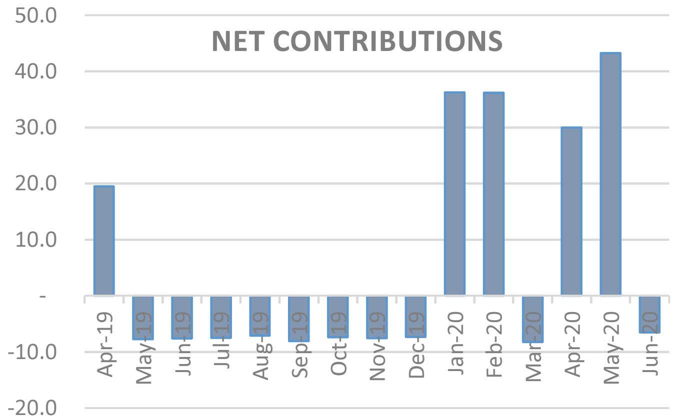
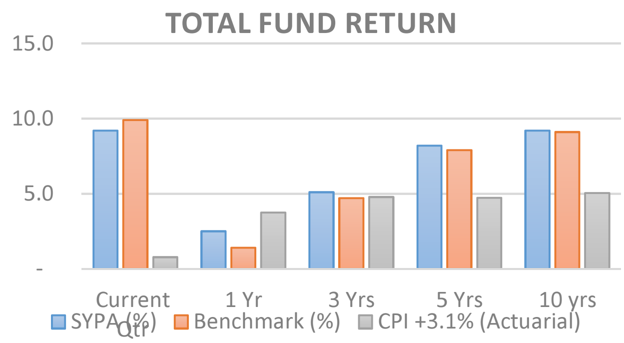
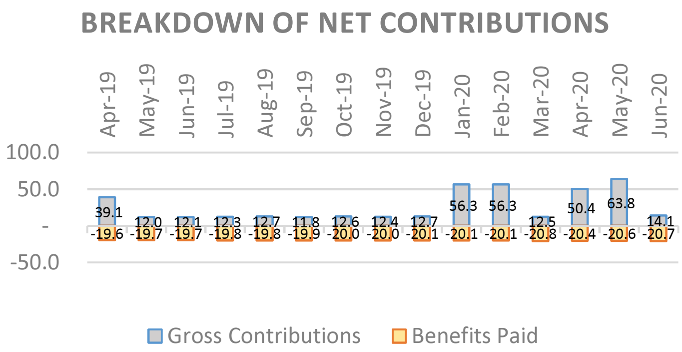
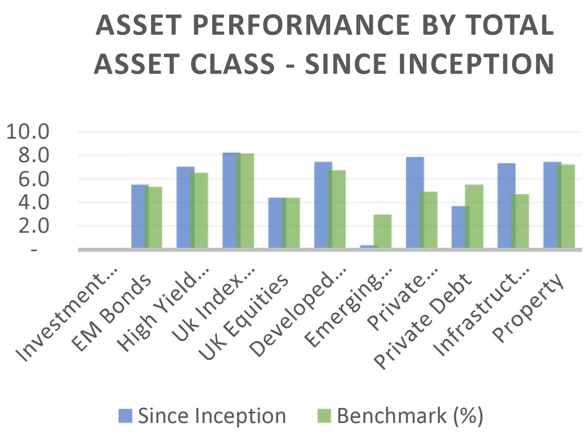
SOUTH YORKSHIRE PENSIONS AUTHORITY

