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www.sypensions.org.uk

NOTICE OF AUTHORITY MEETING

You are hereby summoned to a meeting of the South Yorkshire Pensions Authority to be held at The Civic, Hanson Street, Barnsley on Thursday, 9 September 2021 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 666412
Email	grichards@sypa.org.uk	

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Distribution

Councillors: J Mounsey (Chair), F Belbin, S Clement-Jones, S Cox, D Fisher, M Havard, D Nevett, C Rosling-Josephs, A Sangar, M Stowe, G Weatherall and N Wright.

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SOUTH YORKSHIRE PENSIONS AUTHORITY

THURSDAY, 9 SEPTEMBER 2021 AT 10.00 AM - THE CIVIC, HANSON STREET, BARNSLEY

Agenda: Reports attached unless stated otherwise

	Item	**Pages**
1.	Apologies	
2.	Announcements	
3.	Urgent Items To determine whether there are any additional items of business which by reason of special circumstances the Chair is of the opinion should be considered at the meeting; the reason(s) for such urgency to be stated.	
4.	Items to be considered in the absence of the public and press To identify where resolutions may be moved to exclude the public and press. (For items marked * the public and press may be excluded from the meeting.)	
5.	Declarations of Interest	
6.	Section 41 Feedback from District Councils	
7.	Minutes of the Annual Meeting meeting held on 10 June 2021	5 - 10
8.	Minutes of the Ordinary Meeting held on 10 June 2021	11 - 18
9.	Changes to Membership of the Authority	19 - 20
	Corporate Matters	
10.	Q1 Corporate Performance Report	To Follow
	Investment Matters	
11a	Advisor's Commentary	21 - 30
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14.	Border to Coast Property Pooling Proposition	101 - 104
	Governance Issues	
15.	Decisions Taken Between Authority Meetings	105 - 106

SOUTH YORKSHIRE PENSIONS AUTHORITY

10 JUNE 2021

ANNUAL MEETING

PRESENT: Councillor J Mounsey (Chair)

Councillors: S Clement-Jones, S Cox, M Havard, D Nevett, C Rosling-Josephs, A Sangar, M Stowe and N Wright

Trade Unions: N Doolan-Hamer (Unison) and G Warwick (GMB)

Investment Advisors: A Devitt and L Robb

Officers: J Bailey (Head of Pensions Administration), G Graham (Director), 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 Councillor D Fisher, Councillor A Law and D Patterson

1 APPOINTMENT OF CHAIR FOR THE ENSUING YEAR

RESOLVED – That Councillor John Mounsey be appointed as Chair of the Authority for the ensuing year.

2 APPOINTMENT OF VICE-CHAIR FOR THE ENSUING YEAR

RESOLVED – That Councillor Alan Law be appointed as Vice-Chair of the Authority for the ensuing year.

3 MEMBERSHIP, POLITICAL BALANCE AND APPOINTMENT TO COMMITTEES

A report was submitted to approve appointments to the Authority's Committees for the 2021/22 Municipal Year in line with the political balance rules applying to the Authority.

It was noted that the following Councillors had been appointed to the Authority by each of the District Councils for the 2021/22 Municipal Year.

Barnsley MBC	**Doncaster MBC**	**Rotherham MBC**	**Sheffield CC**	**Non-Voting Co-opted Members**
M Stowe	S Cox	D Fisher	S Clement-Jones	N Doolan (Unison)
N Wright	J Mounsey	M Havard	F Johnson	D Patterson (Unite)
	D Nevett		A Law	G Warwick (GMB)
			C Rosling-Josephs	
			A Sangar	

The following members had been designated by the District Councils as the s41 members whose role was to answer questions about the work of the Authority.

Barnsley MBC	**Doncaster MBC**	**Rotherham MBC**	**Sheffield CC**
M Stowe	D Nevett	M Havard	A Law

Members were reminded that the Audit Committee and the Staffing, Appointments and Appeals Committee were both made up of the s41 members plus one non-Labour Councillor to reflect the political balance of the Authority.

To address the shift in the political balance of the Authority it was suggested to increase the membership of each committee to six as detailed within the report.

It was recommended that it was written into the Constitution that the Chair should not be a member of the Audit Committee to mirror arrangements in companies where those in specific roles did not sit on Audit Committees.

It was agreed that the Staffing, Appointments and Appeals Committee should consist of the s41 members but that this did not need to be the case for the Audit Committee.

Cllr A Sangar was nominated to the Staffing Appointments Committee and Cllr S Clement-Jones to the Audit Committee.

It was agreed that all other nominations would be made in writing within a week of the meeting.

RESOLVED – That Members:

i) Note the members appointed to the Authority by the District Councils.

ii) Note the members appointed to answer questions in the meetings of the District Councils' Full Council.

iii) Authorise an increase in the number of seats on each of the Authority's Committees to six and agree to amend the Constitution accordingly.

iv) Agree that the Constitution should be amended to provide that the Chair may not be a member of the Audit Committee.

v) Agree that Cllr Sangar be appointed to the Staffing, Appointments and Appeals Committee and Cllr Clement-Jones to the Audit Committee. All other nominations to the Committees to be provided in writing within a week of the meeting.

The Chair, Cllr Mounsey, thanked Cllr Stowe, the outgoing Chair, for all the hard work he had done on behalf of the Authority commenting that he would be a hard act to follow.

He also welcomed all the new members and thanked the members who were not continuing on the Authority for their contributions; Cllr J Gilliver from Doncaster MBC, Cllrs A Atkin and T Yasseen from Rotherham MBC and Cllrs A Murphy and A Teal from Sheffield CC. He requested that the Clerk formally write to them thanking them for their service.

4 <u>ANNUAL REVIEW OF THE CONSTITUTION</u>

A report was considered which formally reported on the Annual Review of the Constitution which had been undertaken by officers.

Members were reminded that the Constitution had undergone significant updating in the last two years. Officers had conducted a further annual review and, with the exception of the issues set out within the report and which had been discussed at item 3, it was not considered that further amendments were required.

RESOLVED – That Members:

i) Note that officers had undertaken the Annual Review of the Authority's Constitution.

ii) Approve the amendments to the Constitution as set out in the report.

5 <u>MEMBER LEARNING AND DEVELOPMENT STRATEGY</u>

A report was submitted which sought approval of the Learning and Development Strategy covering members of the Authority and Local Pension Board for 2021/22.

Members were reminded that they and members of the Local Pension Board had obligations to maintain an appropriate level of knowledge and understanding to allow them to effectively participate in decision making. This meant that the Authority as an organisation needed to put in place arrangements to ensure that members were supported to meet them.

At Appendix A was a Learning and Development Strategy for the coming year which, in response to the review of governance carried out by Hymans Robertson, specifically addressed the need for both members of the Authority and the Local Pension Board. It was noted that there were several changes from previous strategies; these were set out in the report.

It was noted that the Local Pension Board had considered the Strategy at their April meeting and endorsed the proposed approach.

RESOLVED – That Members:

i) Note the obligation on Members of the Authority to ensure they maintain a sufficient level of knowledge and understanding of pension matters to enable them to effectively participate in decision making.

ii) Approve the Learning and Development Strategy as set out at Appendix A to the report.

6 AUDIT COMMITTEE ANNUAL REPORT

Members considered the Annual Report of the Authority's Audit Committee for 2020/21.

The report set out the work undertaken by the Committee and indicated how the Committee had addressed the various different aspects of the role of an audit committee set out in professional standards.

It was noted that the Audit Committee's Annual report provided a part of the evidence base used in constructing the Annual Governance Statement as it provided a view on the overall control environment.

RESOLVED – That Members receive and note the Annual Report of the Audit Committee for 2020/21.

7 LOCAL PENSION BOARD ANNUAL REPORT

G Warwick, Chair of the Local Pension Board, introduced the Local Pension Board's Annual Report for 2020/21 which was at Appendix A.

The Board's work during the year had covered a wide range of activity with particular focus on the performance and development of the Pensions Administration service and the monitoring of regulatory compliance.

G Warwick informed the Board that it had been the first full year during which the Board had operated with an independent advisor and C Scott had had a clear impact on improving the Board's operations.

The Board had conducted an effectiveness survey to understand its strengths and weaknesses which had been facilitated by the Independent Advisor the results of which were set out in the Annual Report.

Future plans included working with the Authority to develop the Board's approach to training and member's knowledge and understanding and monitoring the Pensions Regulator's changes to its Codes of Practice and review the Authority's compliance.

RESOLVED – That Members:

i) Receive the Annual Report of the South Yorkshire Local Pension Board.

ii) Note the Board's plans for future work.

8 UPDATES TO THE LOCAL PENSION BOARD CONSTITUTION

A report was submitted to secure the Authority's approval for amendments to the Constitution of the South Yorkshire Local Pension Board.

The Board had recently conducted an effectiveness survey and, as a result of this, had agreed a number of areas for further development. Some of these could be addressed by the independent advisor and officers but there were areas where the Authority's permission was required as implementation would require changes to the Board's Constitution. These were:

- An increase in Terms of Office for Non-Councillor Members.
- An increase in Terms of Office for Councillor Members.
- The facility for virtual and hybrid meetings within the Board's arrangements going forward.

It was noted that the term of office for Councillor Members would need to be discussed with the District Council leaders.

RESOLVED – That Members:

i) Approve the proposals made by the Local Pensions Board in relation to the terms of office for non-councillor members and the nature of meetings.

ii) Note the request to consider the terms of office of councillor members and agree to seek the views of the South Yorkshire Leaders Group.

CHAIR

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SOUTH YORKSHIRE PENSIONS AUTHORITY

10 JUNE 2021

ORDINARY MEETING

PRESENT: Councillor J Mounsey (Chair)

Councillors: S Clement-Jones, S Cox, M Havard, D Nevett, C Rosling-Josephs, A Sangar, M Stowe and N Wright

Trade Unions: N Doolan-Hamer (Unison) and G Warwick (GMB)

Investment Advisors: A Devitt and L Robb

Officers: J Bailey (Head of Pensions Administration), G Graham (Director), 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 Councillor D Fisher, Councillor A Law and D Patterson

1 APOLOGIES

The Chair welcomed everyone to the meeting.

Apologies were noted as above.

2 ANNOUNCEMENTS

G Graham informed members that three members of staff had received their long service awards after completing 25 years' service with the Authority. David Hall, a Team Leader in the Benefits Team, Katherine Morrison, a Technical Training Officer and Steven Newsome a Pensions Officer all who had received a £100 gift voucher.

3 URGENT ITEMS

None.

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

RESOLVED - That Item 14 'Statutory Officer Arrangements and the Establishment of a Governance Function' and Item 15 'Oakwell House Project Update' be considered in the absence of the public and press.

5 DECLARATIONS OF INTEREST.

None.

6 SECTION 41 FEEDBACK FROM DISTRICT COUNCILS

None.

7 MINUTES OF THE AUTHORITY MEETING HELD ON 18 MARCH 2021

RESOLVED – That the minutes of the meeting held on 18th March 2021 be agreed as a true record.

8 Q4 CORPORATE PERFORMANCE REPORT

G Taberner presented the Corporate Performance Report for Q4 2020/21.

Key points for the quarter were:

- Reduction in sickness levels.
- Funding level over 100%.
- Good progress being made on many of the corporate objectives despite Covid-19.
- Underspend for the year had enabled resources to be set aside to support key projects in 2021/22.
- Large underspend resulting from lockdown slowing the process of filling vacancies and some delays to progress on training and development.
- Process performance improving but still affected by remote working. Customers were satisfied with turnaround times.

With regard to Pensions Administration it was noted that overall volumes of casework processed continued to increase, and the percentage of priority cases completed within the period had risen slightly.

It was noted that the outturn underspend for the year before transfers to reserves was £554k compared to the forecast underspend of £489k at the end of the previous quarter. Details of the significant budget variances were detailed within the report.

It was proposed that the balance of the total underspend for the year to be transferred to the Capital Projects reserve. This was due to the costs identified with the office accommodation project, the costs of the business systems replacement and the costs involved in the implementation of the new pensions administration contract.

It was noted that the Risk Register had been thoroughly reviewed in April and the amended Risk Register was attached as Appendix A to the report.

RESOLVED – That Members:

i) Confirm the approval previously given at the March meeting for the underspend for 2020/21 to be transferred into the earmarked Capital Projects Reserve and approve the other transfers to and from earmarked reserves as set out in the table in paragraph 4.62 amounting to a net total transfer to reserves of £600,553.

ii) Approve the proposed use of reserves in the next financial year to resource the delivery of key corporate priorities as set out in the table in paragraph 4.68.

9A ADVISOR'S COMMENTARY

A Devitt provided a market commentary on recent events.

Highlights included:

- Vaccine rates were largely determining the emergence of countries into the post-Covid era.
- Rising awareness of climate change could alter supply chains, energy sources and how people work.
- Supply chain disruptions and rising energy prices had stoked inflationary concerns.
- Equity markets continued to inch higher whilst bonds were well priced and the demand for private market assets endured.

It was noted that economic progress was still tentative.

As emergency business loans and furlough schemes were withdrawn, this would be a critical moment for global economies, especially those dependent on tourism; sectors such as hospitality and airlines still faced an uncertain future.

As economies reopened, the service industry remained under strain and staff shortages were anticipated for lower paid roles. One positive indicator was relatively high savings and low debt both for consumers and corporates.

A Devitt commented that while Covid had dominated headlines, sub-plots of geo-political tensions as well as environmental awareness would start to come to the fore.

L Robb reminded members that in the past at strategy reviews they had discussed levels of returns which were expected from different markets going forward.

Clearly, over the last 10 years or so returns had been very good from equities, bond yields had fallen and there had been virtually no yield from cash. There were expectations that long-term returns were going to be lower than in the past.

There was a risk that inflation and interest rates would be higher than in the past which may not be good for markets. Also corporate profitability could be affected by higher corporate tax rates.

The outlook going forward was not necessarily very bad but great returns from any asset class should not be expected going forward.

The Chair thanked A Devitt and L Robb for the comprehensive update.

9B PERFORMANCE REPORT

S Smith presented the Quarterly Investment Performance report to 31st March 2021.

The report contained the valuation breakdown of the fund showing the values across all the different asset classes. This showed that at 31st March 2021 the Fund was valued at just over £9.7bn. Although markets had been volatile recently continued improvement had been seen and at 31sy May 2021 the value of the Fund was £9.975bn.

With regard to asset allocation changes over the quarter, profits from the legacy equity portfolios continued to be taken and the funds used to draw down into the alternative funds.

The purchase of a Sainsbury's supermarket was completed and also £20m was switched from Border to Coast's overseas developed fund to the Sterling Investment Grade Credit fund.

S Smith informed members that the Fund had to make commitments to Border to Coast for the alternative sectors on an annual basis. £200m had been committed to infrastructure, £120m to private equity and £100m to private debt which would be drawn down over the coming months and years.

A chart within the report showed the Fund's asset allocation against its strategic benchmark and included a RAG analysis which showed that no categories were outside the bandwidth.

It was noted that the quarter's performance was above the benchmark and over the long-term the annual return of 19½% was significantly above the benchmark. Most asset classes had added to performance, the only two areas that had underperformed were UK equities and emerging market equities.

With regard to the emerging market portfolio, Border to Coast had made the decision to transition the fund to a hybrid fund of internal management and external managers for Chinese assets which took place in April. Since then performance had been slightly ahead of the index.

The report also contained details of Border to Coast's performance since inception given that the company now managed 65% of the Fund's assets. It was noted that four of the five funds had shown outperformance.

With regard to the funding level, the breakdown of assets and liabilities over time showed that at the beginning of lockdown the funding level dropped significantly but had picked up quickly and steadily increased to its current level of 108.7%.

The outlook seemed volatile and there were concerns over inflation but over the short-term there were no plans to significantly change the investment strategy.

RESOLVED – That the report be noted.

10 Q4 RESPONSIBLE INVESTMENT UPDATE

Members considered the Responsible Investment Update for Quarter 4 2020/21 which was in a new format intended to make it more accessible for stakeholders.

It was noted that highlights included:

- The casting of over 1,000 votes at over 100 different company meetings.

- A continued voting focus on Board independence and diversity and the need for companies to effectively adapt to climate change.
- A more balanced focus to engagement in the quarter between social and environmental issues, with social issues retaining greater prominence than previously.
- The recovery of a net £373k through shareholder litigation.
- Continuing progress on the development of SYPA's first impact report and a contribution to work on lace Based Impact Investing being recognised in a case study.
- Agreement to work to progress improvements in ESG reporting for the commercial property portfolio.

Members noted that activity during the quarter had become more balanced between the various issues being engaged on. In part this reflected the AGM season which brought broader governance and remuneration to the fore, it also reflected the fact that LAPFF had undertaken a significant amount of work around social issues associated with the pandemic.

Robeco had launched a new engagement theme on the climate transition of financial companies. It was noted that this was significant because banks provided much of the capital that could be used to either maintain investment in climate negative industries or support investment in the opportunities presented by the transition to a low carbon economy.

G Graham informed members that HSBC's Board had put forward a proposal to phase out the financing of coal and other fossil fuels to their AGM which had met with almost universal shareholder support. This seemed to add weight to the sense that companies were changing quite rapidly.

Cllr Stowe commented that as responsible investment was the biggest topic members were lobbied about it was important that members understood responsible investment matters and all the elements within it.

The engagement debate was also important as there was a lot of lobbying around divestment. He pointed out the Exxon, who had been held up as one of the worst examples on not adapting their business to address to climate change concerns, were now starting to improve due to engagement.

G Graham informed members that a further Responsible Investment Seminar would take place in the autumn. Border to Coast was also producing video material on an introduction to responsible investment which would be available in the near future.

It was noted that there had been a considerable reduction in carbon emissions from SYPA's equity portfolios in the last 12 months which was significant travel in the right direction.

A Devitt commented that it was important to keep an eye on the emerging market portfolio especially in terms of Chinese allocations.

Members felt that it would be useful to get further information on this from Border to Coast's China managers.

L Robb commented that there were two key points for next year's strategy review. One was how to build ESG factors into the strategy and the impacts of this on asset allocation and also how Border to Coast could manage asset classes to take account of SYPA's objectives.

RESOLVED – That the report be noted.

11 REGULATORY UPDATE

A report was submitted to provide members with an update on regulatory matters.

The report gave details of the following regulatory matters and how SYPA was responding to them:

- The Scheme Advisory Board's Good Governance Project.
- The Pensions Regulator's Single Code.
- The McCloud Remedy.
- Boycotts, Divestment and Sanctions Bill.

RESOLVED – That the report be noted.

12 REPORTING OF DECISIONS MADE BETWEEN MEETINGS

A report was submitted which provide an update on decisions taken between meetings of the Authority using the urgent business or similar procedure.

Members were reminded that when a member decision was needed between meetings of the Authority the agreed procedure was that the Director would consult the Chair and s41 members to seek agreement for a proposed course of action. The decisions were then taken to the next Authority meeting.

One such decision had been taken since the last meeting which related to two Border to Coast shareholder resolutions on executive pay. Following the required process the Authority supported both resolutions.

RESOLVED – That the report be noted.

13 ANNUAL GOVERNANCE STATEMENT

Members considered the Annual Governance Statement.

Members were reminded that the Accounts and Audit Regulations required the Authority to provide a statement each year reviewing the effectiveness of its governance arrangements and control environment.

