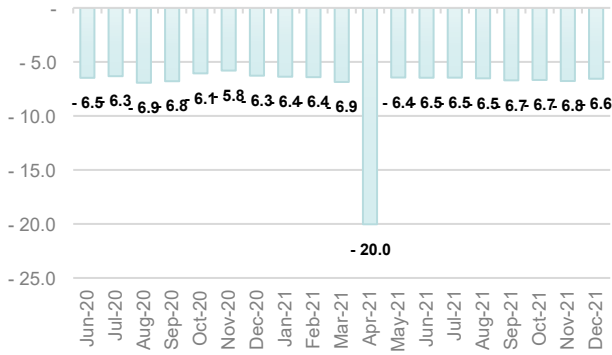
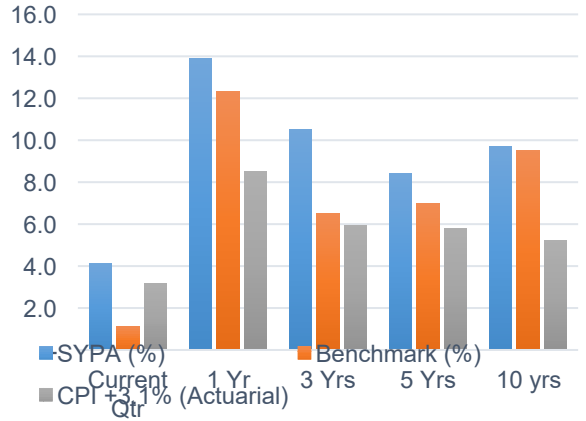


