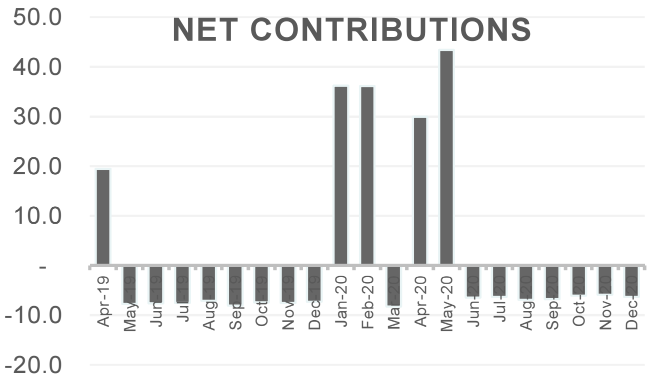
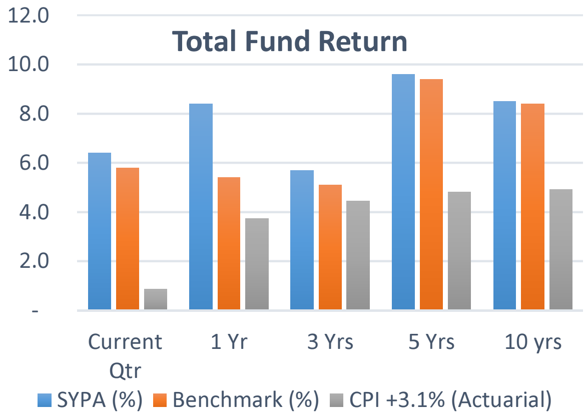
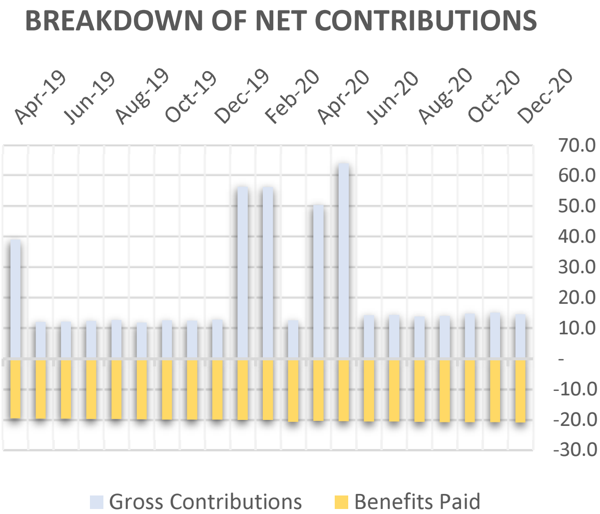
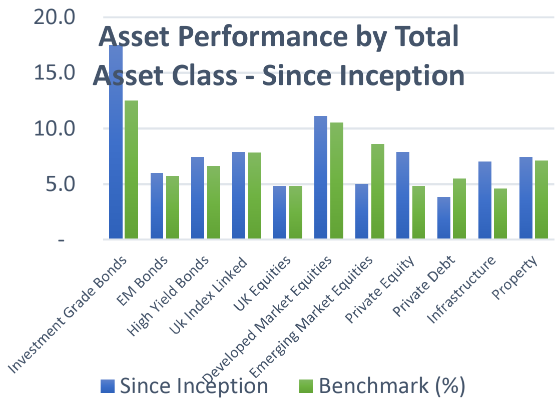
SOUTH YORKSHIRE PENSIONS AUTHORITY

