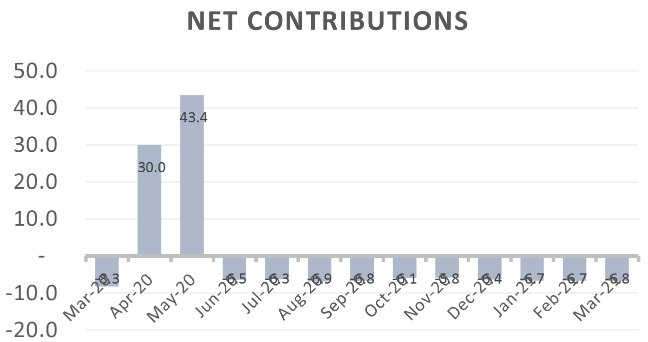
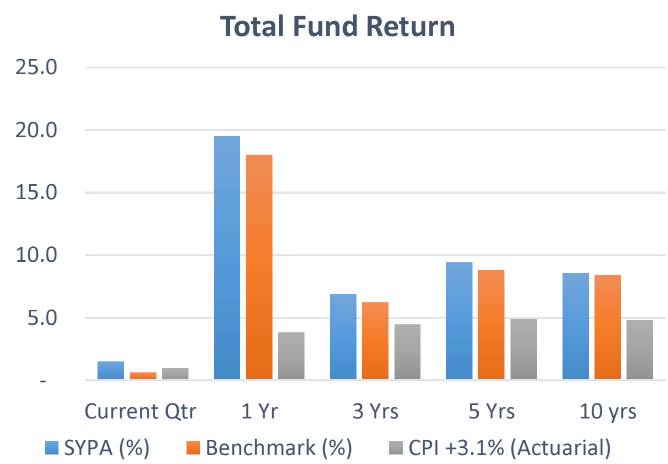
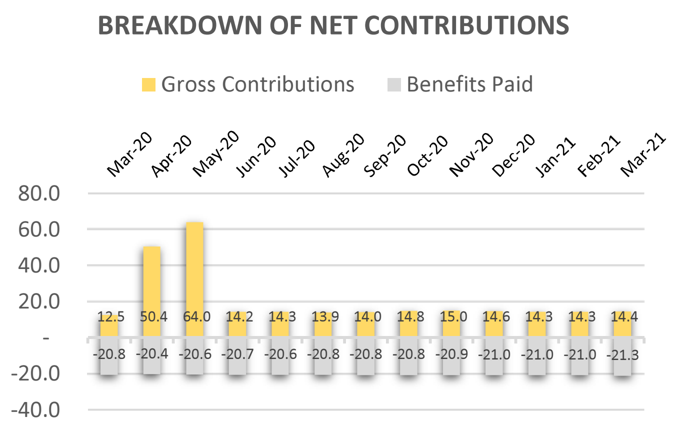
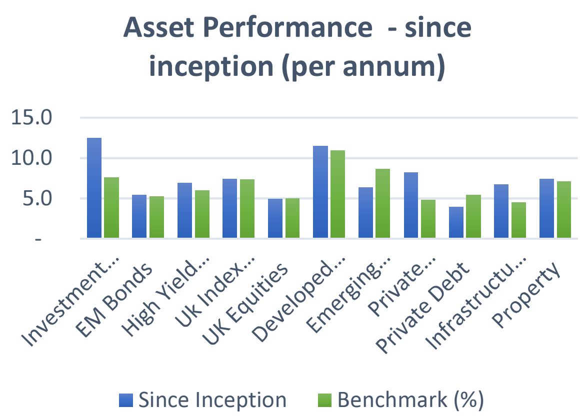
SOUTH YORKSHIRE PENSIONS AUTHORITY