The Annual Governance Statement (AGS) assessed compliance with and performance against the standards set out in the Authority's Local Code of Corporate Governance. The Annual Governance Statement for 2021/21 was attached at Appendix A to the report for approval.

The Director commented that the year reviewed in the AGS had been like no other and had placed a range of different strains and pressures on the Authority's governance and control arrangements which were reflected on in the Statement. All had been effectively addressed although further work and opportunities had been identified in a number of areas.

The AGS included a summary of the assessment of the control environment from the Internal Audit Annual Report. Members noted that currently this was a provisional assessment pending the completion of the full Internal Audit Annual report and, should any amendment be required, this would be made prior to the publication of the statement as part of the accounts.

The action plan reflected the development of a number of themes from previous years together with some additional issues which reflected the learning from changes that had to be made during the pandemic.

RESOLVED –That members:

i) Approve the Annual Governance Statement for 2020/21 and authorise its signature by the Chair and Director.

ii) Note the provisional conclusion of the Head of Internal Audit which would be revised if required by the content of the Internal Audit Annual Report.

RESOLVED - That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act and the public interest not to disclose information outweighs the public interest in disclosing it.

14 STATUTORY OFFICER ARRANGEMENTS AND THE ESTABLISHMENT OF A GOVERNANCE FUNCTION

A report was submitted which sought to secure approval for the transition to new arrangements for the provision of the statutory officer and democratic services functions of the Authority including the establishment of a new role and the potential TUPE transfer of staff from Barnsley MBC.

RESOLVED – That members:

i) Approve the proposed process of transition from the current statutory officer arrangements as set out in the report.

ii) Approve the establishment of the new role of Corporate Manager – Governance at Grade L as set out in paragraph 5.18 a).

iii) Note that the Head of Finance and Corporate Services and the Corporate Manager – Governance will be recommended for appointment to the relevant statutory roles with effect from 1st April 2023.

iv) Approve the acceptance of the TUPE transfer of any relevant staff from Barnsley MBC as set out in paragraph 5.18 c).

v) Note the proposals for financing these establishment changes set out in the body of the report and the proposed changes to the Authority's service level agreement with Barnsley MBC.

15 OAKWELL HOUSE PROJECT UPDATE

A report was considered which updated members with progress on the delivery of the Authority's new office base at Oakwell House.

RESOLVED – That members:

i) Note the progress made with delivery of the Oakwell House Project.

ii) Approve the identified procurement route for the main contractor for the project.

CHAIR

SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Changes to Membership of the Authority**	**Status**	For Publication
Report to	Authority	**Date**	9th September 2021
Report of	Deputy Clerk		
Equality Impact Assessment	Not Required	**Attached**	No
Contact Officer	Gill Richards	**Phone**	01226 772806
E Mail	grichards@syjs.gov.uk		

1. Purpose of the Report

1.1 To report on changes to membership of the Authority.

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2 Recommendation(s)

2.1 Members are recommended to:

a) Note the changes to the membership of the Authority.

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3. Link to Corporate Objectives

3.1 **Effective and Transparent Governance**

It is important that the Authority ensures that appointments are kept up to date and are made in an open and transparent way.

4. Implications for the Corporate Risk Register

4.1 None.

5. Background and Options

5.1 At its meeting on 7th July 2021 Sheffield CC appointed Cllr G Weatherall to the Pensions Authority to replace Cllr F Johnson.

On 30th July 2021 Cllr A Law resigned from Sheffield CC on ill health grounds, as a consequence of which his membership of the Authority ended. Cllr G Weatherall will act as temporary s41 spokesperson until Sheffield CC appoint a replacement for Cllr Law at its meeting on 8th September 2021.

The current membership of the Authority is set out below.

Barnsley Councillors	**Doncaster** Councillors	**Rotherham** Councillors	**Sheffield** Councillors
M Stowe N Wright	S Cox J Mounsey D Nevett	D Fisher M Havard	S Clement-Jones G Weatherall C Rosling-Josephs A Sangar **Vacancy**

6. Implications

6.1 The proposals outlined in this report have the following implications

Financial	None apparent
Human Resources	None apparent
ICT	None apparent
Legal	None apparent
Procurement	None apparent

Martin McCarthy
Deputy Clerk

Gill Richards
Senior Democratic Services Officer

Background Papers	
Document	**Place of Inspection**

September 2021 – Investment Context

Table of Contents

What Delta Delivered, and a Late Summer Booster.

It hasn't been the easiest of summers. With many of us expecting clarity, and some hoping for a long overdue overseas break, the worldwide spread of the Delta variant threw a wrench into plans. The geopolitical picture has also been troubled, and the past quarter has seen tragic scenes of chaos and confusion as the Taliban regained control over Afghanistan and foreigners rushed for the doors, along with a significant body of Afghan refugees. The warning signs of aberrant climate events were also in evidence, with historic flooding in Germany and devastating forest fires in Greece and Turkey as well as on the West Coast of the US.

As we look to the end to the year, and flu season beckons, it seems inevitable that Covid numbers will rise and that a return to full economic activity will remain halting. With economic activity comes consumer confidence, and it is true that at times this year market confidence has seemed at odds with worries on the ground (with US markets the S&P 500 has seen 50 record closes in 2021 alone, although European and UK markets have been more muted). Consumer confidence will drive equities and consumer demand will drive inflation as well as real estate valuations, and the picture is not yet as clear as we might like.

Highlights:

- **Vaccine roll-out remains a mixed picture, with countries such as Israel and the US about to launch booster (third) doses, countries such as Ireland nearing 90% take up and developing countries largely lagging. Vaccine passports, mandates and incentives are increasingly seen as bridges to the new normal as well as means of shaping behaviour and, while breakthrough infections continue and case numbers are rising, it is clear that the vaccine does provide broad protection from serious disease.**
- **This "vaccines as a path to full economic recovery" narrative seems one that markets and investors wish to latch on to, and has fuelled an extraordinary resilience in equity markets, particularly in the US, and particularly among growth-oriented stocks.**

- **Interest rates remain at record lows and seem set to remain there for some time – this is leading investors to seek alternatives to already anaemic bond yields that are further eroded by inflation, but the signal that can be taken is a caution that is still prevailing despite the occasional signs of equity market euphoria.**
- **The regulatory interference in China sent a chill through Chinese stocks in the quarter, and this remains a significant source of exogenous risk which should further undermine confidence in emerging markets more broadly.**
- **Supply chain disruptions remain, which are shoring up prices, and inflation is still a key barometer to watch as an indication of policy action and consumer spending power.**
- **Geopolitical upsets, while they generate a lot of media coverage, do not seem to impact markets at this juncture.**

***

Current Macro Snapshot

Equity markets in stubborn health

Global markets are riding high on the back of solid corporate earnings, renewed consumer spending and successful vaccine rollouts in developed economies. With central banks still operating a quiet consensus around accommodative monetary policy and governments still in support, and not austerity, mode the music of pandemic measures continues to play.

I have spoken before about the "pandemic pass" which I term as the tendency of consumers, investors and pundits to disregard or play down bad corporate news, due to the extraordinary "act of God" event of the pandemic. Unpredictable and unprecedented, it distorted the ability for true measures of company health to be revealed – furlough support and rent holidays allowed companies to stave off defaults, while the drop in earnings and demand could be explained if it was universal. As we noted last quarter, when these measures are removed we will see the true extent of the damage, and until then, we wait. Meanwhile, as the chart below shows, data is fairly mixed and leaning towards disappointing.

Readings below zero indicate economic data are worse than expected. Recession data for US.
Source: Citi
© FT

Economic indicators aside, though, certain companies remain flush with cash both in the US and Europe and this is now being used for dividends, share buybacks and to explore mergers and acquisitions. In the UK, dividends for the second quarter of 2021 jumped 61% compared with the low of the same period in 2020, as many companies began to reinstate payouts. They are also being sustained and growing in the US.

Equity fund-raising is also at record levels – all of which points to the stubborn health of the equity markets.

Source: Refinitiv
© FT

Inflation – Yeah or Nay?

Last quarter, we spoke about inflation being well and truly upon us, and then, true to its potential to surprise, the figure for UK inflation in July fell to just over 2%, down from 2.4% in June, although indications were firm that wages had started to rise. For months now the key word has been “transitory” – i.e. that inflation was borne out of temporary, pandemic-related, supply disruptions and would return to the lower trend figure over time. The more long-term component might be the cost of labour, which is only mounting as worker shortages persist. Again, this may be the “pandemic pass” that enables companies to exist without increasing staff numbers and forcing higher staffing costs to hit their margins. This won’t last forever either.

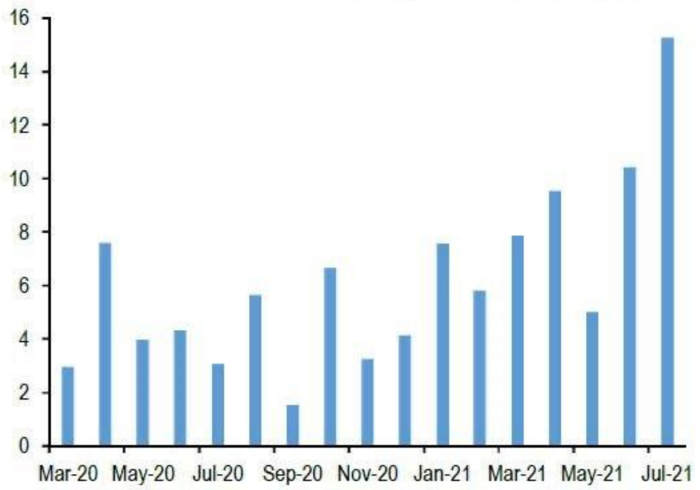
The strength of Sterling in recent months has also dulled the impact of “imported” inflation and overall it would seem, at this stage, that the spectre of runaway inflation is not a credible threat to markets.

Flows continue at a fast pace

As noted now for three quarters in a row, flows have remained solid and even buoyant into equity funds, and the activity in “meme” stocks such as Gametop and AMC remains strong, suggesting that there is a lot of money both active in markets and on the sidelines. As the chart below shows July was extraordinarily strong for retail flows into US equities, which has no doubt shored up equity market valuations there.

Figure 13: Estimated retail flow into US equities and ETFs – by month

$bn per month, constructed by our colleagues in Global Quantitative and Derivatives research, *“A (Sub)Penny Saved: Tracking Retail Trading Activity in US Equities and ETFs”* , January 2021, Peng Cheng et al).



Source: J.P. Morgan Global Quantitative and Derivatives Strategy

A tragic reminder in Afghanistan

The Covid-19 pandemic was a great leveller in that no country was immune from the havoc wreaked even if the responses laid bare the inequalities between regions. Geopolitical news flow outside Covid was relatively subdued, until the withdrawal of schedule of US troops from Afghanistan saw a rapid return to power of the Taliban after almost two decades. The chaotic scenes at Kabul airport, which preceded a suicide bombing late in August, only brought into question the reliability of the intelligence of the US and others, who had underestimated the speed of the Taliban's ascent. It didn't have much impact, if any, on markets but it did serve as a reminder of that certain regions will not bend to a narrative that involves an easy resolution.

Individual Asset Class Performance

- Equities
- Fixed income
- Other asset classes
- Spotlight: Real Estate – do we know the full picture yet?
- A footnote on ESG

Equities: Records still being broken

In the UK a strong recent month (1.65%) lifted year to date performance to 10.6%, which is still lagging other developed markets. European markets were more subdued than they had been in the past few months, due to disappointing economic data. This blunted some of the enthusiasm from the first part of the year although not enough to undo the strong performance year to date.

In the US, markets continued be strong with the S&P now having registered over 50 records so far in 2021, and the NASDAQ touching 15,000 for the first time ever. Both indices were up strongly over the past three months (and 5.8% and 10%, respectively) and are in solid high teen territory for the year to date.

Asia remains a laggard year to date, with performance in Japan negative over the past three months, which saw the much scaled-back Olympic games in Tokyo, and Chinese markets reflecting the shock of increased regulatory intervention, and barely registering a positive performance year to date now (1.6%) after a negative three months (-2.4%). This is particularly notable in that many emerging markets exposures now have a dedicated exposure to China, which now represents roughly 20% of the MSCI Emerging Markets index.

Fixed Income/Credit: low rates, but demand firms

Fixed income has stayed popular despite low rates, tighter spreads and little clear upside. As noted before this speaks to the wariness that continues to pervade markets and the preference to retain some hedge against a market correction – even if it costs something to maintain (i.e. negative real (post-inflation) yield or returns foregone

Other asset classes

While oil prices remained strong and maintained their strength over the quarter so far, (they remain up 41% year to date), stoking inflation fears, gold continued its disappointing streak of performance and is now -4.4% on the year to date. What is fascinating about this is its complete decoupling from inflation – as traditionally gold was considered to be a decent inflation hedge. It could be that it was actually more of a hedge against the effect that inflation has on a currency – whereby it cheapens. Now that other alternatives such as cryptocurrencies etc. exist, perhaps gold is a (still glittering) but not so new distraction and this accounts for its relative demise. Sterling had a slightly negative month against the dollar losing close to 1% in August and 3% over the three-month period. It is more or less flat on the year now.

Spotlight: Whither the Real Estate Asset Class

More ink has been spilled and more hands have been wrung over real estate than perhaps any other asset class in the past 12 months, and it seems the best way to describe the outlook for real estate is "nuanced". While office property is undergoing fundamental changes (see chart showing the uptick in vacancies below) and will likely see upheaval in the next 5-10 years, residential property remains out of reach for many, pointing to robust demand and constrained supply. Retail has also been a mixed picture, as high-quality retail, especially stores with solid online sales capabilities, have thrived, while lower quality B grade properties will have continued to slump. Industrial properties such as distribution centres and logistics operations continue to be extremely well valued, especially so called "last mile" distribution centres located in cities.

This snapshot of the US listed property REIT (Real Estate Investment Trust) market indicates just how meaningfully these groups have come back, particularly in those segments that were already popular such as self-storage. With extremely high margins and sustained demand this segment delivered over 36% in the first half of the year. It is also clear that no group really lagged this year – retail was extremely strong at 32.8% year to date. This suggests that we should be careful of "conventional wisdom" in the case of an area such as real estate that was significantly impaired by the pandemic.

REIT Returns – 2Q 2021 and YTD

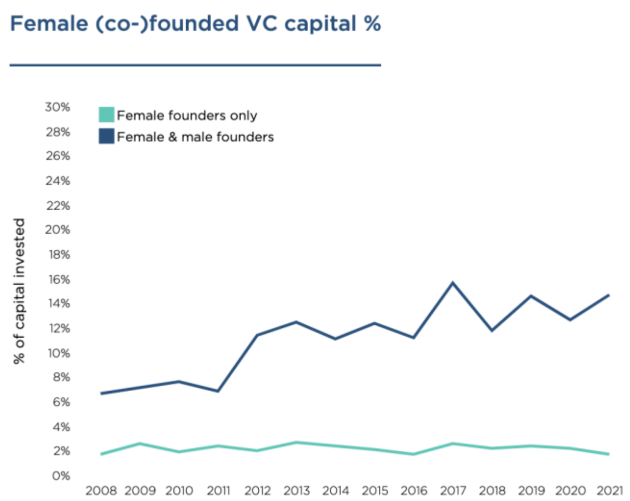
Index/Property Sector	Weighting	QTD	YTD
All Equity REITs		12.0%	21.3%
Infrastructure	17.4%	14.1%	20.9%
Residential	14.9%	14.1%	27.6%
Retail	11.7%	12.5%	32.8%
Industrial	11.2%	12.0%	19.1%
Data Centers	9.5%	14.1%	11.4%
Health Care	8.8%	6.3%	13.3%
Office	7.4%	9.5%	15.1%
Self Storage	6.3%	23.6%	36.4%
Specialty	4.2%	12.0%	28.0%
Diversified	3.4%	9.6%	18.9%
Lodging/Resorts	2.7%	-0.6%	17.3%
Timber	2.5%	-0.3%	6.8%
Home Financing	3.1%	5.7%	17.0%
Commercial Financing	2.0%	-1.8%	23.3.%

Source: FTSE/NAREIT

***

A footnote on ESG

Before moving to the outlook, it is worth mentioning an aspect of investing with an ESG lens that is often overlooked but sometimes interesting to measure. Gender diversity in the City of London (as well as other financial centres) is an area of scrutiny, and many well publicized efforts are underway to increase the number of women on public company boards. I thought this chart below was interesting as it indicates the slow progress in funding for female founders – especially if they are part of an all-female team.



This chart depicts venture capital funding for female founders, but is a decent indication of the lack of representation within the founder community, the venture capital industry that backs them and the investment industry as a whole. The impact of this state of affairs for an investor such as the fund is not clear – but what this does indicate is the lack of diversity of perspective that may exist among investors that are backed by venture capital.

As ESG issues rise to the fore these may well be areas that are taken up by institutional investors – e.g. many UK-based institutional investors recently combined efforts to encourage asset managers to sign a charter to commit to better diversity and inclusion in their workforces. The headline below covered this development, and we can expect this, as well as other governance issues, to increasing rise up the due diligence agenda when managers are being chosen.

UK pension funds warn diversity will count when choosing asset managers

Group with investments of £1tn says gender and ethnic mix of workforce will be factored in when awarding contracts

Outlook
The months ahead are likely to be characterised by VUCA - **volatility, uncertainty, complexity, and ambiguity.** We are entering the traditional flu and respiratory virus season and with that is bound to come more echoes of 2020 and its disruption. We are particularly on the lookout for:

- **Inflation – how are companies coping and what is the base level of consumer demand?** As companies re-discover normal operations and figure out what a consumer that is not "rebounding" from months of deprivation looks like and acts like, much will be revealed. The actual level of inflation and who is bearing its brunt will also become clear and this will enable us to really assess the economic picture. We can expect equity market volatility as winners and losers emerge and more differentiation between stocks becomes inevitable.

- **When Fear of Missing Out turns to Fear?** The tremendous support equity markets have had year to date has generally come from money on the sidelines directed by investors who fear not being invested and who have money to put to work where yields everywhere are low. Not many investors "sold in May" this year as markets continued their march upwards. We can expect some profit taking and less market support in the second half, which will, again, cause equity markets to be more volatile.

- **All eyes on Glasgow.** COP 26 – the United Nations Climate Change Conference will take place in Glasgow in November, and that will be a key forum for setting environmental standards and expectations. With the US administration likely to be active and participating this year we can expect strong statements on sustainability, commitments to net zero carbon emissions strategies and new ambitions that are likely to govern ESG strategy for the medium term.

