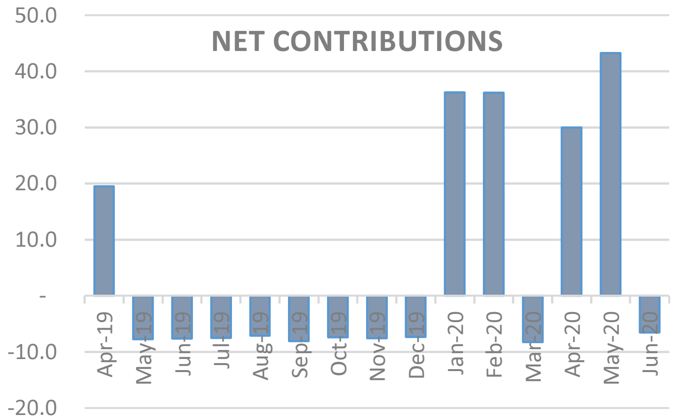
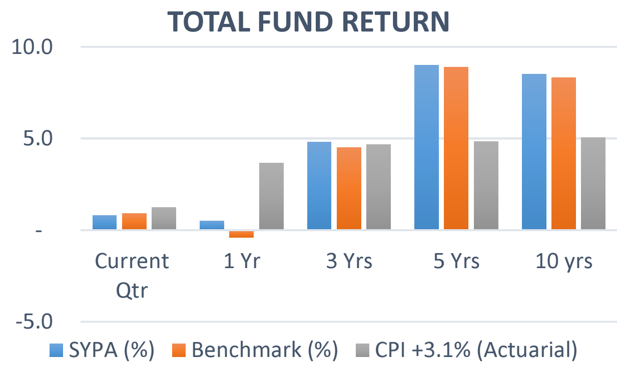
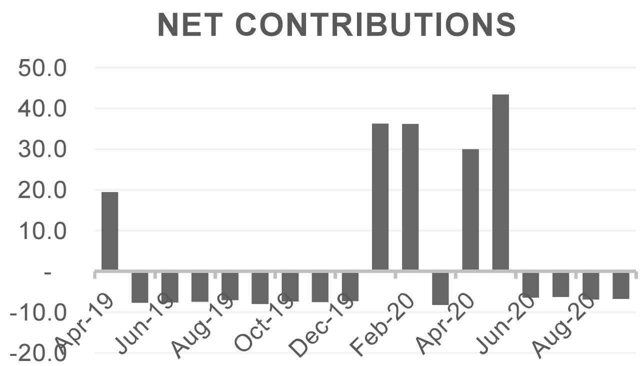
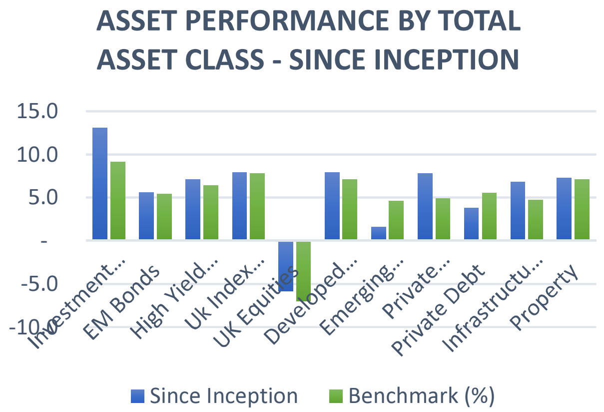
SOUTH YORKSHIRE PENSIONS AUTHORITY