QUARTERLY REPORT TO 31 DECEMBER 2021

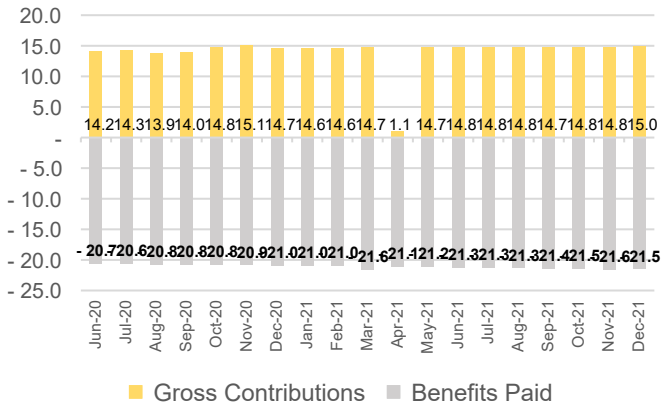
NET CONTRIBUTIONS



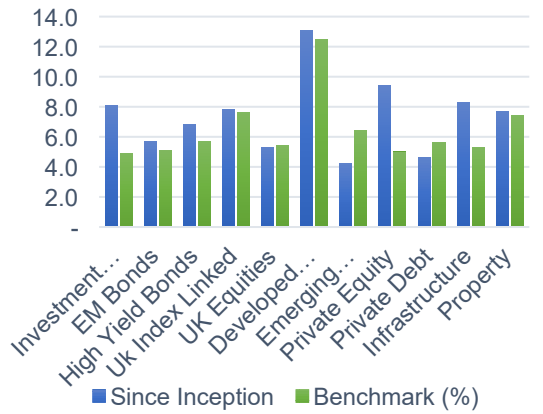
TOTAL FUND RETURN



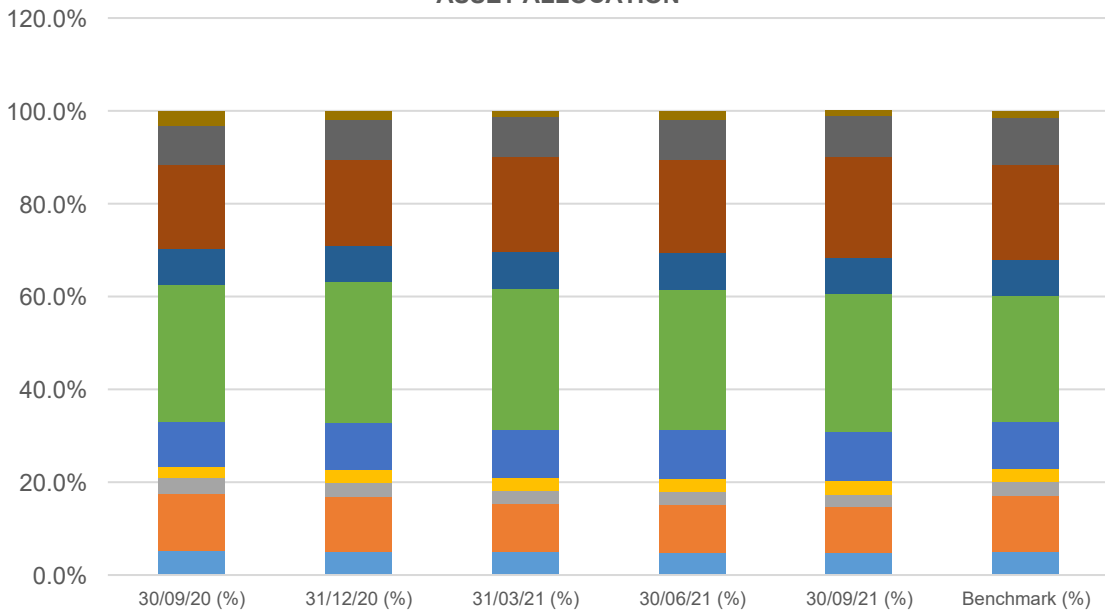
BREAKDOWN OF NET CONTRIBUTIONS



ASSET PERFORMANCE BY TOTAL ASSET CLASS - SINCE INCEPTION



ASSET ALLOCATION



Market background

Equity markets rallied in October after a jittery end to the last quarter. Volatility then increased as the rise of the Omicron variant emerged and clouded the prospects for economic recovery. However equity markets confounded everyone finishing strongly.

Surprisingly, UK equities performed well but lagged broader global markets by a small margin over the quarter. The UK was one of the first to be impacted by Omicron and extra restrictions imposed impacted the consumer-facing sectors in particular. However, having a high proportion of the population vaccinated and successfully ramping the booster roll-outs along with the milder nature of the Omicron variant meant that we avoided the levels of restrictions of earlier variants. In addition, the Chancellor announced higher taxes in his November budget statement and the Bank of England raised interest rates in December by 0.15% to 0.25% as inflation came in higher than expected and the labour market continued to show tightening.

Global equities showed strong performance with developed markets outperforming emerging markets. Returns from the US were the strongest boosted by its high proportion of technology stocks and Japan was the weakest having been the strongest major market the previous quarter.

Government bond markets were impacted by persistent, elevated inflation, hawkish central bank policy shifts and the emergence of the Omicron variant. Yields fell for most of the quarter before reversing in the final weeks of the year as sentiment improved. Yieldcurves flattened, with shorter-dated bonds hit as central banks turned more hawkish. Corporate bonds lagged government bonds for the quarter. EM hard currency bonds declined, with high yield significantly weaker.

Commodity indexes rose moderately despite a decline in the price of natural gas. Industrial metals were the driver of performance with strong gains in the prices of zinc, nickel, lead and copper.

Real estate returns were positive with all sectors rising. Industrials were the strongest with hotels the weakest. A faster than expected rebound in retail warehouse pricing contributed to the stronger performance in the overall retail sector.

Fund Valuation

as at 31 December 2021

	Sep-21		Quarterly Net Investmen t	Dec-21		Benchmar k %	Range %
	£m	%		£m	%		
FIXED INTEREST							
Inv Grade Credit - BCPP	485.4	4.7	0.0	485.6	4.5	5	
UK ILGs - BCPP	897.1	8.6	0.0	952.6	8.8	10	
UK ILGs SYPA	151.9	1.5	-90.4	69.3	0.6		
High Yield Bonds	272.3	2.6	-272.8	0.0	0.0	0	
EM Bonds	303.4	2.9	-302.4	0.0	0.0	0	
MAC - BCPP			618.4	617.9	5.7	6	
TOTAL	2110.1	20.3	-47.6	2125.4	19.7	21	16-26
UK EQUITIES	1101.9	10.6	0.0	1144.1	10.6	10	5_15
INTERNATIONAL EQUITIES							
Developed Market - BCPP	3066.0	29.5	0.0	3237.6	30.0	27.125	
Developed Market - SYPA	33.6	0.3	-7.0	28.1	0.3		
Emerging Market - BCPP	776.7	7.5	0.0	768.9	7.1	7.875	
Emerging Market - SYPA	5.5	0.1	-2.9	2.4	0.0		
TOTAL	3881.8	37.3	-9.9	4037.0	37.4	35	30-40
PRIVATE EQUITY							
BCPP	102.7		29.2	140.4			
SYPA	869.8		-48.2	881.5			
TOTAL	972.5	9.4	-19.0	1021.9	9.5	7	5_9
PRIVATE DEBT FUNDS							
BCPP	20.8		11.9	33.8			
SYPA	496.1		-23.0	485.1			
TOTAL	516.9	5.0	-11.1	518.9	4.8	5.5	4.5-6.5
INFRASTRUCTURE							
BCPP	61.5		95.8	160.5			
SYPA	723.2		7.7	748.3			
TOTAL	784.7	7.5	103.5	908.8	8.4	10	8_12
PROPERTY	911.5	8.8	-38.0	915.2	8.5	10	8_12
CASH	118.4	1.1		124.6	1.2	1.5	0-5
TOTAL FUND	10397.8	100.0		10795.9	100.0	100	
COMMITTED FUNDS TO ALTERNATIVE INVESTMENTS	1279.1			1272.8			

Asset Allocation Summary

As equity markets continued to be strong we took the opportunity to take further profit. £9.9m was raised from the legacy holdings and these proceeds were used to fund the drawdowns into the alternative funds.