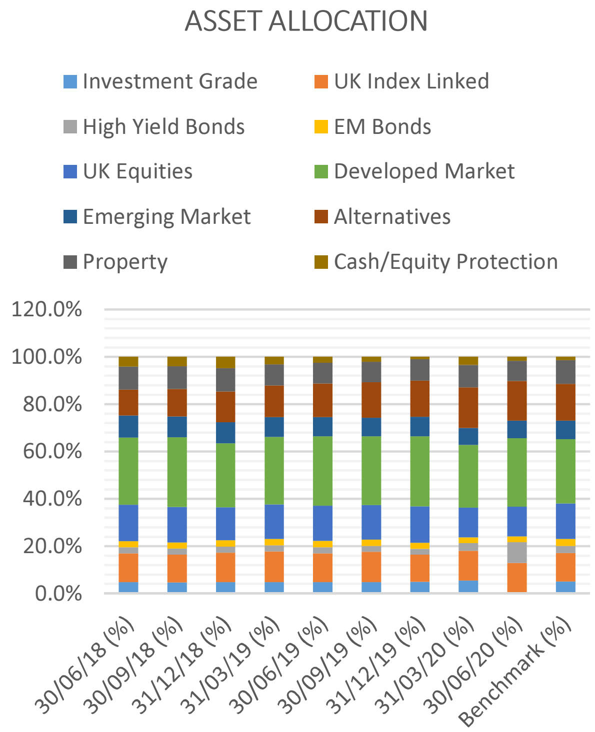
QUARTERLY REPORT TO 30 JUNE 2020

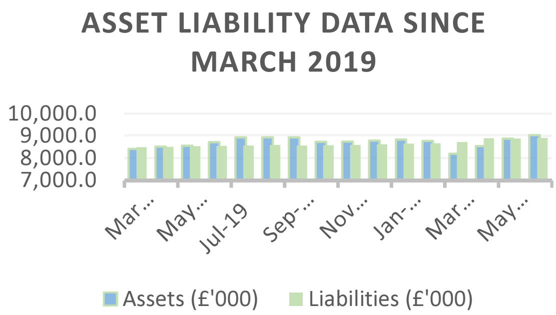

NET CONTRIBUTIONS
50.0
40.0
30.0
20.0
10.0
-
-10.0
-20.0
Apr-19
May-19
Jun-19
Jul-19
Aug-19
Sep-19
Oct-19
Nov-19
Dec-19
Jan-20
Feb-20
Mar-20
Apr-20
May-20
Jun-20

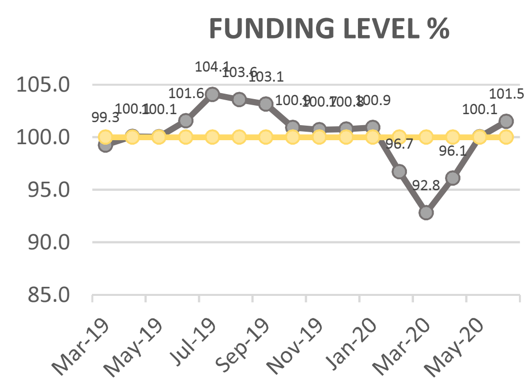

TOTAL FUND RETURN
15.0
10.0
5.0
-
Current Qtr
1 Yr
3 Yrs
5 Yrs
10 yrs
SYPA (%)
Benchmark (%)
CPI +3.1% (Actuarial)


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%.

SOUTH YORKSHIRE PENSIONS AUTHORITY

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.

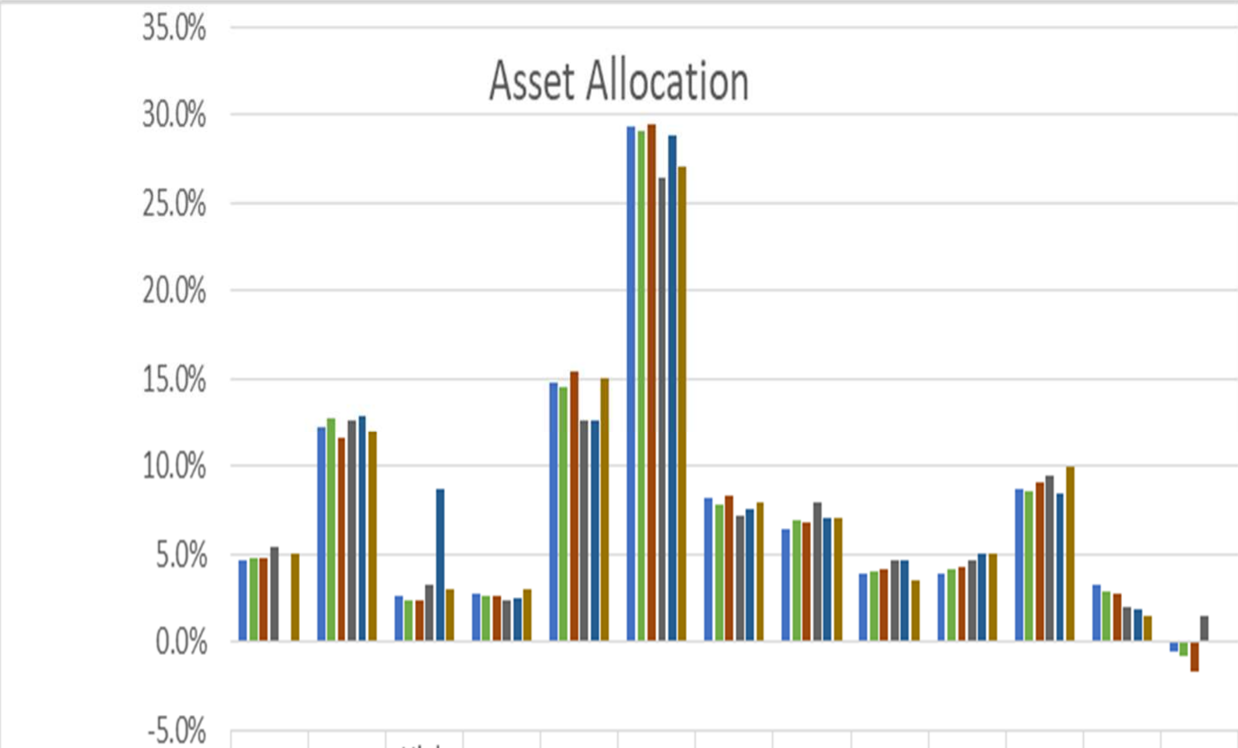
We signed up to the 1b series of the Border to Coast Private equity fund and the Infrastructure fund with an annual commitment of £120m and £200m respectively.