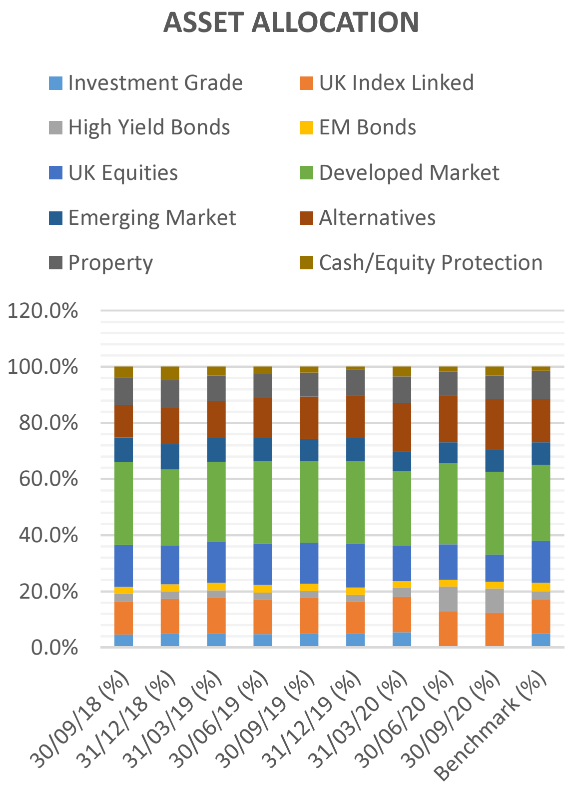
QUARTERLY REPORT TO 30 SEPTEMBER 2020

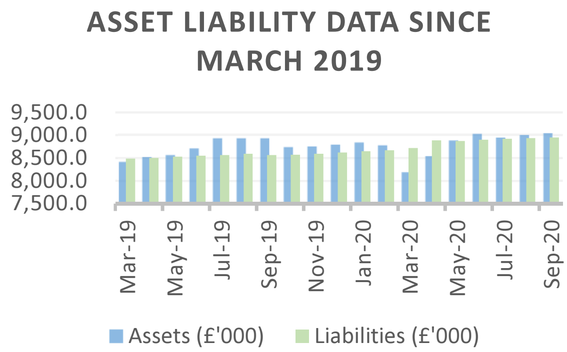

NET CONTRIBUTIONS
50.0
40.0
30.0
20.0
10.0
-
-10.0
-20.0
Apr-19
May-19
Jun-19
Jul-19
Aug-19
Sep-19
Oct-19
Nov-19
Dec-19
Jan-20
Feb-20
Mar-20
Apr-20
May-20
Jun-20

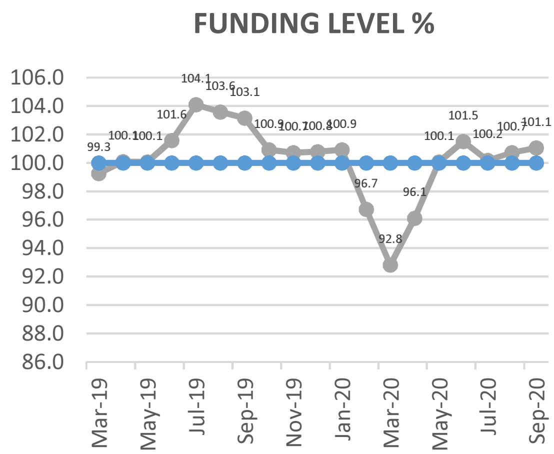

TOTAL FUND RETURN
10.0
5.0
-
-5.0
Current Qtr
1 Yr
3 Yrs
5 Yrs
10 yrs
SYPA (%)
Benchmark (%)
CPI +3.1% (Actuarial)


NET CONTRIBUTIONS
50.0
40.0
30.0
20.0
10.0
-
-10.0
-20.0
Apr-19
Jun-19
Aug-19
Oct-19
Dec-19
Feb-20
Apr-20
Jun-20
Aug-20


ASSET PERFORMANCE BY TOTAL ASSET CLASS - SINCE INCEPTION
15.0
10.0
5.0
-
-5.0
-10.0
Investment...
EM Bonds
High Yield...
Uk Index...
UK Equities
Developed...
Emerging...
Private...
Private Debt
Infrastructu...
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%
30/09/18 (%)
31/12/18 (%)
31/03/19 (%)
30/06/19 (%)
30/09/19 (%)
31/12/19 (%)
31/03/20 (%)
30/06/20 (%)
30/09/20 (%)
Benchmark (%)


ASSET LIABILITY DATA SINCE MARCH 2019
9,500.0
9,000.0
8,500.0
8,000.0
7,500.0
Mar-19
May-19
Jul-19
Sep-19
Nov-19
Jan-20
Mar-20
May-20
Jul-20
Sep-20
Assets (£'000)
Liabilities (£'000)


FUNDING LEVEL %
106.0
104.0
102.0
100.0
98.0
96.0
94.0
92.0
90.0
88.0
86.0
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
100.2
100.7
101.1
Mar-19
May-19
Jul-19
Sep-19
Nov-19
Jan-20
Mar-20
May-20
Jul-20
Sep-20

Market background

Global equities gained over the quarter as they were bolstered by large global fiscal and monetary stimulus from governments and central banks and also the potential for a covid-19 vaccine in the near future. Economic activity picked up as lockdown measures were eased.

