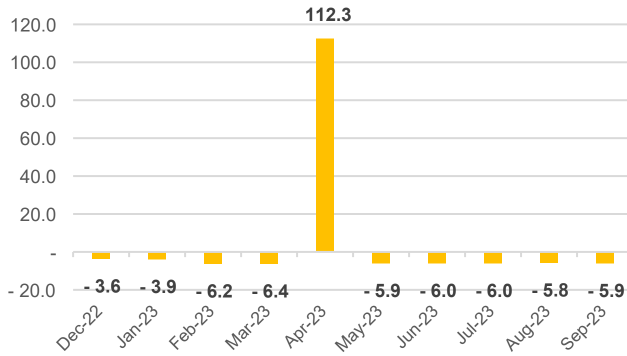
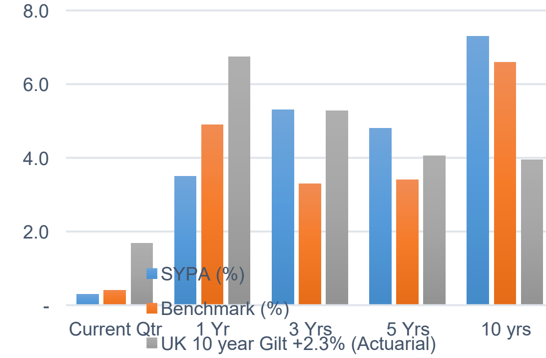
SOUTH YORKSHIRE PENSIONS AUTHORITY