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August 30, 2021

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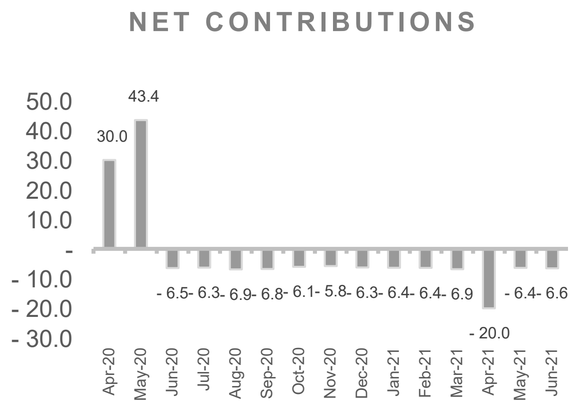
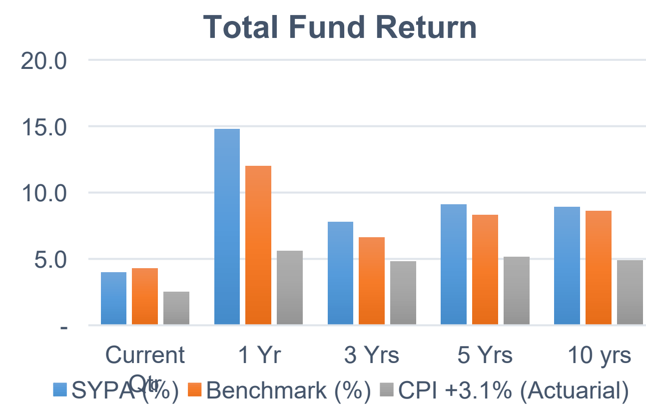
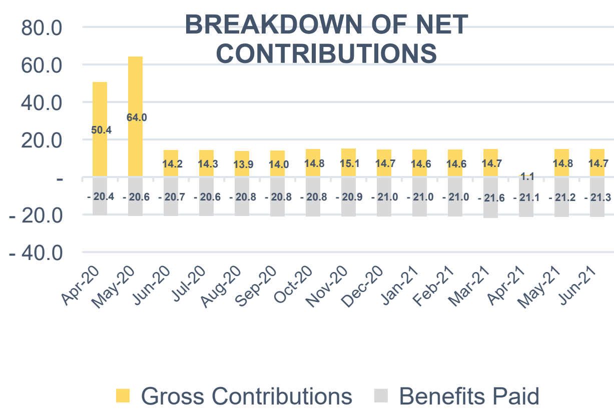
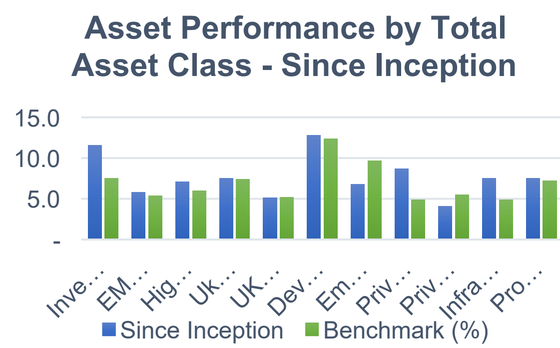
SOUTH YORKSHIRE PENSIONS AUTHORITY

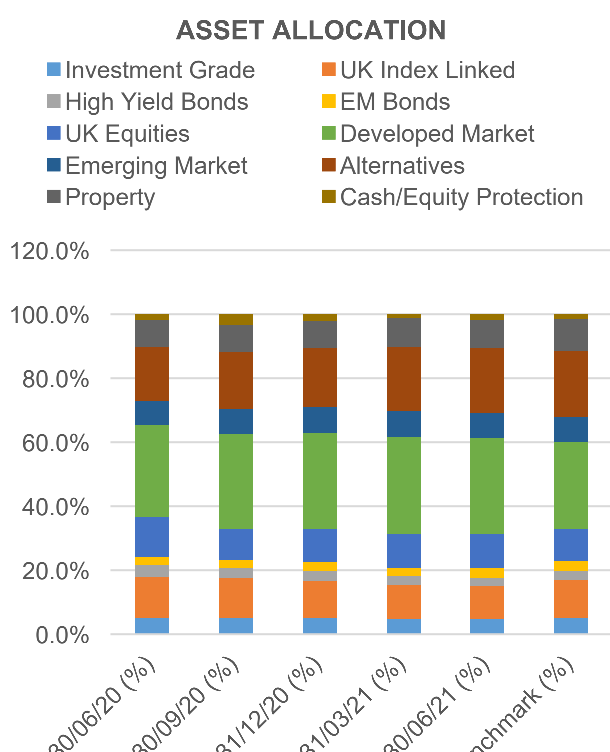
QUARTERLY REPORT TO 30 JUNE 2021

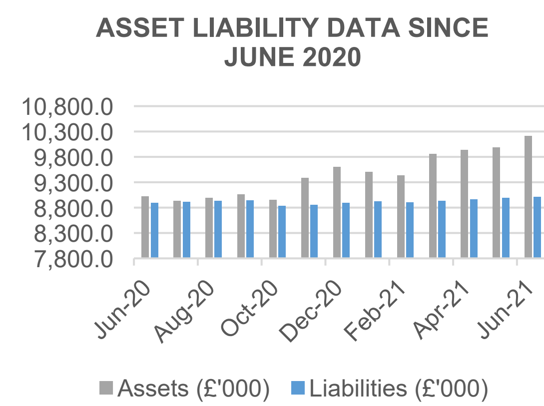

NET CONTRIBUTIONS
50.0
40.0
30.0
20.0
10.0
-
- 10.0
- 20.0
- 30.0
30.0
43.4
- 6.5- 6.3- 6.9- 6.8- 6.1- 5.8- 6.3- 6.4- 6.4- 6.9
- 20.0
- 6.4- 6.6
Apr-20
May-20
Jun-20
Jul-20
Aug-20
Sep-20
Oct-20
Nov-20
Dec-20
Jan-21
Feb-21
Mar-21
Apr-21
May-21
Jun-21

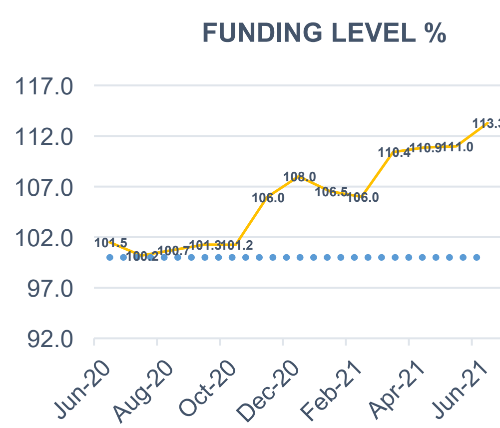

Total Fund Return
20.0
15.0
10.0
5.0
-
Current Qtr
1 Yr
3 Yrs
5 Yrs
10 yrs
SYPA (%)
Benchmark (%)
CPI +3.1% (Actuarial)


BREAKDOWN OF NET CONTRIBUTIONS
80.0
60.0
40.0
20.0
-
- 20.0
- 40.0
50.4
64.0
14.2
14.3
13.9
14.0
14.8
15.1
14.7
14.6
14.6
14.7
1.1
14.8
14.7
- 20.4
- 20.6
- 20.7
- 20.6
- 20.8
- 20.8
- 20.8
- 20.9
- 21.0
- 21.0
- 21.0
- 21.6
- 21.1
- 21.2
- 21.3
Apr-20
May-20
Jun-20
Jul-20
Aug-20
Sep-20
Oct-20
Nov-20
Dec-20
Jan-21
Feb-21
Mar-21
Apr-21
May-21
Jun-21
Gross Contributions
Benefits Paid


Asset Performance by Total Asset Class - Since Inception
15.0
10.0
5.0
-
Inve…
EM…
Hig…
Uk…
UK…
Dev…
Em…
Priv…
Priv…
Infra…
Pro…
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%
30/06/20 (%)
30/09/20 (%)
31/12/20 (%)
31/03/21 (%)
30/06/21 (%)
Benchmark (%)


ASSET LIABILITY DATA SINCE JUNE 2020
10,800.0
10,300.0
9,800.0
9,300.0
8,800.0
8,300.0
7,800.0
Jun-20
Aug-20
Oct-20
Dec-20
Feb-21
Apr-21
Jun-21
Assets (£'000)
Liabilities (£'000)


FUNDING LEVEL %
117.0
112.0
107.0
102.0
97.0
92.0
101.5
100.2
100.7
101.3
101.2
106.0
108.0
106.5
106.0
110.4
110.9
111.0
113.3
Jun-20
Aug-20
Oct-20
Dec-20
Feb-21
Apr-21
Jun-21

Market background

This quarter saw markets continuing to perform strongly with all asset classes showing positive returns.

The rise in markets was supported by the vaccination roll-out and fiscal stimulus that has meant that many companies and individuals have had limited impact on their finances. The global economy is now showing a broad based economic recovery, stronger than many economists initially forecast.

UK equities performed well but modestly underperformed developed overseas markets. Good progress in the vaccine roll-out helped mitigate the impact of the rapid spread of the Delta Plus variant. Economic data has been positive although the Northern Ireland Protocol continues to be a source of friction with the EU in the aftermath of Brexit.

Global equities gained over 6% with returns from the US being the strongest and Japan lagging, recording a small negative return over the quarter. Developed markets outperformed emerging markets with progress 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. US equities were the outperforming area this quarter given the success of their vaccine programme and the strong fiscal stimulus underpinning its rapid rebound. Although this his has resulted in the Federal Reserve acknowledging that interest rate rises may occur earlier than previously thought.

Government bond yields fell over the quarter following a sharp rise in the previous period. Corporate bonds performed well, outpacing government bonds. Investment grade credit was helped by falling yields, while high yield benefited from the economic recovery and positive fundamentals, including low expected default rates. Emerging market bonds also had a strong quarter led by high yield.

Commodity indexes were strong largely as a result of strong growth in energy prices as the global roll-out of the vaccines led to optimism for a global economic recovery in 2021.

Real estate returns were positive with all sectors rising. Industrials were the strongest with offices the weakest. Retail capital values are starting to rise but are driven by retail warehousing and supermarkets. Offices are continuing the downward trend amid low visibility around the impact of Covid-19 on future occupation.

Fund Valuation

as at 30 June 2021

	Mar-21		Quarterly Net	Jun-21		Benchmark	Range
	£m	%	Investment	£m	%	%	%
FIXED INTEREST							
Inv Grade Credit - BCPP	487.3	5.0	0.0	492.0	4.8	5	
UK ILGs - BCPP	837.1	8.5	0.0	877.1	8.6	10	
UK ILGs SYPA	192.8	2.0	-30.1	171.2	1.7		
High Yield Bonds	281.1	2.8	-9.4	278.7	2.7	3	
EM Bonds	258.0	2.6	34.4	302.2	3.0	3	
TOTAL	2056.3	20.9	-5.1	2121.3	20.8	21	16-26
UK EQUITIES	1025.9	10.4	0.0	1079.8	10.6	10	5 _ 15
INTERNATIONAL EQUITIES							
Developed Market - BCPP	2935.2	29.8	-100.0	3018.2	29.6	27.125	
Developed Market - SYPA	45.7	0.5	-3.8	44.2	0.4		
Emerging Market - BCPP	787.1	8.0	0.0	811.2	7.9	7.875	
Emerging Market - SYPA	10.2	0.1	0.0	10.5	0.1		
TOTAL	3778.2	38.4	-103.8	3884.1	38.0	35	30-40
PRIVATE EQUITY							
BCPP	51.8		15.9	67.6			
SYPA	828.8		-22.5	807.5			
TOTAL	880.6	8.9	-6.6	875.1	8.6	7	5_9
PRIVATE DEBT FUNDS							
BCPP	6.8		5.3	12.1			
SYPA	481.1		-9.6	472.8			
TOTAL	487.9	5.0	-4.3	484.9	4.8	5.5	4.5-6.5
INFRASTRUCTURE							
BCPP	43.4		3.4	46.8			
SYPA	590.8		24.5	632.3			
TOTAL	634.2	6.4	27.9	679.1	6.7	10	8_12
PROPERTY	861.9	8.8	17.0	898.9	8.8	10	8_12
CASH	116.5	1.2		181.7	1.7	1.5	0-5
TOTAL FUND	9841.5	100.0		10204.9	100.0	100	
COMMITTED FUNDS TO ALTERNATIVE INVESTMENTS	1225.4			1255.0			

Asset Allocation Summary

As equity markets continued to improve we took the opportunity to take profit. £3.8m was raised from the legacy holdings and these proceeds were used to fund the drawdowns into the alternative funds.

Also, we withdrew £100m from the Border to Coast overseas developed fund to reduce the overweight position to equities.

Within property we competed on the Rugby Business Park in Oldham for a purchase price of just over £22m. We also completed the sale of the small retail units at Clumber Street, Nottingham and High Street, Stratford which brought in £6.2m of proceeds.

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

There is one category that is outside its tactical range. This is because from the 1st April we have increased the range from 8% to 10% for Infrastructure and reduced the Index-Linked category from 12% to 10% as part of the changes agreed at the last strategic review. This position will hopefully be rectified during this financial year.

The changes in net investment for the categories over the last 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	10	8 - 12	1048.3	10.3	**0.3**
Sterling Inv Grade Credit	5	3 - 7	492	4.8	**-0.2**
Other Fixed Income	6	4 - 8	581	5.7	**-0.3**
UK Equities	10	5 - 15	1079.8	10.6	**0.6**
Overseas Equities	35	30 - 40	3884.1	38.1	**3.1**
Private Equity	7	5 - 9	875.1	8.6	**1.6**
Private Debt	5.5	4.5-6.5	484.9	4.8	**-0.7**
Infrastructure	10	8 - 12	679.1	6.7	**-3.3**
Property	10	8 - 12	898.9	8.8	**-1.2**
Cash	1.5	0 - 5	181.7	1.8	**0.3**
Total	100		10204.9	100	

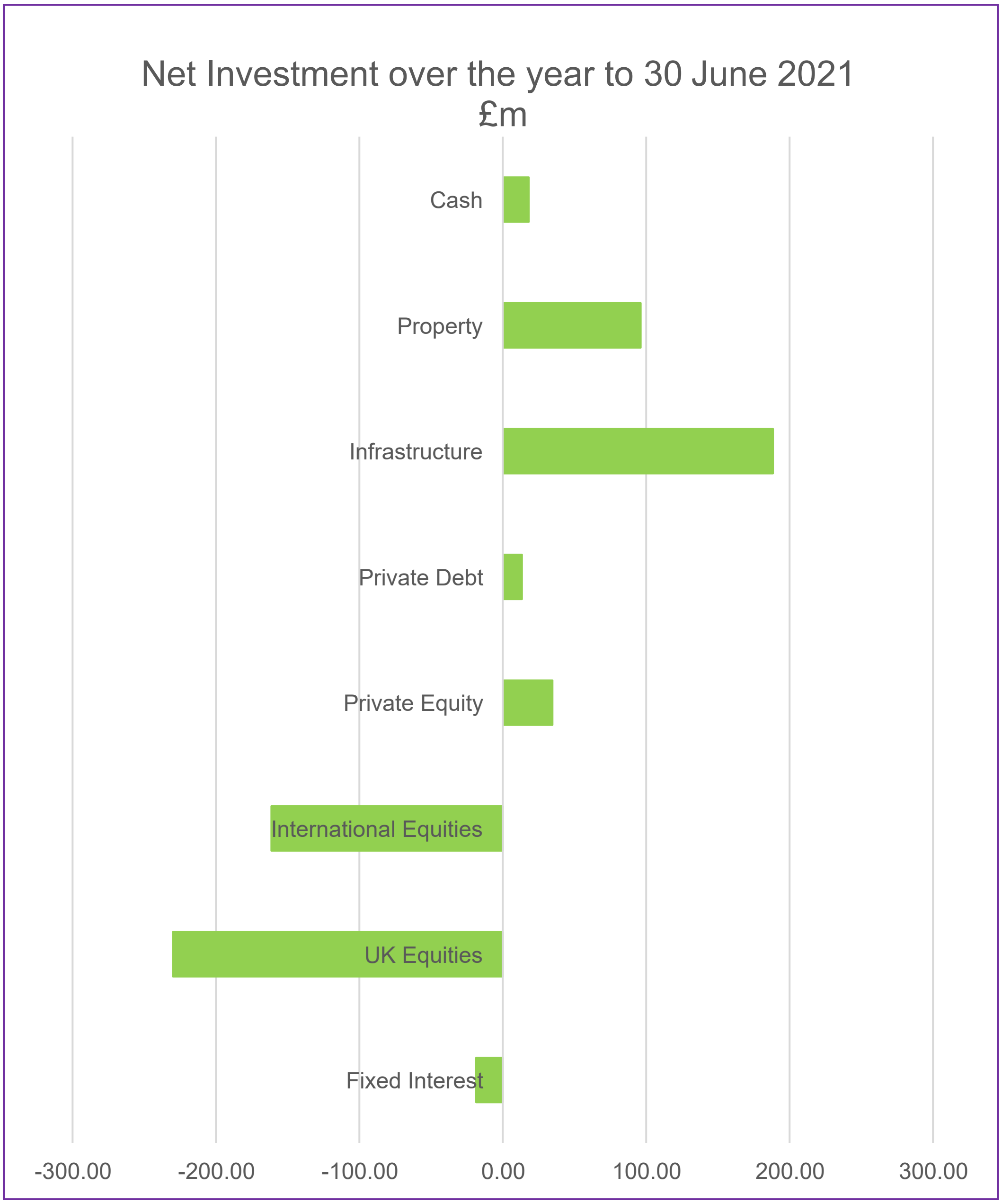
OW/UW 'RAG' ratings

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



Performance

as at 30 June 2021

	Qtrly Performance		Financial Y.T.D.	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Investment Grade Credit - BCPP	2.0	1.7	2.0	1.7
UK ILGs	4.8	4.7	4.8	4.7
High Yield Bonds	3.0	1.7	3.0	1.7
EM Bonds	5.0	3.9	5.0	3.9
TOTAL	3.9	3.1	3.9	3.1
UK EQUITIES	5.2	5.6	5.2	5.6
INTERNATIONAL EQUITIES				
Developed Market - BCPP	6.4	6.8	6.4	6.8
Developed Market - SYPA	5.8	6.8	5.8	6.8
Emerging Market - BCPP	3.1	4.8	3.1	4.8
Emerging Market - SYPA	3.1	5.2	3.1	5.2
TOTAL	5.6	6.4	5.6	6.4
PRIVATE EQUITY	0.1	2.4	0.1	2.4
PRIVATE DEBT FUNDS	0.4	2.4	0.4	2.4
INFRASTRUCTURE	2.9	2.4	2.9	2.4
PROPERTY	3.2	3.3	3.2	3.3
CASH	0.0	0.0	0.0	0.0
TOTAL FUND	4.0	4.3	4.0	4.3