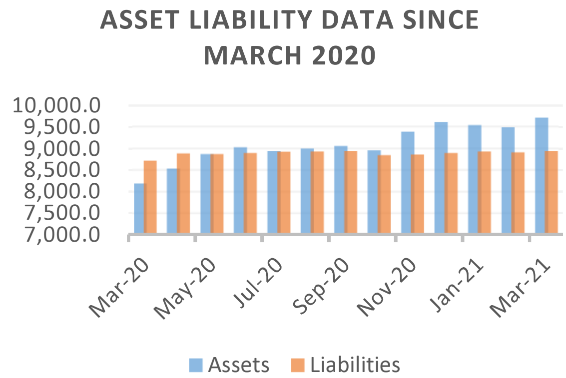
QUARTERLY REPORT
TO 31 MARCH 2021

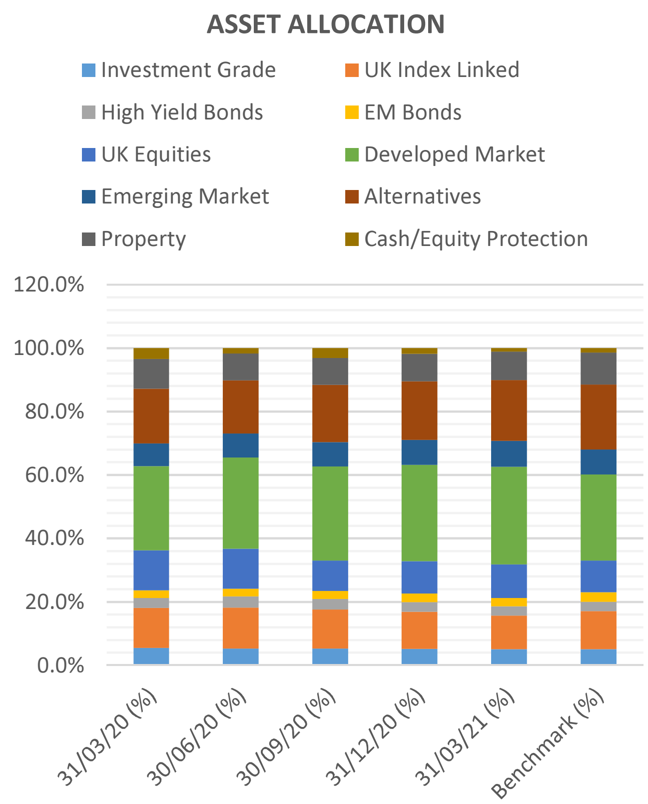

NET CONTRIBUTIONS
50.0
40.0
30.0
20.0
10.0
-
-10.0
-20.0
43.4
30.0
Mar-20
Apr-20
May-20
Jun-20
Jul-20
Aug-20
Sep-20
Oct-20
Nov-20
Dec-20
Jan-21
Feb-21
Mar-21

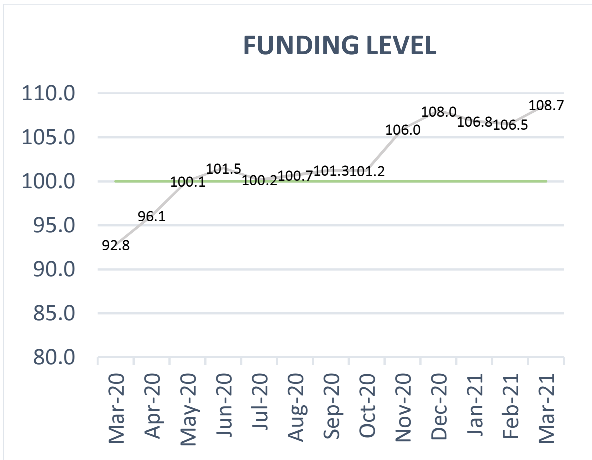

Total Fund Return
25.0
20.0
15.0
10.0
5.0
-
Current Qtr
1 Yr
3 Yrs
5 Yrs
10 yrs
SYPA (%)
Benchmark (%)
CPI +3.1% (Actuarial)


BREAKDOWN OF NET CONTRIBUTIONS
Gross Contributions
Benefits Paid
Mar-20
Apr-20
May-20
Jun-20
Jul-20
Aug-20
Sep-20
Oct-20
Nov-20
Dec-20
Jan-21
Feb-21
Mar-21
80.0
60.0
40.0
20.0
-
-20.0
-40.0
12.5
50.4
64.0
14.2
14.3
13.9
14.0
14.8
15.0
14.6
14.3
14.3
14.4
-20.8
-20.4
-20.6
-20.7
-20.6
-20.8
-20.8
-20.8
-20.9
-21.0
-21.0
-21.0
-21.3


Asset Performance - since inception (per annum)
15.0
10.0
5.0
-
Investment...
EM Bonds
High Yield...
Uk Index...
UK Equities
Developed...
Emerging...
Private...
Private Debt
Infrastructu...
Property
Since Inception
Benchmark (%)