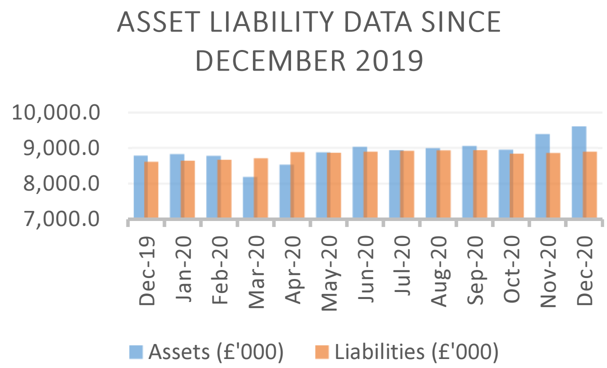
QUARTERLY REPORT TO 31 DECEMBER 2020

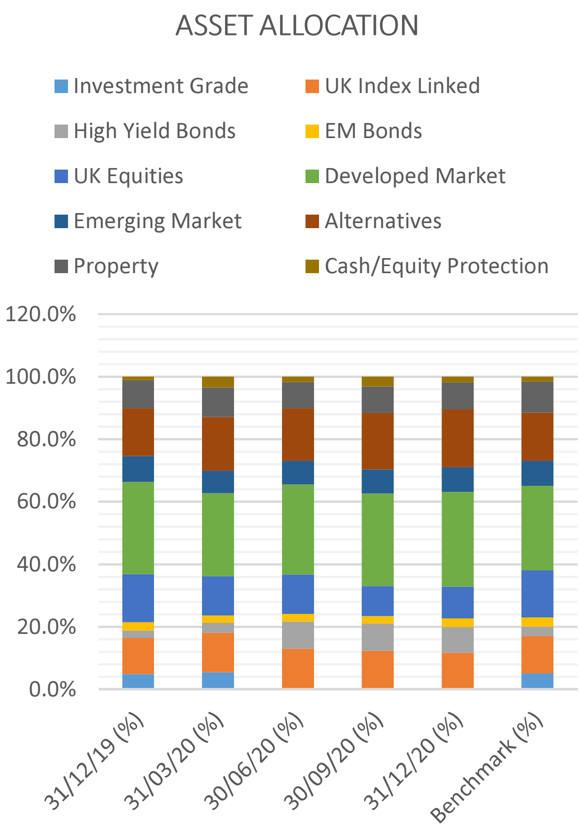

NET CONTRIBUTIONS
50.0
40.0
30.0
20.0
10.0
-
-10.0
-20.0
Apr-19
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan-20
Feb-20
Ma
Apr-20
May-20
Jun
Jul
Aug
Sep
Oct
Nov
Dec

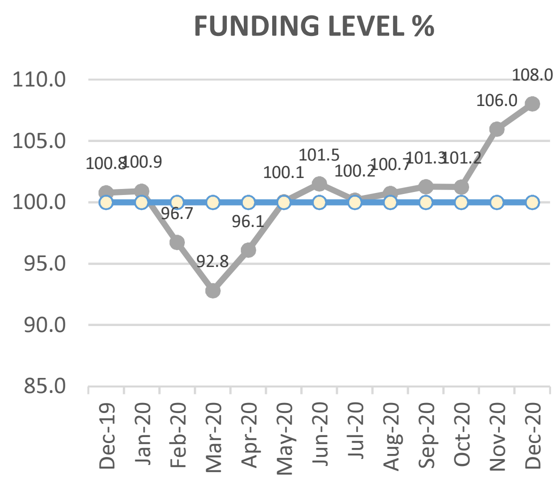

Total Fund Return
12.0
10.0
8.0
6.0
4.0
2.0
-
Current Qtr
1 Yr
3 Yrs
5 Yrs
10 yrs
SYPA (%)
Benchmark (%)
CPI +3.1% (Actuarial)


BREAKDOWN OF NET CONTRIBUTIONS
Apr-19
Jun-19
Aug-19
Oct-19
Dec-19
Feb-20
Apr-20
Jun-20
Aug-20
Oct-20
Dec-20
70.0
60.0
50.0
40.0
30.0
20.0
10.0
-
-10.0
-20.0
-30.0
Gross Contributions
Benefits Paid


Asset Performance by Total Asset Class - Since Inception
20.0
15.0
10.0
5.0
-
Investment Grade Bonds
EM Bonds
High Yield Bonds
Uk Index Linked
UK Equities
Developed Market Equities
Emerging Market Equities
Private Equity
Private Debt
Infrastructure
Property
Since Inception
Benchmark (%)


ASSET LIABILITY DATA SINCE DECEMBER 2019
10,000.0
9,000.0
8,000.0
7,000.0
Dec-19
Jan-20
Feb-20
Mar-20
Apr-20
May-20
Jun-20
Jul-20
Aug-20
Sep-20
Oct-20
Nov-20
Dec-20
Assets (£'000)
Liabilities (£'000)