£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

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.

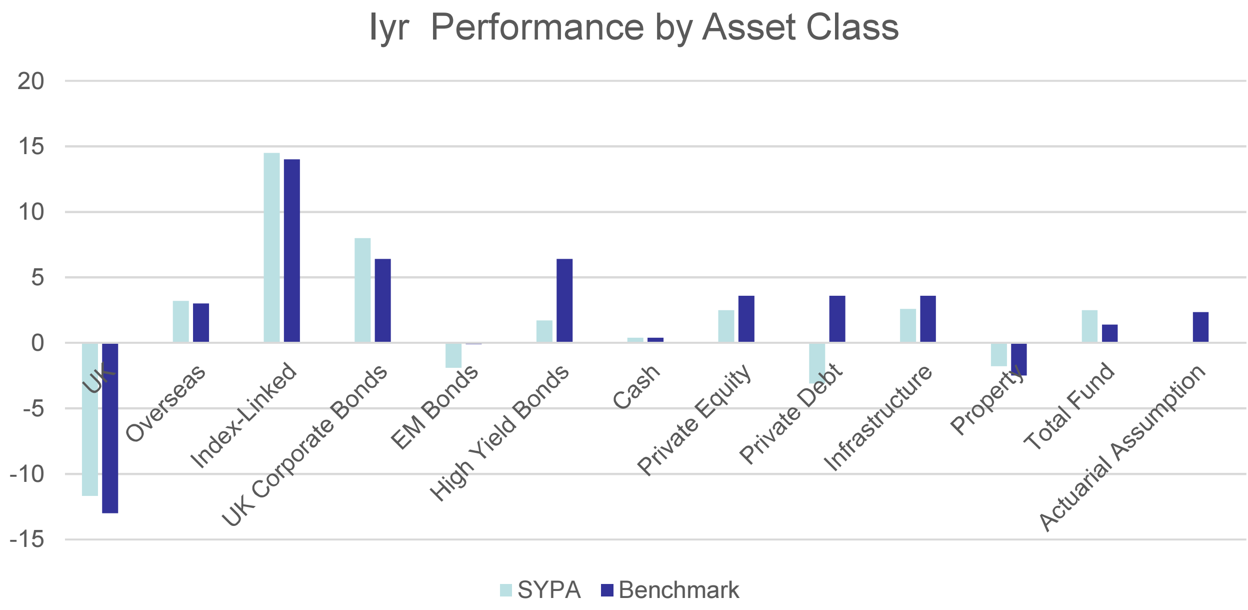
Overseas Equities
Stock selection was in line with the benchmark for developed markets but was behind the benchmark for emerging markets .

