.4m to £8150.2m and the performance for the year came in at -3.6% instead of -3.1%.

Fund Valuation

as at 30 June 2020

	Fund Valuation as at 30 June 2020							
	Mar-20		Quarterly Net	Jun-20		Benchmark	Range
	£m	%	Investment	£m	%	%	%
FIXED INTEREST							
Inv Grade Credit - BCPP	439.6	5.4	0.0	469.9	5.2	5	
UK ILGs	1029.9	12.6	-16.0	1161.0	12.9	12	
High Yield Bonds	264.7	3.2	35.4	320.7	3.6	3	
EM Bonds	195.5	2.4	4.1	226.0	2.4	3	
TOTAL	1929.7	23.7	23.5	2177.6	24.1	23	18-28
UK EQUITIES	1028.8	12.6	0.0	1133.3	12.6	10	5 _ 15
INTERNATIONAL EQUITIES							
Developed Market - BCPP	2111.6	25.9	0.0	2528.6	28.0	27.125	
Developed Market - SYPA	61.5	0.8	-4.0	69.2	0.8		
Emerging Market - BCPP	575.5	7.1	0.0	670.6	7.4	7.875	
Emerging Market - SYPA	13.2	0.1	-2.8	12.1	0.1		
TOTAL	2761.8	33.9	-6.8	3280.5	36.4	35	30-40
PRIVATE EQUITY							
BCPP	13.8		2.0	16.7			
SYPA	604.5		2.8	621.0			
TOTAL	618.3	7.6	4.8	637.7	7.1	7	5_9
PRIVATE DEBT FUNDS							
BCPP			3.6	3.6			
SYPA			47.4	420.2			
TOTAL	363.9	4.5	51.0	423.8	4.7	5.5	4.5-6.5
INFRASTRUCTURE							
BCPP	12.4		6.1	18.6			
SYPA	375.7		42.9	432.0			
TOTAL	388.1	4.8	49.0	450.6	5.0	8	5_11
PROPERTY	774.0	9.5	-1.4	754.7	8.4	10	8_12
CASH	159.9	1.9		163.7	1.8	1.5	0-5
EQUITY PROTECTION (EPO)	125.7	1.5		0.0			
TOTAL FUND	8150.2	100.0		9021.8	100.0	100	
COMMITTED FUNDS TO ALTERNATIVE INVESTMENTS	1060.4			1057.1			

Asset Allocation Summary

After a period of strong performance from index-linked gilts we reduced the overweight position that had developed by £16m.

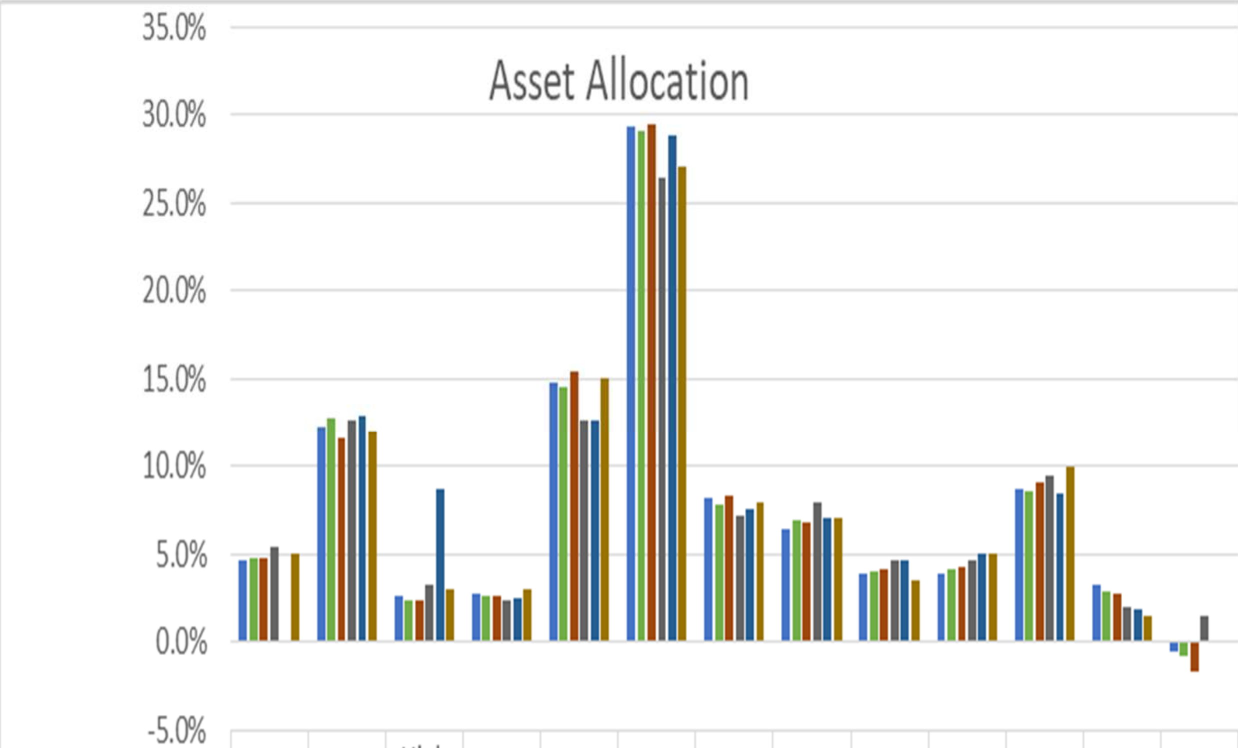
At the beginning of May we made an additional £35m investment into the PIMCO Diversified Bond fund.