Regional performances diverged with Asia and the US outperforming Europe and the UK and emerging markets outperforming developed markets. UK shares actually fell during the period extending their underperformance of other regions. The UK was impacted again by Brexit and also the structure of the market, being more overweight financials and energy stocks which underperformed and having less exposure to technology stocks that did well.

Government bond yields were generally unchanged although European yields fell after news of the €750 billion recovery fund. Corporate bonds had a positive quarter with credit spreads in both investment grade and high yield narrowing.

The outlook for commercial real estate remains unclear both in the near term and longer term due to potential changes in demand.

SOUTH YORKSHIRE PENSIONS AUTHORITY

Fund Valuation

as at 30 September 2020

	Fund Valuation as at 30 September 2020						
	Jun-20		Quarterly Net	Sep-20		Benchmark	Range
	£m	%	Investment	£m	%	%	%
FIXED INTEREST							
Inv Grade Credit - BCPP	469.9	5.2	0.0	473.8	5.2	5	
UK ILGs	1160.1	12.9	-4.8	1116.4	12.3	12	
High Yield Bonds	318.7	3.6	-13.8	310.3	3.4	3	
EM Bonds	222.9	2.4	-4.7	221.1	2.5	3	
TOTAL	2171.5	24.1	-23.3	2121.6	23.4	23	18-28
UK EQUITIES	1133.3	12.6	-230.0	870.1	9.6	10	5 _ 15
INTERNATIONAL EQUITIES							
Developed Market - BCPP	2528.6	28.0	0.0	2602.9	28.8	27.125	
Developed Market - SYPA	69.2	0.8	0.0	72.0	0.8		
Emerging Market - BCPP	670.6	7.4	0.0	683.5	7.6	7.875	
Emerging Market - SYPA	12.1	0.1	-0.6	11.9	0.1		
TOTAL	3280.5	36.4	-0.6	3370.3	37.3	35	30-40
PRIVATE EQUITY							
BCPP	16.7		11.5	27.9			
SYPA	621.0		15.8	649.9			
TOTAL	637.7	7.1	27.3	677.8	7.5	7	5_9
PRIVATE DEBT FUNDS							
BCPP	3.6		0.8	4.6			
SYPA	420.2		22.4	454.0			
TOTAL	423.8	4.7	23.2	458.6	5.1	5.5	4.5-6.5
INFRASTRUCTURE							
BCPP	18.6		1.7	20.9			
SYPA	432.0		48.0	479.5			
TOTAL	450.6	5.0	49.7	500.4	5.5	8	5_11
PROPERTY	754.7	8.4	10.6	763.6	8.4	10	8_12
CASH	163.6	1.8		288.1	3.2	1.5	0-5
EQUITY PROTECTION (EPO)	0.0			0.0			
TOTAL FUND	9015.8	100.0		9050.5	100.0	100	
COMMITTED FUNDS TO ALTERNATIVE INVESTMENTS	1057.1			1061.5			

Asset Allocation Summary

After a period of strong performance from index-linked gilts we reduced the overweight position that had developed by £5m. The realisations from the high yield portfolio were mainly due to the early repayments by various corporations.