QUARTERLY REPORT
TO 30 SEPTEMBER 2023

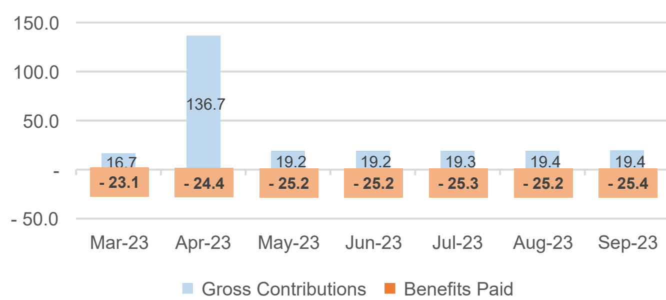
NET CONTRIBUTIONS



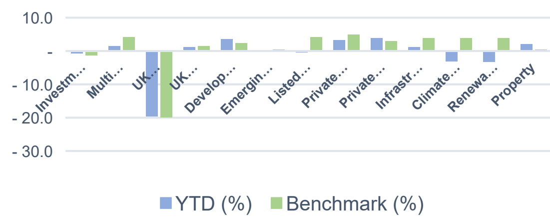
TOTAL FUND RETURN



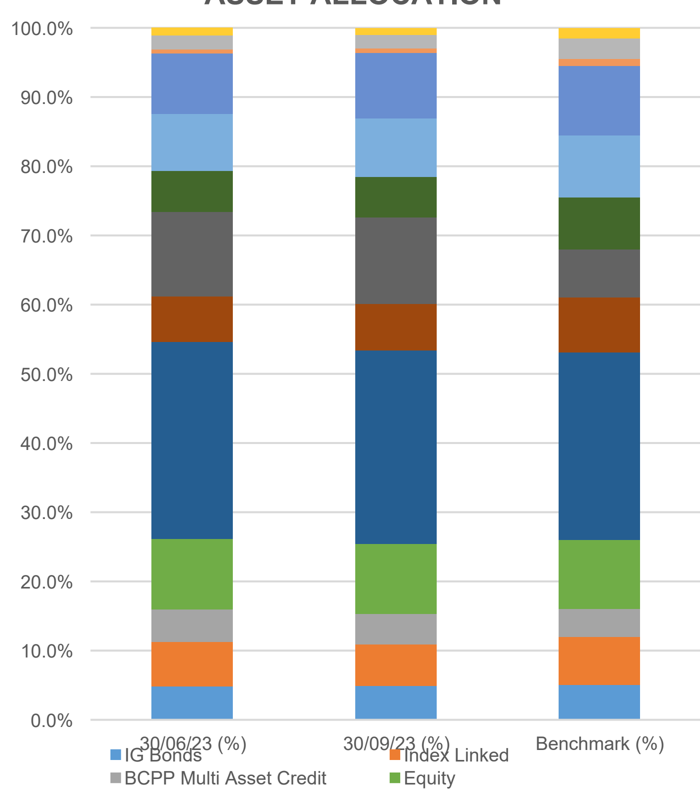
BREAKDOWN OF NET CONTRIBUTIONS



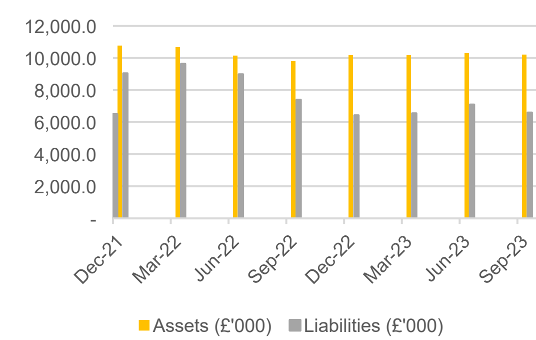
ASSET PERFORMANCE BY TOTAL ASSET CLASS- YEAR TO DATE



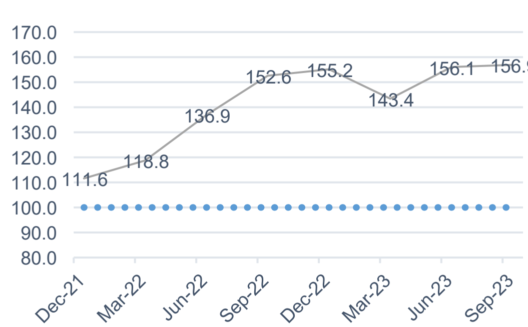
ASSET ALLOCATION



ASSET LIABILITY RATIO SINCE DEC 2021



FUNDING LEVEL %



Market background

This quarter a downbeat mood dominated global stock markets as investors finally started to focus on the Central Banks 'higher for longer' rhetoric. Government bonds also declined as yields rose. A potential US government shutdown also weighed on sentiment before legislators reached a last-minute deal to prevent one.

Survey indicators suggested that economic activity weakened during the quarter with services activity losing momentum and the manufacturing sector contracting. Europe looked particularly weak. Inflation has been reducing but core inflation which excludes energy and food prices has been falling more slowly. The Federal Reserve and the Bank of England both raised rates 0.25% to 5.5% and 5.25% respectively and then left rates unchanged at their September meetings. The ECB raised its rate twice to 4%. The bank of Japan loosened its yield curve control policy in July. The comments from the central banks suggest that policy rates are either at or close to peaking, but cuts will be more gradual than previously thought.

In sterling terms, the global equity index showed a small positive return with the UK, Japan and emerging markets outperforming other regions. Japan outperformed as yen weakness supported the earnings of the export heavy market. UK equities overall were positive given the above average exposure of the index to the energy sector, Europe ex-UK underperformed given the weak business surveys and a large exposure to a struggling manufacturing sector and the US underperformed due to the poor performance this quarter of the tech sector.

UK Index-Linked bonds had significant negative returns as the UK 10-year yield continued to rise, although performance began to improve towards the end of the quarter as signs of slowing inflation allowed the B0E to keep rates unchanged in September. Sterling Investment Grade credit outperformed government bonds with spreads narrowing across both investment grade and high yield bonds.

SOUTH YORKSHIRE PENSIONS AUTHORITY

Market background

Commodity indexes rose driven by sharply higher energy prices after Russia and Saudi Arabia cut oil production. Industrial metals rose modestly as price gains for zinc, lead and aluminium offset weaker prices for nickel and copper. The weakest component of the index was precious metals with weaker prices for both gold and silver.

The property index was almost flat over the quarter, returning -0.2%. Capital value declines in the office and retail sectors offset the income received. The office and retail sectors continue to see month-on-month capital value declines, while the industrial sector has recovered some of the falls seen at the end of 2022 having recorded seven consecutive months of growth.

SOUTH YORKSHIRE PENSIONS AUTHORITY

Fund Valuation

as at 30 September 2023

	Jun-23		Quarterly Net	Sep-23		Benchmark	Range
	£m	%	Investment	£m	%	%	%
FIXED INTEREST							
Inv Grade Credit - BCPP	496.2	4.8	0.0	501.4	4.9	5	
UK ILGs - BCPP	633.3	6.2	55.0	617.7	6.0	7	
UK ILGs SYPA	33.6	0.3	-31.1	0.0	0.0		
MAC - BCPP	484.7	4.7	-34.5	450.6	4.4	4	
TOTAL	**1647.8**	**16.0**	**-10.6**	**1569.7**	**15.3**	**16**	**11_21**
UK EQUITIES	**1053.9**	**10.2**	**-35.0**	**1034.2**	**10.1**	**10**	**5 _ 15**
INTERNATIONAL EQUITIES							
Developed Market - BCPP	2922.6	28.4	-50.0	2875.1	28.4	27.125	
Emerging Market - BCPP	683.3	6.6	0.0	696.3	6.6	7.875	
Emerging Market - SYPA	0.7	0.0	0.0	0.7	0.0		
TOTAL	**3606.6**	**35.0**	**-50.0**	**3572.1**	**34.7**	**35**	**30-40**
LISTED ALTERNATIVES -BCPP	**156.1**	1.5	**0.0**	**155.2**	1.5	0	
PRIVATE EQUITY							
BCPP	279.4		16.8	294.6			
SYPA	825.7		-19.1	845.0			
TOTAL	**1105.1**	**10.7**	**-2.3**	**1139.6**	**11.1**	**7**	**5_9**
PRIVATE DEBT FUNDS							
BCPP	129.5		7.3	137.3			
SYPA	473.7		-20.6	468.5			
TOTAL	**603.2**	**5.9**	**-13.3**	**605.8**	**5.8**	**7.5**	**5.5-9.5**
INFRASTRUCTURE							
BCPP	375.8		21.3	391.7			
SYPA	476.4		-18.3	468.6			
TOTAL	**852.2**	**8.3**	**3.0**	**860.3**	**8.4**	**9**	**6_12**
RENEWABLE ENERGY	**209.5**	**2.0**	**0.7**	**205.9**	**2.0**	**3**	**1_5**
CLIMATE OPPORTUNITIES	**60.2**	**0.6**	**4.1**	**62.1**	**0.6**	**1**	**0-3**
PROPERTY	**890.9**	**8.6**	**85.3**	**974.6**	**9.5**	**10**	**8_12**
CASH	**116.7**	**1.1**		**105.2**	**1.1**	**1.5**	**0-2.5**
TOTAL FUND	**10302.2**	**100.0**		**10284.7**	**100.0**	**100**	
COMMITTED FUNDS TO ALTERNATIVE INVESTMENTS	**1562.4**			**1584.9**			