We signed up to the 1b series of the Border to Coast Private equity fund and the Infrastructure fund with an annual commitment of £120m and £200m respectively.

£6.8m was raised from the residual overseas portfolios and £103m was invested across the alternative funds

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.

Asset Allocation Summary



	IG Bonds	Index Linked	High Yield Bonds	EM Bonds	Equity	Dev Mkt	EM Mkt	Priv Equity	Priv Debt	Real Assets	Real Estate	Cash	Equity PC
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%
31/03/20 (%)	5.4%	12.6%	3.2%	2.4%	12.6%	26.5%	7.2%	7.9%	4.6%	4.7%	9.4%	2.0%	1.5%
30/06/20 (%)	0.0%	12.9%	8.7%	2.5%	12.6%	28.8%	7.5%	7.1%	4.7%	5.0%	8.4%	1.8%	0.0%
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%

Performance Summary

For the quarter to the end of June, the Fund returned 9.8% against the expected benchmark return of 9.9%.

Looking at the Fund ex equity protection we showed an outperformance of the benchmark giving a return of 11%. Asset allocations added 0.5% and the remainder was down to stock selection.

The breakdown of the stock selection is as follows:-

Bonds	0.1%
Total equities	- 0.2%
Alternative Assets	0.5%
Property	0.1%

Now looking at the equity protection strategy, the options rolled off from the 8th to the 30th April. Markets were rising strongly over this period and the value of the options decreased the value of the fund by £83.5m. This effectively decreased the return to the fund by 1.1%.

Performance

as at 30 June 2020

	Qtrly Performance		Financial Y.T.D.	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Investment Grade Credit	7.2	7.0	7.2	7.0
UK ILGs	14.4	14.9	14.4	14.9
High Yield Bonds	7.6	7.0	7.6	7.0
EM Bonds	13.3	11.2	13.3	11.2
TOTAL	11.7	10.7	11.7	10.7
UK EQUITIES	10.2	10.2	10.2	10.2
INTERNATIONAL EQUITIES				
Developed Market - BCPP	19.7	19.7	19.7	19.7
Developed Market - SYPA	19.9	19.7	19.9	19.7
Emerging Market - BCPP	16.5	19.8	16.5	19.8
Emerging Market - SYPA	16.7	19.8	16.7	19.8
TOTAL	19.0	19.7	19.0	19.7
PRIVATE EQUITY	2.5	0.7	2.5	0.7
PRIVATE DEBT FUNDS	2.6	0.7	2.6	0.7
INFRASTRUCTURE	3.3	0.7	3.3	0.7
PROPERTY	-1.5	-2.2	-1.5	-2.2
CASH	0.0	0.0	0.0	0.0
TOTAL FUND excl EPO	11.0	9.9	11.0	9.9
TOTAL FUND	9.8	9.9	9.8	9.9

Performance attribution

For the quarter, the Fund returned 9.8% which was behind the expected return of the benchmark, with the Fund valuation rising from £8150.2mm to £9021.8m.