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%
31/12/19 (%)
31/03/20 (%)
30/06/20 (%)
30/09/20 (%)
31/12/20 (%)
Benchmark (%)


FUNDING LEVEL %
110.0
105.0
100.0
95.0
90.0
85.0
100.8
100.9
96.7
92.8
96.1
100.1
101.5
100.2
100.7
101.3
101.2
106.0
108.0
Dec-19
Jan-20
Feb-20
Mar-20
Apr-20
May-20
Jun-20
Jul-20
Aug-20
Sep-20
Oct-20
Nov-20
Dec-20

Market background

The final quarter of 2020 saw strong returns from almost all asset classes, the exception being government bonds.

During the quarter UK equities were supported by the vaccine news and then by the Brexit negotiations being concluded with a deal being signed on December 24th just days before the UK exited the EU single market and customs union. Domestically focused areas of the market outperformed

Global equities gained strongly over the quarter with the gains for UK investors being tempered by the strength in sterling. After some weakness in October, markets recovered after the result of the US election became clear and vaccines were approved by regulators given the positive trial news.

In contrast to earlier periods the US market lagged other global markets over the quarter as they were impacted more by the switch of focus from technology stocks. The UK outperformed benefiting from a higher weighting to resource stocks which rebounded over the quarter. Emerging Markets generally outperformed Developed Markets, continuing to unwind the underperformance of the first half of the year. Fiscal and monetary support has helped economies to overcome the worst of the disruptions and it was further extended following the latest lockdown restrictions.

Government bond yields fell over the quarter, underperforming corporate bonds and equities as the US election results and vaccine developments drove risk-on behaviour.

Real estate returns were positive but as the second wave of Covid-19 gathered pace all UK nations introduced tighter restrictions towards the end of the period. This meant that consumer facing sectors continued to face challenging trading conditions. Supermarket and industrial sectors continued to show relative resilience.

Fund Valuation

as at 31 December 2020

	Fund Valuation as at 31 December 2020						
	Sep-20		Quarterly Net	Dec-20		Benchmark	Range
	£m	%	Investment	£m	%	%	%
FIXED INTEREST							
Inv Grade Credit - BCPP	473.8	5.2	0.0	489.0	5.1	5	
UK ILGs - BCPP	1116.4	12.3	-892.1	913.0	9.5	12	
UK ILGs SYPA	0.0		872.1	211.7	2.2		
High Yield Bonds	310.3	3.4	-21.2	300.4	3.1	3	
EM Bonds	221.1	2.5	26.2	256.6	2.7	3	
TOTAL	2121.6	23.4	-15.0	2170.7	22.6	23	18-28
UK EQUITIES	870.1	9.6	0.0	978.9	10.2	10	5 _ 15
INTERNATIONAL EQUITIES							
Developed Market - BCPP	2602.9	28.8	0.0	2851.8	29.7	27.125	
Developed Market - SYPA	72.0	0.8	-23.1	54.9	0.6		
Emerging Market - BCPP	683.5	7.6	0.0	752.0	7.8	7.875	
Emerging Market - SYPA	11.9	0.1	-2.4	11.0	0.1		
TOTAL	3370.3	37.3	-25.5	3669.7	38.2	35	30-40
PRIVATE EQUITY							
BCPP	27.9		-1.9	27.4			
SYPA	649.9		12.2	688.9			
TOTAL	677.8	7.5	10.3	716.3	7.5	7	5_9
PRIVATE DEBT FUNDS							
BCPP	4.6		1.0	5.5			
SYPA	454.0		0.6	461.7			
TOTAL	458.6	5.1	1.6	467.2	4.9	5.5	4.5-6.5
INFRASTRUCTURE							
BCPP	20.9		17.3	36.2			
SYPA	479.5		61.4	552.5			
TOTAL	500.4	5.5	78.7	588.7	6.1	8	5_11
PROPERTY	763.6	8.4	37.1	821.9	8.6	10	8_12
CASH	288.1	3.2		187.0	1.9	1.5	0-5
EQUITY PROTECTION (EPO)	0.0			0.0			
TOTAL FUND	9050.5	100.0		9600.4	100.0	100	
COMMITTED FUNDS TO ALTERNATIVE INVESTMENTS	1061.5			1159.5			

Asset Allocation Summary

The most significant transaction this quarter was the transition of index-linked gilts to the newly launched Border to Coast fund. £872m of assets was transitioned by the Authority, representing 10% of our assets at the time.