Asset Allocation Summary

We continued to reduce our overweight position to listed equity funds. We sold £35m from UK equities with £25m of this switched to Index-Linked bonds at a time when index-linked bonds had underperformed significantly. £50m was also raised from overseas developed equities.

Within bonds we switched £30m from the Multi asset Credit fund into index-linked bonds while we sold down the remaining legacy index-linked bonds that we held directly.

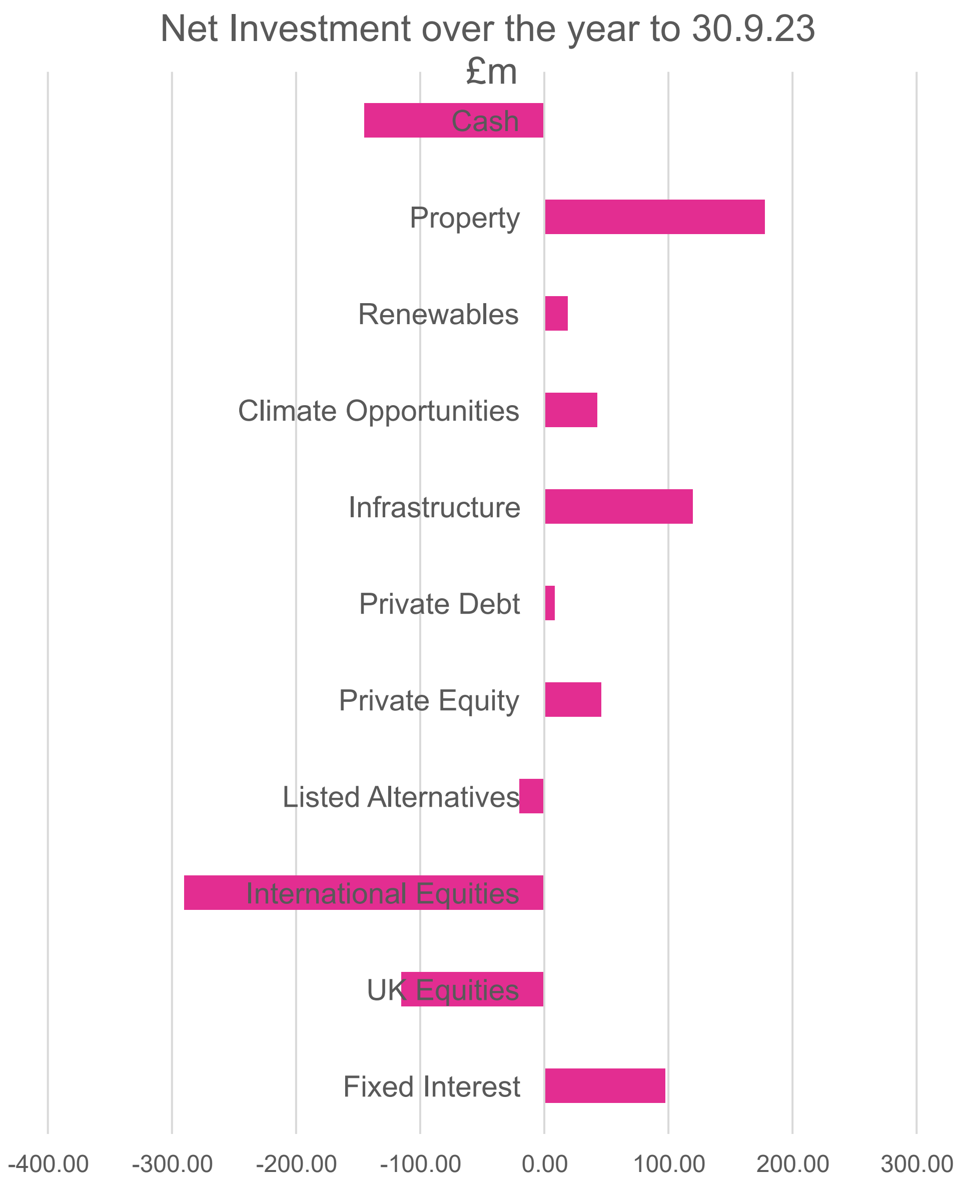
Within the property portfolios there were a further £13m of drawdowns on the CBRE local loans and £17m drawdowns into property impact funds that we hold, and we purchased £23m of agricultural land which is adjacent to existing holdings.