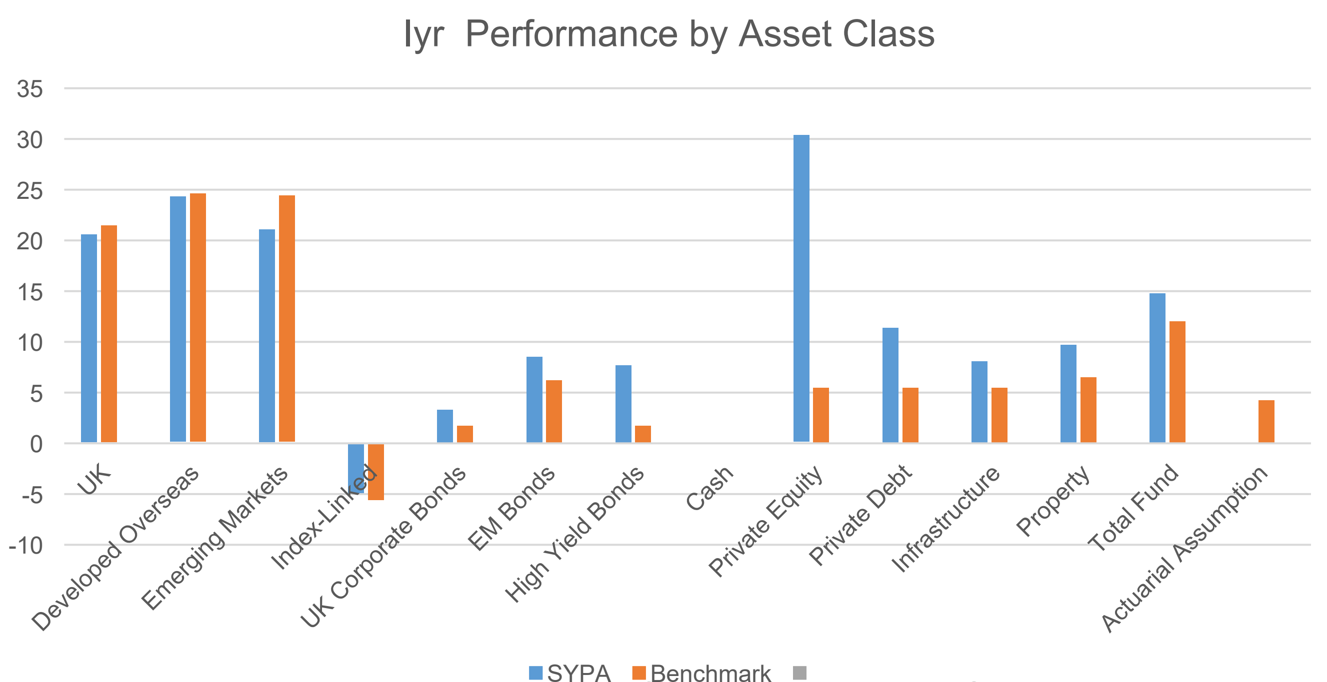
Performance Summary

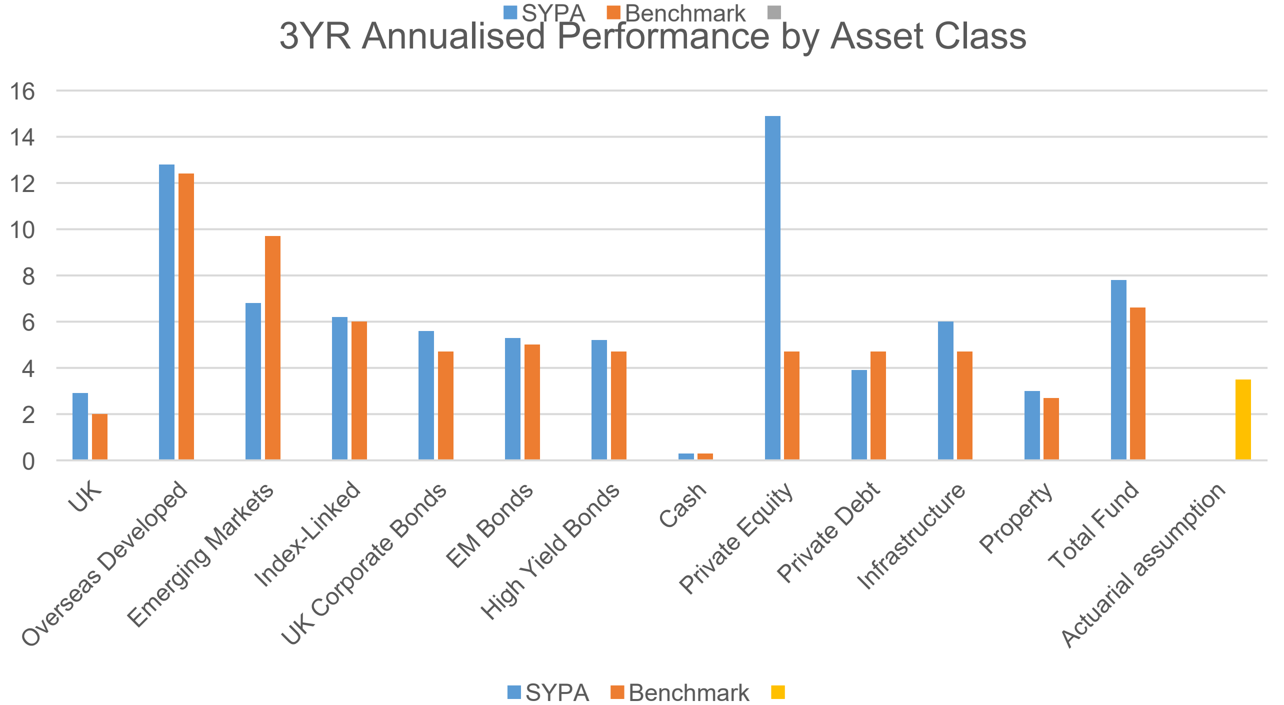
For the quarter to the end of June, the Fund returned 4.0% against the expected benchmark return of 4.3%. Asset allocations together added 0.1% whilst stock selection detracted by 0.4%.

The breakdown of the stock selection is as follows:-

EM equities	**-0.2%**
DM Overseas Equities	**-0.1%**
Total Bonds	**0.1%**
Private Equity funds	**-0.2%**
Private Debt funds	**-0.1%**
Infrastructure funds	**0.1%**

Performance-Medium term





Performance – Border to Coast Funds

This quarter all the equity funds underperformed their respective benchmarks.

The UK portfolio was impacted by stock selection and underweight position in Basic Resources and stock selection in Financial Services. Also being overweight Large-Caps which have been impacted by sterling strength and an underweight to Mid-Caps which have benefitted from a broad economic re-opening was detrimental.

The under-performance of the Overseas Developed Markets fund was mainly due to weaker stock selection in Asia ex-Japan and Europe particularly within Industrials and IT,

The Emerging Markets portfolio was restructured during April and now consists of three sleeves. An internally managed sleeve focusing on Emerging Markets excluding China and two China-focused sleeves managed externally by specialists in the Chinese Market, - Fountain Cap and UBS.

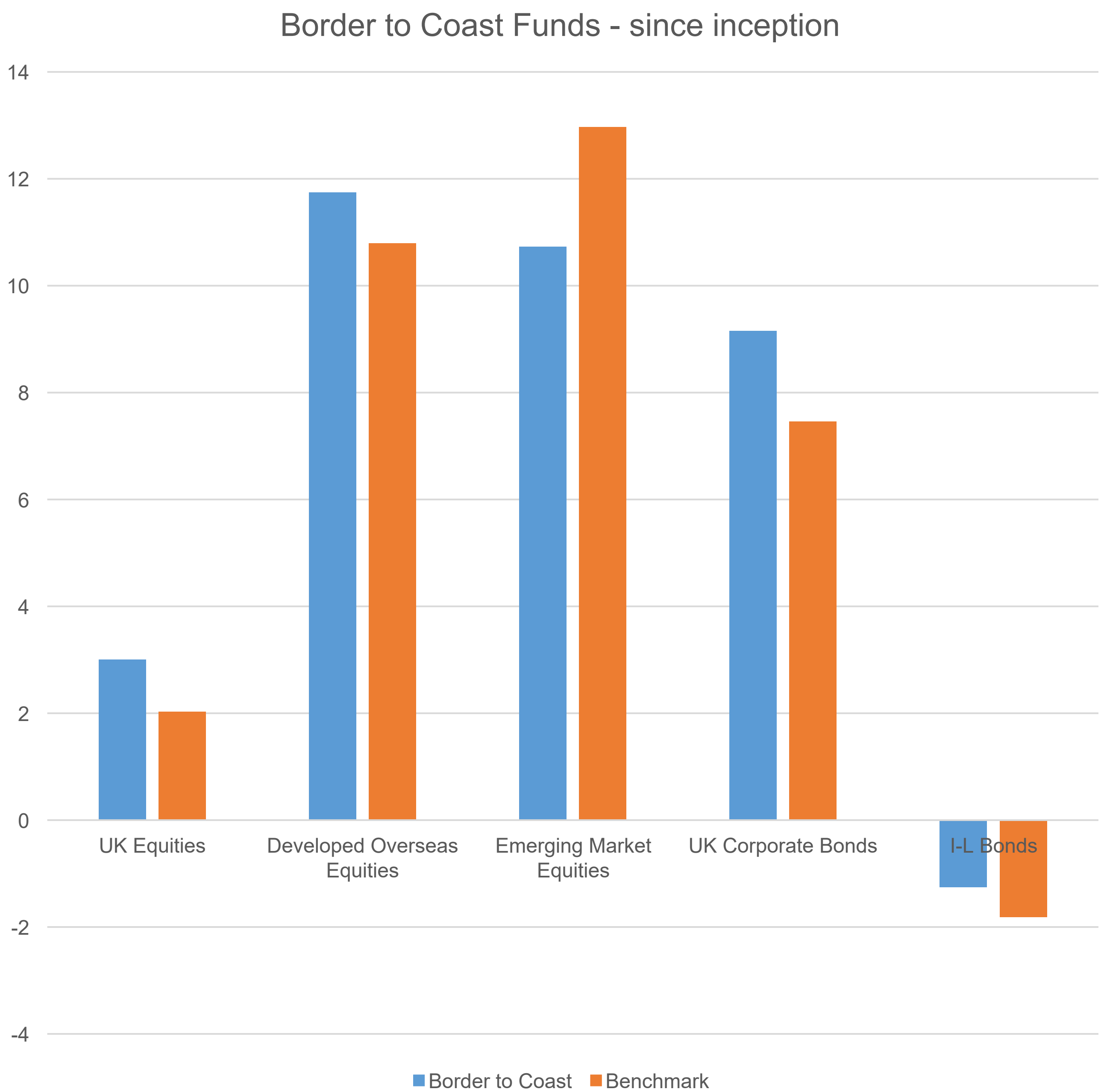
The portfolio lagged the benchmark by 1.7% over the full quarter. (Post restructuring the Fund underperformed by 0.7%) Both the internal sleeve and UBS underperformed whilst FountainCap outperformed.

Both the bond portfolios outperformed their benchmark. In particular it is encouraging to see that the Sterling Investment Grade Credit portfolio has delivered excess returns versus the benchmark in periods of strength and weakness for credit.

Looking at the longer term position, the chart below shows 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.

Performance-Border to Coast Funds



Funding Level

The funding level as at 30 June 2021 is 113.3%.

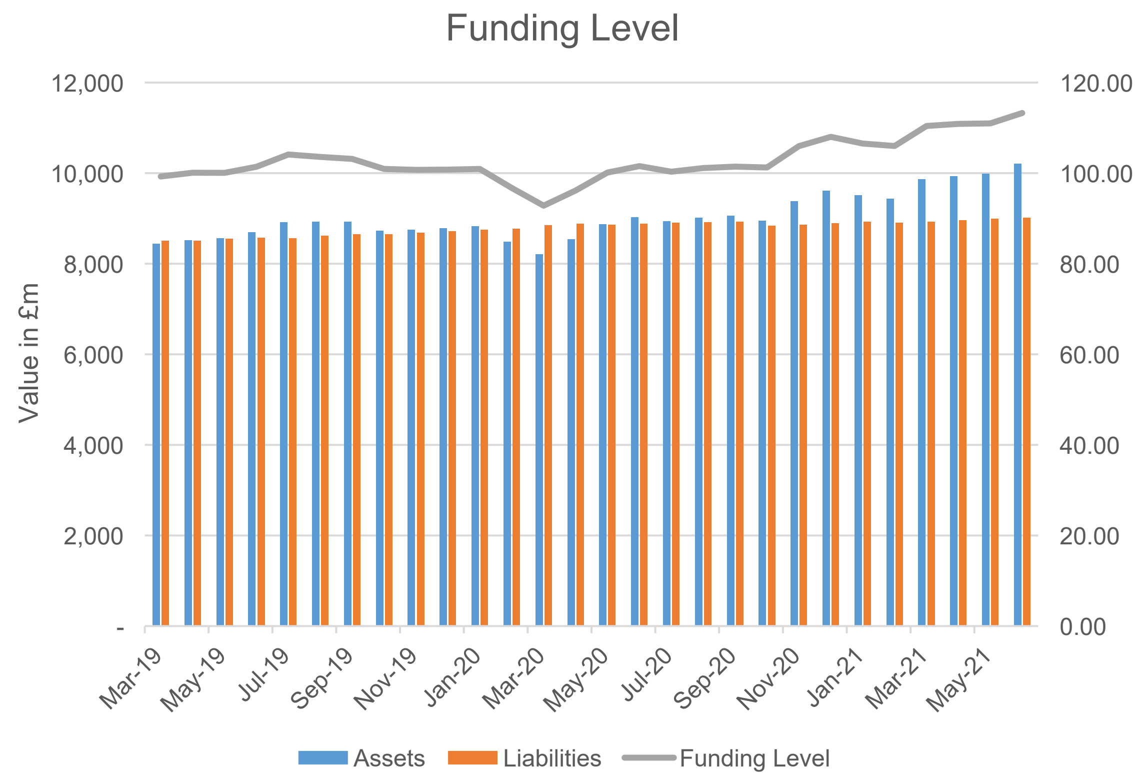
The breakdown is as follows:

Fund's Assets:

As at 30 June: £10,211m
As at 31 March 2021: £9,862m
An increase of £349m

Funds Liabilities:

As at 30 June 2021: £9,015m
As at 31 March 2021: £8,932m
An increase of £83m



Outlook

Economies are showing strong growth from the pandemic. Corporate earnings and dividends are recovering strongly but valuations in some cases are still extended. Concern that rising inflation will be sustained rather than transitory could cause volatility in equity markets if bond yields and interest rates move higher.

The strong performance that we have seen this year may begin to fade as there are increasing indications that the fiscal and monetary support which has allowed economies to ride out the worst of the disruption caused by Covid will be eased in 2022, with tighter monetary policy and the possibility of tax increases being discussed in several regions.

UK Equities

The speed of the vaccine roll-out has helped lift restrictions and should aid economic recovery. The UK market offers attractive valuations plus benefits from cyclical sectors that will benefit from post pandemic re-opening However, strong sterling will weigh on the FTSE 100 given its high exposure to foreign revenues We will look to maintain the current exposure.

Overseas equities

We expect market conditions to remain volatile. We expect that a combination of continued policy support from the authorities and stronger global growth should support equities. The robust profits outlook and the delivery of strong earnings growth will offset the impact of higher bond yields. Thus we will keep our overweight equity stance at this moment particularly when return expectations in other asset classes are more limited. However, profits will be taken when necessary.

Bonds

For long term investors it is difficult to see the value in investing in such low yielding assets as gilts and treasuries when policy is likely to favour allowing higher inflation (within reason) to run over risking a deep recession.

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.

Outlook

Bonds cont

Credit spreads edged tighter over the quarte as risk assets were buoyed by lower yields and high levels of liquidity, despite deteriorating growth sentiment. Credit spreads are now at their tightest levels in history which merits a more cautious approach, at least over the near term, given the high levels of uncertainty.

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 despite the yield increases earlier this year. 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 are persisting. Supermarkets and retail warehousing remain the clear beneficiaries 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 largely insulated from the ongoing pandemic, including logistics and supermarkets. Assets offering long secure income-streams with indexation are expected to deliver favourable risk-adjusted returns. Longer income assets are currently outperforming shorter income assets and ongoing strong demand for those cash flows is expected to drive continued outperformance

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

Cash is now at a level that we are happy with. Any further cash requirement will be financed by switching among the asset classes.

SOUTH YORKSHIRE PENSIONS AUTHORITY

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Border to Coast Pensions Partnership Ltd

South Yorkshire Pension Authority

9th September 2021

The material in this presentation has been prepared by Border to Coast Pensions Partnership Limited ("Border to Coast") and is current as at the date of this presentation.

What are we covering today?

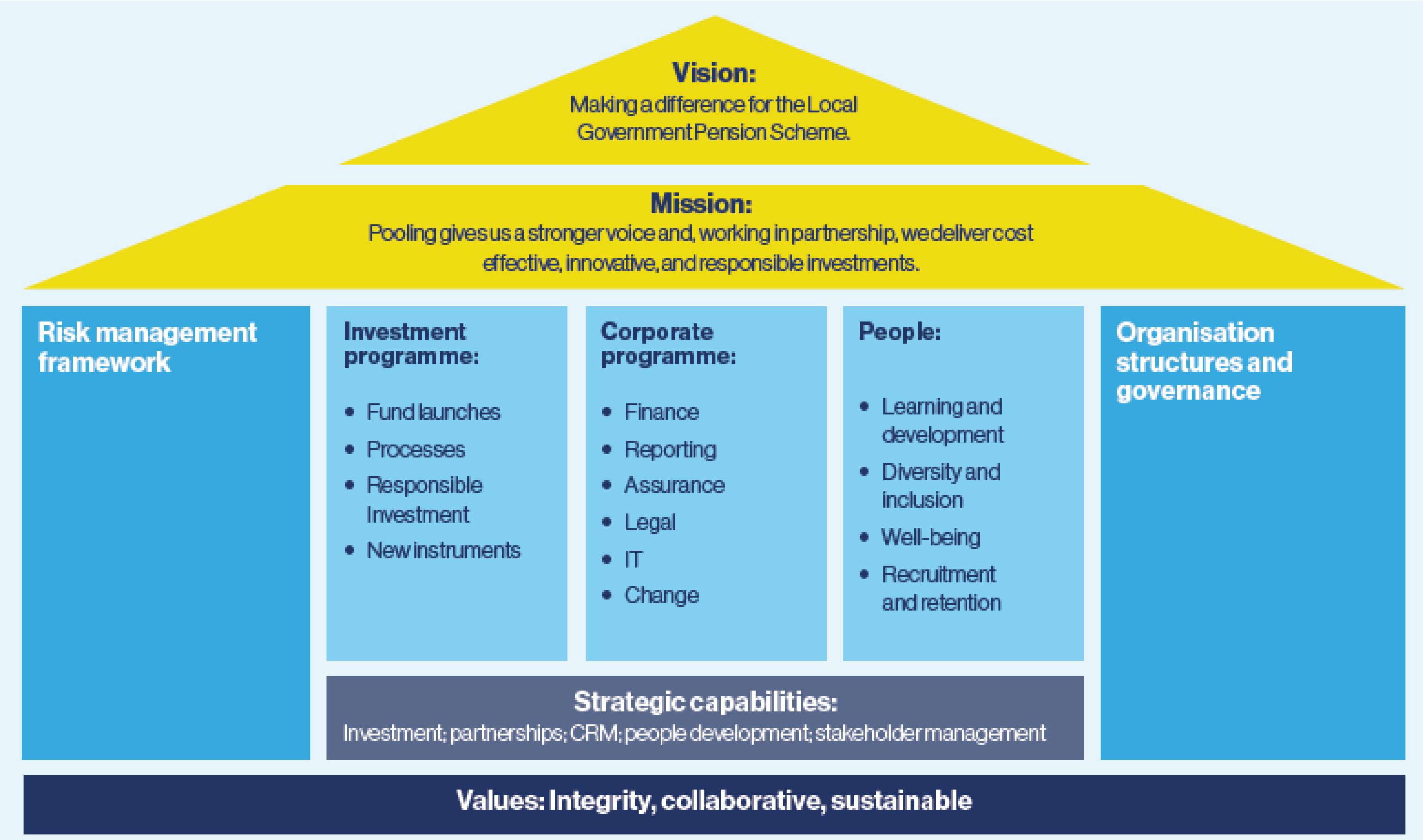
- Border to Coast - Purpose and Approach
- Progress at Border to Coast
- Your Investments
- Upcoming Fund Launches
- Approach to Responsible Investment

Border to Coast Pensions Partnership Ltd

Purpose & Approach

Border to Coast – Why Are We Here?