Bonds
Stock selection was positive across the portfolios except for index-linked gilts where the performance was negatively impacted by the corporate index-linked bonds, but overall was positive.

UK Equities
Stock selection was in-line with the benchmark.

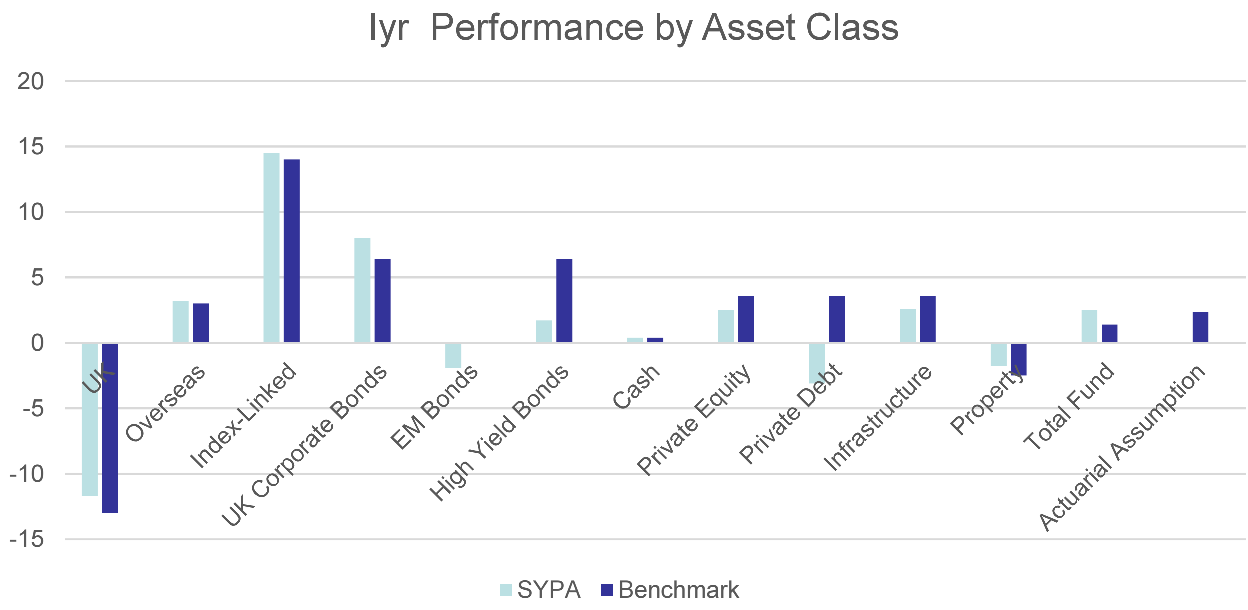
Overseas Equities
Stock selection was in line with the benchmark for developed markets but was behind the benchmark for emerging markets .