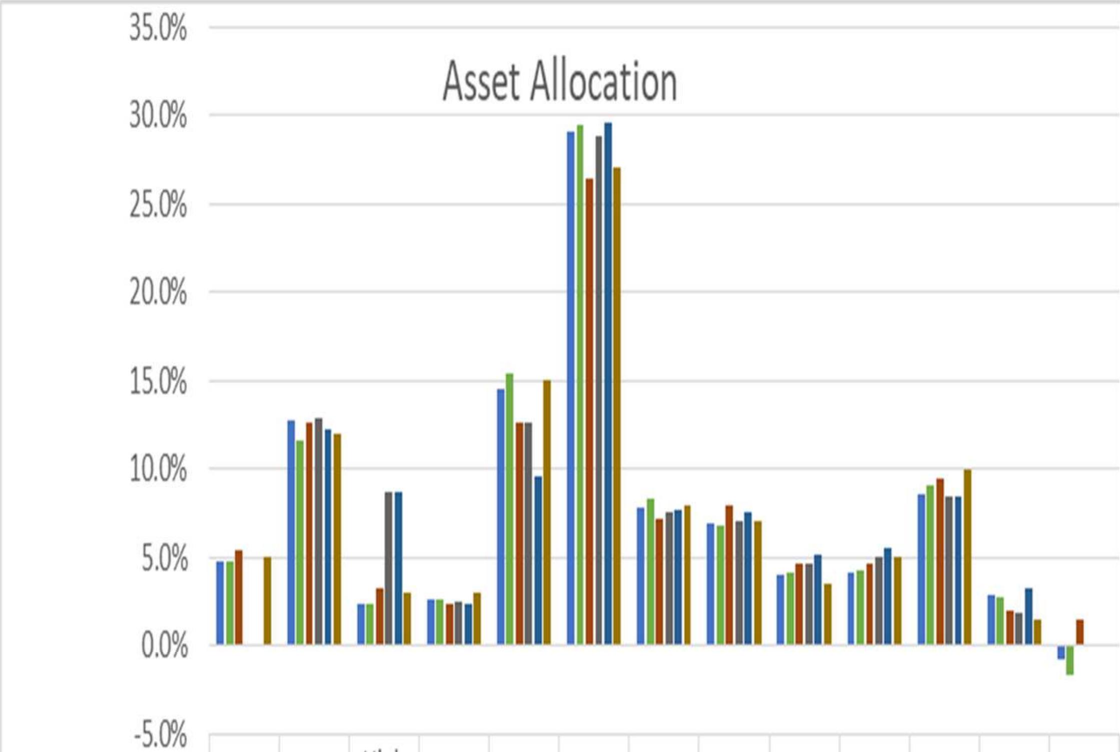
At the beginning of August we reduced our exposure to the Border to Coast UK Equity fund to bring us in to line with the new benchmark weighting. The underperformance of UK equities relative to other equity markets means that we are now slightly below the target weighting. This transaction was a crossing with Lincolnshire pension fund facilitated by Border to Coast to enable both funds to benefit from savings on dealing costs and equalisation costs. Analysis shows that we saved c£322,000 by not having to pay the dilution levy.

£100m was invested across the alternative funds. £40m was into listed funds with the remainder being drawdowns into committed funds. Within infrastructure we made a follow on investment into Greencoat UK Wind and initial investments into three other listed investments, Aquila Euro Renewables, US Solar Fund and SDCL Energy Efficiency totalling £10m. Subsequent to the quarter end we increased the holdings by a further £15m. Three of the funds invest in the production of renewable electricity and SDCL provides solutions for companies to increase their energy efficiency.

Within property we committed £30m to Hearthstone 2 Residential Fund. This is a 10 year closed-ended fund investing in the private rented sector across the UK. The first closing took place in November. We also invested £10m into a listed stock Supermarket REIT. It invests in a portfolio of assets rented to Tesco, Sainsburys, Morrisons and Waitrose and which are the omni channel stores which are critical for the last mile grocery fulfilment. Over 90% of the portfolio benefits from RPI linked leases with the remainder being linked to CPI. It has a rental income collection rate of 100% and is trading on over a 5% dividend yield

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
30/09/19 (%)	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%
30/09/20 (%)	0.0%	12.3%	8.7%	2.4%	9.6%	29.6%	7.7%	7.5%	5.1%	5.5%	8.4%	3.2%	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%

SOUTH YORKSHIRE PENSIONS AUTHORITY

Performance

as at 30 September 2020

	Qtrly Performance		Financial Y.T.D.	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Investment Grade Credit	1.5	1.2	8.7	8.2
UK ILGs	-3.3	-3.5	10.6	10.8
High Yield Bonds	2.3	1.2	10.1	8.2
EM Bonds	2.4	2.0	16.1	13.4
TOTAL	-0.8	-1.1	10.8	9.5
UK EQUITIES	-2.8	-2.9	7.1	7.0
INTERNATIONAL EQUITIES				
Developed Market - BCPP	2.9	2.6	23.3	22.7
Developed Market - SYPA	4.5	2.6	25.3	22.7
Emerging Market - BCPP	1.9	4.1	18.8	24.7
Emerging Market - SYPA	3.7	4.1	21.1	24.7
TOTAL	2.8	2.9	22.3	23.2
PRIVATE EQUITY	2.0	1.2	4.6	1.9
PRIVATE DEBT FUNDS	2.7	1.2	5.3	1.9
INFRASTRUCTURE	0.1	1.2	3.4	1.9
PROPERTY	0.7	0.5	-0.8	-1.1
CASH	0.0	0.0	0.0	0.0
TOTAL FUND excl EPO	0.8	0.9	11.9	10.9
TOTAL FUND	0.8	0.9	10.7	10.9

Performance Summary

For the quarter to the end of September, the Fund returned 0.8% against the expected benchmark return of 0.9%.

Asset allocations detracted by 0.3% with stock selection adding 0.2% overall.

