



Investment Strategy Statement

March 2023

Introduction

This is the Investment Strategy Statement (ISS) of the South Yorkshire Pension Fund (“the Fund”) which is administered by the South Yorkshire Pensions Authority (“the Administering Authority”). The Investment Strategy Statement (ISS) is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The ISS is an important governance tool for the Fund as well as providing transparency in relation to how the Fund investments are managed. The regulations establish the range of matters that the Authority must consider when carrying out its responsibilities. In addition, the Authority is required to manage the Fund in the best financial interests of its members and beneficiaries at all times.

In preparing this statement officers have taken advice from an investment consultant, the Fund’s actuary and from two retained independent advisors.

The Statement is subject to review periodically, but at least every three years, and without delay after any significant change in investment policy. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement, which is available on our website at www.sypensions.org.uk.

Investment objectives

The Fund’s primary investment objective is to ensure that over the long term it will have sufficient assets to meet all of its pension liabilities as they fall due. This objective is more fully explained in the Authority’s Funding Strategy Statement (FSS) derived from the actuarial valuations of the Fund.

The crux of the FSS is the need to maintain a future funding level of 100% or better whilst keeping employer contribution rates as low and reasonably stable and affordable as possible. In order to achieve this the Fund’s actuary estimates that an investment return of 2.3% over the risk-free rate is required.

To meet this objective the Authority manages the Fund from a long-term viewpoint and endeavours to maximise its returns but, at the same time, operates within a closely controlled range of acceptable risks. It also ensures that liquidity requirements are at all times met.

Process for ensuring suitability of investments

The Authority manages the Fund’s investments, and it has delegated its day-to-day management responsibilities to its officers. The Scheme of Delegation to Officers is formally approved by the Authority and forms part of its constitution.

The Authority comprises twelve councillors drawn from the four district councils of South Yorkshire (together with non-voting co-opted members appointed by the trade unions). The constituent councils appoint members to the Authority in accordance with the provisions of the Local Government Act 1985. The Authority also liaises with the Local Pension Board which includes representatives of employers and scheme members.

The Authority is responsible for setting the investment strategy of the Fund. As well as obtaining advice from Authority’s officers it has also appointed independent investment

advisors to advise it on investment matters and an actuary for the production of actuarial valuations and for advice on liability issues. For other work it appoints consultants when required.

In order to ensure as far as possible that the investment strategy is appropriate for the Fund's liabilities the Authority has created its own bespoke or customised strategic asset allocation. This benchmark is consistent with the Authority's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and acts as a framework and is adopted only after analysing the Fund's liability structure in detail. It is reviewed at least every three years and always after the statutory actuarial valuation.

The Fund's directly owned securities are held by the custodian bank or its agents or directly by the Authority.

The Fund has recently carried out an asset and liability study alongside the 2022 actuarial valuation. The Fund's liability data was used in the modelling and the implications of adopting a range of alternative investment strategies were assessed and being cognisant of the Authority's commitment to its investment portfolios being net zero in terms of carbon emissions by 2030. The implications for the future development of the Fund were considered under a wide range of different scenarios and their implications for net zero alignment.

The investment strategy is determined based on the expected return on asset classes (for equities, bonds, property etc.) with the appetite for risk as measured by the dispersion (likely range) of these returns. The Fund may also make use of derivatives, either directly or in pooled investments, for the purposes of efficient portfolio management or to hedge specific risks, in order to protect the value of the Fund's assets.

The conclusion of the study was that although the current strategy has a good chance of meeting the long-term objective regarding funding there was an opportunity to marginally improve the risk and return balance that increases the likelihood of achieving the long-term objective and reduces the potential for adverse outcomes. At the same time, to achieve the net zero target there needed to be allocation to natural capital and renewables. The increases in the allocation to net-zero focussed assets, doesn't materially impact the funding outcomes. This is done by reducing the exposure to equities, multi-asset credit and index-linked gilts and allocating to alternative and income focussed assets such as timberland, climate impact investments and private debt.