We were established by our Partner Funds to facilitate the pooling of their investments - to improve value for money through scale, increased access to investment opportunities, and strengthened governance



Border to Coast Pensions Partnership Ltd

Progress

Border to Coast - Progress

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WHAT

- Founded to manage assets for our LGPS Partner Funds, who own Border to Coast equally

HOW

- Providing the building blocks for Partner Funds to implement their investment strategies

WHO

- Our Partner Funds represent c2,500 employers and are responsible for paying the benefits of c.1 million members

11
Partner Funds Invested

£21.7bn
Assets under Management

Customer Meetings
119

£5bn
Private Markets Commitments

Colleagues
100

Propositions launched to date
10

Resolutions voted on
12,011

Number companies we've engaged with
902

Source: Border to Coast's 31 March 2021 Report & Accounts

Border to Coast
- Investment Programme

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	Progress to date	2021	2022	2023 and beyond
Equities	UK Listed Equity (£4.6bn) O/seas Developed Equity (£4.2bn) Emerging Markets Equity (£0.8bn) UK Listed Equity Alpha (£1.4bn) Global Equity Alpha (£6.2bn) **Total AUM: £17.2bn[1]**	Emerging Market Hybrid UK & O/seas Developed Equity (review) UK Equity Alpha (review)	Regional Alpha Emerging Markets Alpha	Passive/ Factor / ESG
Alternatives	Private Equity – Series 1 (£1.7bn) Infrastructure – Series 1 (£2.5bn) Private Credit – Series 1 (£1.5bn) **Total Committed: £5.7bn[1,2]**	Listed Alternatives First co-investment made (green energy) Cashflow management	Legacy Diversified Alternatives Asset Allocation Series 2	Impact (local) Investing
Bonds	Sterling Index Linked Bond (£1.4bn) UK Investment Grade Credit (£3.1bn) **Total AUM: £4.5bn[1]**	Multi-Asset Credit		
Real Estate			Global Real Estate	UK Real Estate
Other	1st trade *crossed* between PFs, saving £3.5m costs			Hedging (FX & Equity)
Responsible Investing	ESG & carbon screens for all Equity and FI Funds External manager monitoring framework Voted at 902 meetings 12.011 resolutions Common policy for all Border to Coast holdings TCFD, Annual RI & Stewardship reports published Joined multiple RI collaborations	Standalone Climate Change Policy RI support for Real Estate Alternatives monitoring framework Publish PRI Transparency Report Net-zero carbon commitment Developing communications strategy		

2020 LAPF AWARDS
- Won 'Pool of the Year' for the second year
- Won the 'Collaboration' award

[1] AUM as at 31/03/2021
[2] Alternatives values shown based on Partner Fund commitments

Border to Coast
- Wider Corporate Development Programme

	Progress to date	2021	2022	2023 and beyond
Office	Central Leeds location established – meeting our principle of having a shared team in one location	Second floor secured in our building - larger team and need for more meeting rooms with videoconferencing capabilities		
People	100 employees, 28 joined during lockdown Well set-up for working remotely during lockdown Graduate scheme in place: 2020 recruitment delayed	Employee Value Proposition, colleague engagement, learning & development, succession planning, well-being, diversity, culture		
Corporate Function	Embedded operating models, outsourcing where appropriate. Established risk & control frameworks	Assessment of operating model – efficiencies, risk appetite, opportunities to move in-house. Review working practices. Maturing risk & control frameworks, etc		
Customer Relationships	Team established, processes documented, Customer Strategy developed	Ensuring info meets requirements, increasing capacity, evaluating CRM software, training materials, promoting Customer voice		
Data Room	Established as secure source of fund launch due diligence and subsequently expanded to include Customer Reporting, materials from meetings, etc,	Re-launched following feedback – easier to navigate, improved look & feel		
Annual Conference	Annual Conference established (run online in 2020)	Will incorporate new Member training sessions (following election turnover)		
Reporting & Assurance	Statutory accounts approved Account for GPs/LPs and ACS structures Transition from Type 1 to Type 2 AAF report in 2020 ISO27001 Certification			
Comms Strategy	Formalised strategy in 2020, establishing current channels & future plans	Launched *Investment Insight* articles & videos		
Collective Voice	Responsible Investment, Asset Management Industry, LGPS	Policy change (leveraging strategic partnerships)		
Regulatory	Aligned with SMCR Brexit-related changes			

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Border to Coast Pensions Partnership Ltd

Your Investments

South Yorkshire
– Valuation & Commitments

Listed Investments	South Yorkshire Value (as at 30/06/2021)	Total Fund Value (as at 30/06/2021)
	£	£
UK Listed Equity Fund	1,079.8m	4.6bn
Overseas Developed Markets Fund	3,018.2m	5.0bn
Emerging Markets Equity Fund	811.2m	1.1bn
Sterling Investment Grade Credit Fund	492.0m	3.3bn
Sterling Index-Linked Bond	877.1m	1.5bn

Alternative Investments	South Yorkshire Commitment (Series 1a + 1b + 1c)	Committed by Border to Coast to Managers (*)	Total 1a + 1b + 1c Commitment (all Partner Funds)
	£	£ (% of commitment)	£
Infrastructure	500m	381.6m (76%)	2,455m
Private Equity	400m	326.0m (82%)	1,720m
Private Credit	190m	105.6m (56%)	1,501m

Source: Border to Coast. Past performance is not a reliable indicator of future performance and is not guaranteed.
(*) As at 26/08/2021.

South Yorkshire
- Equity & Bond Funds

	Equities			Fixed Income	
	UK Listed Equity Fund	**Overseas Developed Markets Equity Fund**	**Emerging Markets Equity Fund**	**Sterling Investment Grade Credit**	**Sterling Index Linked Bonds**
Approx. Size*	£4.6bn	£5bn	£1.1bn	£3.3bn	£1.5bn
Launch Date	July 2018	July 2018	October 2018	March 2020	October 2020
Benchmark	FTSE All Share	Regional Comp	S&P Emerging	iBoxx GBP Non-Gilts	FTSE A UK IL Gilts 15y
Target[1]	BM +1% p.a.	BM +1% p.a.	BM +1% p.a.	BM +0.6% p.a.	BM +0.2% p.a

Border to Coast – FCA Regulated ACS Structure

[1] Measured over rolling three year periods net of costs.
Future forecasts are for Illustration purposes only and are not a reliable indicator of future performance.
* As at 31/06/2021

Equity Funds
Performance to 30/06/2021

Equities

Fund Name	3 Months (%)			1 Year (%)			Since Inception (% p.a.)		
	Fund	Benchmark	Relative	Fund	Benchmark	Relative	Fund	Benchmark	Relative
UK Listed Equity Fund	5.24	5.60	-0.37	20.64	21.45	-0.81	3.00	2.03	0.97
Overseas Developed Equity Fund	6.43	6.62	-0.19	24.41	24.00	0.41	11.74	10.79	0.95
Emerging Markets Equity Fund	3.08	4.79	-1.71	7.88	6.68	1.20	10.73	12.97	-2.24

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Fixed Income

Fund Name	3 Months (%)			1 Year (%)			Since Inception (% p.a.)		
	Fund	Benchmark	Relative	Fund	Benchmark	Relative	Fund	Benchmark	Relative
Sterling Index-Linked Bonds	4.78	4.70	0.07	-	-	-	-1.25	-1.81	0.56
Sterling Investment Grade	1.98	1.71	0.27	3.37	1.74	1.63	9.15	7.46	1.69

Past performance is not a reliable indicator of future performance and is not guaranteed. Figures do not always sum due to rounding.
Source: Northern Trust, Border to Coast

Alternative Assets
- Fund Range

	Launched Alternative Asset Classes		
	Private Equity *Investment in privately held companies*	**Infrastructure** *Real assets providing essential services*	**Private Credit** *Lending to privately held companies*
Series 1A	£500m	£675m	£580m
Series 1B	£485m	£760m	n/a
Series 1C	£735m	£1,020m	£920m
Performance Target[1]	10% p.a.	8% p.a.	6% p.a.

Border to Coast – Unregulated Collective Investment Scheme

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Investments are held within an unregulated collective investment scheme which is not authorised or regulated by the Financial Conduct Authority.

[1] Measured over rolling three year periods net of costs.

Future forecasts are for Illustration purposes only and are not a reliable indicator of future performance.

Alternative Assets
– Series 1 Areas of Focus

Private Equity *Investment in privately held companies*	Infrastructure *Real assets providing essential services*	Private Credit *Lending to privately held companies*
Operational Value Add • Via business improvements **Buy & Build** • Scaling up businesses **Mid-Market Focus** • Greater opportunities **Co-Investments** • Lower fee structure **Asia** • Stronger economic growth **Sector Specialists** • Value creation & deal sourcing **Sector Themes** • E.g. Technology & Healthcare **Distressed** • Stage of business cycle	**Operational Value Add** • Focus on income **Sector Themes** • E.g. Energy transition, digital revolution **Greenfield** • Additional returns from development / extension **Emerging Markets** • Stronger economic growth and increasing infrastructure demand	**Focus on Senior Debt** • Defensive approach at this stage of business cycle **Manager Track Record** • Experience of full economic cycle **Stressed / Distressed** • Opportunities given stage of business cycle **Focus on Real Assets** • Providing quality collateral – e.g. infrastructure assets

Sleaford Renewable Energy Plant

Sleaford Renewable Energy is our first Alternatives co-investment, which will have an impact in tackling climate change. Border to Coast has invested £40m in this straw-fired biomass plant, located in Lincolnshire.

- The plant uses a blend of locally-sourced straw and sustainable woodchip to generate renewable power and heat, generating electricity for 65,000 homes & saving 50,000 tonnes of CO_2 per year.

- Our investment is a minority stake, alongside Greencoat Capital LLP, one of the UK’s largest investors in efficient and renewable energy

- A weakness with the majority of the UK’s renewable energy is its weather dependency. Sleaford will provide “baseload” renewable power for the grid.

- The plant is eligible for the UK’s Renewable Obligation Certificate (ROC) which provides an inflation-linked subsidy.

- Sleaford generates heat as well as electricity. This heat is provided to local community facilities for free.

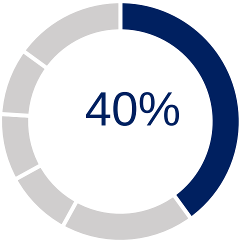
Border to Coast Pensions Partnership Ltd

Upcoming Fund Launches

Multi-Asset Credit (MAC) - Fund Overview

Core Manager	Specialist Managers			
CORE	HIGH YIELD	LOANS	EMD	SECURITISED

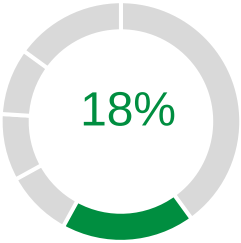
CORE



PIMCO

- Long-term and transparent approach drawing on their industry-leading asset allocation process.
- Attractive risk-adjusted returns through a full market cycle since 2005.
- Wider partnership with Border to Coast.

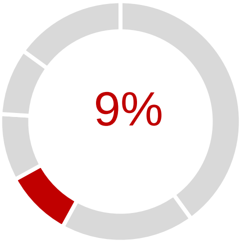
HIGH YIELD



WELLINGTON

- Excellent track record from experienced and stable team that has consistently improved process over time (e.g. addition of dedicated quantitative resource).
- Well-run company with potential for additional insight from wider organisation.

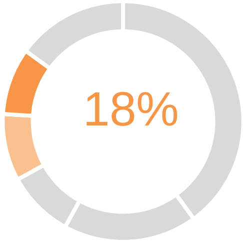
LOANS



BARINGS

- Best resourced team in their sector with long history of running dedicated loans mandates.
- Depth of analyst team allows greater research than peers, taking positions others are not able to analyse.

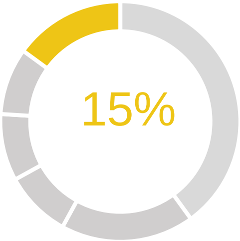
EMD



ASHMORE + BORDER TO COAST

- Ashmore, with its dedicated EM specialists and wide resources, will run a mandate covering corporate bonds in local currencies.
- Border to Coast has the capability to run a cost-effective sovereign bond mandate in US$.

SECURITISED



PGIM

- Run one of world's largest securitised platforms for their insurance parent – major player in the market.
- Modelling tools are market leading. Excellent risk approach.

- The Fund aims to provide a total return which outperforms the total return of SONIA (cash) by at least 3-4% per annum over rolling five years periods (net of management fees).

Listed Alternatives - Fund Overview

INFRASTRUCTURE	REAL ESTATE	PRIVATE EQUITY	ALTERNATIVE CREDIT
Companies or investment vehicles primarily involved in the build, supply or operation of infrastructure assets. **Examples:** toll roads, airports, railroads, utilities, renewable energy.	Companies or investment vehicles giving exposure to the specialist real estate sector. **Examples:** cell towers, datacentres, logistics, healthcare, social housing.	Companies or investment vehicles primarily engaged in private equity. **Examples:** fund-of-funds, investment companies, investment managers.	Companies or investment vehicles giving exposure to contractual cashflows via debt or other long-term cashflow streams. **Examples:** direct lending, infrastructure debt, royalties, real estate debt.

Objective: To produce a long-term return in line with FTSE All Country World Index by investing in a diversified portfolio of alternative assets. The Fund aims to generate returns with less volatility and provide investors with a higher level of income than broader equity markets.

Border to Coast Pensions Partnership Ltd

Responsible Investment

Responsible Investment

Why it's important

- Fiduciary duty – Law Commission, LGPS Regs, TPR, DWP.
- Impacts on financial returns, manage reputational risk.
- Expectations to be good stewards – UK Stewardship Code.

Why it matters to us

- Sustainability at the core of our corporate culture.
- Evidence that strong ESG (Environmental/Social/Governance) performance leads to superior financial returns.
- Important to our Partner Funds.
- Active stewardship across all asset classes.

Responsible Investment in Practice

Active ownership:

Voting

To **encourage good governance** and sustainable corporate practices, to protect shareholder value by voting and co-filing shareholder resolutions.

902 shareholder meetings voted at

Engagement

To **influence** companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement, creating long-term sustainable value. Preferred over divestment.

1250 engagement meetings

ESG integration:

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ESG **integration** is the analysis of **all material factors** in investment analysis and investment decisions, including environmental, social, and governance factors which are financially relevant.

ESG and carbon screens on all equity & fixed income portfolios

External managers:

RI **integral** to selection, appointment and monitoring of our external managers.

External manager monitoring framework

Reporting:

Transparency and disclosure on RI activities, keeping stakeholders and beneficiaries informed.

- Quarterly voting & Stewardship reports
- Annual RI report
- TCFD report
- PRI reporting
- Quarterly ESG & Carbon Reporting

Quarterly ESG & Carbon Reporting - Example

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Global Equity Alpha – ESG Quarterly Report
Q1 2021 (March 31)

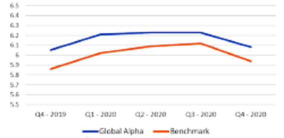
MSCI ESG Rating: A

ESG Summary [1]

Fund	Q1 2021 Position [1]		
	MSCI ESG Rating	Weighted ESG Score	vs. Benchmark
Global Equity Alpha	A [1]	6.1 [1]	
Benchmark (MSCI ACWI/World)	A [1]	6.0 [1]	

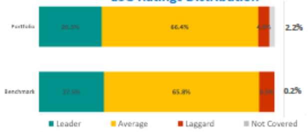
[1]Source: MSCI ESG Research 16/04/2021

MSCI ESG Weighted Score [1]



[1]Source: MSCI ESG Research 16/04/2021

ESG Ratings Distribution [1, 2]



[1]Source: MSCI ESG Research 16/04/2021

MSCI ESG Ratings

AAA, AA	LEADER
A, BBB, BB	AVERAGE
B, CCC	LAGGARD

Highest ESG Rated Companies [1]			Lowest ESG Rated Companies [1]		
	% of portfolio	MSCI Rating		% of portfolio	MSCI Rating
ASML Holding	1.7%	AAA [1]	Facebook	0.8%	B [1]
Microsoft	1.2%	AAA [1]	Adient PLC	0.8%	B [1]
CNH Industrial N.V	1.1%	AAA [1]	Peloton	0.7%	B [1]
Allianz SE	1.0%	AAA [1]	Cars.com	0.6%	B [1]
Taiwan Semiconductor	0.7%	AAA [1]	General Motors	0.5%	B [1]

[1]Source: MSCI ESG Research 16/04/2021

ESG Commentary

- The Fund remains above the benchmark for weighted ESG score, as it has since launch; largely due to holding significantly less "ESG laggards".
- Since the upgrades of Grupo Televisa and General Motors last quarter, the fund holds no CCC rated companies.

Feature Stock: Peloton

Peloton pioneered interactive at-home fitness with the streaming of boutique classes to members. Peloton is likely to continue to capture a disproportionate share of the growing market demand with an established brand synonymous with at-home fitness. The company's subscription based class application has a clear value proposition relative to physical gyms.

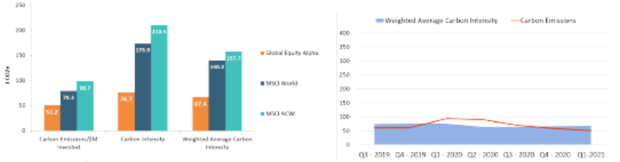
Positive ESG attributes for Peloton include the reduction of consumers' trips to gyms which helps reduce emissions. Peloton has continued to improve its social agenda by investing in its employees by setting up programmes such as scholarships. One of the main ESG risks is a lack of ability to recycle used bikes. Ideally, Peloton would offer a certified pre-owned program and address fitness equipment disposals. Additionally, the company has a dual-class shareholder structure whereby Class B shareholders (insiders and early investors) hold about 99% of the voting rights. To address concerns on the structure Peloton has adopted a sunset provision whereby 10 years after the initial public offering the Class B shares convert to Class A common stock.

[1] Source: MSCI ESG Research LLC. 16/04/2021 [2] Companies not covered are detailed in the footnote on page 3.

Global Equity Alpha – ESG Quarterly Report
Q1 2021 (March 31)

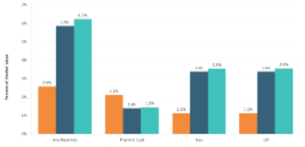
MSCI ESG Rating: A

Carbon Summary [1]



[1]Source: MSCI ESG Research 16/04/2021

Weight of Holdings Owning Fossil Fuel Reserves [1]



[1]Source: MSCI ESG Research 16/04/2021

	Largest Contributors to Weighted Average Carbon Intensity [1]			
	Company	Contribution	CA100+	TPI Level
1	LafargeHolcim	27% [1]	Yes	4
2	Linde	17% [1]	No	3
3	EasyJet	11% [1]	No	2
4	Berkshire Hathaway	4% [1]	Yes	0
5	Hilton	3% [1]	No	–

[1]Source: MSCI ESG Research 16/04/2021

Carbon Commentary

- Carbon emissions, carbon intensity and weighted average carbon intensity (WACI) remained flat or decreased in the quarter and remain significantly below the benchmark (~-55%).
- The majority of WACI comes from two stocks in the Fund (Lafarge and Linde) both of which have been highly rated by the Transition Pathway Initiative (TPI).