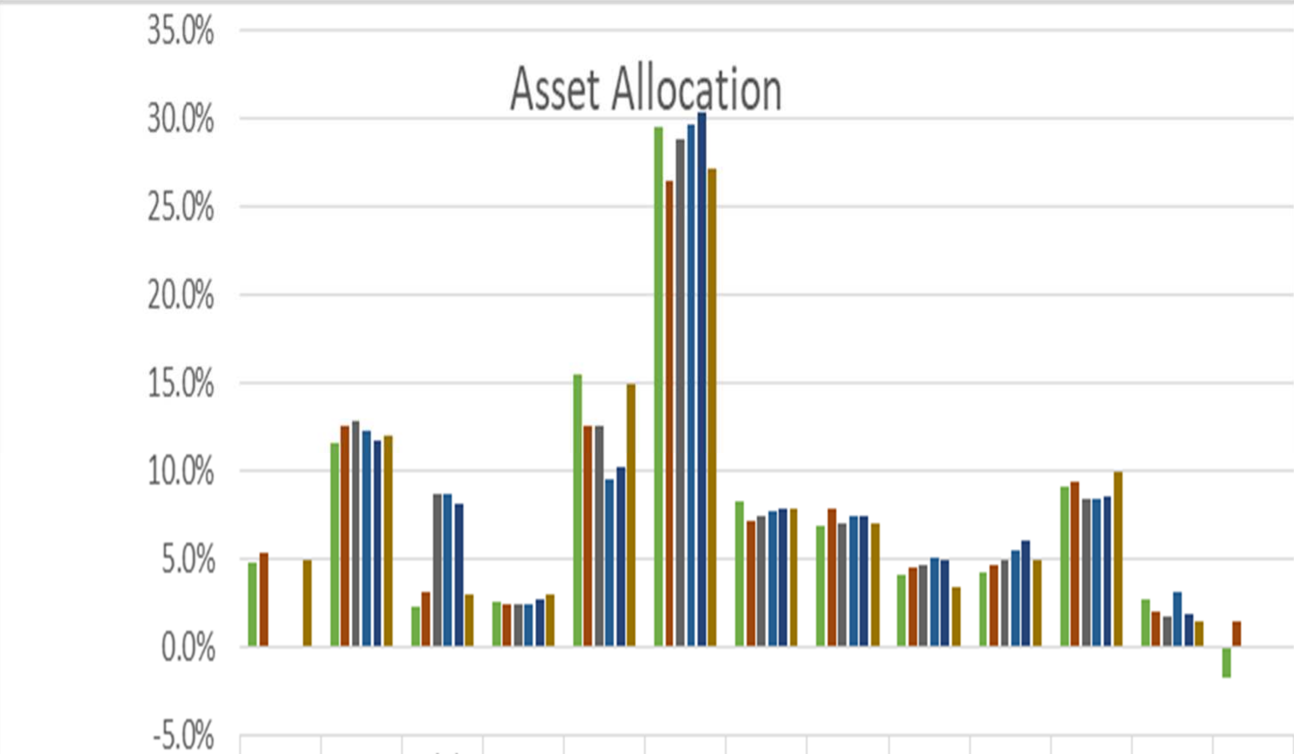
During the quarter we also reduced our residual holding of index-linked gilts by £20m. The sale was done in a way to bring the duration of the remaining legacy bonds more in to line with the benchmark index.

As equity markets continued to improve we took the opportunity to reduce the legacy holdings by £25m and these proceeds were used to fund the drawdowns into the alternative funds.

Within property we competed on the logistics property in Basildon for a purchase price of just over £23m. This is adjacent to an existing property owned by the Fund. We also had first drawdowns to the Hearthstone Residential fund and to Bridges Property V fund that we committed to earlier this year.