After the trades mentioned above there is still only one category that is outside its tactical range, and that is private equity.

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.

Asset Allocation Summary



SOUTH YORKSHIRE PENSIONS AUTHORITY

Asset Allocation Summary

Strategic vs Current Asset Allocation					
Asset Class	**SAA Target**	**Range**	**Current Asset Allocation**		
	%	%	£m	%	OW/UW
Index Linked Gilts	7	5 - 9	617.7	6.0	**-1.0**
Sterling Inv Grade Credit	5	4 - 6	501.4	4.9	**-0.1**
Multi Asset Credit	4	2 - 6	450.6	4.4	**0.4**
UK Equities	10	5 - 15	1034.2	10.1	**0.1**
Overseas Equities	35	30 - 40	3572.1	34.7	**-0.3**
Private Equity	7	5 - 9	1139.6	11.1	**4.1**
Private Debt	7.5	5.5-9.5	605.8	5.9	**-1.6**
Infrastructure	9	6 - 12	860.3	8.4	**-0.6**
Renewables	3	1-5	205.9	2.0	**-1.0**
Listed Infrastructure	0	0-2	155.2	1.5	**1.5**
Climate Opportunities	1	0-2	62.1	0.6	**-0.4**
Property	10	8 - 12	974.6	9.5	**-0.5**
Cash	1.5	0.5 - 2.5	105.2	1.0	**-0.5**
Total	100		10284.7	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

SOUTH YORKSHIRE PENSIONS AUTHORITY

Performance

as at 30 September 2023

	Qtrly Performance		Financial Y.T.D.	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Investment Grade Credit - BCPP	2.2	2.3	-0.6	-1.2
UK ILGs	-10.6	-10.7	-19.6	-19.8
Multi Asset Credit - BCPP	0.1	2.2	1.4	4.1
UK EQUITIES	**1.5**	**1.9**	**1.2**	**1.4**
INTERNATIONAL EQUITIES				
Developed Market - BCPP	0.1	0.1	3.5	2.4
Emerging Market - BCPP	1.9	2.5	0.1	0.4
TOTAL	**0.4**	**0.6**	**2.8**	**0.8**
PRIVATE EQUITY	**3.4**	**2.4**	**3.3**	**4.9**
PRIVATE DEBT FUNDS	**2.9**	**1.5**	**3.9**	**3.0**
INFRASTRUCTURE	**0.7**	**1.9**	**1.2**	**3.9**
RENEWABLES	**-1.8**	**1.9**	**-3.2**	**3.9**
CLIMATE OPPORTUNITIES	**-3.1**	**1.9**	**-3.1**	**3.9**
PROPERTY	**0.8**	**-0.2**	**2.1**	**0.4**
CASH	**1.4**	**1.3**	**2.1**	**2.4**
TOTAL FUND	**0.3**	**0.4**	**0.5**	**0.4**