The largest transaction this quarter was the transition of our high yield and emerging market bonds to the new Border to Coast Multi Asset Credit fund. This took place in October. We also added £47.5m cash proceeds to take our weighting towards a neutral weighting. To fund this we sold some of the legacy index-linked gilts.

Within property we completed on four sale transactions during the quarter. Augustin Retail Park in Grantham was sold for £3.8m, Avalon House, Richmond was sold for £15.45m, Go Outdoors, Coventry was sold for £4.5m and 95, New Cavendish Street, London was sold for £20.5m. These were all transactions that were reported earlier in the 2021 strategic plan.

As reported last quarter we did see a significant drawdown of £105m into infrastructure funds which has taken our weighting within the permitted ranges for this asset class.

There is now only one category that is outside it's tactical range and that is private equity.

We have seen continued uplift in valuations from our private equity fund holdings and although we had a net £19m realisation over the quarter we actually saw an increase in weighting to this category. We are expecting some realisations to be completed over the next couple of quarters which will hopefully bring the allocation down.

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

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

Asset Allocation Summary



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	1021.9	9.5	-0.5
Sterling Inv Grade Credit	5	3 - 7	485.5	4.5	-0.5
Multi Asset Credit	6	4 - 8	617.9	5.7	-0.3
UK Equities	10	5 - 15	1144.1	10.6	0.6
Overseas Equities	35	30 - 40	4037	37.4	2.4
Private Equity	7	5 - 9	1022	9.5	2.5
Private Debt	5.5	4.5-6.5	518.9	4.8	-0.7
Infrastructure	10	8 - 12	908.8	8.4	-1.6
Property	10	8 - 12	915.2	8.5	-1.5
Cash	1.5	0 - 5	124.6	1.2	-0.3
Total	100		10795.9	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

Performance

as at 31 December 2021

	Qtrly Performance		Financial Y.T.D.	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Investment Grade Credit - BCPP	0.6	0.3	1.8	1.1
UK ILGs	6.0	6.2	13.6	13.7
High Yield Bonds	-0.4	-0.3	2.7	0.4
EM Bonds	-1.3	-1.3	5.8	1.9
Multi Asset Credit - BCPP	-0.1	0.5		
TOTAL	2.9	3.2	8.2	7.1
UK EQUITIES	3.8	4.2	11.5	12.5
INTERNATIONAL EQUITIES				
Developed Market - BCPP	5.6	5.2	14.1	13.6
Developed Market - SYPA	5.0	5.2	11.7	13.6
Emerging Market - BCPP	-1.0	-1.4	-2.3	-1.3
Emerging Market - SYPA	-3.2	-1.4	-5.0	-1.3
TOTAL	4.3	3.7	10.5	10.2
PRIVATE EQUITY	7.0	2.7	17.9	7.1
PRIVATE DEBT FUNDS	2.7	2.7	10.2	7.1
INFRASTRUCTURE	2.8	2.7	10.2	7.1
PROPERTY	5.7	6.1	11.3	13.1
CASH	0.0	0.0	0.0	0.0
TOTAL FUND	4.1	3.7	10.7	9.3