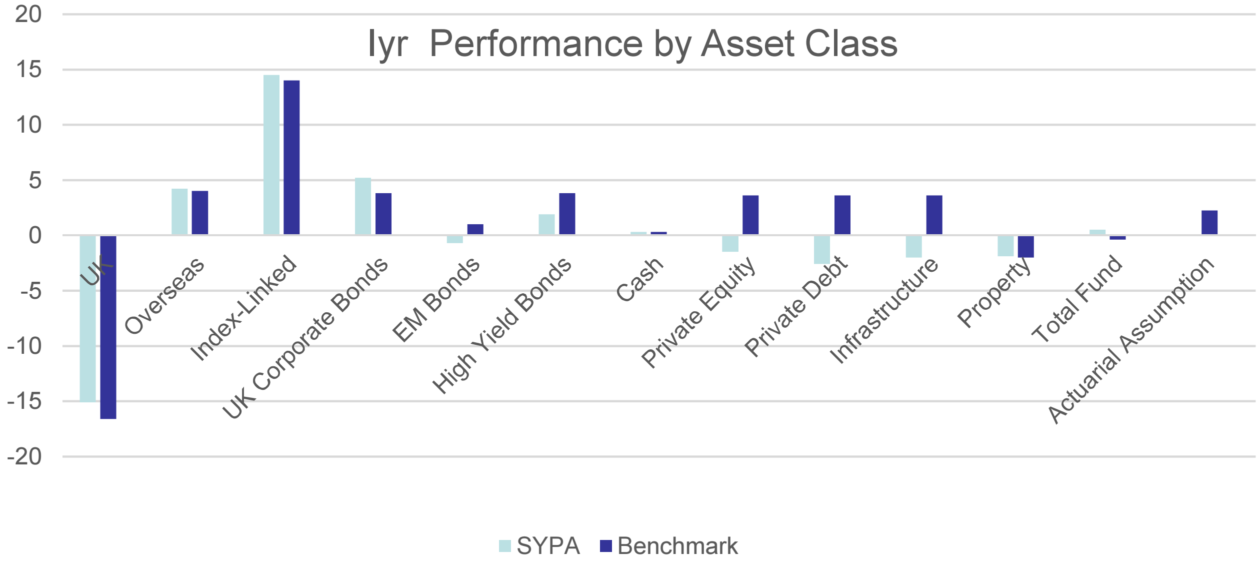
The breakdown of the stock selection is as follows:-