Changes to the allocations to public markets investments can take place relatively quickly but change to private market investments will take several years. The Authority is satisfied that the investment strategy has a sufficient probability of meeting its return targets over the long-term and it is expected that the Fund's long term investment returns will be at least in line with these assumptions and those published in the FSS.

The long-term benchmark positions before and after March 2023 are set out in the table below. Due to the amount of time, it will take to increase the allocations to private market investments, interim benchmarks will be used over an appropriate period to reflect these changes.

| Asset Class | Current Benchmark % | New Benchmark % | Tolerance |
|-------------------------|---------------------|-----------------|-----------|
| UK Equities* | 10.0 | 7.5 | } +/- 5% |
| Global Equities* | 35.0 | 30.5 | } |
| Private equity | 7.0 | 7.0 | +/- 2% |
| Total Growth | 52.0 | 45.0 | |
| Multi Asset Credit | 6.0 | 2.5 | +/- 2% |
| Infrastructure | 10.0 | 9.0 | +/- 3% |
| Private Debt | 5.5 | 7.5 | +/- 2% |
| Property | 8.0 | 9.0 | +/- 2% |
| Natural Capital | 2.0 | 3.5 | +/- 2% |
| Climate Opportunities | | 5.0 | +/- 2% |
| Renewable Energy | | 5.0 | +/- 2% |
| Total Income | 31.5 | 41.5 | |
| UK Index-Linked Gilts | 10.0 | 7.0 | +/- 2% |
| Corporate Bonds | 5.0 | 5.0 | +/- 1% |
| Cash | 1.5 | 1.5 | +/- 1% |
| Total Protection | 16.5 | 13.5 | |
| Total | 100.0 | 100.0 | |

*Note for the purposes of these tolerances listed equity allocations will be treated as a single allocation

As indicated above this asset allocation is constructed on the basis that it delivers the actuarially required return target of 2.3% over the risk-free rate which equates to 4.45% pa over the longer term.

In line with the regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with the authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007. At the time of writing there are no such investments.

The Authority monitors the Fund's actual allocation on a regular basis to ensure that it does not notably deviate from the target allocation. In order to measure the performance of each asset class against its benchmark index and monitor the investment objective, the Authority requires detailed performance measurement figures. These are independently provided by Portfolio Evaluation and are presented to the Authority on a quarterly basis.

Risk measurement and management

The Fund's main long-term risk is that assets do not match liabilities, and that funding objectives are not achieved. There are many different types of risk involved in capital stewardship and the Authority notes that without taking "risks" it will be difficult for the Fund to achieve the performance it needs if it is to meet its objectives. The Authority recognises that risk is inherent in any investment or operational activity and seeks to control risk rather than try to eliminate it. The approach aims to mitigate risk without compromising returns. In order to generate the required investment returns necessary to match the growth in liabilities this implies that the Fund will continue to take an active risk relative to its liability profile.

The key risks inherent in the Fund, and how these risks are mitigated, are below.

| Risk | Description | Mitigants |
|------------------------------|---|--|
| Counter Party | Counterparty risk in every transaction in which the Authority takes part. | Use reputable service providers who operate effective controls. Independent investment advisers appointed to assist in the scrutiny of the investment management activity. |
| Funding strategy risk | There is a risk that the value of Fund assets will not match the increase in its liabilities which could result in a deteriorating financial position. | The effect can be reduced by diversifying the Fund's portfolios across a broad spectrum of assets and markets, considering these differences and the correlations between them and by granting the Fund's managers sufficient freedom to meet their targets but setting range constraints. |
| Performance | The Fund's investment managers fail to deliver returns in line with the underlying asset classes. | Analysis of market performance and investment managers' performance relative to their index benchmark on a quarterly basis. Manager performance is also reviewed regularly with support from independent investment advisers. |
| Demographic | Demographic factors including the uncertainty around longevity/mortality projections (e.g. longer life expectancies) can also contribute to funding risk. | Demographic assumptions are conservative, regularly monitored, and reviewed on a triennial basis. |
| Liquidity | Liquidity or market risk associated with the volatility of prices in certain assets and under certain market conditions. | Part of the Fund is held in securities that can be realised quickly in normal market conditions. Management of Authority cash flows to ensure future payments can be met. |