Performance Summary

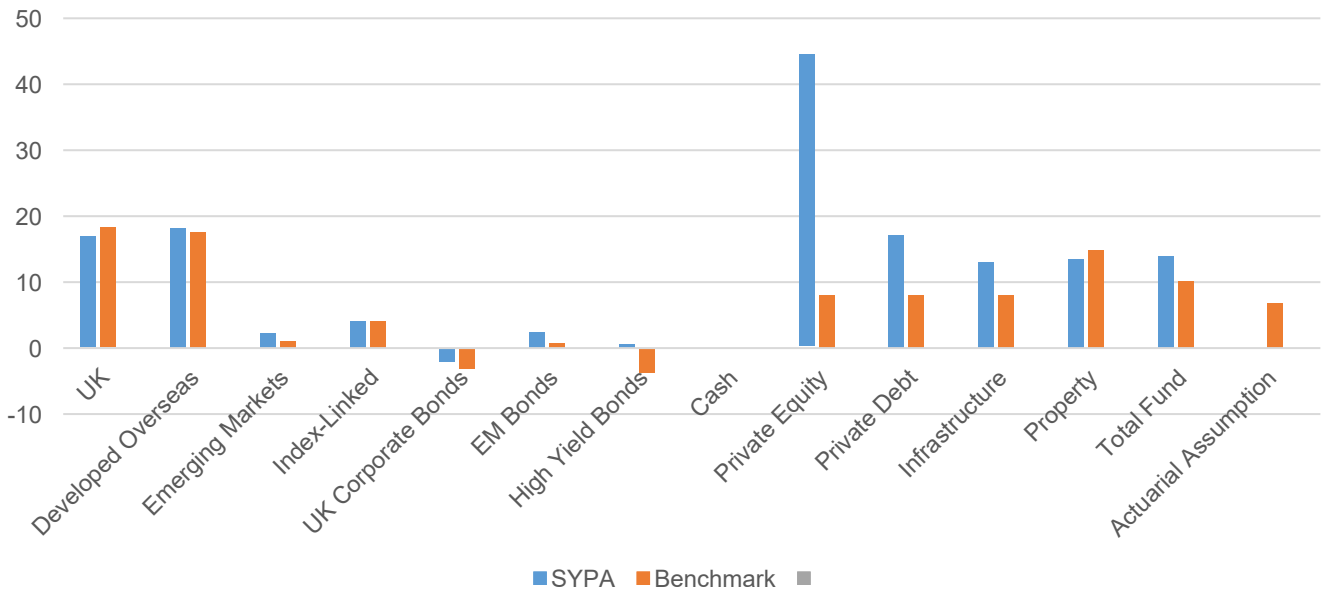
For the quarter to the end of December, the Fund returned 4.1% against the expected benchmark return of 3.7% and for the year to date the Fund has now returned 10.7% against an expected return of 9.3%.

Stock selection was the reason for the outperformance and the breakdown of the stock selection is as follows:-

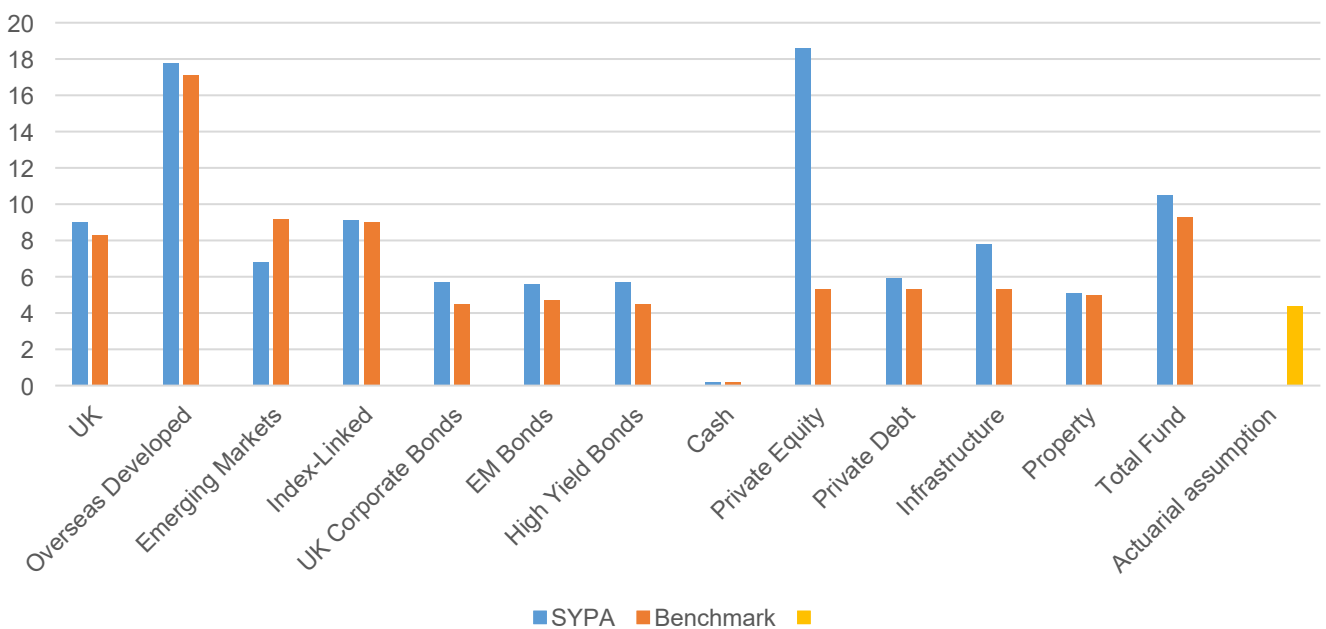
DM Overseas Equities	0.1%
Total Bonds (transition)	-0.1%
Private equity funds	0.5%
Commercial Property	-0.1%

Performance-Medium term

1yr Performance by Asset Class



3YR Annualised Performance by Asset Class



Performance – Border to Coast Funds

This quarter the UK equity fund continued to show underperformance of its benchmark. The performance was impacted by adverse stock selection in materials and industrials, and conservative positioning against a strong market backdrop.