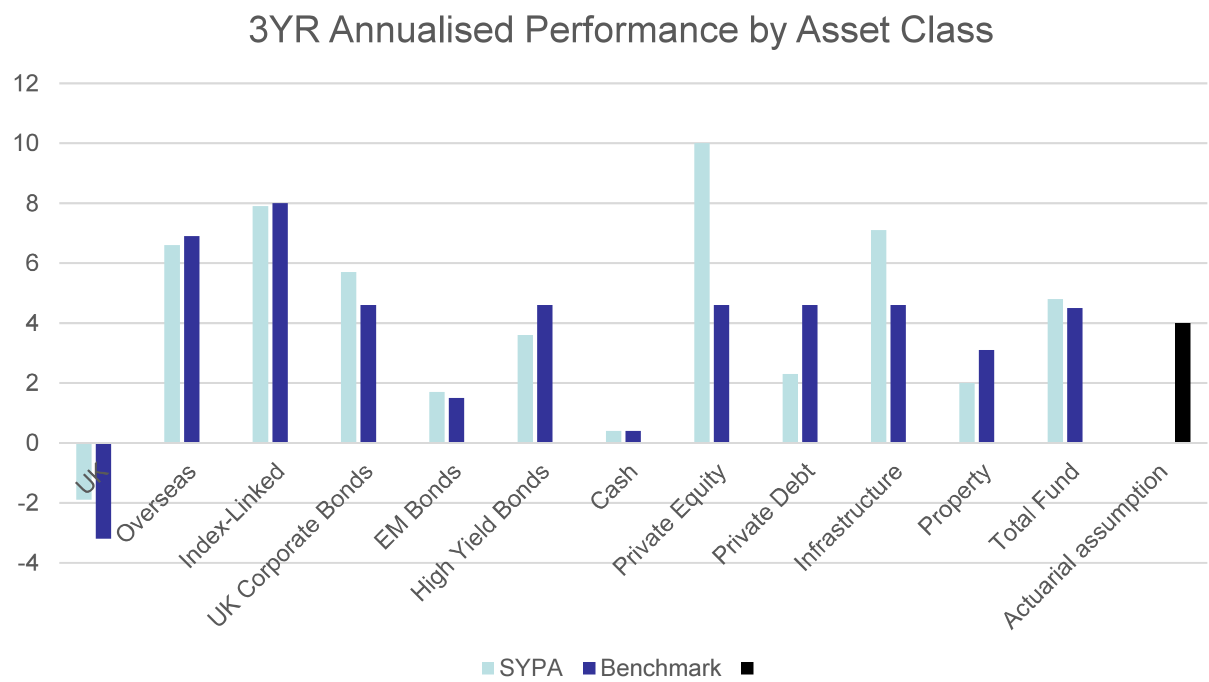
Bonds	0.1%
Alternative Assets	0.1%

Although at the total equity level stock selection had no impact, emerging market underperformance was balanced by outperformance in the developed market portfolios.

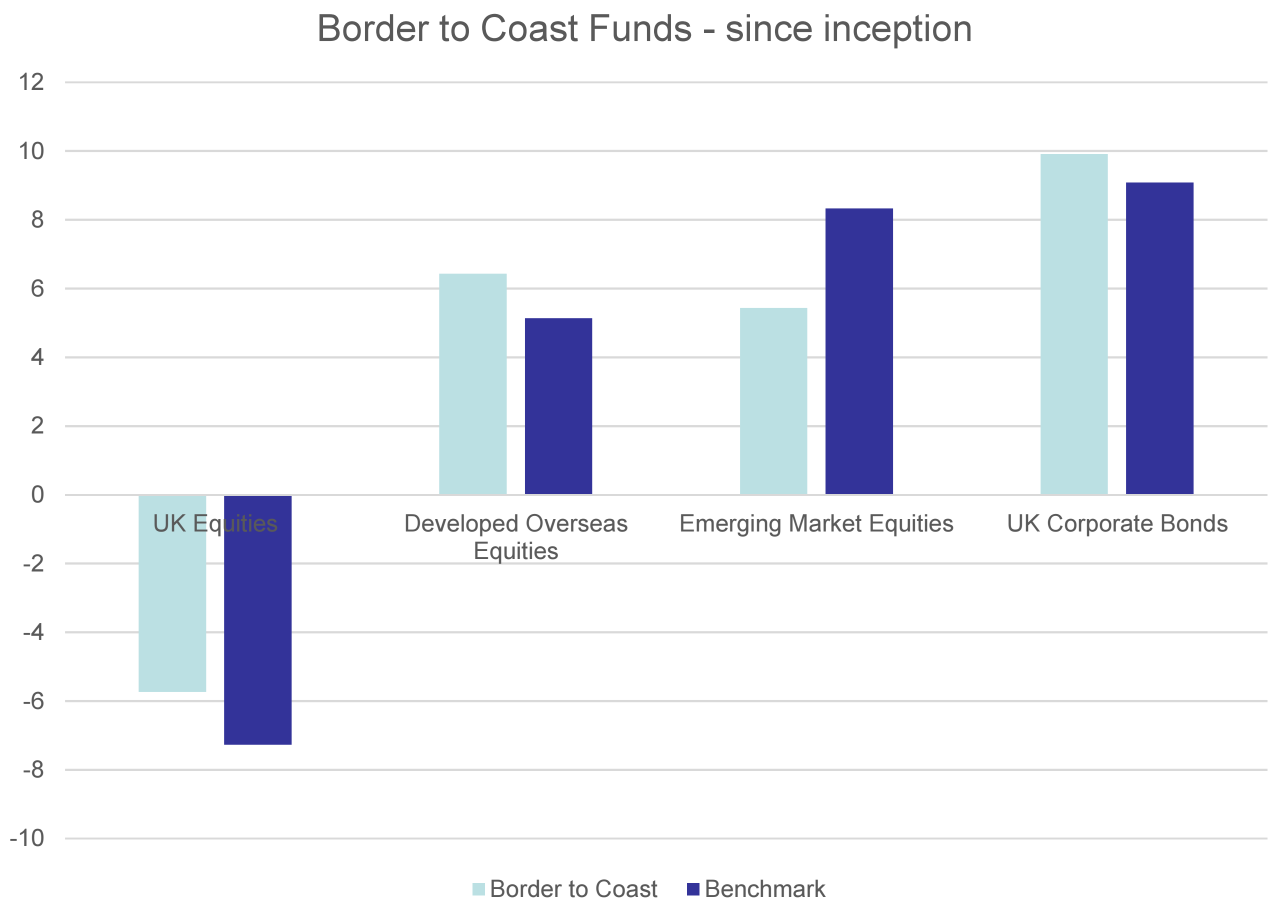
For the year to date performance at total fund level is 0.2% below the benchmark but if we exclude the impact of the equity protection that rolled off at the beginning of this financial year we would be ahead of target by 1%.