| Risk | Description | Mitigants |
|---|---|--|
| Inflation & Interest rates | Different classes of asset have different risk and return characteristics and sensitivities to changes in financial factors, in particular to inflation and interest rates. | It is important that the Fund's strategy considers these differences and the correlation between them. The Fund regularly monitors its exposure to interest rates. |
| Foreign exchange | Investing overseas exposes the Fund to fluctuations in exchange rates. | The Fund's customised benchmark regulates such exposure |
| Environmental, Social and Governance (ESG) | ESG risks have the ability to impact a company's profitability and the Fund's investment performance. | The Fund has a suite of Responsible Investment (RI) policies, acts as a responsible share owner and factors ESG into investment decision making. These are also referenced elsewhere in the report. |
| Employers | The financial capacity and willingness of sponsoring employers to support the Fund. | This is regularly reviewed by the Authority. |
| Governance | The risk of poor governance and the potential issue of Committee member turnover. | <p>Ensure that Members are well informed by officers and independent advisers. A Member training programme is in operation.</p> <p>The Local Pension Board and external and internal audit also support the scrutiny and governance process.</p> |

Approach to pooling investments

The Fund is a participating scheme in the Border to Coast Pensions Partnership (Border to Coast). Border to Coast is an FCA regulated Operator and Alternative Investment Fund Manager (AIFM) that became operational in July 2018 and was set up to manage the assets of the 11 administering Authorities of the following LGPS Funds

- Bedfordshire Pension Fund
- Cumbria Pension Fund
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- South Yorkshire Pension Fund
- Surrey Pension Fund
- Teesside pension Fund
- Tyne & Wear Pension Fund
- Warwickshire Pension Fund

The July 2016 submission to Government of the Border to Coast Pool provided a statement addressing the structure and governance of the Pool and the mechanisms by which the Fund can hold the Pool to account.

Border to Coast's role is to independently and professionally, deliver Partner Funds asset allocation choices. It will make decisions relating to and monitor the investment managers (including employees of Border to Coast) who manage the administering authorities' "fund money" with the aim of maximising the long-term net of fees investment returns attributable to each of the Parties.

Border to Coast has a strong corporate governance philosophy, focused on the delivery of long-term value through active corporate engagement, the rationale being that this aligns directly with ensuring the Partner Funds exercise their fiduciary duty in the best interests of their members and employers. Information regarding the structure and governance of Border to Coast can be found on their website <https://www.bordertocoast.org.uk/>

The Fund's intention is to invest its assets primarily through the Border to Coast pool as and when suitable investment solutions are available. At this time investments have been made in Border to Coast's UK Equity, Global Developed Equity, Emerging market Equity, Sterling Index-Linked Bond, Sterling Investment Grade Credit, Multi Asset Credit and Listed Alternative funds. Also, we have invested into their Climate opportunities, Private Equity, Private Debt and Infrastructure fund platforms.

Other investment opportunities continue to be developed. Partner Funds acknowledge that there may be occasions where Border to Coast is unable to implement all asset allocation strategy decisions made because it would not be cost effective to do so, but the Partners and Border to Coast will work together to try to avoid this situation.

The Fund will hold Border to Coast to account through the following mechanisms:

- The Authority will monitor and regularly review the investment performance of the assets under Border to Coast's management, seeking explanation and attendance of Border to Coast personnel at meetings where necessary.
- The conducting of an annual review of the performance of Border to Coast by the Authority's officers and independent advisers resulting in an annual report to the Authority.
- Two shareholder nominated Non-Executive Directors on the Board of the Company, with equal voting rights, who will provide oversight and control of the corporate operations of Border to Coast.
- A representative on the Joint Committee (generally the Chair of the Authority) who will monitor and oversee the investment operations of Border to Coast.
- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group.