Feature Stock: Berkshire Hathaway (BRK)

Berkshire Hathaway's underlying businesses enjoy several strengths, including high barriers to entry, scale and cost advantages. The company has a strong balance sheet and forward-thinking management team.

Although the firm's operating companies are exposed to a range of ESG risks, BRK are both managing these risks well, and taking advantage of related opportunities. For example, Berkshire Hathaway Energy has a significant carbon footprint owing to its exposure to coal fired power generation, but its strategic commitment to renewable energy can be seen both in its capex (85% renewables, 15% fossil fuels in 2019) and installed capacity of 38% renewables, up from 10% in 2005. The firm also addresses diversity and inclusion (D&I). For example, GEICO (an auto insurance subsidiary) has implemented a broad-reaching D&I programme as well as Employee Resource Groups which provide resources and support for career and personal development.

Responsible Investment Strategy

- Area of significant mandatory change and escalating political scrutiny.
- Strategic framework based on six PRI areas for both Border to Coast and Partner Funds.
- 3 year plan based on feedback from Partner Funds and Border to Coast's Board.
- Focus: developing reporting; continuing ESG integration; collaborating.

Climate Change Policy

The 2020 RI Policy review identified the need for a standalone Climate Change Policy. Due to the work required the decision was made to do this outside the normal RI Policy review.

- Appointed EY (consultant) to conduct market practice assessment, benchmarking against 10 global leaders (asset owners and managers) and 1st draft of policy.
- Further developed with input from Border to Coast's Investment Team.
- Net Zero by 2050 commitment considered in policy development.
- Net Zero Investment Framework (NZIF) used as structure for the Policy.
- Initial draft was shared with Partner Fund officers and with the Joint Committee for feedback by early August.
- Policy to be approved ahead of UN Climate Summit (COP26) in November.
- Implementation will be over 12-24 months with milestones shown in the Policy.

Border to Coast Pensions Partnership Ltd

Appendix

Active ownership

- Collective RI and Voting Policies to leverage scale.
- Voting internally and externally managed assets.
- Engagement preferred to divestment.
- Co-file shareholder resolutions.
- Collaborative engagement.
- UN Principles for Responsible Investment.

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ESG integration

- Integrating ESG into investment process across all asset classes.
- Portfolio level - quarterly ESG screening and benchmarking.
- ESG risks and opportunities considered at stock level – detailed investment rationale for low rated stocks.
- Carbon foot-printing equity and fixed income portfolios – high emitters mapped to TPI[1] and engagement.
- Voting – PMs involved in voting decisions.

[1]Transition Pathway Initiative

External management

- Manager days ahead of procurement launch.
- RI included in selection and appointment process.
- Quarterly ESG and carbon screens: identify largest contributors to carbon emissions and lowest ESG scoring companies.
- Quarterly ESG monitoring template – enables challenge and feeds into manager review meetings.
- Annual RI review: questionnaire, engagement and research examples, detailed investment rationale on specific stocks.

Reporting

- RI activities on our website.
- Quarterly reporting – engagement and voting.
- Annual RI & Stewardship Report – aligned to UK Stewardship Code.
- TCFD Report published on website.
- Signatory to PRI – report annually and will publicly disclose in 2021.
- RI workshops and briefing papers for Partner Funds and JC.
- Quarterly ESG/carbon reports developed.

Net Zero by 2050 – Considerations

- World looking at 2050 (or sooner) as target year. Some exceptions with investors, governments and corporates making earlier or later commitments. Date could shift earlier over time.

- Net zero across aggregate portfolios: different levers depending on SAA.

- Investments in or outside the pool e.g. legacy assets, private market renewable funds, passive low carbon strategies. Some Funds may not have the levers needed to achieve an earlier target date.

- Setting interim targets – some previous challenge to reduction targets.

- Unintended consequences – increase in tobacco/financials.

- Not just about decarbonisation targets or divesting from O&G. Engagement with companies and policy makers, & forward looking metrics to measure alignment.

- Lack and inconsistency of data across some asset classes – challenge in setting baseline.

- Progress to carbon neutrality unlikely to be linear.

Emerging Markets Equity Fund

Fund Performance in 2020

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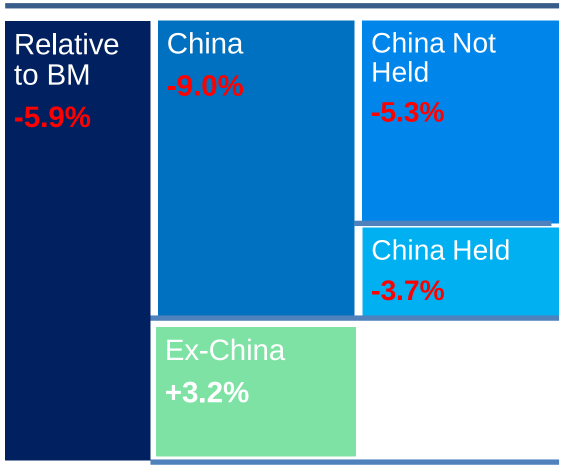
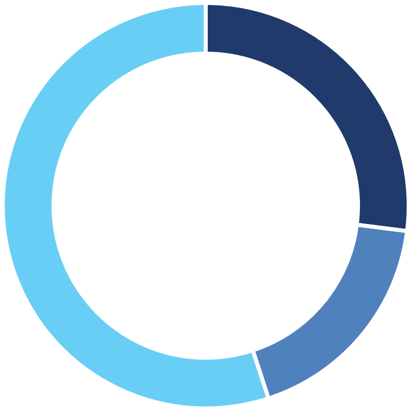


Source: Northern Trust, Border to Coast

- Significant underperformance in China
- Outperformance in EM ex-China
- Weak stock selection in China – underweight highly valued e-commerce stocks; strong revenue growth, little sign of sustainable profits
- Significant changes to the benchmark – 1,100 Chinese stocks added in September 2019

New Fund Structure - Appointment of Specialist China Managers

Emerging Markets Equity Fund



Internally Managed Emerging Markets ex. China ~55%

- **Benchmark:** FTSE Emerging ex. China Index.
- **Performance Target:** Benchmark + 1% p.a. (net) on a rolling 3yr basis

Externally Managed China Allocation ~45%

- **Benchmark:** FTSE Total China Connect Index.
- **Performance Target:** 2% to 3% p.a. (net) on a rolling 3yr basis
- Split between **UBS** and **FountainCap**

Past performance is not a reliable indicator of future performance and is not guaranteed. Figures do not always sum due to rounding

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SOUTH YORKSHIRE PENSIONS AUTHORITY

Responsible Investment Update Quarter 1 2021/22

September 2021

Contents

Highlights and Recommendations

Highlights over the quarter include:

- The casting of 6,110 individual votes at 411 different company meetings
- A number of significant "say on climate" votes
- The Authority along with one other Border to Coast Partner Fund casting its vote differently in relation to the Shell climate transition plan because of the lack of connection between this plan and the underlying business plan
- An increase in the level of engagement activity in the emerging markets
- A continuing high level of engagement around social issues as well as some increase in engagement around environmental issues driven by "say on climate".
- A new engagement theme around post pandemic labour practices.
- A continuing gradual improvement in ESG performance in all three of the equity portfolios with a noticeable positive impact from the restructuring of the Emerging Markets Fund.
- Continuing reductions in all carbon emissions metrics with a highly material reduction in the Emerging Markets Fund, although it is clear that in isolation and without further action these portfolios will not currently hit the 2030 Net Zero Goal.
- The inclusion of the Authority as a leading practice case study by external organisations in relation to both place-based impact investing and Net Zero.

The Authority are recommended to note the activity undertaken in the quarter and provide comments on the additional data contained in and evolving presentation of this report.

Background

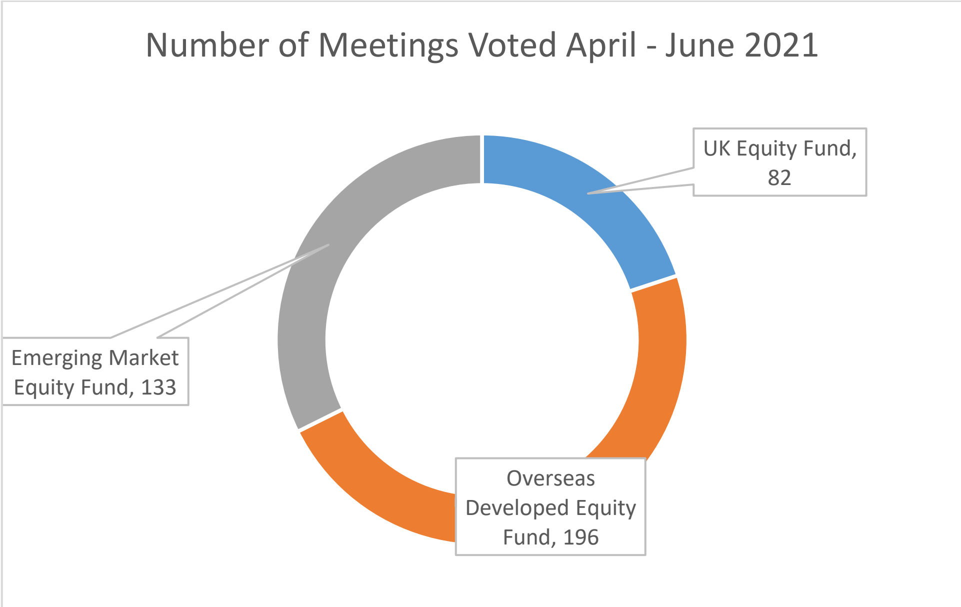
The Authority has developed a statement which sets out what it believes Responsible Investment is and how it will go about implementing it within its overall approach to investment. This statement can be found here.

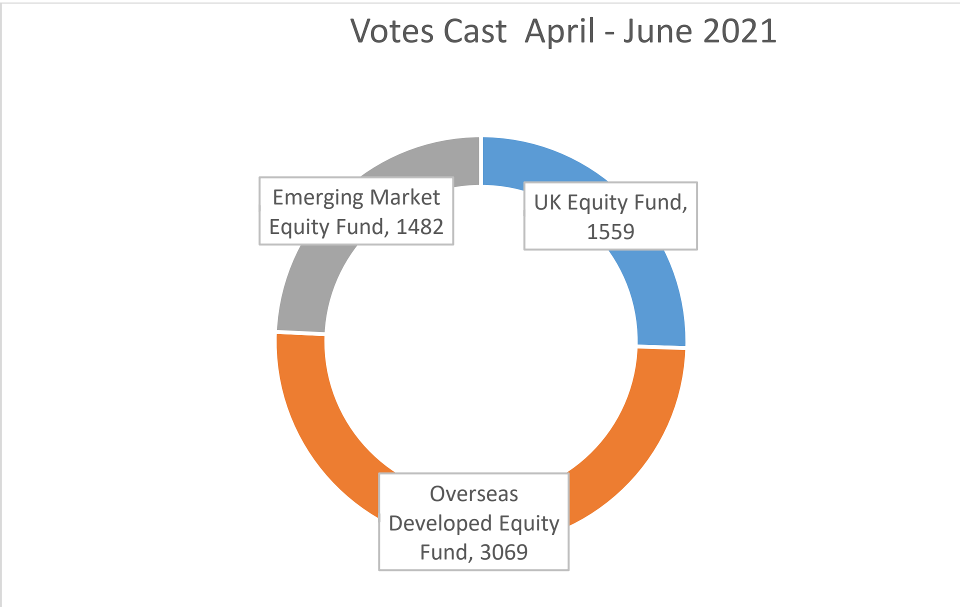
Our approach is largely delivered in collaboration with the other 11 funds involved in the Border to Coast pool. This report provides an update on activity in the last quarter covering:

- Voting – Information on how the voting rights attached to shareholdings have been used over the period to influence the behaviour of companies to move in line with best practice.
- Engagement – Information on the volume and nature of work undertaken on the Authority's behalf to engage in dialogue with companies in order to influence their behaviour and also to understand their position on key issues.
- Portfolio ESG Performance – Monitoring the overall ESG performance of the various products in which the Authority is invested.
- Progress to Net Zero – Monitoring the carbon emissions of the various portfolios where data is available in order to identify further actions required to support progress to Net Zero.
- Collaboration – Working with others to influence the behaviour of companies and improve stewardship more generally.
- Policy Development – An update on broader policy developments in the Responsible Investment space some of which directly involve the Authority and others which are of more general interest.

Voting Activity

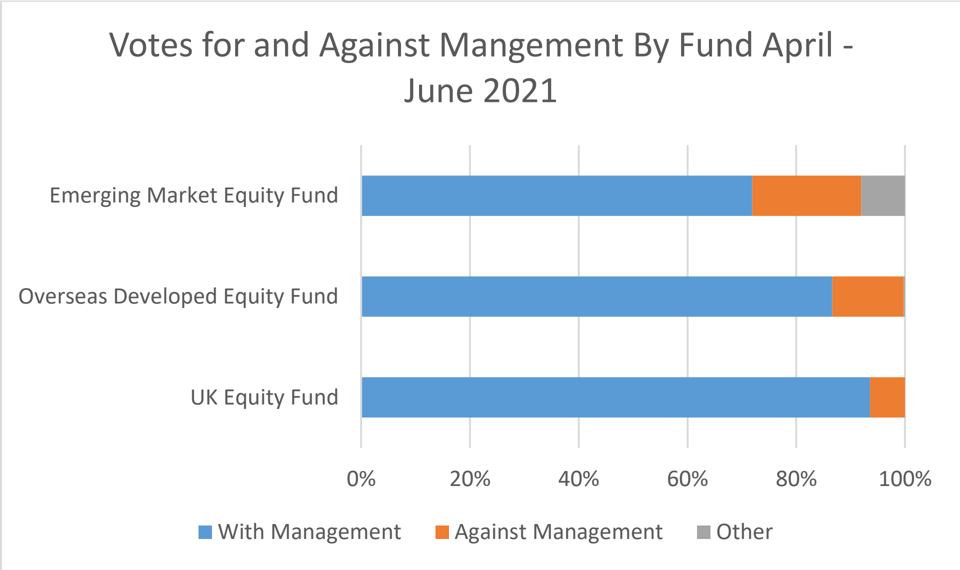
The April to June quarter is the period when a significant proportion of companies hold their annual meetings. The charts below show how the Authority's holdings in listed equities were voted in the period to the end of June 2021. Detailed reports setting out each vote are available on the Border to Coast website [here .](#)

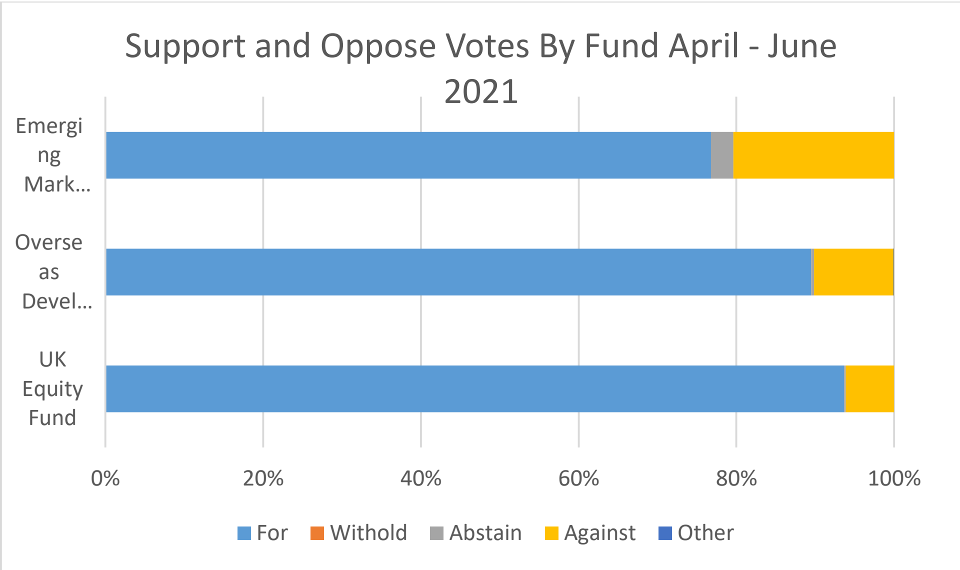




This represents a significant increase on the last quarter which represented the beginning of the peak voting season. Around 4 times as many meetings were attended and 6 times as many votes cast as in the previous quarter showing the degree to which activity peaks at this point in the year.

The pattern of support and oppose votes and votes for or against management is broadly consistent with previous quarters as shown in the charts below





The 2021 voting season saw a knock on impact from 2020's Covid affected season, with a significant amount of business carrying over or requiring more detailed analysis to understand the pandemic's impact on performance.

In terms of votes on executive pay the pandemic has led to additional specific considerations being reflected in determining how to vote. For example, if companies have received significant state aid, cancelled dividends, or had to lay off a large part of their workforce boards would be expected to reduce executives' variable pay outs or to forego bonuses entirely. Where companies failed to do this then we voted against remuneration proposals. So far this has led to Border to Coast voting against materially more remuneration proposals across all its equity funds (28% v 24% last year), which includes two funds in which SYPA does not invest.

A number of companies have brought forward specific management proposals in relation to their climate strategies giving shareholders a "say on climate". These votes are advisory and it is expected that best practice will evolve over time particularly in terms of reporting ambition levels and progress on the mitigation of climate change. By having regular votes on these issues it is possible for shareholders to continually press companies to make progress on this issue.

The graphic below higlights a number of significant votes which were made during the quarter

BP plc (UK) - We supported a "Follow This" resolution that asked the company to set targets for the reduction of Scope 1,2 and 3 emissions and to report annually on their GHG emissions reduction plan. Effective shareholder feedback mechanisms are an important aspect of competent climate leadership. The resolution received around 20% support but the Board has committed to contiune to engage over its climate plans and to report progress on a regular basis.

Anhui Conch Cement (Emerging Markets) - We voted against the annual report and accounts at the Chinese cement manufacturer. Anhui scores poorly on the Transition Pathway Initiative (TPI) (1 out of 5) and our policy is to show our discontent at this through a vote at the AGM. Anhui has made investment in carbon capture and storage and set some targets for emission reduction. The Company is being engaged by Robeco and will be engaged directly by the new China managers. There is the option to vote against board members at the next AGM should escalation be necessary

Berkshire Hathaway (Overseas) - We witheld our vote for the reelection of the Chair and CEO at this US multinational conglomerate due to governance and climate action planning concerns, and voted in favour of shareholder proposals in relation to climate and diversity and inclusion reporting. The combination of Chair and CEO roles and the absence of a lead director are contrary to our governance expectations and the company is a bottom ranked TPI performer (0 out of 5). The two shareholder resolutions achieved c25% support which is significant given that Warren Buffet (the current Chair) controls c 1/3rd of votes and was opposed.

These votes draw attention to the harder stance being taken as a result of the revised voting guidelines in relation to companies which are not progressing in terms of the climate transition with the lack of progress on the Transition Pathway Initiative being a key consideration at both Anhui Conch and Berkshire Hathaway

In addition to these it is appropriate to highlight the "Say on Climate" vote at Royal Dutch Shell, as this was the first occasion when the Authority (alongside one other partner fund) made the decision to instruct Border to Coast to vote shares differently to the rest of the Partnership.

Two resolutions were involved in this case, one seeking approval of the Company's energy transition statement and the other sponsored by Shareaction and other shareholder groups seeking more specific targets for emissions. Border to Coast's position having taken advice from Robeco who are one of the lead engagers with Shell through Climate Action 100+ was to support the first and abstain on the second.