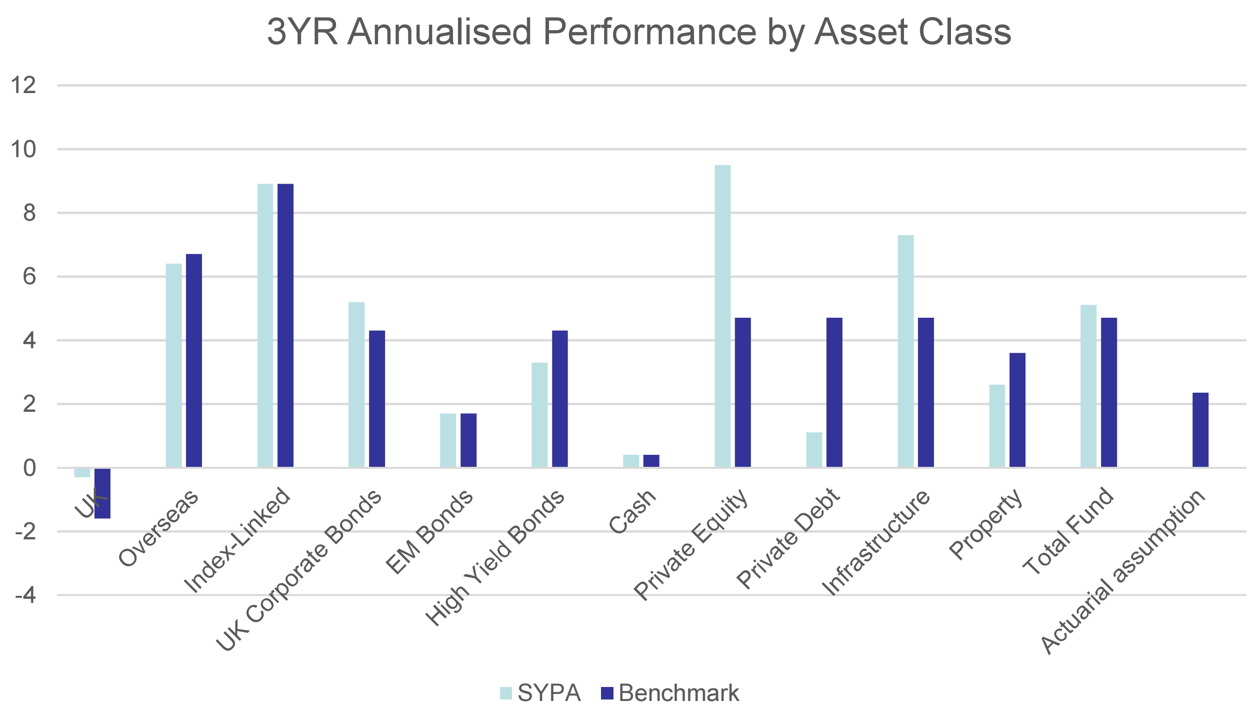
Alternatives
The performance across all the portfolios was ahead of the benchmark recovering some of the negative returns from last quarter.

Property
Performance was slightly ahead of the benchmark.

Equity Protection
With the sharp rise in equity markets the equity protection strategy detracted value to the Fund in April as the options were rolling off.

Performance-Medium term

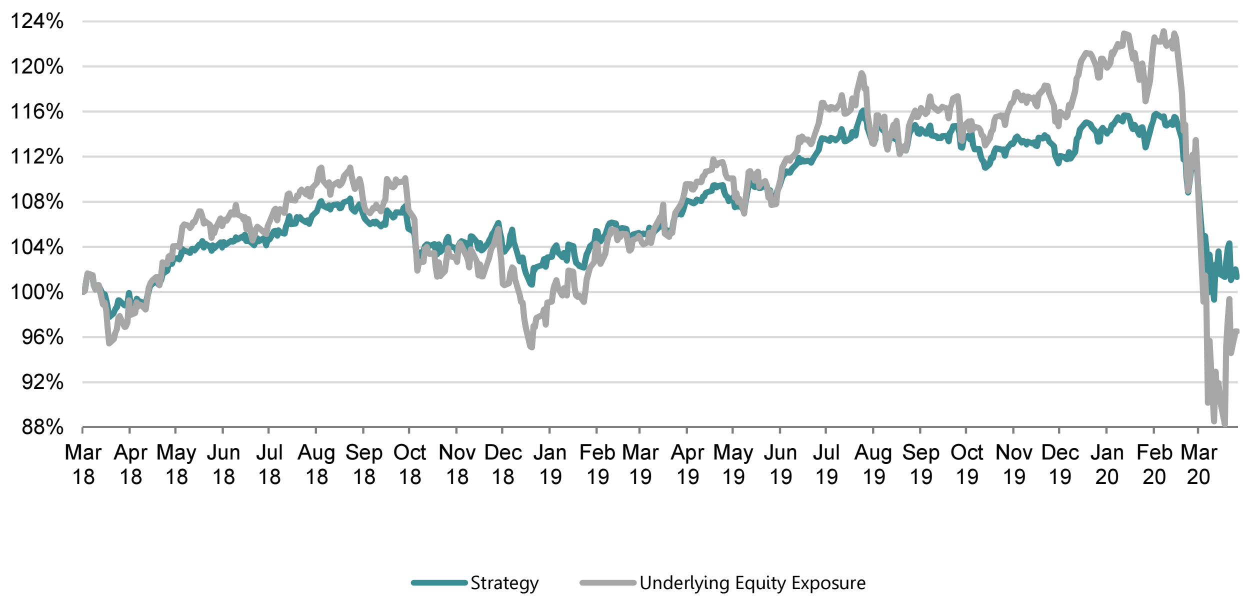




SOUTH YORKSHIRE PENSIONS AUTHORITY

Equity Protection

The equity protection strategy rolled off at the end of April. It generated a negative return in April given the sharp rebound in the financial markets. The strategy detracted to the Fund value by £83.5m, which reduced overall performance by 1.1%.