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
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%
31/12/20 (%)	0.0%	11.7%	8.2%	2.7%	10.2%	30.3%	7.9%	7.5%	4.9%	6.1%	8.6%	1.9%	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

as at 31 December 2020

	Qtrly Performance		Financial Y.T.D.	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Investment Grade Credit - BCPP	3.9	3.1	12.9	11.6
UK ILGs	2.5	2.2	13.4	13.2
High Yield Bonds	4.3	3.1	14.9	11.6
EM Bonds	5.4	5.3	22.4	19.3
TOTAL	3.4	2.7	14.5	12.5
UK EQUITIES	12.5	12.6	20.5	20.5
INTERNATIONAL EQUITIES				
Developed Market - BCPP	9.6	9.9	35.1	34.8
Developed Market - SYPA	8.5	9.9	36.0	34.8
Emerging Market - BCPP	10.0	11.4	30.6	39.0
Emerging Market - SYPA	13.1	11.4	37.0	39.0
TOTAL	9.7	10.3	34.2	35.8
PRIVATE EQUITY	4.2	0.8	8.9	2.8
PRIVATE DEBT FUNDS	1.7	0.8	7.1	2.8
INFRASTRUCTURE	2.3	0.8	5.8	2.8
PROPERTY	3.6	1.6	2.8	0.5
CASH	0.0	0.0	0.0	0.0
TOTAL FUND excl EPO	6.4	5.8	19.0	17.3
TOTAL FUND	6.4	5.8	17.7	17.3

Performance Summary

For the quarter to the end of December, the Fund returned 6.4% against the expected benchmark return of 5.8%.

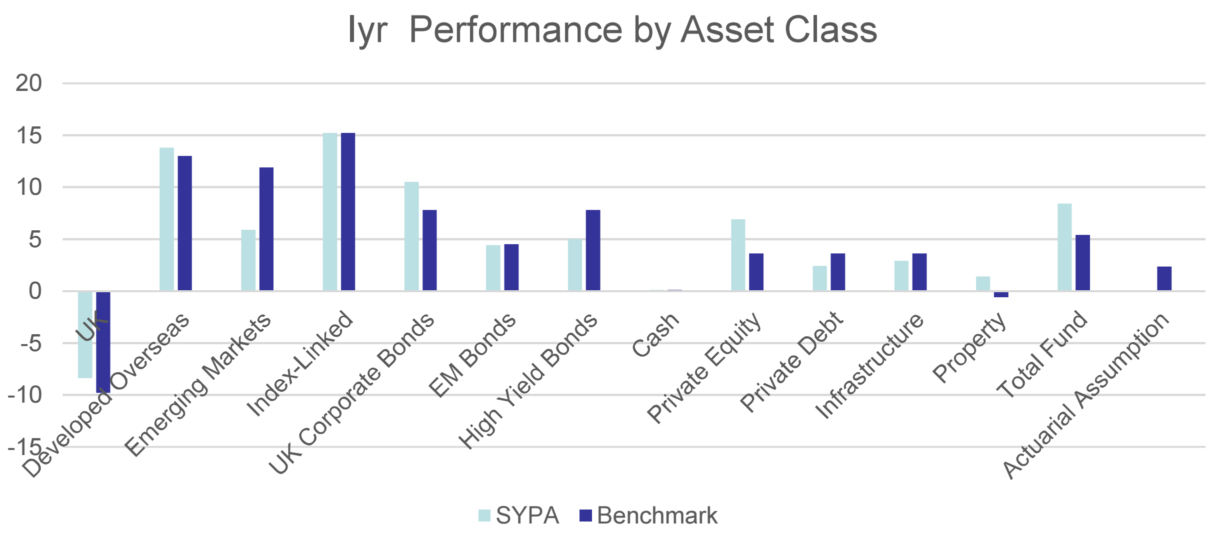
Asset allocations added 0.2% and stock selection added 0.4% overall.