ASSET LIABILITY DATA SINCE MARCH 2020
10,000.0
9,500.0
9,000.0
8,500.0
8,000.0
7,500.0
7,000.0
Mar-20
May-20
Jul-20
Sep-20
Nov-20
Jan-21
Mar-21
Assets
Liabilities


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%
31/03/20 (%)
30/06/20 (%)
30/09/20 (%)
31/12/20 (%)
31/03/21 (%)
Benchmark (%)


FUNDING LEVEL
110.0
105.0
100.0
95.0
90.0
85.0
80.0
92.8
96.1
100.1
101.5
100.2
100.7
101.3
101.2
106.0
108.0
106.8
106.5
108.7
Mar-20
Apr-20
May-20
Jun-20
Jul-20
Aug-20
Sep-20
Oct-20
Nov-20
Dec-20
Jan-21
Feb-21
Mar-21

Market background

Almost all asset classes had positive returns, the exception being government and corporate bonds.

The first quarter of 2021 saw global equities advance again, supported by the vaccination roll-out and also news of further US fiscal stimulus. Investor risk appetite increased and there was continued strength in small-cap and value stocks.

UK equities outperformed overseas markets with economically sensitive areas of the market extending the recovery seen at the end of 2020. Banks performed particularly well with better than expected results and a sharp rise in bond yields as the global economic outlook improved. Domestically focused areas of the market also continued to outperform as the forward looking data for the UK economy improved.

Global equities gained but progress was impacted regionally by the uneven roll-out of vaccine programmes globally, along with news of new strains of the virus in certain areas which dampened optimism over the pace of the anticipated economic recovery. US equities were the outperforming area this quarter given the success of their vaccine programme and also the fiscal stimulus which is among the largest of the major economies. The extensive short term stimulus is in addition to longer term infrastructure plans and green initiatives that could provide lasting impetus, although inflation is beginning to be a focus for investors.

Government bond yields rose over the quarter as markets priced in a quick economic recovery in response to the aggressive fiscal and monetary policies enacted. Inflation expectations rose, unwinding the disinflationary sentiment that prevailed during most of 2020. Again they underperformed corporate bonds and equities as the vaccine developments drove risk-on behaviour.

Commodities gained boosted by stronger demand

Real estate returns were positive but selectivity remains important with sectors like retail still suffering, while logistics continue to prosper. Transactions are now been seen in the market, giving a guide for some of the more challenged areas of the market.

Fund Valuation

as at 31 March 2021

	Dec-20		Quarterly Net	Mar-21		Benchmark	Range
	£m	%	Investment	£m	%	%	%
FIXED INTEREST							
Inv Grade Credit - BCPP	489.0	5.1	20.0	487.3	5.0	5	
UK ILGs - BCPP	913.0	9.5	0.0	837.1	8.6	12	
UK ILGs SYPA	211.7	2.2	0.0	192.8	2.0		
High Yield Bonds	300.4	3.1	-11.7	281.1	2.9	3	
EM Bonds	256.6	2.7	16.6	258.0	2.7	3	
TOTAL	2170.7	22.6	24.9	2056.3	21.2	23	18-28
UK EQUITIES	978.9	10.2	0.0	1025.9	10.6	10	5 _ 15
INTERNATIONAL EQUITIES							
Developed Market - BCPP	2851.8	29.7	-20.0	2935.2	30.2	27.125	
Developed Market - SYPA	54.9	0.6	-10.2	45.7	0.5		
Emerging Market - BCPP	752.0	7.8	0.0	787.1	8.1	7.875	
Emerging Market - SYPA	11.0	0.1	-1.2	10.2	0.1		
TOTAL	3669.7	38.2	-31.4	3778.2	38.9	35	30-40
PRIVATE EQUITY							
BCPP	27.4		13.5	44.4			
SYPA	688.9		-9.8	736.6			
TOTAL	716.3	7.5	3.7	781.0	8.0	7	5_9
PRIVATE DEBT FUNDS							
BCPP	5.5		1.1	6.2			
SYPA	461.7		-8.3	463.2			
TOTAL	467.2	4.9	-7.2	469.4	4.8	5.5	4.5-6.5
INFRASTRUCTURE							
BCPP	36.2		8.6	45.1			
SYPA	552.5		23.5	578.4			
TOTAL	588.7	6.1	32.1	623.5	6.4	8	5_11
PROPERTY	821.9	8.6	31.4	859.8	8.9	10	8_12
CASH	187.0	1.9		116.5	1.2	1.5	0-5
EQUITY PROTECTION (EPO)	0.0			0.0			
TOTAL FUND	9600.4	100.0		9710.6	100.0	100	
COMMITTED FUNDS TO ALTERNATIVE INVESTMENTS	1159.5			1225.4			

Asset Allocation Summary

As equity markets continued to improve we took the opportunity to take profit. £12m was raised from the legacy holdings and these proceeds were used to fund the drawdowns into the alternative funds.

