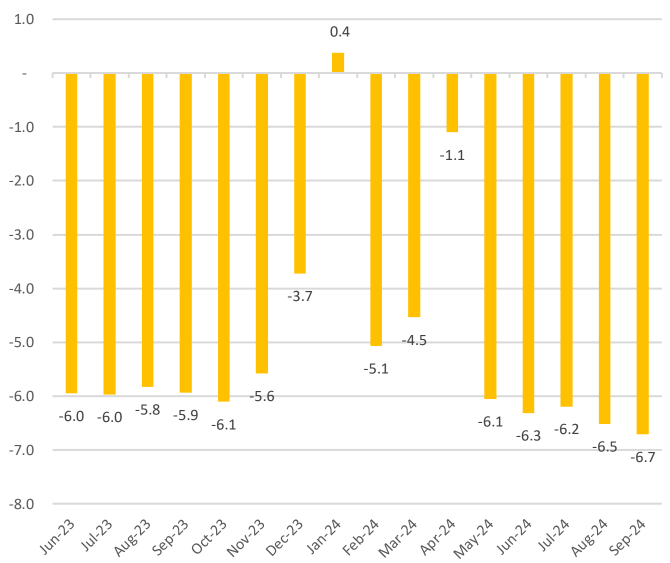
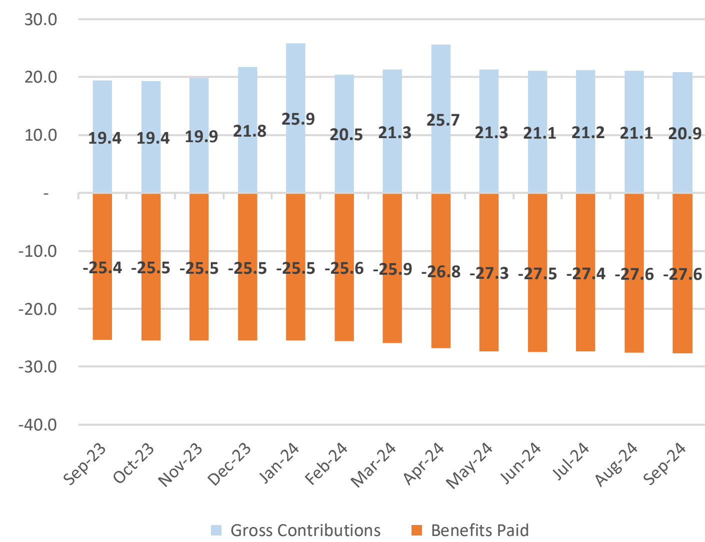
QUARTERLY REPORT
TO 30 SEPTEMBER 2024