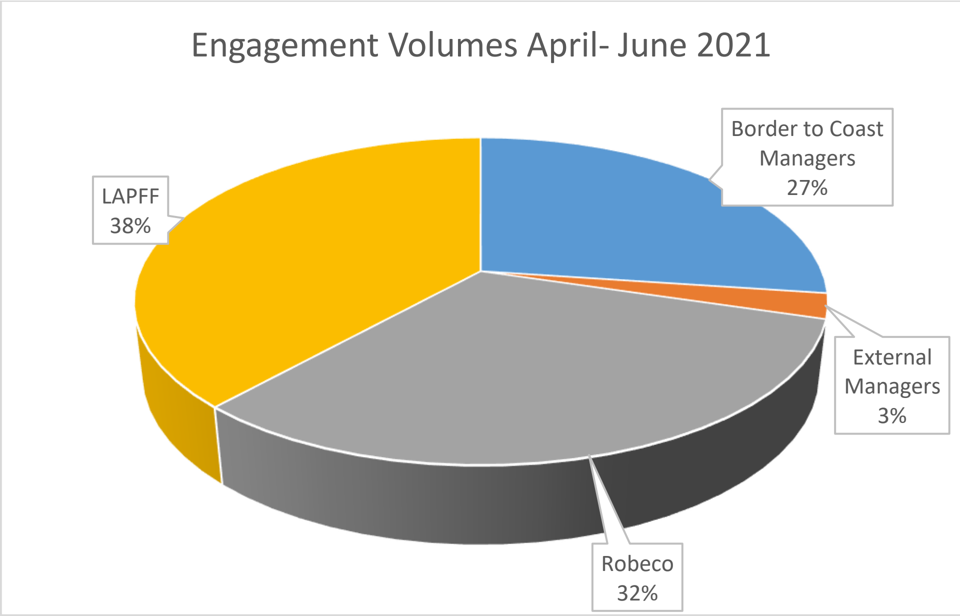
In fairness to Shell, they are generally regarded as a leader in terms of climate issues and emissions within the oil and gas sector and have been more open and transparent about the issues involved in the energy transition than some of their competitors. However, the energy transition statement contained the following caveat - "Shell's operating plans, outlooks, budgets and pricing assumptions do not reflect our net zero emissions target". So, in effect the energy transition plan is not reflected in their overall business strategy, which includes an increase in liquefied natural gas production in the period up to 2030.

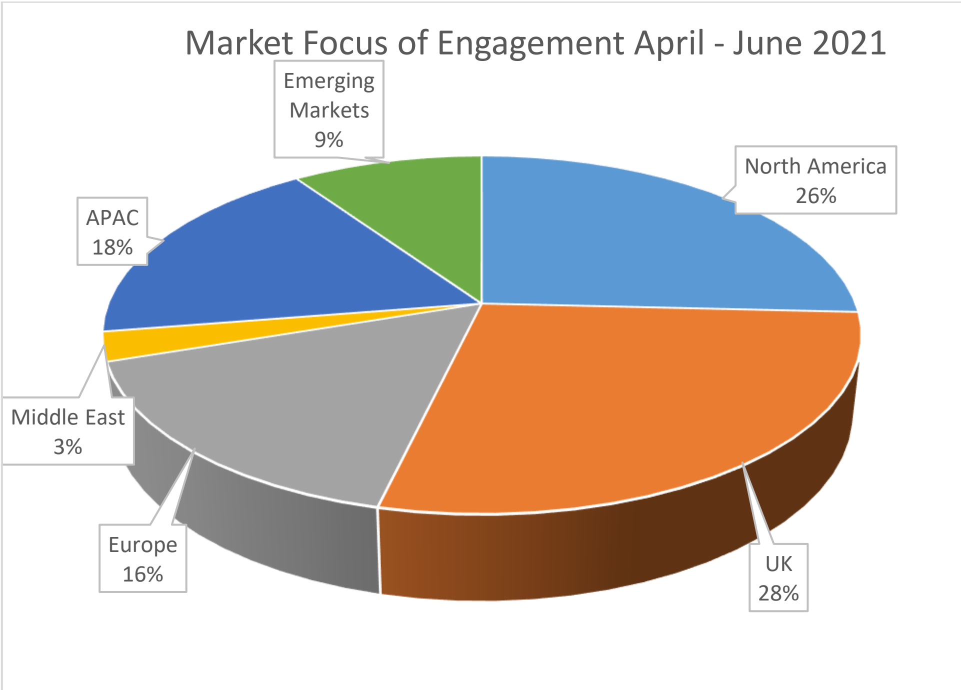
This disconnect between action and intention is a significant weakness in Shell's position a view subsequently supported by a Dutch court, and while the voting decisions by Border to Coast are not out of line with the current voting guidelines officers felt that on this occasion Shell's position did not meet the moment and risked longer term damage to shareholder value and therefore instructed that the Authority's portion of the Shell holding be voted against the first resolution and for the second, a position taken by around 11% of shareholders. Given our commitment to Net Zero we expect companies who are committed to Net Zero (as Shell are) to have targets which are fully reflected in and drive their business strategy, and the votes cast in this case reflect this.

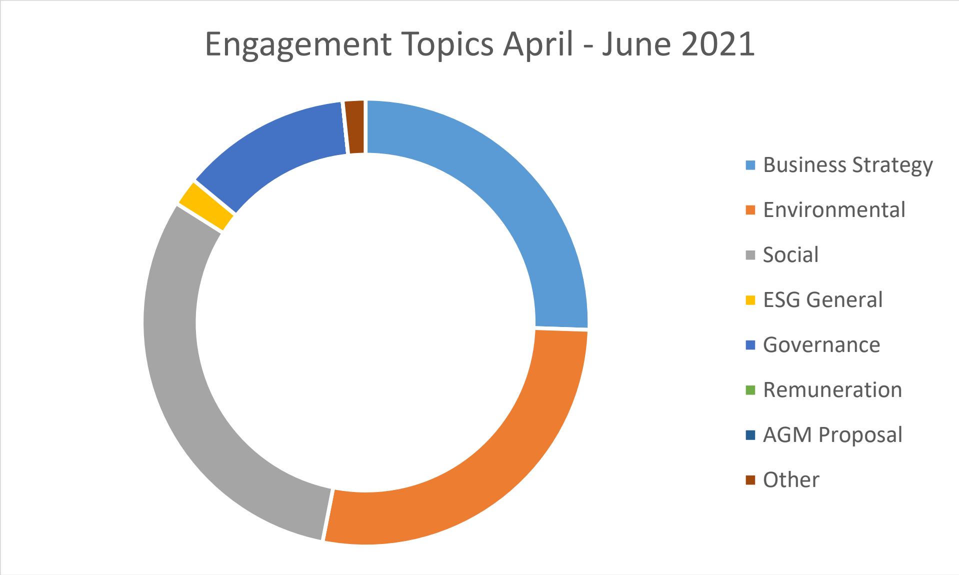
This is the first occasion on which any Border to Coast fund has exercised their right to a "split vote" out of several thousand votes cast since the company became operational in July 2018, and it should be emphasised that we were one of two funds to take this action on this occasion. This reflects the fact that rightly the bar for such a split should be high. As there was no protocol in place for a situation of this sort the Director informed the then Chair and Vice Chair of the action taken and included information in the next monthly update for Authority and Pension Board members. As the timescales involved in cases such as this are relatively short consultation prior to instructing the company is not practical. Should such a case occur again a similar approach will be followed.

Engagement Activity

Engagement is the process by which the Authority working together with other like-minded investors seeks to influence the behaviour of companies on key issues. Engagement (in distinction to voting) is an ongoing process and is undertaken by those directly managing money for the Authority such as the investment team at Border to Coast and the external managers in the Investment Grade Credit fund together with Robeco who act on behalf of Border to Coast and the Local Authority Pension Fund Forum which acts on behalf of all its member funds. The graphs below illustrate the scale and focus of engagement activity undertaken in the quarter.







Activity this quarter has seen an increased focus in Emerging Markets, which is to be welcomed as this is the portfolio area which contains the most holdings with low ESG scores.

In terms of topic focus of engagement activity there has been a significant increase in the environmental focus in part due to the various "Say on Climate" initiatives discussed above with a reduction in the level of focus on overall business strategy. While there has been some reduction in the level of interaction on social issues when compared to last year this is still at a materially higher level then pre pandemic.

More details of the engagement activity undertaken by Border to Coast and Robeco in the quarter is available here

During the quarter Robeco launched a new engagement theme focussing on labour practices in e-commerce, hospitality and on-line food delivery as the economy emerges from the pandemic. This is important because of the light which the pandemic has shone on the vulnerability and precarious employment status of many low wage workers in these sectors. Labour and human rights risks may expose companies to legal, operational, and reputational issues, while companies that manage these risks appropriately may benefit from brand value improvement, higher employer satisfaction and lower costs. The engagement is focussed on four major companies held within the Border to Coast portfolios (Amazon and Meituan in e-commerce, Intercontinental Hotels Group in hospitality, and Walmart in on-line food delivery). The engagement will be regarded as a success if the companies place labour practices and human capital strategies at the core of their corporate strategies mitigating the risk identified and therefore providing more sustainable outcomes for investors.

LAPFF has continued to work through the Climate Action 100+ collaborative group to engage with Arcelor Mittal on its climate transition plans and in particular moves to use hydrogen as a fuel within the steel making process, and also with National Grid which has now agreed a science-based target for reduction in its scope 3 emissions, which is a very significant development.

LAPFF has also continued its work in relation to mining and human rights. Many of the largest mining companies are facing very significant costs as a result of legal actions following their actions in relation to indigenous communities in various parts of the world. In some cases, these are safety issues such as lead poisoning in Zambia, sometimes issues around cultural sensitivity such as the destruction of culturally sensitive sites and sometimes failure to address issues such as some of the issues flowing from the tailings dam collapses. LAPFF is continuing to raise these issues and asking companies to quantify the impact of their actions or lack of action in terms of costs to the business which will have impacted shareholder value.

More details of the activity undertaken by LAPFF in the quarter is available here

Portfolio ESG Performance

Each of the equity portfolios is monitored by Border to Coast in terms of its overall ESG performance with data reported quarterly. This new section of the report provides a summary of performance and of changes over time. The full reports are available for members in the on-line reading room, but this summary provides a high-level indication of the position.

Overseas Developed

- Weighted ESG Score 6.6 (above benchmark) improved this quarter
- 35.1% of portfolio ESG leaders (better than benchmark)
- 3.4% of portfolio ESG laggards (better than benchmark)
- 7.1% of portfolio not covered (better than benchmark)
- Worst scoring companies 2.2% of portfolio
- Emissions better than benchmark on all metrics and reduced this quarter
- Greater weight of fossil fuel holdings than in benchmark
- 4 of the 5 top emitters highly rated on the Transition Pathway

United Kingdom

- Weighted ESG Score 7.6 improved since last quarter and maintained over benchmark position
- 60.4% of portfolio ESG leaders (better than benchmark)
- 0% of protfolio ESG laggards (better than benchmark)
- 8.7% of portfolio not covered (in line with benchmark)
- Worst scoring companies 1.8% of portfolio
- Emissions better than benchmark on all metrics and reduced this quarter.
- Lower weight of fossil fuel holdings than in benchmark.
- Top 5 emitters rated 4 or 4* (highest ratings) on the Transition Pathway

Emerging Markets

- Weighted ESG score 5.3 up in the quarter and increasing the gap to the benchmark
- 17.3% of portfolio ESG leaders (better than benchmark)
- 15% of portfolio ESG laggards (better than benchmark)
- 6.1% of portfolio not covered (worse than benchmark)
- Worst scoring companies 4.2% of portfolio.
- Emissions better than benchmark on all measures and significantly reduced this quarter.
- Greater weight of fossil fuel holdings than in benchmark.
- 3 of the top 5 emitters engaged with the Transition Pathway with one scoring 4.

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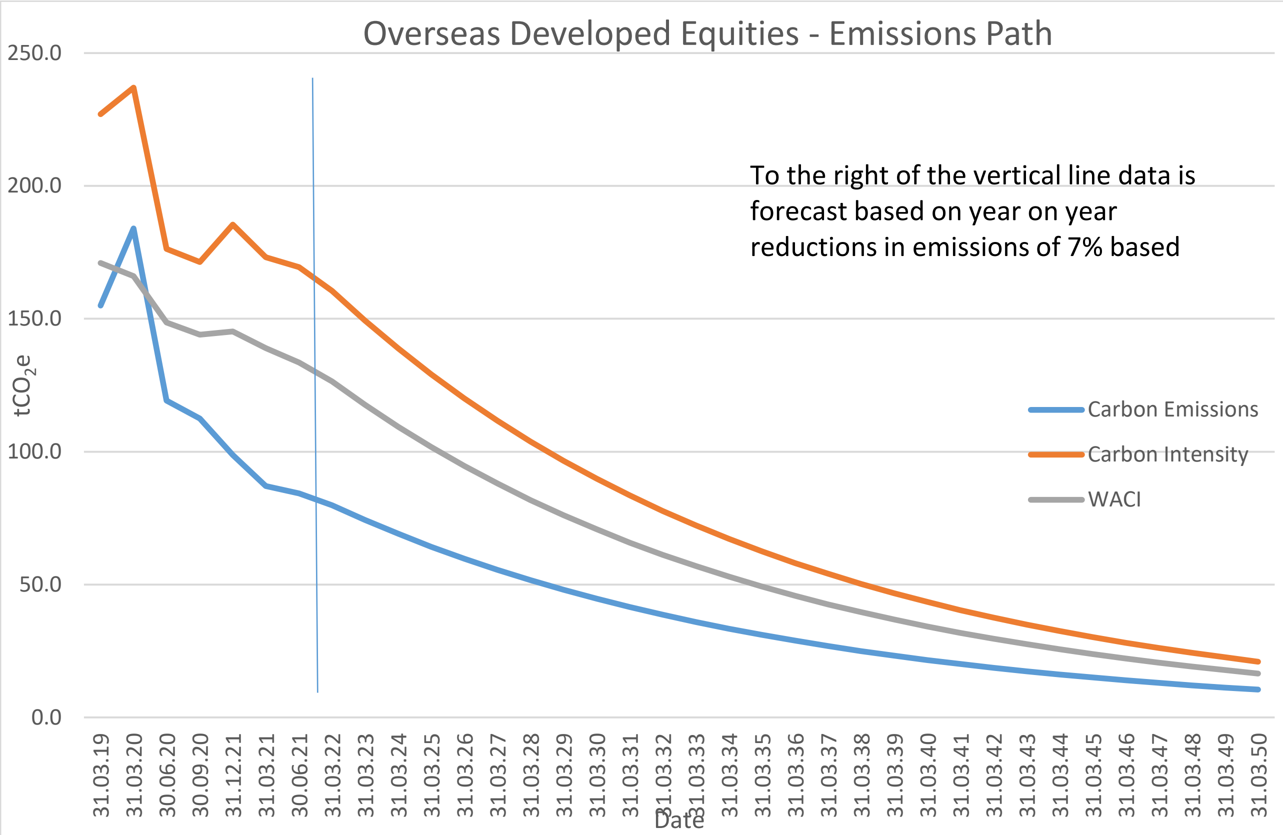
In general, this shows a positive picture with in general less exposure to companies with low ESG scores than in the benchmark indices and the worst scoring stocks representing a relatively small proportion of the overall portfolio. There are a number of further points that should be made for clarity.

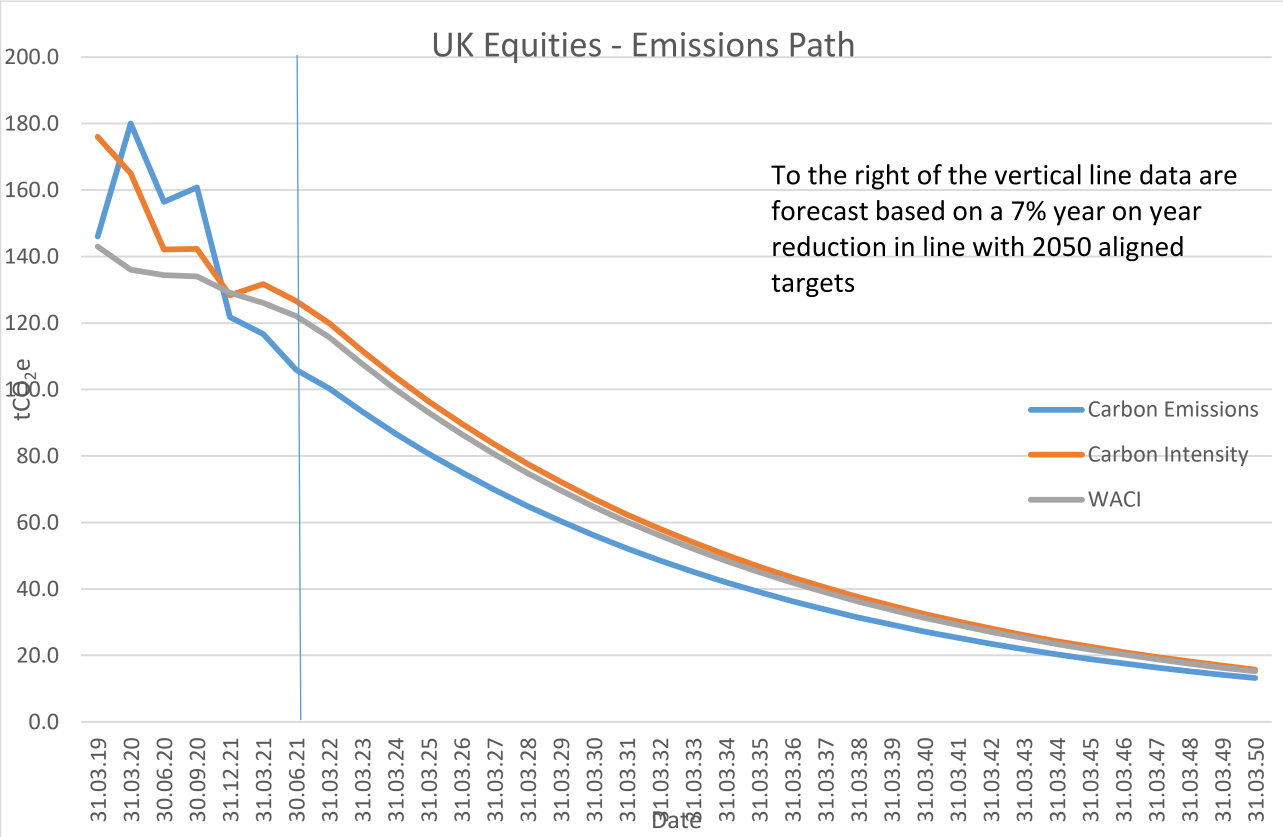
1. While the proportion of the portfolio not covered by ESG metrics is a significant piece of information provided it is within reasonable bounds it should not create issues. This reflects, for example the use of collective vehicles to achieve coverage of particular market segments (such as small cap companies). While Border to Coast will look to the managers of these vehicles to deal with ESG issues in the same way as them they are not rated in the same way as individual companies.
2. Coverage in some areas of the Emerging Markets is less comprehensive than in developed markets and also, although improving rapidly, the ratings generally do not start from as high a base.
3. The weight of holdings with fossil fuel reserves is a commonly used measure, however, given that 2 of the three funds have a greater weight than their benchmark but all three are now materially below their benchmarks on all three emissions metrics it does demonstrate that the level of emissions and the holding of fossil fuel reserves are not necessarily directly linked. However, this does indicate the potential exposure to stranded assets and is something that will be monitored going forward.
4. The Transition Pathway assessment is a key indicator of the likely progress of companies. Not unsurprisingly there is less coverage in the Emerging Markets and the assessments, in general, are less positive.