The Overseas Developed Market portfolio continued its steady outperformance.

The Emerging Market fund also outperformed its benchmark with both the Chinese managers outperforming strongly. Thus we have seen some recouping of the earlier underperformance.

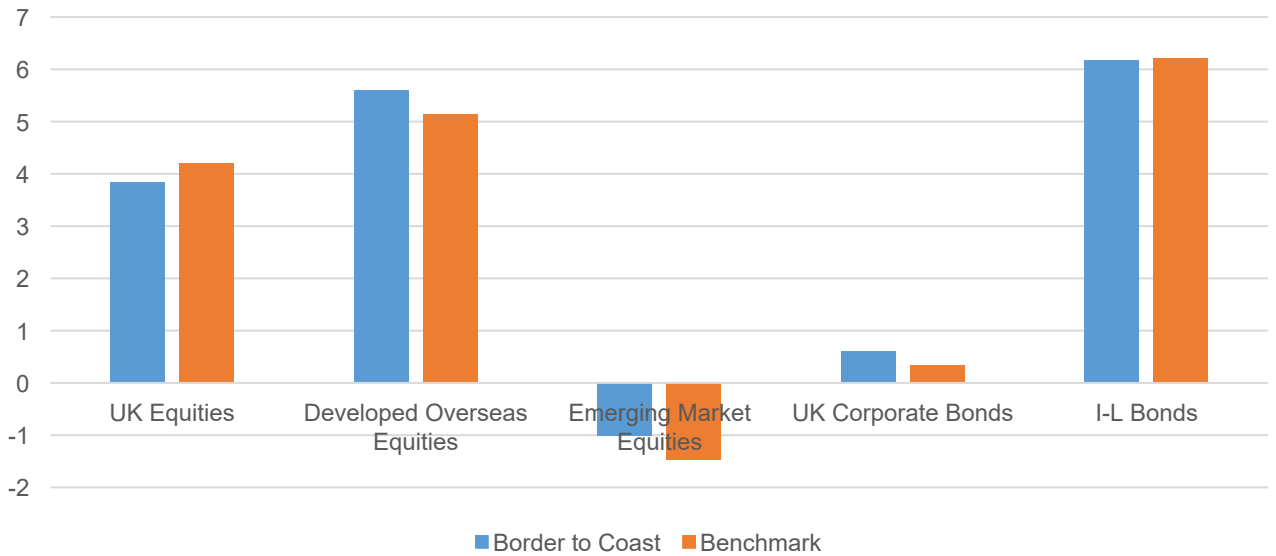
The Multi Asset Credit (MAC) fund showed slight underperformance for the period from 12th November when the portfolio came out of transition. However it is too early to comment on performance.

Both the index-linked bond and sterling investment grade credit portfolios outperformed their benchmark.

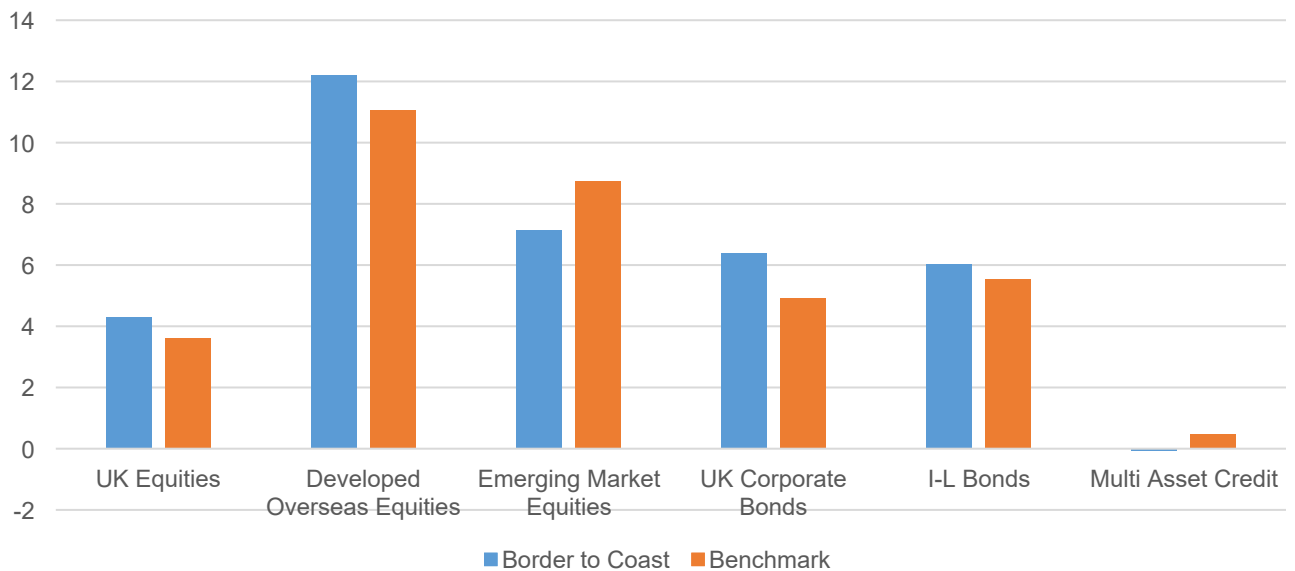
The charts below show quarterly returns but also the longer term position of each of the Border to Coast funds that we hold.