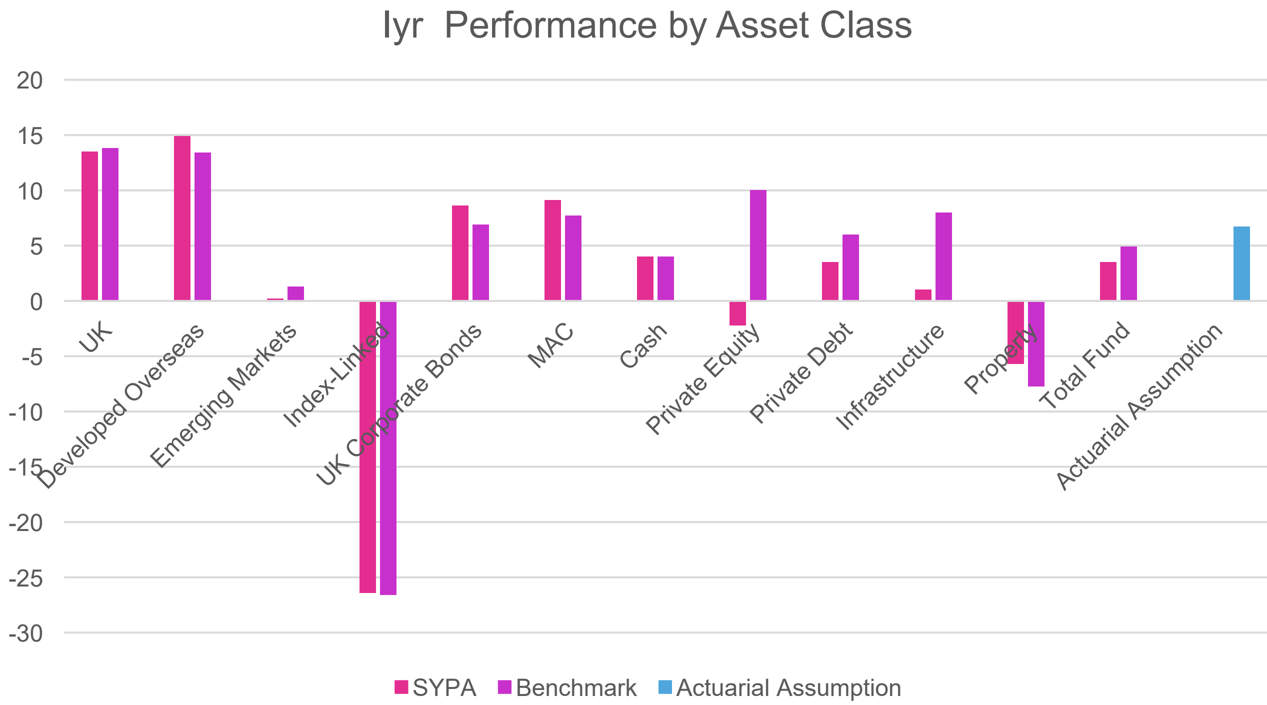
Performance Summary

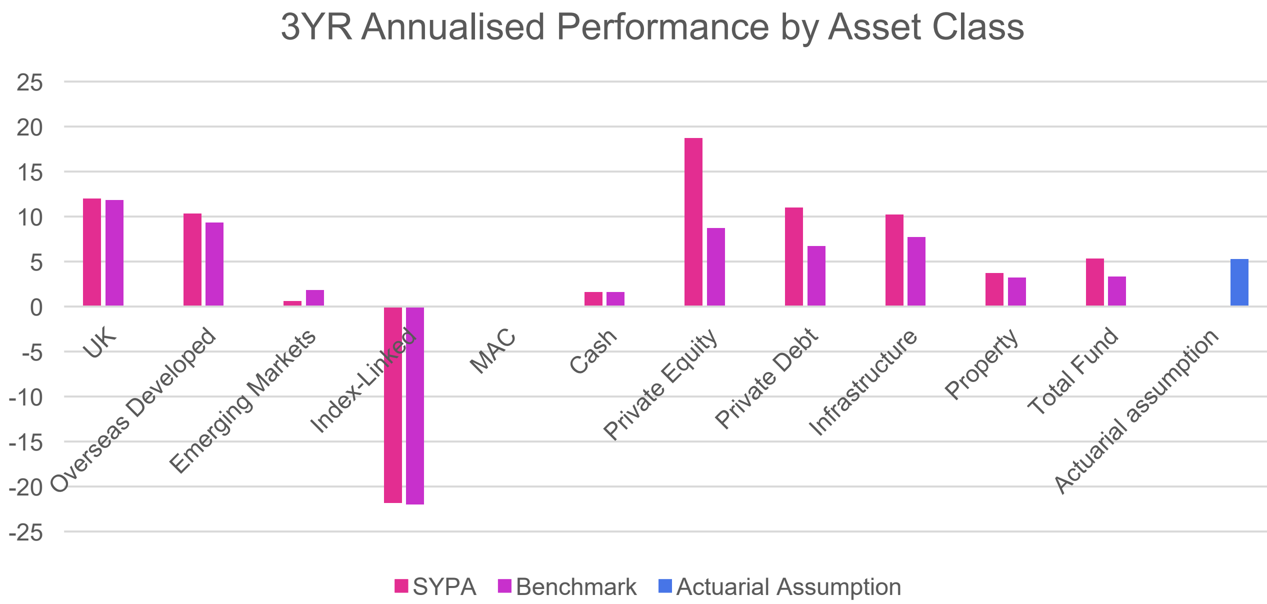
For the quarter to the end of September, the Fund returned 0.3% against the expected benchmark return of 0.4%. Asset allocation decisions taken together had no impact with stock selection having a slightly negative impact overall.
The breakdown of the stock selection is as follows:-

Total equities	-0.1%
MAC fund	-0.1%
Infrastructure funds	-0.1%
Renewables	-0.1%
Private Equity funds	0.1%
Private Debt funds	0.1%
Property	0.1%

Year to date the Fund has returned 0.5% against the expected return of 0.4%.

Performance-Medium term





Performance – Border to Coast Funds

The UK equity portfolio showed marginal underperformance of its benchmark this quarter but is still outperforming since inception. The portfolio was impacted by stock selection decisions in financials, industrials and telecommunications.

The Overseas Developed Market portfolio continued to outperform the benchmark return. The key contributor to relative performance was the European exposure, although both the US and Asia ex-Japan also contributed positively to performance. Sector wise positions in Novo Nordisk and Eli Lilly within the healthcare sector which both gained more than 20% were material contributors to performance. The portfolio is ahead of its target since inception.