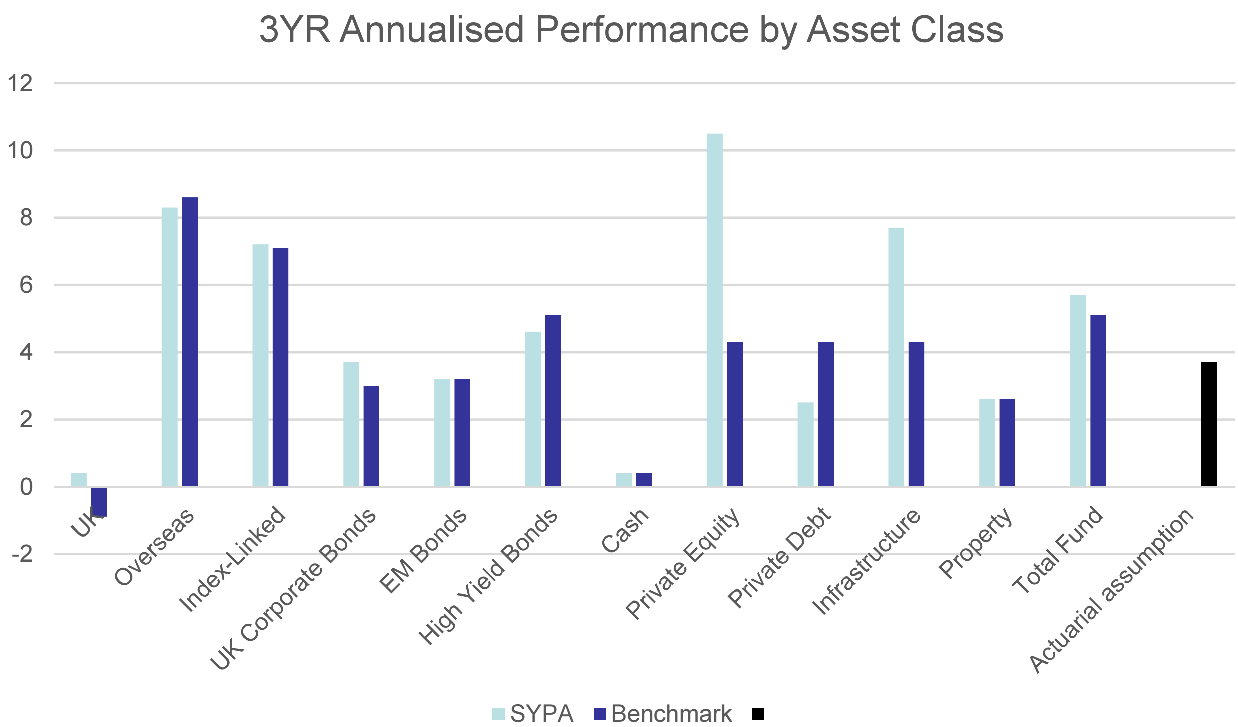
The breakdown of the stock selection is as follows:-

Dev Overseas equities	-0.1%
EM equities	-0.1%
Total bonds	0.1%
Alternatives	0.3%
Property	0.2%