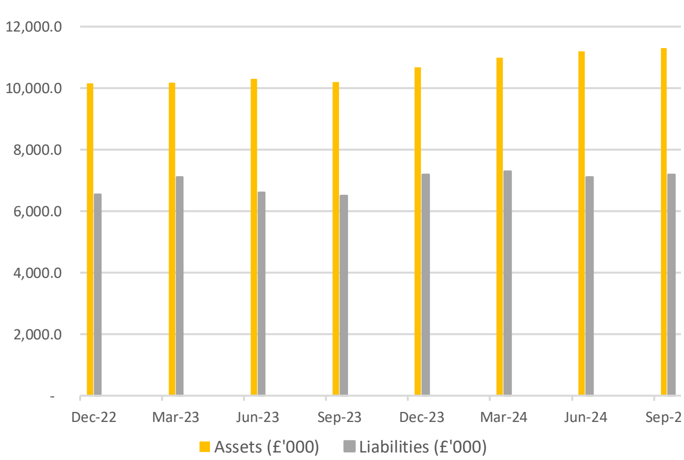
NET CONTRIBUTIONS



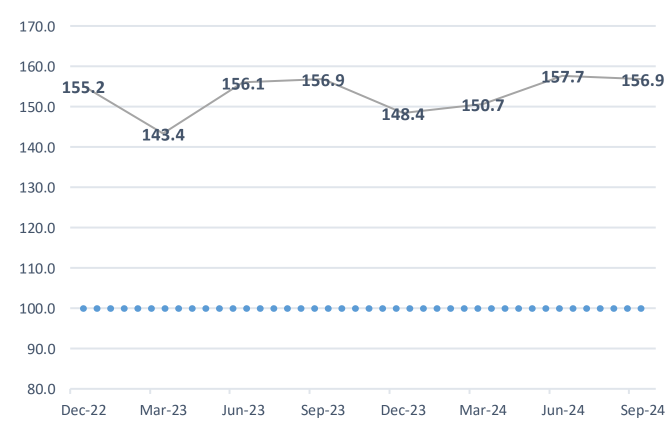
BREAKDOWN OF NET CONTRIBUTIONS



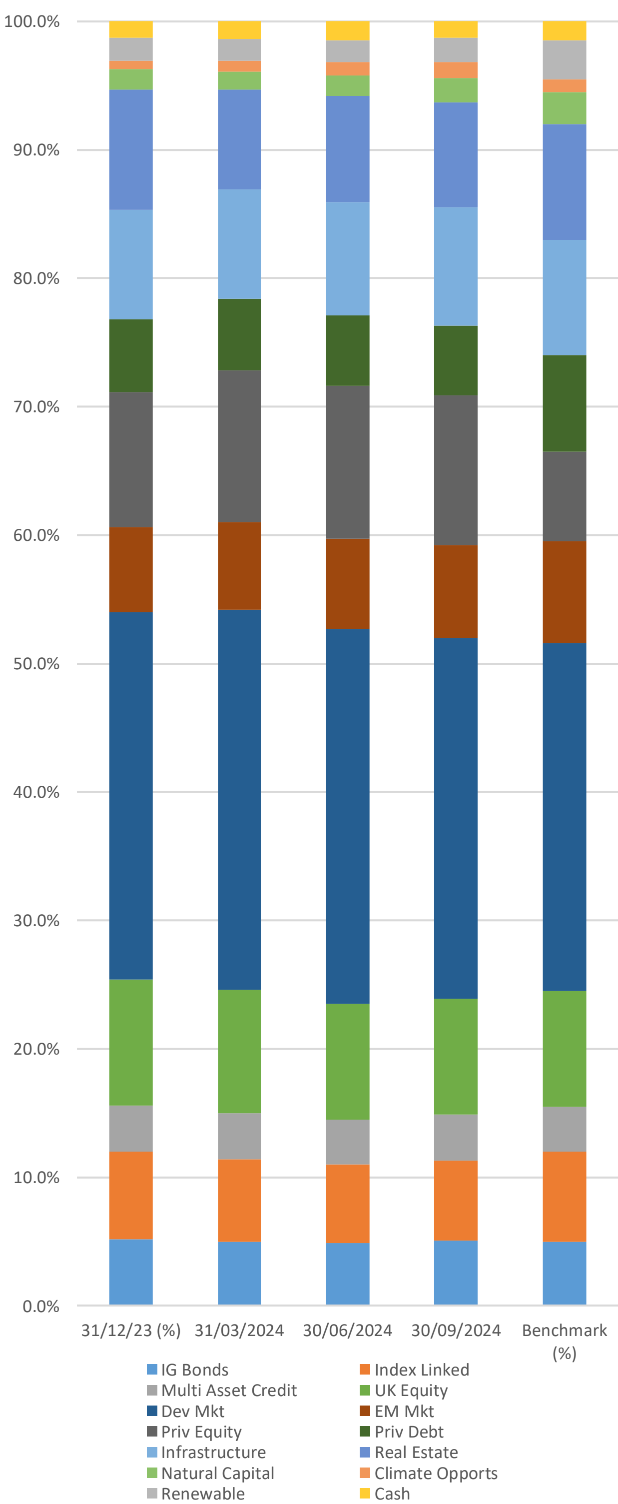
ASSET LIABILITY RATIO SINCE DEC 2022



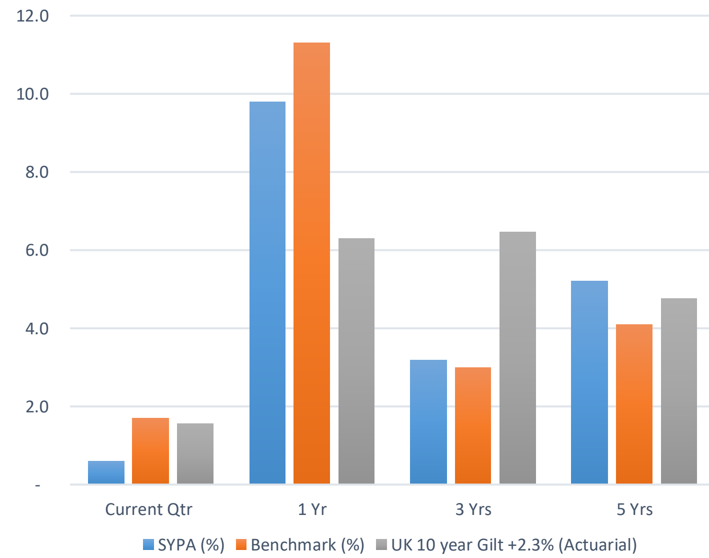
FUNDING LEVEL %



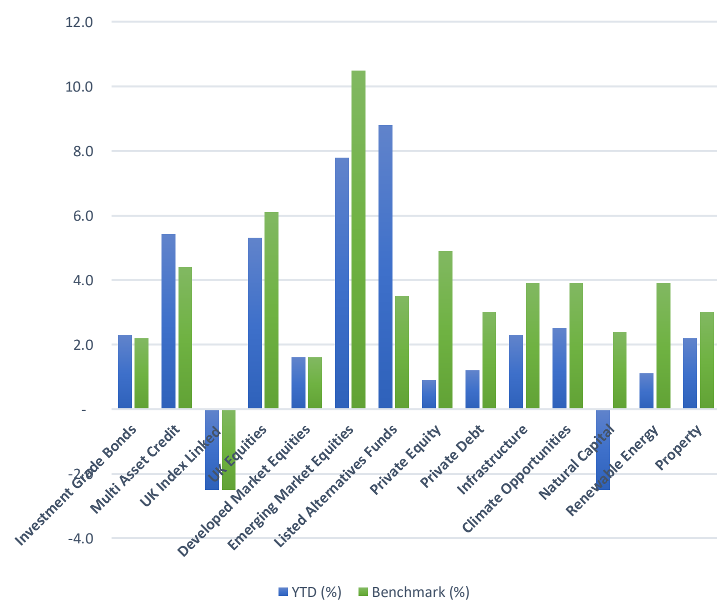
ASSET ALLOCATION



TOTAL FUND RETURN



ASSET PERFORMANCE BY TOTAL ASSET CLASS- YEAR TO DATE



Market background

Global equity markets experienced a volatile third quarter of the year, largely driven by macro-economic and geopolitical factors. A steep fall in valuations over the second half of July was followed by a recovery back to new highs by the end of September.

Despite the US reporting one of the lowest inflation rates since 2021 in July, the Federal Reserve elected not to cut interest rates at that time. This delay likely caused some concerns around economic growth and contributed to short-term volatility. By subsequently cutting interest rates by 0.5% in September, however, the Fed pointed towards further reductions over the next 18 months and helped to elevate the S&P 500 index. The drivers of this market rally were more widespread than has recently been the case, with outperformance coming from smaller US companies and interest rate sensitive sectors such as Real Estate and Utilities. The much vaunted Magnificent Seven struggled over the quarter, with elevated valuations and the necessity to continue investing in research & development to avoid being left behind.

The energy sector has also faced recent challenges due to falling oil prices (from a peak of $91 a barrel in April to below $70 in September). The risk of oil supply being impacted from the escalating conflict in the Middle East has been more than offset by consistently high production from the likes of US and Russia.

The slowdown in Chinese economic growth has additionally contributed to a reduction in energy demand - and also impacted its trading partners. Volkswagen is a key example of this - having sold 3 million cars in China last year the company has now announced layoffs and factory closures in Germany, contributing to a more pessimistic picture in Europe.

It remains to be seen whether the struggles of China's equity and property markets will be remedied by the state's recent stimulus package. There are certainly views that the scale of this intervention may not be sufficient - and question marks remain over whether necessary structural reform will be made to drive anything more than a temporary recovery.