Also, we switched £20m from the Border to Coast overseas developed fund to the Sterling Investment Grade Credit fund.

Within property we competed on the Sainsbury's supermarket at Butterly, Ripley for a purchase price of just over £33m.

The current Fund allocation can be seen in the chart below and is shown against the strategic target.

There are no categories that are outside the tactical ranges but there are two categories that are toward the extreme end of the tactical ranges allowed.

The changes in net investment for the categories over the year are also shown below. It shows that we have been de-risking the Fund in line with the strategic benchmark

Asset Allocation Summary

Strategic vs Current Asset Allocation					
Asset Class	**SAA Target**	**Range**	**Current Asset Allocation**		
	%	%	£m	%	OW/UW
Index Linked Gilts	12	10 - 14	1029.9	10.6	**-1.4**
Sterling Inv Grade Credit	5	3 - 7	487.3	5.0	**0.0**
Other Fixed Income	6	4 - 8	539.1	5.6	**-0.4**
UK Equities	10	5 - 15	1025.9	10.6	**0.6**
Overseas Equities	35	30 - 40	3778.2	38.9	**3.9**
Private Equity	7	5 - 9	781	8.0	**1.0**
Private Debt	5.5	4.5-6.5	469.4	4.8	**-0.7**
Infrastructure	8	6 - 10	623.5	6.4	**-1.6**
Property	10	8 - 12	859.8	8.9	**-1.1**
Cash	1.5	0 - 5	116.5	1.2	**-0.3**
Total	100		9710.6	100	

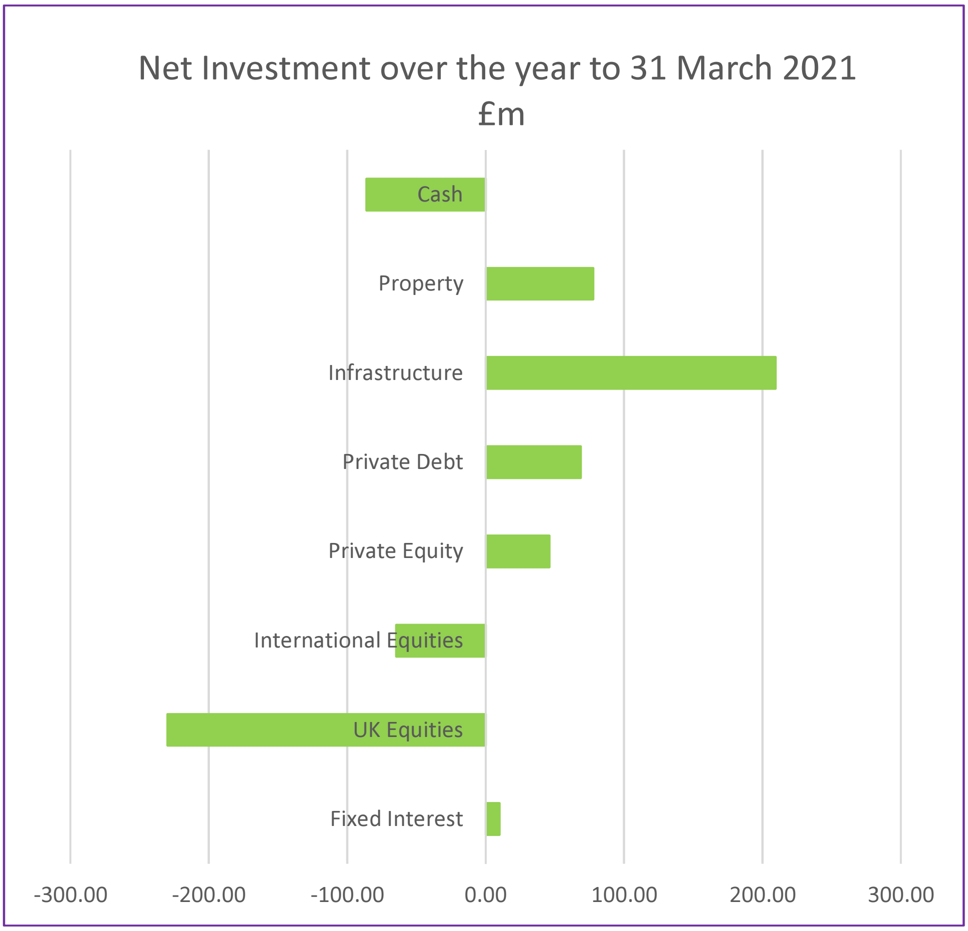
OW/UW 'RAG' ratings

Green ratings indicate that current asset allocation is within agreed tolerances

Amber ratings indicate that current asset allocation is beyond 70% of the difference between the maximum/minimum range and the strategic target allocation