The Emerging Market portfolio had positive absolute performance of 1.9% but underperformed the benchmark by 0.6%. On a since inception basis the Fund has also delivered positive absolute performance of 2.5% but it remains behind the benchmark by 1.7% per annum. Over the quarter the only manager to outperform the benchmark was UBS who marginally outperformed the benchmark by 0.2%.

The index-linked portfolio generated a total return of -10.76% during the quarter, compared to the benchmark return of -10.67%. The underperformance was driven in equal measure by a widening in credit spreads on the corporate holdings, the duration overweight as yields rose and the overweight to ultra long dated gilts as the curve dis-inverted. The portfolio has met its target since inception.

The Sterling Investment Grade Credit fund generated a return of 2.24% but this was marginally behind the benchmark return of 2.27%. All managers performed within +/- 0.2% of the benchmark with M&G being the only manager to deliver positive excess returns over the quarter. The Fund has performed well over the year adding 1.6% in excess return and there was positive relative contributions from all three managers. From inception all the managers have achieved outperformance of their target.

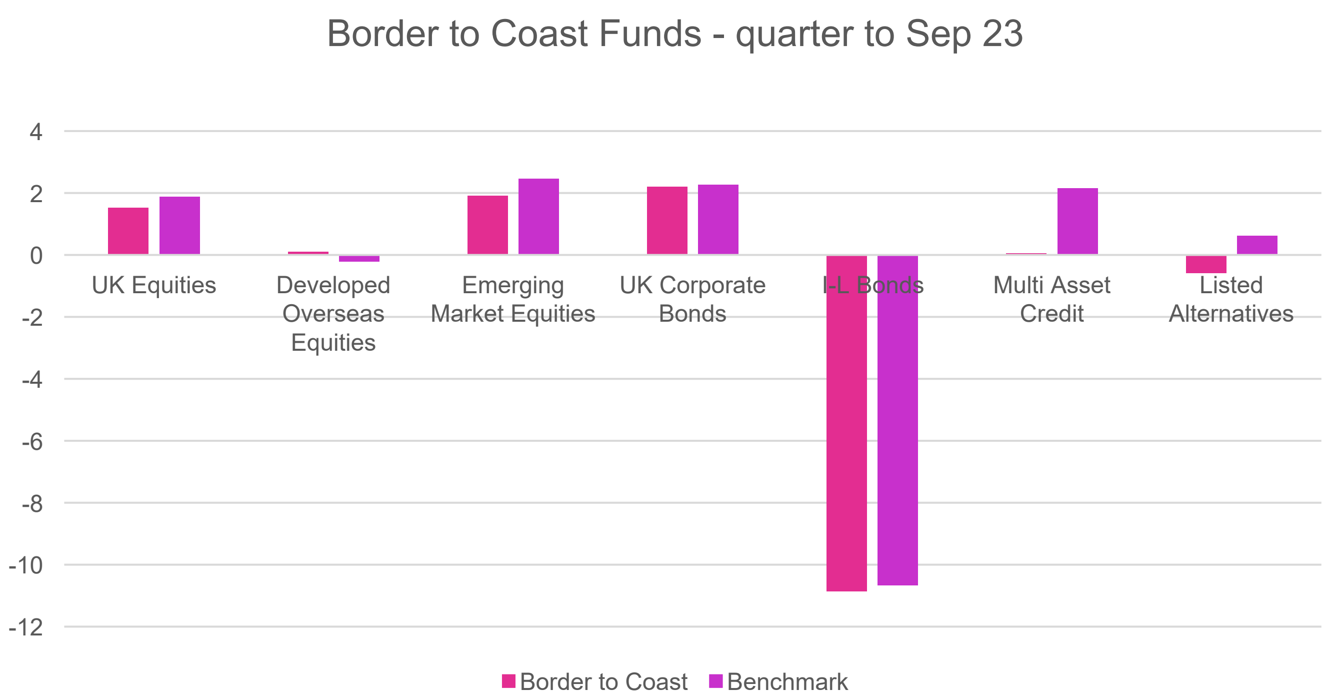
The Multi-Asset Credit fund has an absolute return benchmark and this quarter although it returned a positive return of 0.1% it was still behind its cash benchmark. All managers underperformed their benchmarks. The fund is still behind target from inception with only the internal team and Wellington outperforming their benchmark.