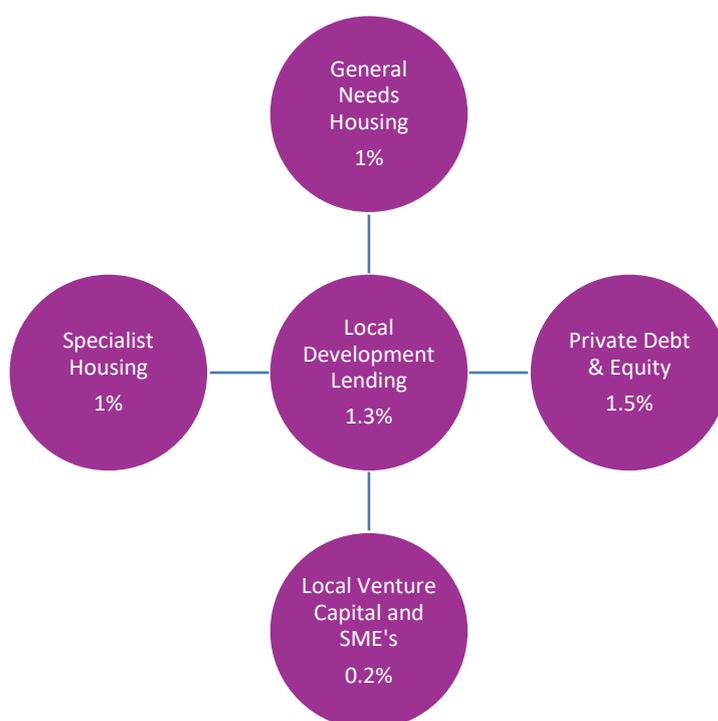
The Pension Fund will retain the decision-making powers regarding investment strategy and will delegate the investment management function to Border to Coast.

At the time of writing 70% of the Fund's assets are managed by Border to Coast and other assets (largely real estate and legacy alternatives) will transfer across to the pool on a phased basis as pooled vehicles become available or alternative investments are realised.

Where it is not practical or cost effective for assets to be transferred into the Pool, they will continue to be managed at the Fund level. These are expected to predominantly include unquoted investments such as limited partnerships. Whilst these assets are unlikely to be transferred it is expected that once these investments mature the proceeds will be reinvested into suitable Border to Coast sub-funds.

The Fund has a significant holding invested directly in a portfolio of agricultural property. Border to Coast is not proposing to develop a product in this area and if this portfolio is retained it will continue to be managed outside the Pool.

The Fund is also permitted to directly invest locally, subject to suitable risk/return characteristics where this is not available through the Pool. The Authority is aiming to create an allocation to place based impact investments with an ultimate target allocation of 5% of the Fund's asset value in line with the "Levelling Up" White Paper for LGPS funds. These allocations would form part of the various asset classes in the benchmark with the proposed allocations shown below.



The intention is to create a sufficiently diversified portfolio of investments across types of assets with income generation to address the Fund's cashflow requirements. Within this allocation the local development lending, general needs housing and local venture could be expected to be wholly South Yorkshire focussed while in the other elements we would look to work with managers to "tilt" their exposures in some way. Thus, it can be seen that we are trying to find levelling up opportunities within the scope of the strategy that has been set to fulfil the Authority's fiduciary responsibility.

Social, environmental and corporate governance policy

The Authority is fully committed to responsible investment and good stewardship of its investments. It acts at all times in the best long-term interests of all its members and looks to protect and enhance the economic value of the companies in which it invests on their behalf. It believes that well governed companies produce sustainable and superior long-term returns. Responsible investment is fundamental to the Authority as it is in accordance with the fiduciary duty owed to stakeholders.