Performance-Border to Coast Funds

Border to Coast Funds - quarter to Dec 21



Border to Coast Funds - Since Inception



Funding Level

The funding level as at 31 December 2021 is estimated to be 112%

The breakdown is as follows:

Fund's Assets at 31 December	£10.795
Funds estimated Liabilities at 31 December	£9,635

Caveat

This estimate is calculated on a rollforward basis. This means that there is no allowance made for any actual member experience since the last formal valuation on 31 March 2019.

Climate Opportunities Fund

As part of our Net Zero target we will consider a range of alternative investment approaches to enable us to manage risks and opportunities related to climate change. These may include active management of carbon risk which results in some reduction of exposure, such as a tilt towards low-carbon companies and assets, alongside company engagement and an increased allocation to low carbon opportunities.

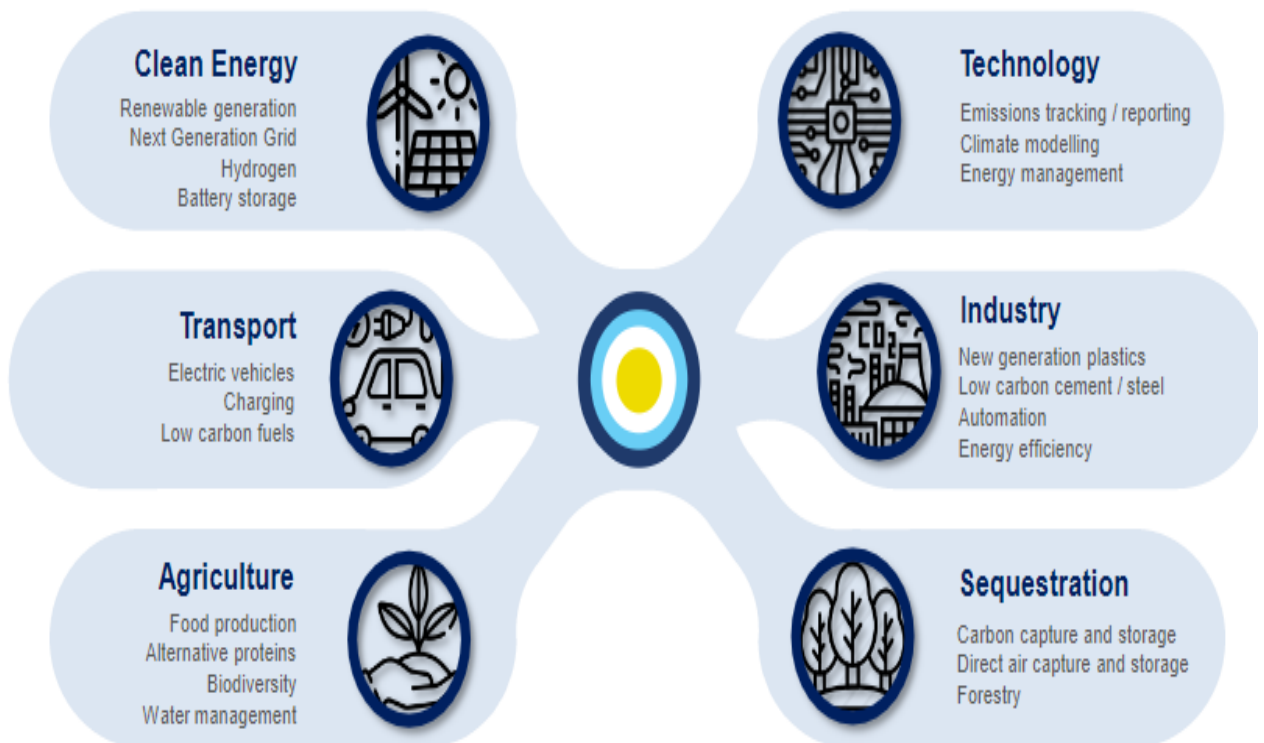
SYPA already has exposure to a range of low carbon investments through its existing strategy in areas such as infrastructure (renewable energy) and private equity (clean tech), and will look at increasing these in the forthcoming strategic review. Within our current investment strategy the Fund has a 10% allocation to global infrastructure and these investments already include a range of renewable energy projects, electric vehicle charging and the manufacture of electric trains and buses. These projects are utilising new technologies to remove carbon emissions and will hopefully lead to widespread adoption of these solutions. Analysis of our current portfolio shows that we have £320m exposure to renewables/climate opportunities (2.97% of total fund, 35% of our current infrastructure exposure).