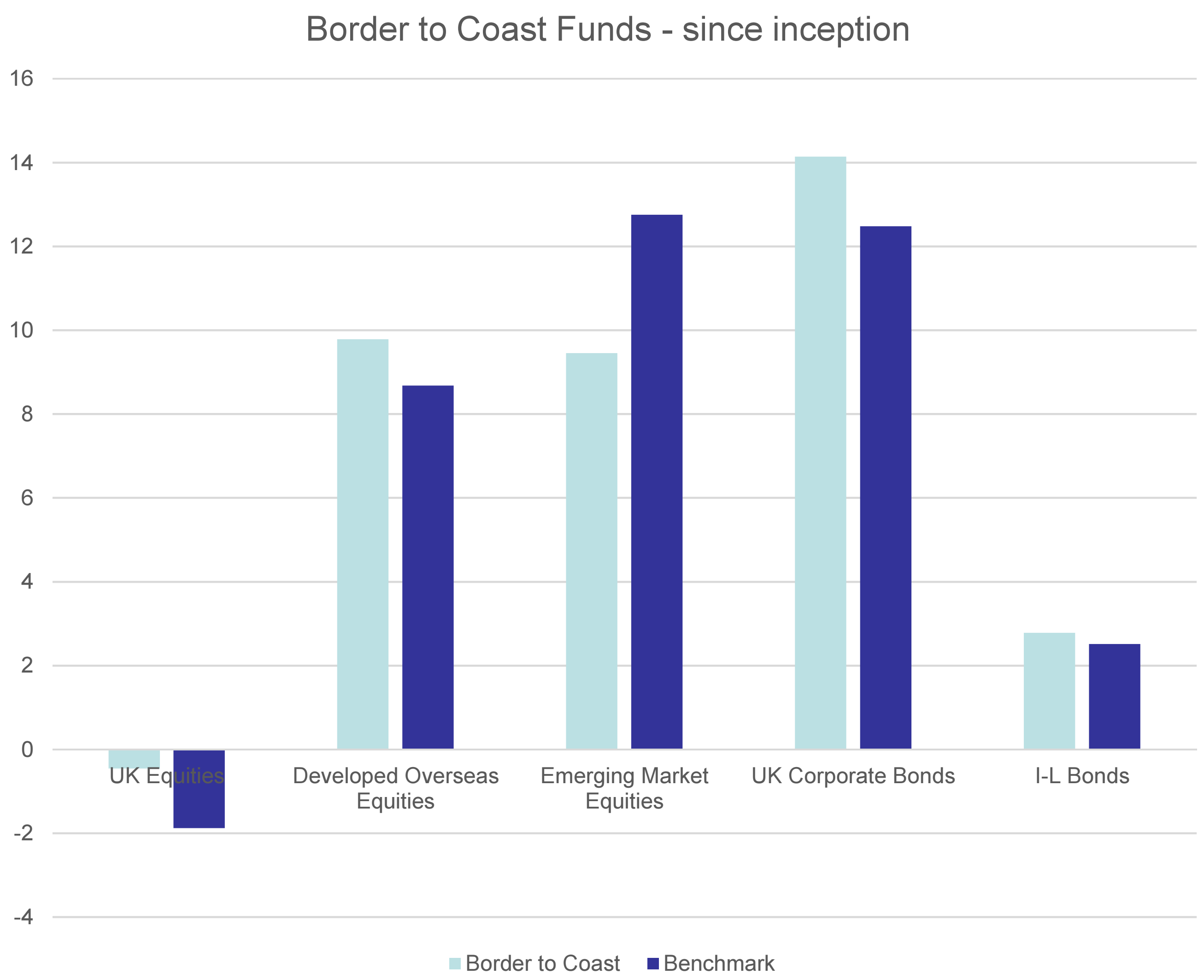
For the year to date performance at total fund level is now 0.4% above the benchmark but if we exclude the impact of the equity protection that rolled off at the beginning of this financial year we would be ahead of target by 1.7%.

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.

Border to Coast launched their Index-Linked Bond portfolio in October. We transitioned £872m of bonds to them which represented 10% of our assets at that stage. The transition involved three funds, SYPA, Durham and North Yorkshire. The transition period was only one day as there was a very high retention rate of over 90% of assets. Initial performance has been slightly ahead of benchmark

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

As reported last quarter the one fund that has shown disappointing performance has been the Emerging Market fund and it has been agreed that this will become a hybrid fund of internal management and two external managers for Chinese assets. The transition of these mandates is expected to take place 2Q 2021

Funding Level

The funding level as at 31 December 2020 is 108%.