Performance-Medium term





Performance-Border to Coast Funds



Performance – Border to Coast Funds

The charts show the performance of each of the Border to Coast funds that we hold since the inception of the individual product.

It can be seen that three of the four funds have outperformed their benchmark and matched the target return.

The one fund that has shown disappointing performance has been the Emerging Market fund which has been reported previously. The performance of this fund has been more volatile than the other funds and a decision was taken to supplement the internal management capabilities with external support creating a hybrid fund.

After assessing various options it was concluded that covering the large and rapidly developing China market without a presence in the country was a constraint given the importance of language, culture and political understanding.

Two specialist China managers have been appointed (UBS Asset Management and FountainCap Research). The managers are viewed positively from a complementarity perspective as while both managers typically focus on quality companies, the investment themes and key active positions of the portfolios are diversified which benefits the total portfolio.

The portfolio also meets tracking error expectations for a performance target of +2-3% with both managers making balanced contributions to the total portolio risk. The historic track record of both managers is strong, resulting in outstanding historical risk and return characteristics. Most notably, both portfolios are defensive in market downturns which subdues total volatility.

The benchmark has been changed to the FTSE EM benchmark and will excluding the Chinese stocks now create a more manageable universe for the internally managed EM portfolio of approximately 800 stocks.

Fee blend of the two managers is approximately 61bps and the overall fee fund will be approximately 30bps.

The transition of these mandates is expected to take place in early 2021

Funding Level

The funding level as at 30 September 2020 is 101.2%.

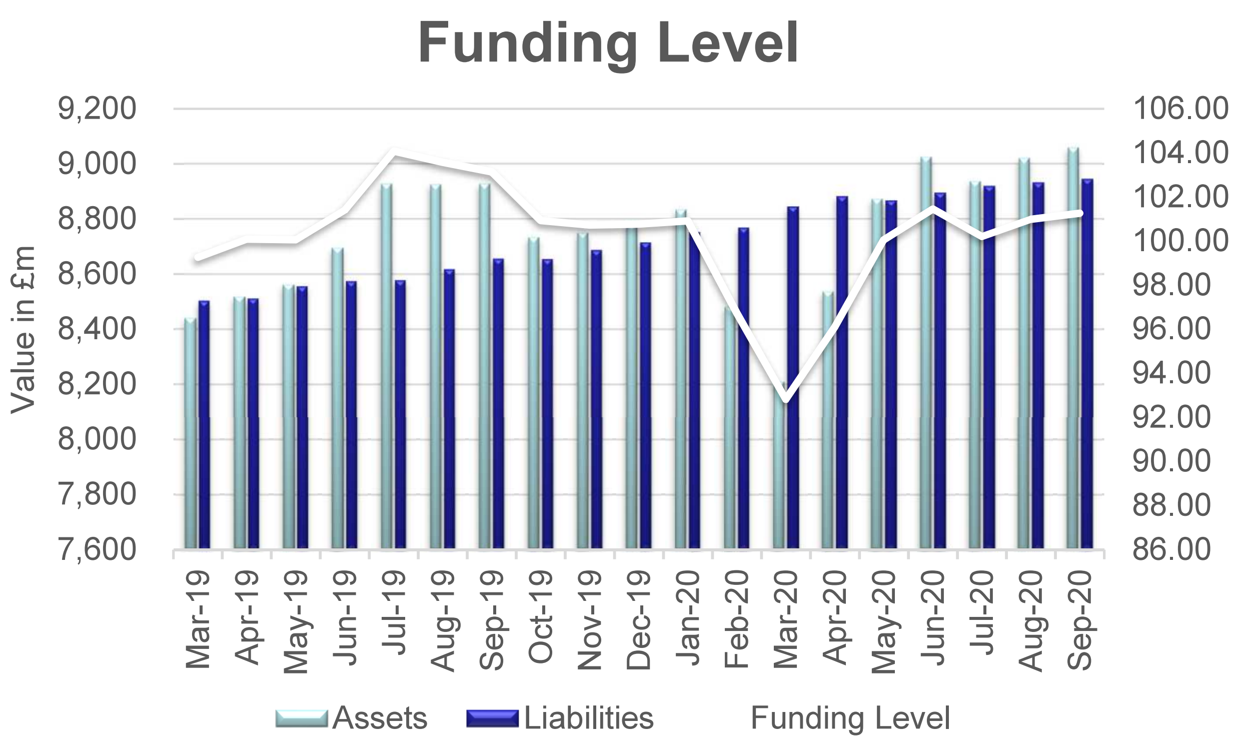
The breakdown is as follows:

Fund's Assets:

As at 30 September 2020: £9,058.4m
As at 30 June 2020: £9,028.6m
An increase of £29.8m

Funds Liabilities:

As at 30 September 2020: £8,945.4m
As at 30 June 2020: £8,895.0m
An increase of £50.4m



Asset Allocation Update

Index-Linked Gilts
Border to Coast launched the Inflation linked bond portfolio in October and we transitioned £870m of bonds to the fund. We will look to sell down the remainder of the index-linked bonds when appropriate. .

Infrastructure funds
Aquila European renewables fund, US solar fund and SDCL energy efficiency which are listed funds that we held had a placing of shares and we added to the holdings.

Gresham House Energy Storage fund had a placing to raise extra money to fund further projects and we initiated a holding via this.

We also initiated another holding in the energy efficiency sector via an IPO. Triple Point Energy Efficiency fund invests in projects that help other companies use energy more efficiently.

Property
The £20m commitment to Bridges Property V was completed after the quarter end and the first drawdown is expected shortly.

The business park acquisition in Oldham that has been under offer since Q1 this year is expected to complete this quarter and the purchase of a logistics asset adjacent to an existing Fund holding is also expected to complete imminently.

We are under offer on a Sainsbury's supermarket..

These acquisitions should take our weighting up towards our target weighting.

Outlook

The global economy has shown signs of recovery but more recently there has been evidence that the recovery is slowing due to the second wave of Covid-19 infections plus further Brexit issues and the US election. Central bank and government policies continue to be very supportive and interest rates will remain very low for a long time and quantitative easing measures are likely to remain in place, which supports the markets. The future direction of markets depends in part on news flow regarding the virus and the hope that the vaccines will be licensed shortly to enable economies to recover from these depressed levels

UK Equities

UK equities continued to lag their counterparts globally as an increase in COVID-19 cases increased and the re-imposition of some of the restrictive measures which had just been relaxed had an impact on sentiment. In addition the composition of the UK equity market had an impact. It has a relatively large exposure to Energy stocks which continue to underperform as the recovery in oil prices stalled, and minimal exposure to Technology, which has been far more resilient. Uncertainty regarding Brexit was also prevalent. We will look to maintain the current exposure.

Overseas equities

Global equities continued to rise albeit at a slower pace than last quarter. Emerging markets outperformed Developed markets partially reversing the underperformance of last quarter. Amidst high valuations, equity markets are unlikely to get much support from positive earnings revisions in the near term as economic activity continues to be impacted by increased COVID-19 cases. We have the added uncertainty regarding the US election

.

We expect market conditions to remain volatile and to react to short term news flow on the virus. Will maintain allocation to overseas equities

Bonds

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.

Outlook

Bonds cont

Spreads may not fall dramatically from here, but it does seem unlikely that they will rise much either in the absence of another shock. Given the lack of viable alternatives in developed market government bonds, or increasingly in investment grade credit, EM and high yield spreads look likely to remain well bid.

As we said in the last quarterly report, at least there is a yield and therefore a decent level of income in high yield and emerging markets. The same cannot be said for developed markets government bonds. Yields are so low 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 but long-term investors need higher potential returns to justify allocations here

Real Estate

With the increased risk to income and values, the opportunity set is relatively narrow. Absolute confidence in the robustness of the income and the stability of occupier demand is key.

With the skew of risks to the downside in retail and offices, the strong structural support for logistics remains appealing, despite significant capital growth in recent years pushing yields to unprecedented lows.

The private rented sector is still expected to be more resilient and to show durable cash flows than the commercial market during this period of economic distress. However ASI has more caution around London with the potential for remote and hybrid working having the ability to alter the locational focus of demand.

Will look to selectively increase weighting.

Outlook

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 having increased the allocation to private debt and infrastructure debt we are looking to add further investments into this asset class although it may take some time for capital to be deployed.

Cash

The cash balance increased by the action of reducing the UK equity portfolio in-line with the new benchmark weighting. The deployment of cash to alternatives and property should see the gradual reduction in this cash balance.

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