Border to Coast are currently exploring the possibility of launching a Climate Opportunities fund which SYPA is supportive of. 100% of this portfolio would be carbon and climate aware supporting our Fund commitment to decarbonise and can help SYPA meet its net zero target. It would be differentiated from the main alternative offerings. The investments are expected to be mainly infrastructure or private equity but could also include private debt opportunities. It is anticipated that commitment size of individual investments would be lower than for the main alternative offerings as it is expected that these would be mainly niche managers which tend to launch smaller funds.

The returns will be driven by risk appetite, income requirements and strategy. It would be wider than just clean energy and the funds may have a wider dispersion of returns. They will also target Carbon emissions, WACI, Paris aligned companies. This fund is different to the other alternative funds which are 3 year series which have annual commitments, this will be a single capital raise with a 3 year investment period, ie there will be one opportunity at the beginning of the series to make an allocation which will be drawn down over a 3 year period.

Climate Opportunities Fund

This fund will invest in strategies which support the energy transition and move to a low carbon economy and will have a target return of 8% p.a.. These opportunities are expected to map out over 6 sectors.



Climate Opportunities Fund

The investments will fall into 3 different classification of assets and Border to Coast will seek to diversify across the investment strategy classifications of

- Operating assets – in established technologies or asset classes which contribute to the decarbonisation agenda. Returns from underlying investments would typically be generated through income Expected net returns of 4-6%. Risk profile is similar to core infrastructure assets.
- Developing assets – development in established technologies, operational assets in newer technologies, such as the construction of wind and solar powered generation and investment in assets utilising newer, emerging technologies such as battery storage, electric vehicle charging and hydrogen fuel. Returns would be a mix of income and growth 8-12% net. Risk profile is broadly similar to core plus or value added infrastructure
- New technologies – Venture and growth investments in new technologies in the green economy., focus on capital growth Expected return of 15-20% net with a risk profile in line with private equity

The broad aim of the portfolio will be to construct a portfolio which exhibits lower carbon emissions than the wider private market strategies, delivers carbon reduction/offsetting and supports the transition to a lower carbon economy. Each investment will be assessed regarding the anticipated climate benefits of the investment strategy. Border to Coast are working with the industry to agree standardised environmental reporting metrics with the hope of assessing the benefit at portfolio level but if it is not possible then each individual fund may have different reporting metrics.

The allocation to this fund will be made to start commitment from April 2022 which is before work on our strategy review begins but this fund will help us achieve a target of increased climate positive investments. We are intending to reduce our annual commitments to the current 3 alternative asset classes to accommodate exposure to this fund. Our exposure to fossil fuels at 31 December was £253m which is 2.34% of the total fund valuation so we would like to commit to invest an amount to off-set this current exposure. Also we would expect that this fossil fuel exposure would decrease over time and so our net exposure to positive carbon impact investments would increase.

The amount of commitments from all partner funds exceeded the capacity that Border to Coast had for this fund and as such everyone was scaled back. Our commitment is £245m.

Alternative Fund Commitments

Expected allocations for 2022/23 for the three alternative asset classes based on our benchmark weightings would be

Private Equity	£150m
Private Debt	£145m
Infrastructure	£210m
Total commitment	£505m

To accommodate the climate opportunities fund of c£80m pa we need to reduce the annual commitments

Private Equity	£100m - we are overweight this category so are reducing proportionately more from this category
Private Debt	£140m
Infrastructure	£185m
Climate opportunities	£80m
Total commitment	£505m

Outlook

At the beginning of 2022 geopolitical and monetary risks are higher than we have seen for many years. Inflation risk is the greatest challenge for most investors with concern that higher than expected inflation accelerates the removal of policy accommodation. Hawkish rhetoric by central banks is pointing to imminent tightening.

From an asset allocation perspective, we still prefer equities to bonds as we expect equities to be supported by earnings growth, which should more than offset the impact of higher bond yields. Policy tightening by the Central Banks will lead to higher yields and thus negative bond performance.