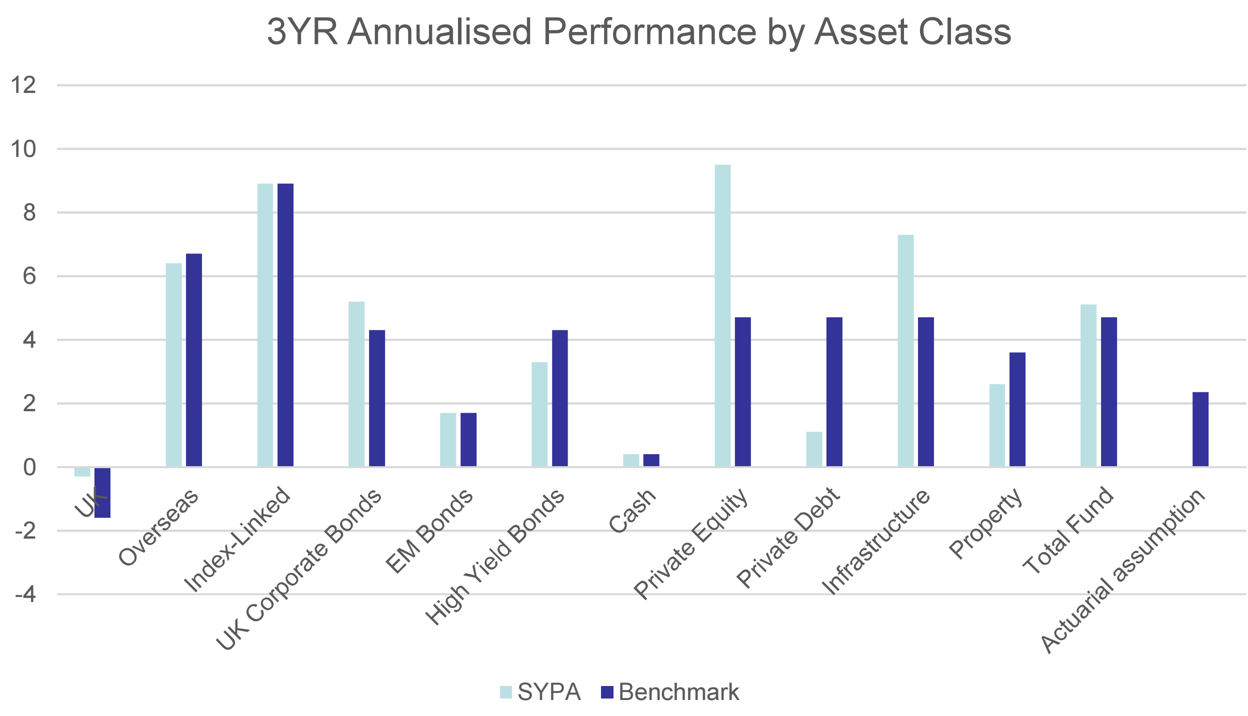
Alternatives
The performance across all the portfolios was ahead of the benchmark recovering some of the negative returns from last quarter.

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.