Red ratings indicate that current asset allocation is out of range

Asset Allocation Summary



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Performance

as at 31 March 2021

	Qtrly Performance		Financial Y.T.D.	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Investment Grade Credit - BCPP	-3.8	-4.1	8.6	7.0
UK ILGs	-8.4	-8.5	3.8	3.6
High Yield Bonds	-2.1	-4.1	12.5	7.0
EM Bonds	-4.3	-4.8	17.1	13.7
TOTAL	-6.0	-6.2	7.6	5.5
UK EQUITIES	4.8	5.2	26.3	26.7
INTERNATIONAL EQUITIES				
Developed Market - BCPP	3.7	3.6	40.0	39.6
Developed Market - SYPA	3.6	3.6	40.8	39.6
Emerging Market - BCPP	4.7	1.9	36.7	41.7
Emerging Market - SYPA	4.3	1.9	42.9	41.7
TOTAL	3.9	3.2	39.3	40.3
PRIVATE EQUITY	8.6	0.6	18.2	3.4
PRIVATE DEBT FUNDS	2.2	0.6	9.5	3.4
INFRASTRUCTURE	0.8	0.6	6.6	3.4
PROPERTY	1.7	1.8	4.5	1.7
CASH	0.0	0.0	0.0	0.0
TOTAL FUND excl EPO	1.5	0.6	20.8	18.0
TOTAL FUND	1.5	0.6	19.5	18.0

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Performance Summary

For the quarter to the end of March, the Fund returned 1.5% against the expected benchmark return of 0.6% and this was all due to stock selection

The breakdown of the stock selection is as follows:-

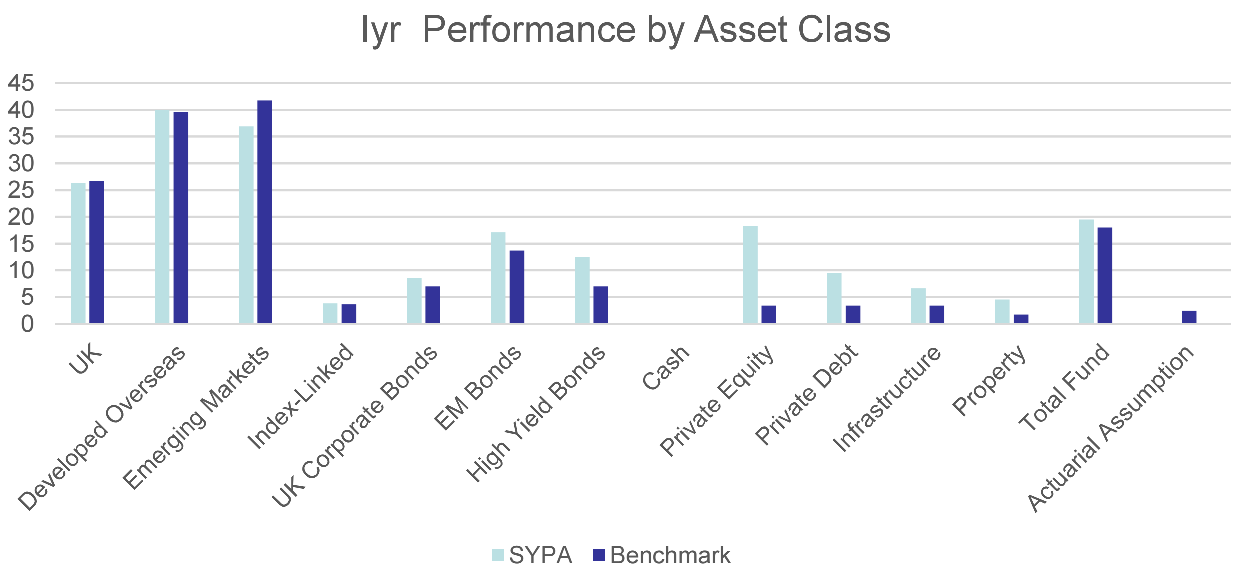
EM equities	0.2%
Total bonds	0.1%
Alternatives	0.6%