The gap in valuation between the equity protection strategy and the underlying equities has varied over the period. The strategy performed as expected against market conditions. When markets rise there has been a negative impact but more recently as markets have fallen sharply we can see the positive impact for the Fund. At the end of the programme the positive impact was £42.2m.

Funding Level

The funding level as at 3o June 2020 has increased to 101.5%.

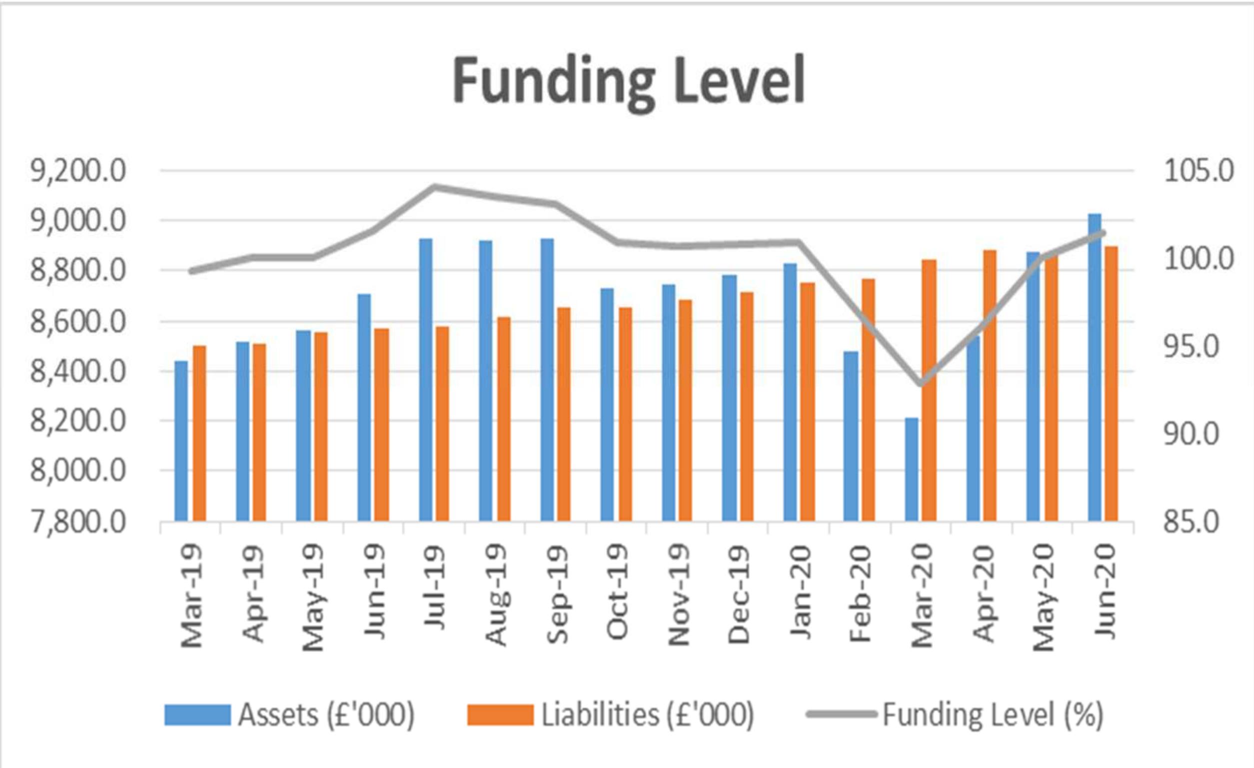
The breakdown is as follows:

Fund's Assets:

As at 30 June 2020: £9,028.6m
As at 31 March 2020: £8,209.6m
An increase of £819.0m

Funds Liabilities:

As at 30 June 2020: £8,895.0m
As at 31 March 2020: £8,845.3m
An increase of £49.7m



Asset Allocation Update

The Investment Strategy agreed by members had four benchmark changes that will be implemented as soon as we are able.