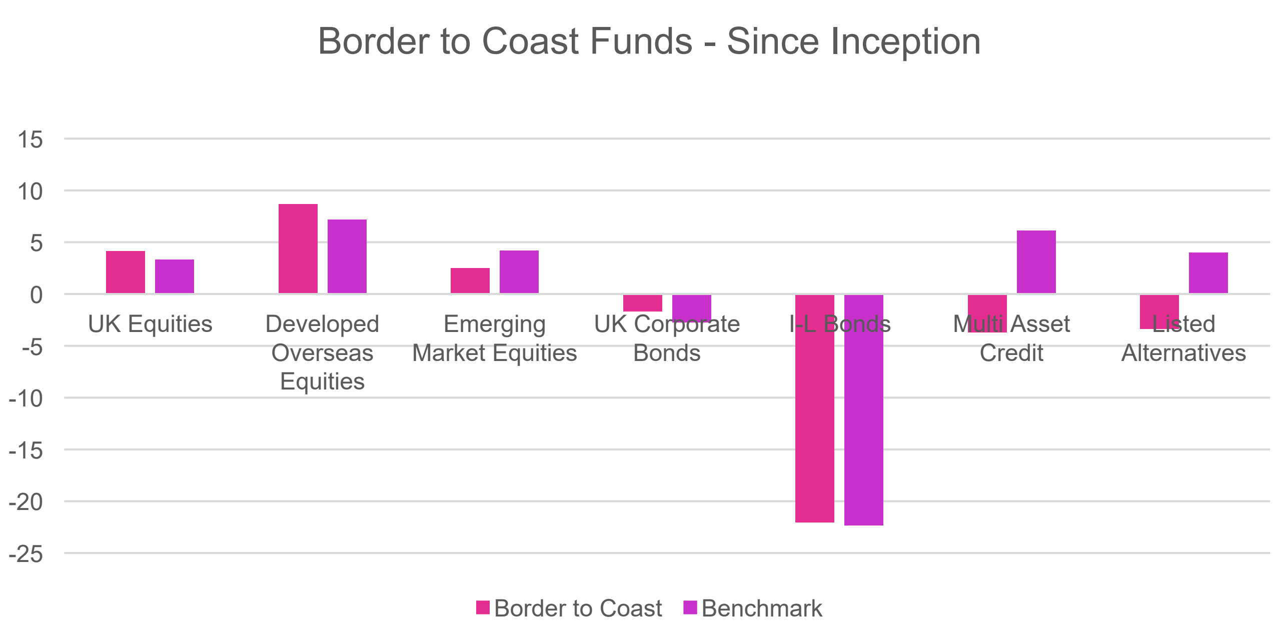
Performance – Border to Coast Funds

The Listed Alternatives fund showed underperformance for the quarter. The portfolio has a diversified portfolio which includes listed assets in infrastructure, specialist real estate, private equity and alternative credit. The Fund returned -0.58% over the quarter, taking returns since inception to -3.37%. Listed Alternative assets have lagged global equity markets over the period, with the MSCI ACWI Index returning 0.62% in the last quarter and 4.01% since the launch of the Fund. The Fund's sensitivity to interest rates was the primary driver of underperformance, with a historically aggressive monetary tightening cycle proving challenging for many long-duration assets including real estate and long-dated bonds.
The PM is leaving and there is the risk that there is insufficient resource going into the end of 2023/Q1 2024.

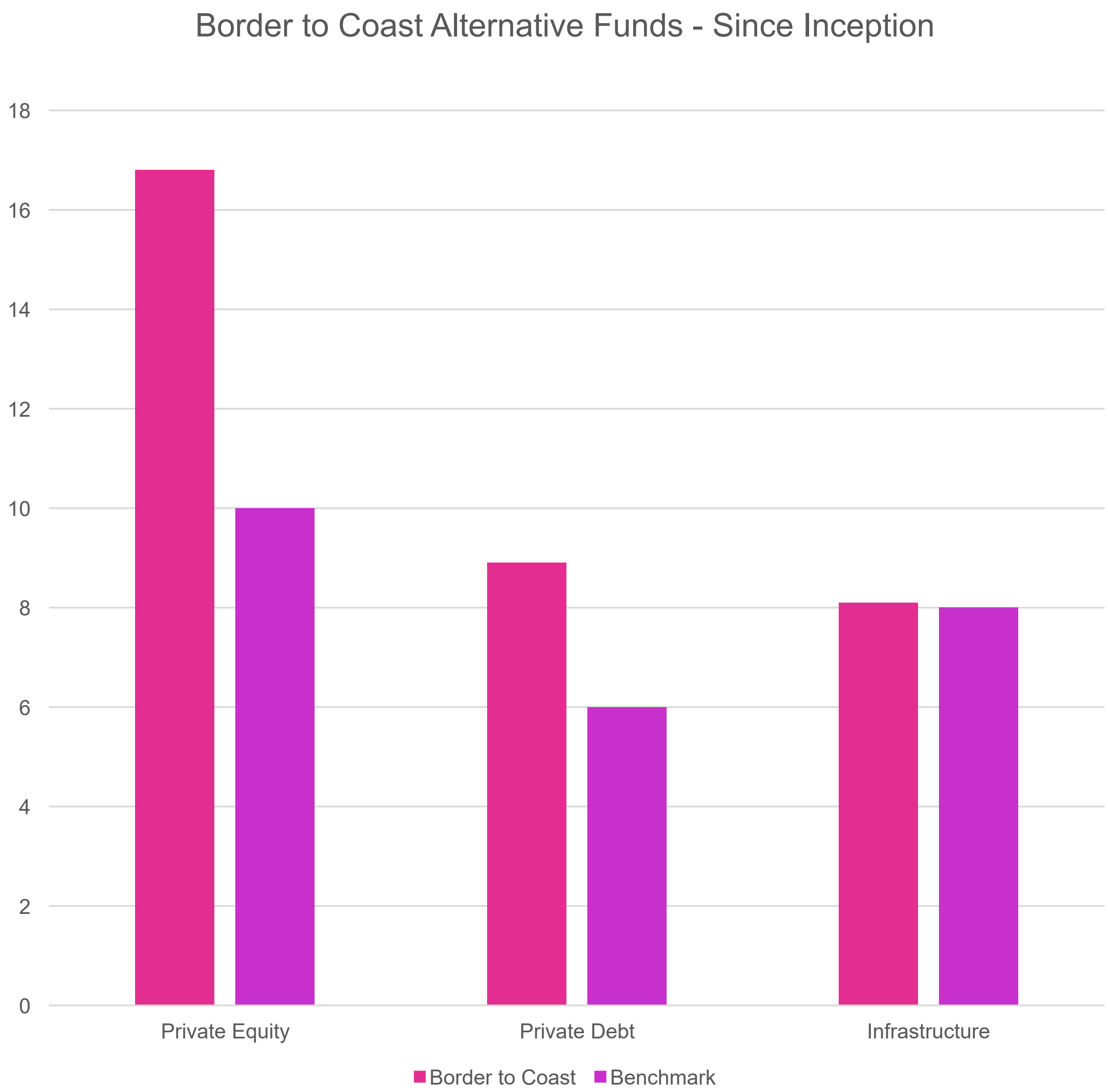
The charts below show quarterly returns but also the longer-term position of each of the Border to Coast funds that we hold.