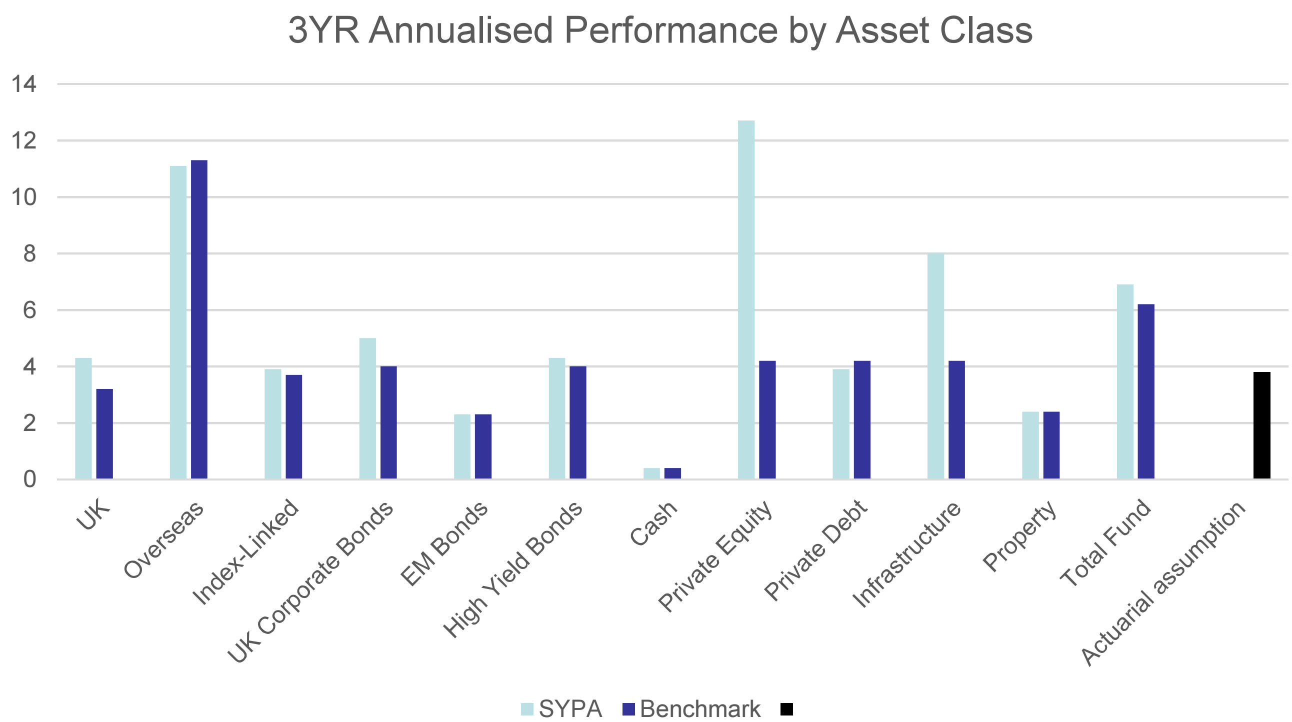
For the financial year the return of the total fund at 19.5% is above the expected return of the benchmark of 18%. If we exclude the impact of the equity protection that rolled off at the beginning of this financial year we would be ahead of target by 2.8%.

Asset allocation during the year contributed 0.4% with the remainder being due to stock selection.