What is particularly noticeable this quarter is the impact on the Emerging Markets Fund of the introduction of the China specialist managers where the more detailed research that a specialist team can deliver is clearly influencing stock selection towards companies with better ESG credentials. While this was an expected impact of these changes the driver for them was to improve the overall investment performance of the Fund.

Progress to Net Zero

This new section of the report considers the progress of the three equity portfolios towards Net Zero using the emissions data provided on a quarterly basis by Border to Coast and projects progress forward using the 7%pa reduction required to deliver the 2050 Paris Agreement target. This is not scientific and as can be seen from the earlier parts of the graphs progress is unlikely to be linear, however, it does give a sense of the scale of the challenge we face in achieving Net Zero across this significant element of the portfolio.




UK Equities - Emissions Path
To the right of the vertical line data are forecast based on a 7% year on year reduction in line with 2050 aligned targets
Carbon Emissions
Carbon Intensity
WACI
tCO_2e
Date
200.0
180.0
160.0
140.0
120.0
100.0
80.0
60.0
40.0
20.0
0.0
31.03.19
31.03.20
30.06.20
30.09.20
31.12.21
31.03.21
30.06.21
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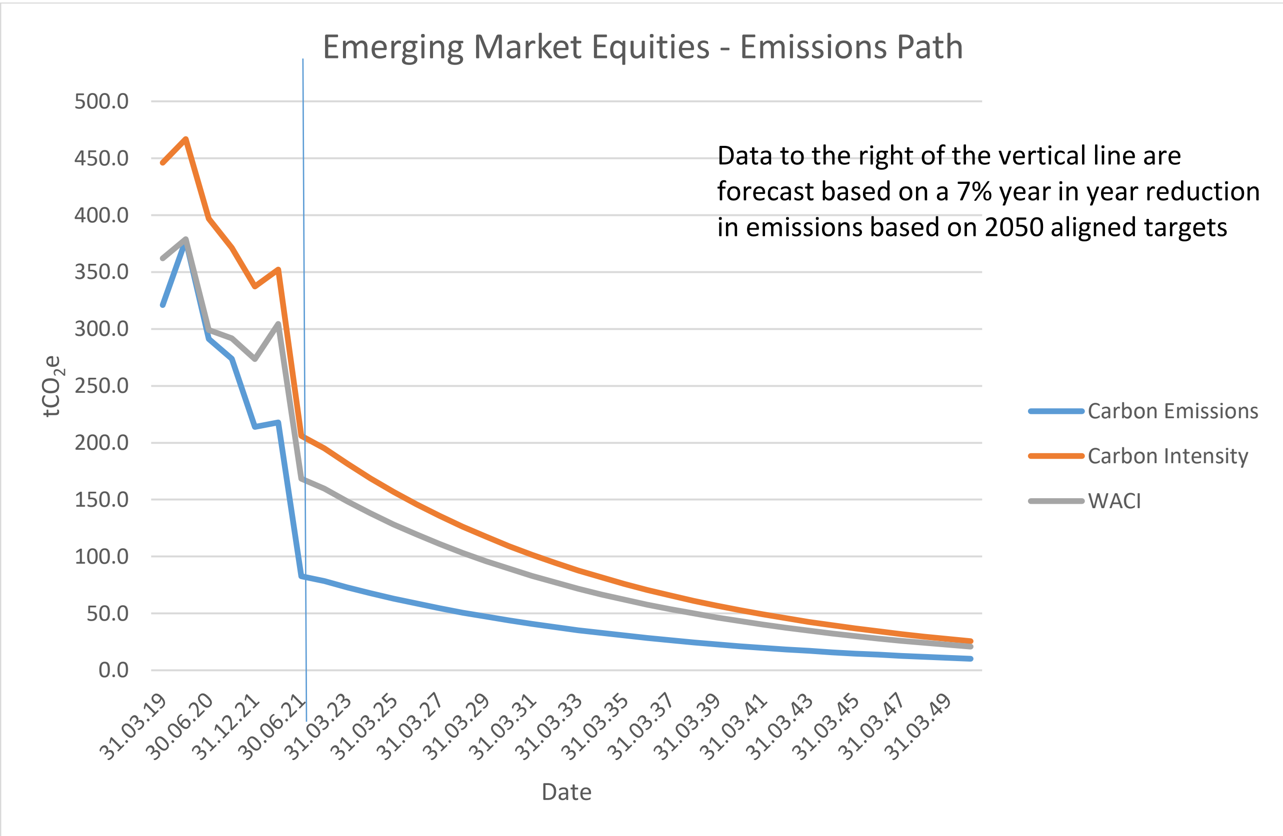
Emerging Market Equities - Emissions Path
Data to the right of the vertical line are forecast based on a 7% year in year reduction in emissions based on 2050 aligned targets
Carbon Emissions
Carbon Intensity
WACI
tCO_2e
Date
500.0
450.0
400.0
350.0
300.0
250.0
200.0
150.0
100.0
50.0
0.0
31.03.19
30.06.20
31.12.21
30.06.21
31.03.23
31.03.25
31.03.27
31.03.29
31.03.31
31.03.33
31.03.35
31.03.37
31.03.39
31.03.41
31.03.43
31.03.45
31.03.47
31.03.49

While unlikely to be representative because of the impact of the pandemic the absolute emissions measure for each of the portfolios reduced by over 25% during 2020/21 with similar scales of reduction in the other measures. While clearly the pandemic has impacted the level of activity this is not the sole driver and there are some signs of positive action by companies beginning to have an impact on these metrics, and it is also encouraging that the gains made in the pandemic do not appear to be being given up as economic activity recovers, although given the lagging nature of these measures it may be a little early to come to a judgement on this,

What is also particularly noticeable in these data which reflect the position for the first quarter following the introduction of the specialist China managers to the Emerging Markets Fund is the significant reduction in all three measures for this fund, amounting to 62% for the absolute emissions measure. This reflects the impact that the more refined stock selection that these specialist managers are able to apply has on the nature of the underlying companies within the portfolio. While this results in all three metrics for this Fund now being in a similar range to the other two and this Fund now having the lowest absolute emissions following the stabilisation of the new pattern of holdings it is unlikely that future progress will be made is quite such dramatic steps.

At this stage without further action, it is, as anticipated, clear that the 2030 objective will not be achieved in relation to the equity portfolios in isolation. There are two steps which can accelerate progress without fundamentally challenging the overall investment strategy.

- Changes which are being worked on by Border to Coast to the way in which the equity products are managed in order to make the investment process more “climate aware”. These are now being actively discussed with partner funds and seem likely to result in more rapid progress in a positive direction through the application of interim emissions targets.
- The opportunity presented by the Investment Strategy Review following the 2022 valuation where we will have the opportunity to consider how much equity exposure, we need to maintain in order to meet the fund’s liabilities and also what the appropriate balance of exposures between the different markets is.

This element of our reporting will evolve over time and we will need, when available to consider how to bring data from other asset classes into the picture in order to achieve a “whole portfolio picture”. In the meantime, as equities are the largest single asset class exposure it makes sense to concentrate some effort in this area.

Collaborative Activity

This section focuses on the activity undertaken in the quarter through the various collaborations in which the Authority is either directly involved or indirectly involved through Border to Coast.

The Workforce Disclosure Initiative works in a similar way to a number of the early climate initiatives promoting transparency among companies about workforce issues to allow investors to understand more clearly whether the company faces significant risks as a result of its workforce practices.

The WDI has launched its findings report for its 2020 survey results. The survey covers topics including wage levels, staff turnover and workers' rights. 141 companies responded, up 20% from the previous year, with every economic sector covered. The high-level findings saw companies:

- Improving transparency on pay, with more progress needed to tackle inequalities.
- Having diversity and inclusion as priority areas.
- Making commitments to human rights, which are not always matched in practice.
- Are often not explaining how they are taking responsibility for their supply chains.

The 2021 survey is now underway with the target list covering over 1,000 companies. Border to Coast will again be engaging with a number of companies encouraging them to respond.

In their 2020 report, “Investing with Purpose”, The Asset Management Taskforce (a group comprised of government, senior asset management representatives and other key stakeholders), recommended that a dedicated council representing UK pension schemes should be established to promote and facilitate high standards of stewardship of pension assets.

In response to this recommendation, the DWP has created the Occupational Pensions Stewardship Council, of which Border to Coast have joined as an inaugural member. The council provides a forum for sharing experience, best practice, and research, and providing practical support. The LGPS Scheme Advisory Board is also participating as an observer.

Policy Development

This section of the report highlights a number of the key pieces of policy related activity which have taken place during the quarter.

Impact Reporting
Over the quarter work continued with Minerva to put the groundwork in place for the Authority's first impact report. This has involved data gathering from fund managers, particularly across the alternatives portfolio. It had been intended to complete the report in June alongside the annual report, however, it is clear that it will take somewhat longer to get the required information from a sufficient proportion of the alternatives managers. It will be possible to include some highlights in the annual report but it makes sense to delay publication of the full impact report. This does not impact the statutory reporting processes, but it will put a delay in to our ability to assess the required "distance to travel" in terms of net zero.

Place Based Impact Investing
The Director has contributed to research sponsored by the Impact Investing Institute on Place Based Impact Investing. This work was published in a "White Paper" on 26th May and the Authority is quoted as a case study. A copy of the report has been placed in the on line reading room or is available through the Impact Investing Institute website here.

Net Zero Top Tips for Pension Scheme Trustees
The Prince's Accounting for Sustainability Project (A4S) has undertaken a study with a number of investors to produce some helpful suggestions for trustees as to how to approach the Net Zero discussion. SYPA alongside institutions such as NatWest, NEST and Scottish Widows was selected to provide a case study which is available here.

DWP Consultation on Social Impact
The DWP has launched a consultation aimed at private sector pension funds on the consideration of social impact. This follows on from the recent consultation on the recognition of climate risk by private sector funds. While an interesting development this does not seem to raise any specific issues for action by the Authority.

Introduction of TCFD Reporting to the Local Government Pension Scheme
MHCLG have indicated an intention to consult on regulations which will require LGPS funds to report in line with the requirements of the Task Force on Climate Related Financial Disclosure (TCFD). SYPA has done this for a number of years and the work that is being undertaken with Minerva is intended to improve the level of disclosure we can provide. It is likely that we will need to commission external resources to undertake further scenario analysis to address gaps in what we are currently able to produce, however, this is more a consequence of SYPA improving its reporting as part of our pursuit of net zero than a consequence of the new regulations.

Improvements to the Responsible Investment Approach for the Commercial Property Portfolio
Discussions have been held with ASI the Authority's commercial property manager to secure improvements in the reporting of ESG metrics in relation to the property portfolio. Previously the ability to report on these metrics was limited by the arrangements with the managing agent. These have been addressed in the new contract, which is now operational, although it will take some time to complete the initial data gathering. This work is intended to support an improvement in the portfolio's score on GRESB (the Global Real Estate Sustainability Benchmark), although because of the timescales for data gathering it is expected that the full impact of the work will only come through in the 2022 exercise. However, a material improvement in the average energy performance rating of the portfolio is expected during this financial year.

National Framework for Stewardship Services

The current national LGPS procurement framework for stewardship services which covers voting and engagement services as well as projects such as the Impact Reporting project being carried out by Minerva, which was procured under the current framework, is due for renewal. The Director has agreed that the Authority should act as a founder for the new framework and is participating in the steering group which is overseeing the procurement process.

As the data provided by Border to Coast in relation to ESG scores and carbon emissions is provided by an external third party the following legal wording is required to be included within this report.

Subject	Development of the Border to Coast Property Proposition	Status	For Publication
Report to	Authority	**Date**	9th September 2021
Report of	Director and Head of Investment Strategy		
Equality Impact Assessment	Required Not Required	Attached	Yes No
Contact Officer	George Graham Director	**Phone**	01226 772887
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

1.1 To provide members with an update on the development of the Border to Coast property proposition and gain approval for the required contribution to further development costs.

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2 Recommendations

2.1 Members are recommended to:

a. **Note the progress being made in developing Border to Coast's property proposition and the proposed next steps for the Authority.**

b. **Approve a contribution of £0.5m to the further development costs of the proposition.**

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3 Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

The development of an effective property proposition by Border to Coast will from SYPA's point of view complete the Border to Coast product set and ideally should provide additional sources of return within this asset class.

4 Implications for the Corporate Risk Register

The actions outlined in this report address the identified risks relating to the suitability of the Border to Coast product set.

5 <u>Background and Options</u>

5.1 Border to Coast have been developing proposals for a series of products covering the property asset class for some time. This process has now reached the next key decision point where partner funds need to agree to commit resources to the development of the relevant operating models and procurement of appropriate service providers.

5.2 Property is potentially the most challenging asset class in which to develop a pooled product, particularly given the significantly different starting points of the 11 Border to Coast partner funds, for example 4 funds (including SYPA) have direct holdings, others have only UK exposure while others only have global exposure, some have very traditional core commercial property exposure while others are exposed to a greater diversity of types of property. The illiquid nature of the asset class also means that the process of transition from current fund holdings can be very protracted, while the dynamics of the market can also make it difficult to invest large sums of new cash quickly.

5.3 It is also the case that the type of investments that a £3.5bn property fund (the current maximum potential for Border to Coast) will invest in are significantly different to those that will be invested in by a £600m fund like SYPA, creating the potential for a some "churning" of assets if existing holdings are transferred. Equally a fund of the potential scale of Border to Coast is likely to be able to address the widest possible range of opportunities.

5.4 The company is proposing to launch Global and UK products which addresses the demand from partner funds.

Global Products

5.5 Having reflected on initial feedback from partner funds around differences in risk appetite and return expectations the Company now propose to launch 2 "fund of fund" structures. One structure will focus on Core and Core+ holdings (similar assets to those that SYPA currently holds in the UK), while the other with a higher risk/return balance will target what are called Value Add and Opportunistic holdings and will consequently involve somewhat more development risk. Having two complimentary products of this sort allows partner funds to combine them and set their own risk return dial through the balance of investment between the two structures.

5.6 The Company will need to secure an adviser to work with them on selecting the specific funds to hold within these products and this procurement will be part of the next stage of development.

5.7 SYPA currently has no appreciable global property holdings. The strategy agreed for the property portfolio at this time last year allows for an initial allocation of 1% of the Fund to global property, and subject to due diligence on the developed Border to Coast proposition it would be the intention to use this route to secure this exposure.

UK Property

5.8 The main UK proposition is based upon the premise that the bulk of the fund will be invested in actual buildings with up to 15% invested through funds in more specialist areas such as residential. The UK proposition is more complex because it potentially involves the transfer of the existing directly held assets. The proposition also involves a "transition vehicle" which will hold cash in a variety of more liquid property fund investments pending deployment within the main fund. This is an approach which while not necessarily of immediate benefit to SYPA does mean that it will be possible for partner funds to maintain property exposure during the time it takes to make new investments in actual properties,

5.9 There are a range of non-trivial costs involved in transferring assets into a new structure such as legal fees. In addition, there are potential tax issues which may mean that it is not possible to transfer Scottish and Welsh assets into the Border to Coast structure, although an alternative solution is being worked on for this. All of this impacts the potential economic case for pooling existing investments.

5.10 The Company and the Authority's Investment Advisory Panel are in ongoing dialogue over the detailed business case for the pooling of existing investments and these discussions will culminate in a recommendation later in the financial year. At this point the next steps are for Border to Coast to undertake the remaining detailed product design and procure service providers such as a depositary and the investment adviser (who will play a similar role to the one played by Aberdeen Standard for SYPA) and a managing agent to handle day to day interaction with tenants.

Resources for the next stages of development

5.11 The agreements supporting the creation of Border to Coast stipulate that the costs of developing new products are to be shared equally between the partner funds. The remaining development work will involve significant spend on legal and tax advisers to draw up the necessary documents for regulatory approval and create the required legal structures together with specialist support for the various procurement processes as well as the costs of a project team within the Company. The estimated contribution per partner fund is **up to** £0.5m which includes a significant contingency. Given that SYPA is the second largest fund within the Partnership and significantly larger than the next largest fund this equal sharing of costs actually works in our favour as our contribution is proportionately less relative to the assets to be invested. Any contribution to development costs is a direct charge to the Pension Fund rather than to the operating budget.

Next Steps

5.12 Agreeing to contribute to the costs of developing the pooled products is not, at this stage, a commitment to invest. While the case for the Global product is clear and it provides access to investments which SYPA does not currently make further discussion is required around the UK product and in particular around fully understanding the economic case and transition issues. The intention is to hold a workshop for members in February which can explore these issues in detail leading up to a decision based on a recommendation from the Investment Advisory Panel in March.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	The contribution to development costs will be made from the Pension Fund and will not impact the operating budget. As indicated in the body of the report the equal shares arrangement is favourable for larger funds such as SYPA.
Human Resources	None
ICT	None
Legal	None
Procurement	None

George Graham

Director

Sharon Smith

Head of Investment Strategy

Background Papers	
Document	**Place of Inspection**

SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Decisions taken Between Meetings of the Authority**	**Status**	For Publication
Report to	Authority	**Date**	9th September 2021
Report of	Director		
Equality Impact Assessment	Not Required	Attached	No
Contact Officer	George Graham Director	**Phone**	01226 772887
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1 Purpose of the Report

1.1 To report on decisions taken as a matter of urgency between meetings of the Authority.

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2 Recommendations

2.1 Members are recommended to:

a. Note the decisions taken between meetings of the Authority using the appropriate urgency procedures.

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3 Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

4 Implications for the Corporate Risk Register

4.1 The particular decision taken relates to the identified risks around the effectiveness of oversight arrangements for Border to Coast.

5 Background and Options

5.1 It is often necessary for decisions to be taken between meetings of the Authority due to the time sensitive nature of the matters involved. These decisions are taken by the Chair in consultation with the s41 members and the Director and while published on the Authority's website are also reported to the next Authority meeting for transparency.

5.2 One decision has been required since the previous meeting of the Authority. This related to the casting of the Authority's shareholder vote on 4 resolutions at the annual general meeting of Border to Coast. The resolutions covered:

1. The Approval of the Annual Report and Accounts – These show the company operating within budget and delivering progress against the strategic plan agreed with partner funds.
2. The reappointment of KPMG as auditors – KPMG have been in place for 3 years which is significantly less than the 9 years after which the Authority's voting policy would indicate that independence could be compromised.
3. The annual review of the conflicts of interest policy for directors – This has been updated to reflect some regulatory changes but there are no changes of substance.
4. The register of directors' interests – This is comprehensive and raises no issues not previously addressed by the Board with shareholders.

5.3 Having considered the advice of the Director and the views of the s41 members the Chair agreed that the Authority's vote should be cast in favour of all four resolutions.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	None
Human Resources	None
ICT	None
Legal	None
Procurement	None

George Graham

Director

Background Papers	
Document	**Place of Inspection**
Published Decision Record 2021-032	Officer Decisions (sypensions.org.uk)

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Appendix A

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