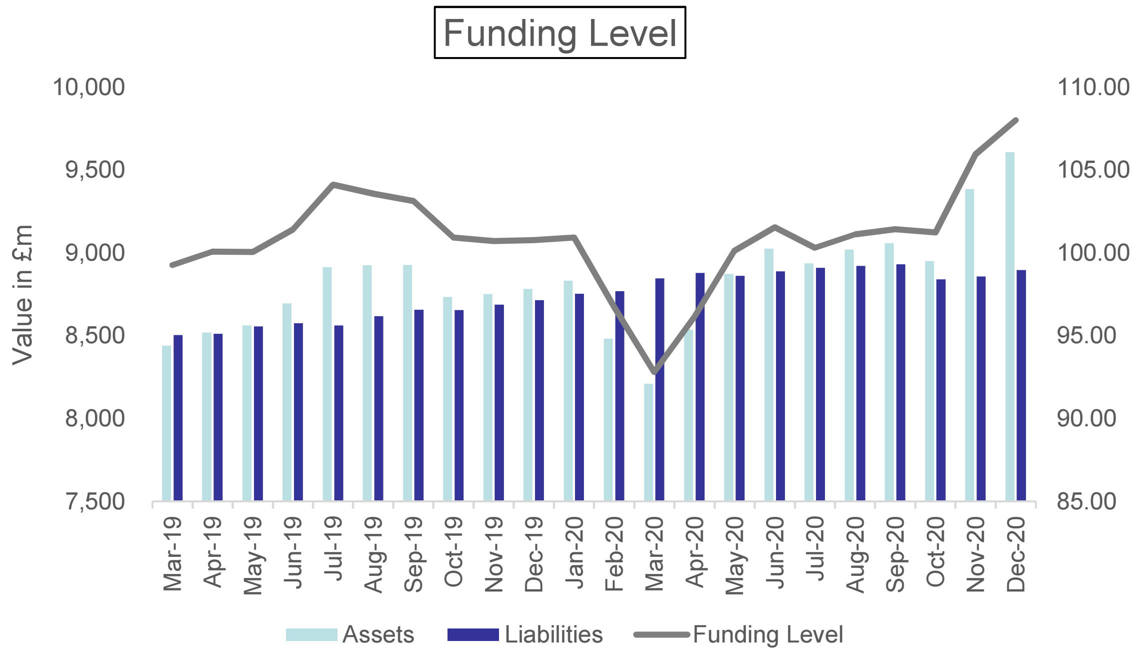
The breakdown is as follows:

Fund's Assets:

As at 31 December 2020: £9,607.9m
As at 30 September 2020: £9,058.4m
An increase of £549.5m

Funds Liabilities:

As at 31 December 2020: £8,895.2m
As at 30 September 2020: £8,930.3m
A decrease of £35.1m



Outlook

From here the future direction of markets depends in part on news flow regarding the spread of the virus and the success or otherwise of mass vaccination plans. It is probably no coincidence that the onset of winter has seen rapidly rising levels of infection in the northern hemisphere while previous hotspots such as Latin America have improved.

In absolute terms high valuations and potential delays to economic recovery means that equity markets are unlikely to be supported by positive earnings revisions until later in the year. However relative to bond markets equities have some attraction. Government bond yields have risen but remain low by historic standards and are still negative in many areas.

UK Equities

UK equities have lagged other markets over the last few years. Many of the uncertainties regarding Brexit have now been resolved and the fact that in valuation terms the UK market is cheaper relative to global shares than it has been for many years makes it more interesting than it has been for some time. We will look to maintain the current exposure.

Overseas equities

We expect market conditions to remain volatile. Emerging market valuations remain more attractive than developed market equities and so any reductions will be from developed markets rather than from emerging markets. Will look to sell down our legacy positions to meet cash flow requirements

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

Coming out of the crisis may prove to be the most difficult time for many businesses that have been propped up by cheap credit and government support. Default rates may increase again when such accommodation is removed. Investors must, therefore, remain highly vigilant and mindful of the credit quality of their fixed income holdings.

Spreads may not fall dramatically from here, but it does seem unlikely that they will rise much either. 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.

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

A renewed sense of optimism moving into 2021, with a no-deal Brexit averted, is likely to be tempered by the latest national lockdown. With liquidity likely to be impaired this quarter, 2021 looks set to be a year of two halves for the investment market. If the virus is suppressed then a recovery in activity is expected in the second half of 2021.

The lockdown has reinforced existing structural changes. The investment market is demanding ever higher risk premia for most discretionary retail.

Investment strategy will continue to favour sectors with more defensive characteristics. Fundamentally the preference would be to invest in areas where the structural drivers of demand are positively impacted by or largely insulated from the ongoing pandemic, including logistics and supermarkets.

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 we are looking to add further investments into this asset class although it may take some time for capital to be deployed.

Cash

The deployment of cash to alternatives and property has seen the gradual reduction in this cash balance and this is likely to reduce further this quarter

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