To reduce the UK allocation from 15% to 10%
To reduce the Index-Linked weighting from 12% to 10%
To increase the Private Debt allocation to 5.5% from 3.5%
To increase the Infrastructure allocation from 5% to 10%.

UK Equities
The decision taken to reduce the position to UK equities meant that we would be selling units in the Border to Coast position with the subsequent costs to be taken on. Lincolnshire pension fund were switching from a passive position into the Border to Coast UK equity fund that we are invested in. They wanted to invest more than we were selling. Border to Coast facilitated a switch of our units to Lincolnshire so that we could both benefit from savings on dealing costs and potential equalisation costs. This was completed at the beginning of August and we raised £230m.

Index-Linked Gilts
No action has been taken as yet. Index-Linked gilts are held as an inflation protection asset ie. essentially liability matching. As an asset class they are expensive and so we looked to Infrastructure to give us similar inflation linked income streams. The only issue with infrastructure is that the investment will be drawn down over a period. We will thus reduce our exposure to index-linked gilts at the same time that our infrastructure investments are drawn down.

Border to Coast are looking to launch their index-linked bond fund in the final quarter of the year. We will transition the 10% weighting to the new fund and will then look to sell down the remainder of the assets when appropriate.

Private debt
We committed £90m to the Border to Coast debt fund and as funds are committed during the year we would expect to have a drawdown of around £10m this year. This would have left us underweight and so we have looked for other liquid investments that will give us the same characteristic return.

Asset Allocation Update

Private debt cont

Invested £10m in the listed 24 Income Fund
Invested £20m into a Kames absolute bond fund
Invested £20m into an Investcorp Credit Fund

We are now close to our natural benchmark weighting and they are all vehicles that we could sell down quickly as Border to Coast deploy the money for us.

Infrastructure funds
The change in benchmark would mean that we would need to increase our exposure by over £450m. We would not want to commit the full amount in one vintage year as this creates risk for the fund. It will be deployed to Border to Coast over a 3 year cycle. £200m has been committed this year, £200m will be committed next year and the remainder in year 3. This will mean that approximately £40-50m will be drawn down over the year.

We have looked at some listed funds to deploy some cash quickly but the problem with most of these funds is that they are sitting on high premiums which we do not want to pay. We have invested £5m into an existing holding, HICL Infrastructure when the premium was low and we also invested £5m into a European renewables fund, Aquila European Renewables Income Fund that was only launched last year and was attractively priced. There are also two potential renewable energy IPOs that may be a way to invest some of the money. These investments can be liquidated when necessary or be transitioned if Border to Coast launch a listed alternative vehicle.

Property
Two investments have been approved.

One is for the CBRE loans portfolio. This is a £10.5m senior loan for 30 months to fund the remediation works, enabling infrastructure, professional fees and other expenses at the former Coalite Works at Bolsover. The first drawdown is expected in the first quarter of 2021.

Asset Allocation Update

Property cont

The second investment is a £20m commitment to Bridges Property Fund V. We have been an investor in their previous funds. Bridges funds are classified as Impact Funds because they have a measurable societal impact but are run to achieve commercial returns and not in a philanthropic manner. Fund III is expected to wind down over the next two years and to date has achieved an IRR of 15%. Fund IV is almost fully invested. Two out of eleven investments are pre-sold and have generated returns of over 30%. The targeted forecast return for the fund is over 15%. Fund V should be launched in the final quarter of this year.

Current position

Since the end of the quarter our cash balance increased by £230m due to taking money from UK equities and our cash level is currently around £365m. With the investments discussed above and the drawdowns expected over the financial year from our existing commitments we would envisage the cash level reducing to around £200m by March.