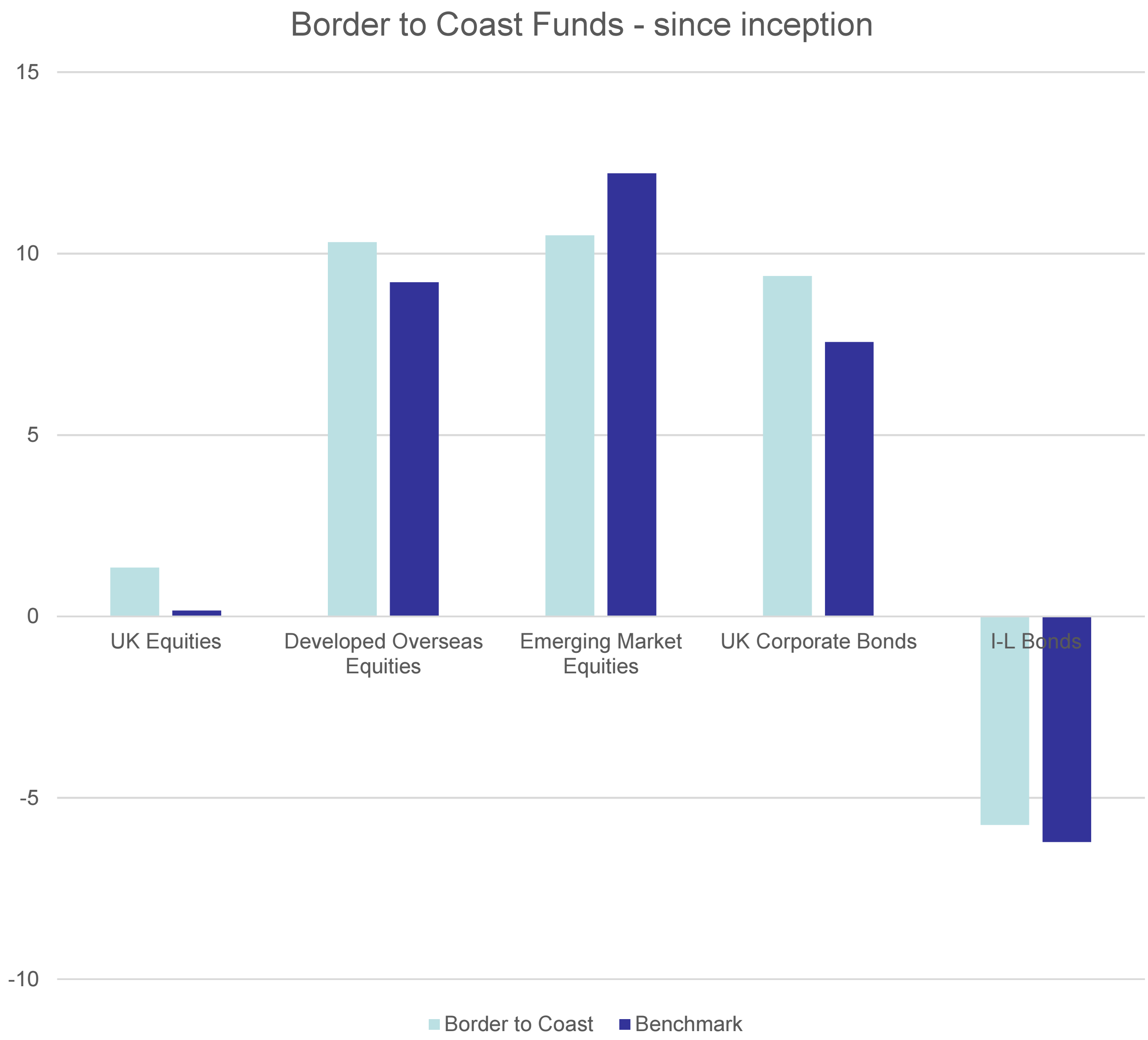
Equity protection	-1.2%
Developed Overseas Equities	0.1%
EM equities	-0.3%
Total bonds	0.5%
Alternatives	1.7%
Property	0.3%

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 four of the five funds have outperformed their benchmark and matched the target return.

The emerging market portfolio had a rebound in performance last quarter but is still behind benchmark since inception. The transition to a hybrid fund of internal management and two external managers for Chinese assets took place during April.

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Funding Level

The funding level as at 31 March 2021 is 108.7%.