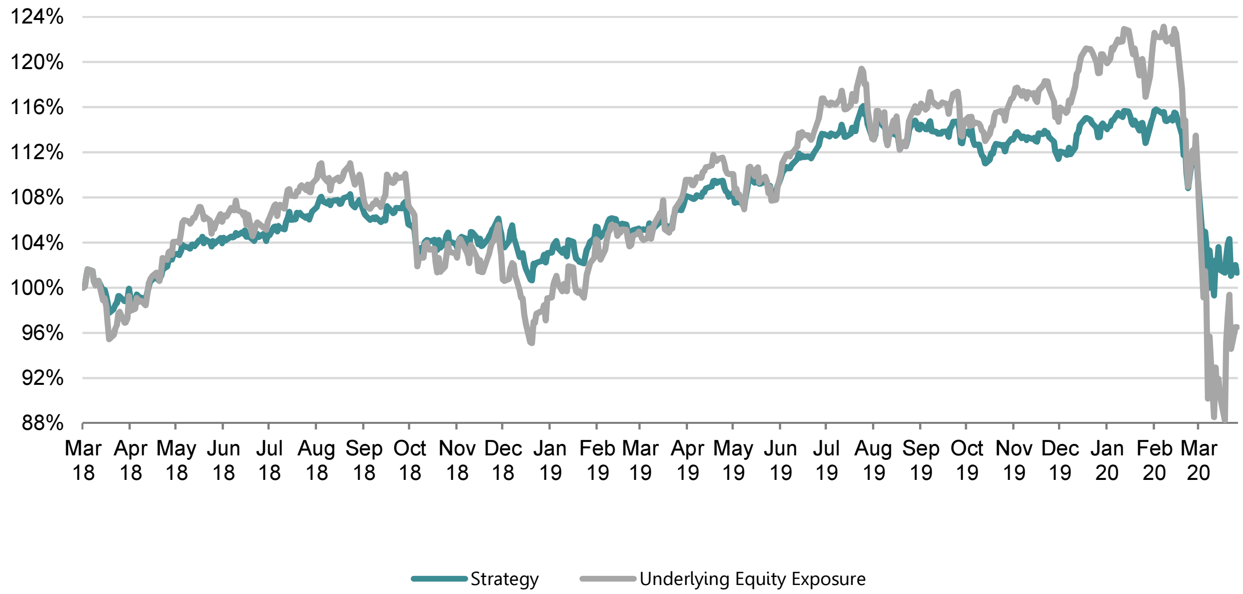
Performance-Medium term





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%.

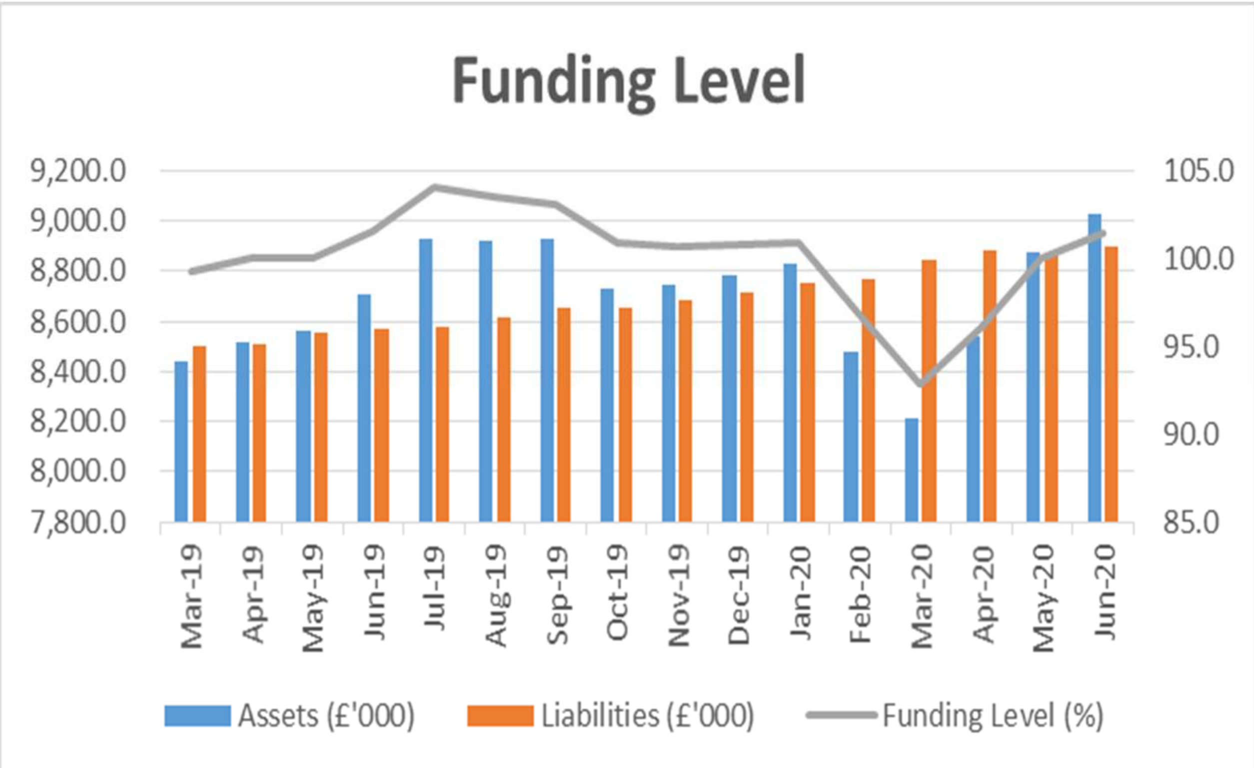
The breakdown is as follows:

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.

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