Outlook

Equity markets fell by over 25% from peak to trough in the first quarter but with unprecedented levels of fiscal and monetary stimulus we have seen a near 30% rebound which is one of the fastest market recoveries in history. Markets are perhaps showing an over-confidence on the outlook for the economy, the path of Covid-19 and the development of a vaccine. The markets seem to be underestimating the risk that growth weakens again after the initial response to exiting lockdowns. Interest rates are expected to remain very low for a long time

UK Equities
UK equities lagged their counterparts globally as weaker than expected economic data fuelled fear's that the UK's recovery from coronavirus could be slow. News that the UK economy recorded its fastest ever monthly contraction in March weighed on sentiment but a fall in coronavirus deaths, strong retail sales in May, easing lockdown restrictions and government stimulus led to solid quarterly gains.. Given the reduced allocation within the Fund's new benchmark we will look to reduce the position when market conditions allow

Overseas equities

Global equities rallied strongly as central banks and governments announced massive stimulus packages to combat the economic effects of coronavirus. Shares were supported by the US Federal Reserve's efforts to support the US economy, including cutting US interest rates to near-zero in March. Global shares continued to rise in May and June as businesses began to re-open and hopes of a recovery took hold.

There has been a significant reduction in 2020 corporate earnings forecast with expectations of a recovery in 2021. The sharp rise in equity markets and the reduction in earnings forecasts has resulted in valuations rising to well above their long term averages. In the absence of sustained earnings recovery or additional stimulus measures equity markets may struggle to rise further in the short term. In addition there is likely to be an increase in the level of political uncertainty due to the forthcoming US Presidential election.
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We expect market conditions to remain volatile and to react to short term news flow on the virus. Will maintain allocation to overseas equities

Outlook

Bonds

From here the future direction of markets depends in part on news flow regarding the spread of the virus. The virus continues to spread in some areas (Latin America, India, Russia, some US states) indicating the recovery may be uneven

We have yet to see what the long-term implications of this pandemic are in terms of the survival of large numbers of businesses, future consumer and business behaviour, etc. The huge mountains of extra debt that are being taken on by governments and businesses will have consequences that are hard to foresee. Are interest rates going to be zero for eternity, will inflation eventually rise following all this money printing?

For long term investors, the best one can say is that interest rates will remain very low for a long time and that higher risk investments will have higher risk premia. The ridiculously low spread levels seen in high yield bond markets in recent years will not return very quickly. Although spreads will not fall back to where they were, it is likely that over time a level will be found where the yield and spread (basically the same now) compensate investors for the risks inherent in these assets. We may be there already, although it is highly likely that there will be a lot of volatility in the coming months and probably better buying levels

At least now there is a yield and therefore a decent level of income in high yield and emerging markets. If you buy now (having satisfied yourself as to the credit quality of the investment), you might not hit the bottom but at least you will get a decent level of income if held to maturity

The same cannot be said for developed markets government bonds. Yields are so low now that one needs deflation to justify holding for any but the shortest period of time. These markets will continue to be supported by central banks, so we are unlikely to see yields rising much in the short term, but long-term investors need higher potential returns to justify allocations here

Outlook

Real Estate

It is expected that capital values will fall substantially this year but there is expected to be significant dispersion across the sectors. Retail is expected to drag the market down and leisure and hotels are also expected to have a difficult year. The other area of uncertainty now is for central London offices. A combination of cyclical rises in unemployment and structural change to the use of offices to lead many occupiers to fundamentally reappraise their space requirement.

Challenges around rent collection will put even greater emphasis on the stability and durability of income. The structural shift to online shopping remains supportive of logistics. Also with the supply-chain disruption experienced through this crisis it may lead to larger inventories being carried which will mean that more warehousing is needed for storage.

In such an unprecedented crisis, a window of opportunity may emerge to sell assets where investor sentiment is more resilient than that structural change suggests it should be. Long lease assets where the financial strength of covenants have been weakened may also be a sale opportunity

ASI still see the attraction of the build-to-rent sector. Income in the private rented sector has been more resilient with rents falling far less than in the commercial market.

Alternatives

The alternative investment market which includes investments within private equity, private debt and infrastructure, generally generates above market returns and with the new fund benchmark being introduced from the 1st April which increases the allocation to private debt and infrastructure debt we are looking to add further investments into this asset class.

Cash

The cash balance increased by the positive contribution from the roll off of the equity protection policy and we will be reducing the UK equity portfolio to the new benchmark weighting which will increase the cash balance. However, the deployment of cash to alternatives should see the gradual reduction in cash balances.

SOUTH YORKSHIRE
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Appendix A

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Agenda Item 11

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Appendix A

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Agenda Item 12

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Appendix A

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