The Authority takes its responsibilities as a long-term investor seriously integrating environmental, social and governance factors into the investment process. Environmental risks include climate change; the Authority believes that the associated risks and opportunities may have a material impact on the financial performance of the Fund and has therefore published a Climate Change policy statement which can be found on the Authority's website. The Authority has also adopted a Net Zero Goal in relation to its investment portfolios and has published an Action Plan relating to its achievement which is available on its website.

The Authority believes that the pursuit of standards of best practice aligns the interest of Fund members with those of fellow shareholders and with society as a whole. The Authority recognises that it is unable to use its policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government. The Authority has published a separate Responsible Investment policy statement available to view on its website.

These policy statements and a statement specifically related to the application of responsible investment in the context of the Commercial Property portfolio are regularly updated.

This is an area where the Authority works together with Border to Coast and the other 10 partner funds, who have agreed a policy framework in this area which the Company is required to follow. This ensures that the Company is able to apply a consistent framework in this area across all aspects of its work.

The Authority invests in sustainable and impact funds which have positive social and environmental impacts. It does so only when returns are considered to be commercial and will not forego financial return in order to generate social impact.

Responsibility for the practical implementation of the Fund's approach to responsible investment is devolved to Border to Coast as the provider of investment management services. As such they are required to publish their own responsible investment policy and sign up to both the UK Stewardship Code and the UN Principles of Responsible Investment compliance with both of which will be externally monitored on an ongoing basis. Border to Coast procedures ensure that ESG issues are routinely monitored as part of the investment analysis and incorporated into the due diligence leading to investment selection and reviewed as part of the active ownership of assets under management.

The six principles of investment decision making for occupational pension schemes.

Under Regulations issued in 2009 administering authorities of the LGPS are required to report their compliance against the Principles for Investment Governance. The six Principles are intended to guide institutional investors on matters such as investment, scheme governance, disclosure and consultation and the Authority publishes a separate statement outlining its full compliance with the principles.

Stewardship

The Fund has a suite of policies addressing responsible investment and stewardship which are reviewed annually.

The Authority recognises that it is not always possible for it to conduct constructive engagement alone: therefore, it will enter directly or through Border to Coast, into collaboration with other like-minded investors when the occasion warrants doing so.

It is an active member of the Local Authority Pension Fund Forum and will join other collaborative pressure or lobbying groups if it feels it is appropriate to do so. The Authority is a member of the IIGCC which is a forum for collaboration on climate change for European investors. The Authority believes that risks and opportunities associated with climate change may have a material impact on the financial performance of the Fund and, therefore, supports the Group's objective to catalyse greater investment in a low-carbon economy by bringing investors together to use their collective influence with companies, policymakers and investors.

Border to Coast on behalf of partner funds, has also signed up to the 30% Club whose aim is to pursue gender diversity on company boards and at senior management level, the Workforce Disclosure Initiative, Climate Action 100+ and the Task Force on Climate Related Financial Disclosure.

Voting rights

The Authority regards its voting rights as an asset to be used carefully. The voting power is delegated to Border to Coast as investment manager. Border to Coast aims to vote in every market in which it operates. It has appointed a contractor to ensure that its votes are effectively executed.

The Authority subscribes to the Border to Coast voting policy which has been agreed by all partner funds and has been informed through the interpretation of best practice guidelines in consultation with the proxy advisor. Voting decisions, nonetheless, are made on a case-by-case basis bearing in mind a company's circumstances. Voting decisions will be available to view via the Fund's website quarterly.

Constructive shareholder engagement, with the aim of promoting and supporting good corporate governance principles and practice, will be pursued whenever it is deemed appropriate to do so. The Voting Guidelines collectively agreed by all 11 funds participating in the Border to Coast pool are available on the internet and can be accessed through the Responsible Investment pages of the Authority's website www.sypensions.org.uk

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