Performance-Border to Coast Funds





Performance-Border to Coast Alternative Portfolios



Funding Level

The funding level as at 30 September 2023 is estimated to be 158.2%

The breakdown is as follows:

Fund's Assets at 30 September		£10,284.7
Funds estimated Liabilities at 30 September	£6,500	

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 2022

Outlook

Central Banks have raised policy rates sharply over the last eighteen months. While headline rates of inflation have been falling, core inflation remains high due to ongoing pressures in service sectors. These pressures are expected to ease gradually over 2024 and inflation should be closer to targets. However, it may remain above target in most major economies and so there is still a risk that Central banks may need to tighten policy more than anticipated.

UK Equities

With UK rates now nearing their peak the outlook for the UK economy and corporates is looking modestly brighter. Markets expect the Bank of England will be on hold until late in 2024 but if the economy remains sluggish the Bank could reverse course earlier in the year. The short-term outlook is still uncertain and recession risk is greater in the UK than elsewhere. However, the UK stock market is only loosely tied to the health of the UK economy and in terms of valuations the FTSE 100 is currently trading on less than 11 times expected earnings which is a huge discount to the US market and is also cheaper than shares in any other developed market. Would like to have a neutral weighting.

Overseas equities

We expect market conditions to remain volatile. By some measures the US stock market looks expensive relative to history, but this is largely due to gains in leading technology companies. The fact that the US economy looks to be in relatively good shape should help to support profits in 2024 and suggests that the US is not as expensive as it might appear. European and Japanese company shares are trading below their historical averages and so have attractions. We would prefer to be weighted towards the developed markets rather than emerging markets given the weaker outlook for China. Will look to continue rebalancing total overseas weighting towards neutral.

Outlook

Bonds

As we are nearing the top of the interest rate tightening cycle, bonds are beginning to look more attractive. We have benefited from being underweight bonds as rates have been increasing and have taken the opportunity to rebalance our bond weighting. We are currently weighted towards higher risk bonds but will use market opportunities to rebalance across the different bond categories

Real Estate

The outlook for UK real estate has clouded given a weaker economy. Occupational performance is expected to be the predominant driver of real estate returns in the near term with no substantive improvement anticipated until the second half of 2024.

The portfolio remains heavily weighted towards industrials and very underweight in offices, with a marginal overweight position in 'other' and an underweight holding in retail.

The strongest rental and capital growth over the next five years is expected to be seen in the residential and industrial sectors and in selected alternative markets. The recommendation is to maintain the overweight industrial position and deploying capital to build a position in the residential sector.

The focus will still be on good quality assets with strong ESG credentials. Will look to selectively increase our weighting.

Alternatives

We are looking to add further investments into this asset class with the allocations being weighted more towards private credit which tend to benefit from the linkage to floating rates in a period of rising rates and to infrastructure investments, in particular to renewable energy funds that have a particularly high level of linkage to inflation and have secure income characteristics. We are also adding further to climate opportunity funds.

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Outlook

Cash

The deployment to the alternative sectors has reduced cash to a level that further cash requirements would necessitate switching among the asset classes.

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