UK Equities

UK equities offer attractive valuations relative to history and other developed markets. The positive vaccination situation has meant that economic activity has started to normalise. Although rates are expected to rise policy is likely to still be relatively accommodative. However, strong sterling will weigh on the FTSE 100 given its high exposure to foreign revenues. We will reduce weighting to add to the new Border to Coast Listed alternatives fund.

Overseas equities

We expect market conditions to remain volatile as higher than expected inflation accelerates the removal of monetary policy accommodation. The first rate hike by the Federal Reserve is likely to occur in March followed by up to two potential further rises during the latter half of the year. The ECB is potentially looking at a first rate increase in over a decade in early 2023. The Bank of Japan is not expected to raise rates in the next two years. The risk to equities is that if rate hikes need to come even faster than currently anticipated. We are still moderately overweight overseas equities as expectations in other asset classes are even more limited. However, we will be reducing this position to add to the new Border to Coast Listed alternatives fund. We also are underweight emerging markets relative to our benchmark weighting and see no reason to adjust this position.

Outlook

Bonds

The expectation of higher rates is negative for nominal government bonds and credit markets but given the outlook for higher medium term inflation we would prefer inflation linked bonds. 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. They are however a better bet than conventional fixed income.

We are underweight credit against a backdrop of rising rates and high valuations. At the moment we prefer to take the risk in equities ,

Real Estate

In 2021, UK real estate performance reached levels not seen since 2015, with the industrial sector outperforming the all property average by a significant margin, The spread between the best and worst performing sectors reached the highest level on record in 2021. This spread in performance is expected to converge Overseas capital continues to dominate investment, constituting 58% of all transactions in 2021.

It is expected that the industrial sector will remain the key sector call but following a period of sustained yield compression, rental value growth is expected to be the primary performance driver for the sector. Prime industrial and logistics units will be best placed to capture rental value growth.

The office sector was the worst performing sector in 2021 and is expected that with the headwinds facing the sector that it will underperform the wider market in 2022. But it is expected that there will be a clear polarisation in performance between Grade A and secondary office buildings.

Polarisation within the retail sector is expected to continue. Retail warehouses have rebounded strongly with prime yields narrowing. However this has been focussed on assets that are let on affordable rents, and anchored by grocery, discount and DIY occupiers. The outlook for fashion related assets remains more challenging.

Outlook

Real Estate cont

The expectation is that the Bank of England will be looking to increase rates in 2022 but they will still remain at low rates in a historical context and this will continue to support real estate pricing, and in particular, long-let secure income. SYPA's position relative to the sectors mentioned above is positive. We have a relatively strong overweight to industrial and have increased our weighting to supermarkets during 2021 and have actively decreased weightings to riskier offices with imminent lease expiries/voids and peripheral retail assets and the portfolio looks well positioned going forward.

Will look to selectively increase weighting.

Alternatives

The alternative investment market which includes investments within private equity, private debt and infrastructure, have the potential to add value and diversification. They generally generate 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. Within the alternative area Border to Coast are looking to launch a Climate Opportunities fund and we will look to allocate to this from our existing alternative allocation in 2022.

Cash

Cash is now at a level that any further cash requirement will be financed by switching among the asset classes.

Update – market background

The Russian invasion of Ukraine has dominated price action this week (to the 4th March.) Sanctions on Russian entities, and SWIFT restrictions further dominated headlines and the markets became more risk averse.

Global equities have fallen after initial resilience when the invasion began. The worst hit equity market has been Europe, closely followed by UK markets. The best performing market has been Asia Pacific ex Japan due to the strong performance in the materials sector which makes up a significant portion of the index.

The flight to quality in fixed income continued. The market's expectation of the US Fed's tightening declined, although there is still expectation that rates will move higher. (The conflict doesn't change the fundamental pressures facing policy makers.) Emerging market bonds remain volatile with spreads on Russian bonds widening significantly.

Commodities continued their rally as the market worked through the supply and demand impact of the war in Ukraine. Oil finished the week up more than 12%, above \$110 per barrel, which is the highest price in a decade. Non-energy commodities also rallied given the geographical concentration of production in commodities such as wheat and palladium in Eastern Europe.

Major equity indices have probably not fallen as significantly as first expected because of the positive impact of the reduction in investors' expectations for monetary tightening in Developed Markets and the associated fall in government bond yields.

The fall in developed market government bond yields since the start of Russia's invasion might seem at odds with the 20% rise in the price of oil. However, the reduction in interest rate expectations (which has pushed down real yields) has been enough to offset the effect of higher commodity prices (which has pushed up inflation compensation)

The situation is fluid and will be monitored closely, Markets are alternating between being focussed on the Fed and possible actions and on the situation in Ukraine. The two themes could keep volatility elevated

Ultimately if a cease fire is agreed, yields, especially those of inflation protected bonds, could potentially rebound a lot more.