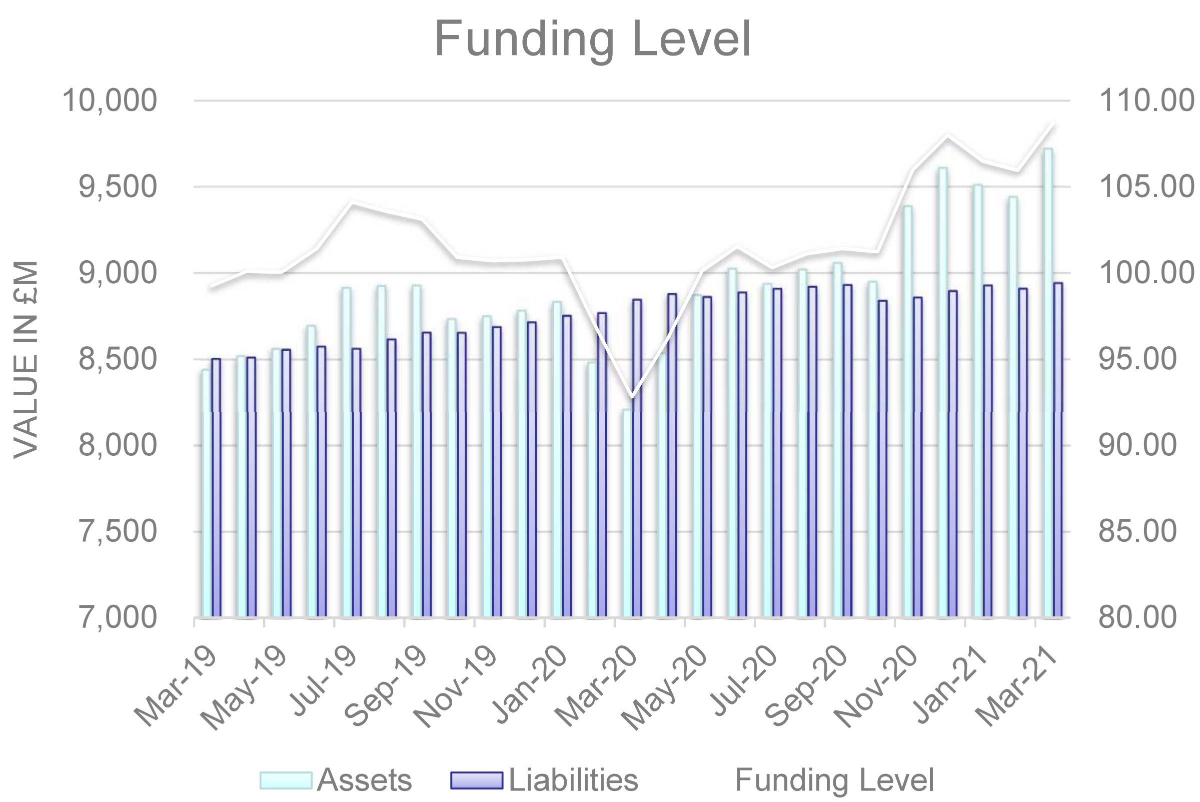
The breakdown is as follows:

Fund's Assets:

As at 31 March 2021: £9,718.1m
As at 31 December 2020: £9,607.9m
An increase of £110.2m

Funds Liabilities:

As at 31 December 2020: £8,941.4m
As at 31 December 2020: £8,895.2m
A decrease of £46.2m



Outlook

From here the future direction of markets depends in part on news flow regarding the vaccination roll-out which is proceeding at different speeds in different countries. The continuing recovery is likely to be uneven.

The short term outlook is one of economies opening up and normalising. Policymakers will continue to be supportive unless rising inflation becomes an issue.

In absolute terms high valuations 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

The quick vaccine rollout should enable the UK to achieve a large rebound from last year's 9.9% GDP decline. The Bank of England is likely to keep rates on hold during the recovery phase. UK equities have lagged other markets over the last few years but the outlook is improving in line with the economy. The UK market is the cheapest of the major markets and UK earnings are set for a substantial rebound. The UK market is overweight the cyclical value sectors such as materials and financials that will benefit from post-pandemic re-opening. 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 take profits to reduce weighting

Bonds

Ten year gilt yields remain well below 1% while ten-year breakeven inflation rates are close to 3.5%. Even if breakevens are too high, nominal yields appear much too low.

Outlook

Bonds cont

Index-linked gilts give protection against rising inflation but real yields are very low and likely to rise if nominal yields rise due to higher inflation.

Credit markets may be better placed. Spreads are low but could feasibly go lower still as investors continue to search for yield. The recovery and supportive policy stance should ensure that defaults recede and most of the spread is captured in total returns.

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, although even this is much lower than we have been used to. 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

The challenges facing sectors exposed to consumer discretionary spending is persisting. Supermarkets remain the clear beneficiary within the wider retail sector.

The outlook for the office sector continues to stimulate debate with more and more talk about a hybrid working future. The logistics sector is expected to have another strong year.

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. This quarter the cash balance will be increased by the redemption from the developed overseas equity fund but this will be deployed to emerging market bonds where we are currently underweight and be used to fund further calls to the alternative funds.