Market background

Japanese companies experienced a bumpy quarter. The Nikkei 225 index reached a new peak in July, having risen by more than 50% over the previous 12 months. This had been driven by exporting companies benefitting from a weak Japanese Yen and western countries' apparent desire to buy fewer goods from China. The Nikkei's peak was followed by a 25% decline, with the US dollar depreciating against the Yen and some concern that many Japanese companies may be closely tied to the fortunes of US tech. The Japanese market rebounded later in quarter three, but this volatility has sounded a warning bell. Politics is also playing a part in Japan, with the replacement of Fumio Kishida by Shigeru Ishiba as the leader of the ruling Liberal Democratic Party.

Despite choppy markets, the value of the fund has remained above £11bn and there have not been any significant changes to asset allocation over the quarter.

Fund Valuation

as at 30 September 2024

	Jun-24 £m	Jun-24 %	Quarterly Net Investment	Sep-24 £m	Sep-24 %	Benchmark %	Range %
FIXED INTEREST							
Inv Grade Credit - BCPP	546.3	4.9	20.0	572.9	5.1	5	
UK ILGs - BCPP	675.4	6.1	0.0	685.7	6.2	7	
MAC - BCPP	388.9	3.5	-4.7	401.5	3.6	3.5	
TOTAL	**1610.6**	**14.5**	**15.3**	**1660.1**	**14.9**	**15.5**	**10.5 - 20.5**
UK EQUITIES	**998.7**	**9.0**	**-20.0**	**999.8**	**9.0**	**9**	**4.0 -14.0**
INTERNATIONAL EQUITIES							
Developed Market - BCPP	3246.2	29.2	-90.0	3131.9	28.1	27.125	
Emerging Market - BCPP	776.2	7.0	0.0	795.8	7.1	7.875	
Emerging Market - SYPA	0.7	0.0	0.0	0.7	0.0		
TOTAL	**4023.1**	**36.2**	**-90.0**	**3928.4**	**35.3**	**35**	**30 - 40**
LISTED ALTERNATIVES -BCPP	**155.4**	1.4	**0.0**	**166.4**	1.5	0	
PRIVATE EQUITY							
BCPP	372.0		12.1	387.4			
SYPA	793.4		-22.2	752.7			
TOTAL	**1165.4**	**10.5**	**-10.1**	**1140.1**	**10.2**	**7**	**5 - 9**
PRIVATE DEBT FUNDS							
BCPP	192.5		13.3	212.1			
SYPA	439.3		-23.7	405.1			
TOTAL	**631.8**	**5.7**	**-10.4**	**617.2**	**5.5**	**7.5**	**5.5 - 9.5**
INFRASTRUCTURE							
BCPP	507.0		47.8	563.5			
SYPA	450.8		-5.0	445.9			
TOTAL	**957.8**	**8.6**	**42.8**	**1009.4**	**9.1**	**9**	**6 - 12**
RENEWABLE ENERGY	**193.0**	**1.7**	**18.2**	**207.5**	**1.9**	**3**	**1 - 5**
CLIMATE OPPORTUNITIES	**110.7**	**1.0**	**21.7**	**133.9**	**1.2**	**1**	**0 - 3**
NATURAL CAPITAL	**194.4**	**1.7**	**29.6**	**218.5**	**2.0**	**2.5**	**0 - 3.5**
PROPERTY	**903.4**	**8.1**	**3.1**	**910.2**	**8.2**	**9**	**7 - 11**
CASH	**172.4**	**1.6**		**141.8**	**1.3**	**1.5**	**0 - 2.5**
TOTAL FUND	**11116.7**	**100.0**		**11133.3**	**100.0**	**100**	
COMMITTED FUNDS TO ALTERNATIVE INVESTMENTS	**1907.5**			**1968.5**			

Asset Allocation Summary

We continued to reduce our overweight position to listed equity funds to fund the investment into the alternative categories. In total, we sold £20m from UK equities and £90m from Overseas Developed equities, albeit £20m of these proceeds were rebalanced into Fixed Income to bring the allocation closer to target.

We had £22m drawdown into Climate Opportunity funds and £43m drawdown into infrastructure funds. We had net redemptions of £10m from private equity funds and also £10m net redemption from private debt funds as the redemptions from our legacy holdings was greater than the drawdowns into Border to Coast committed funds.

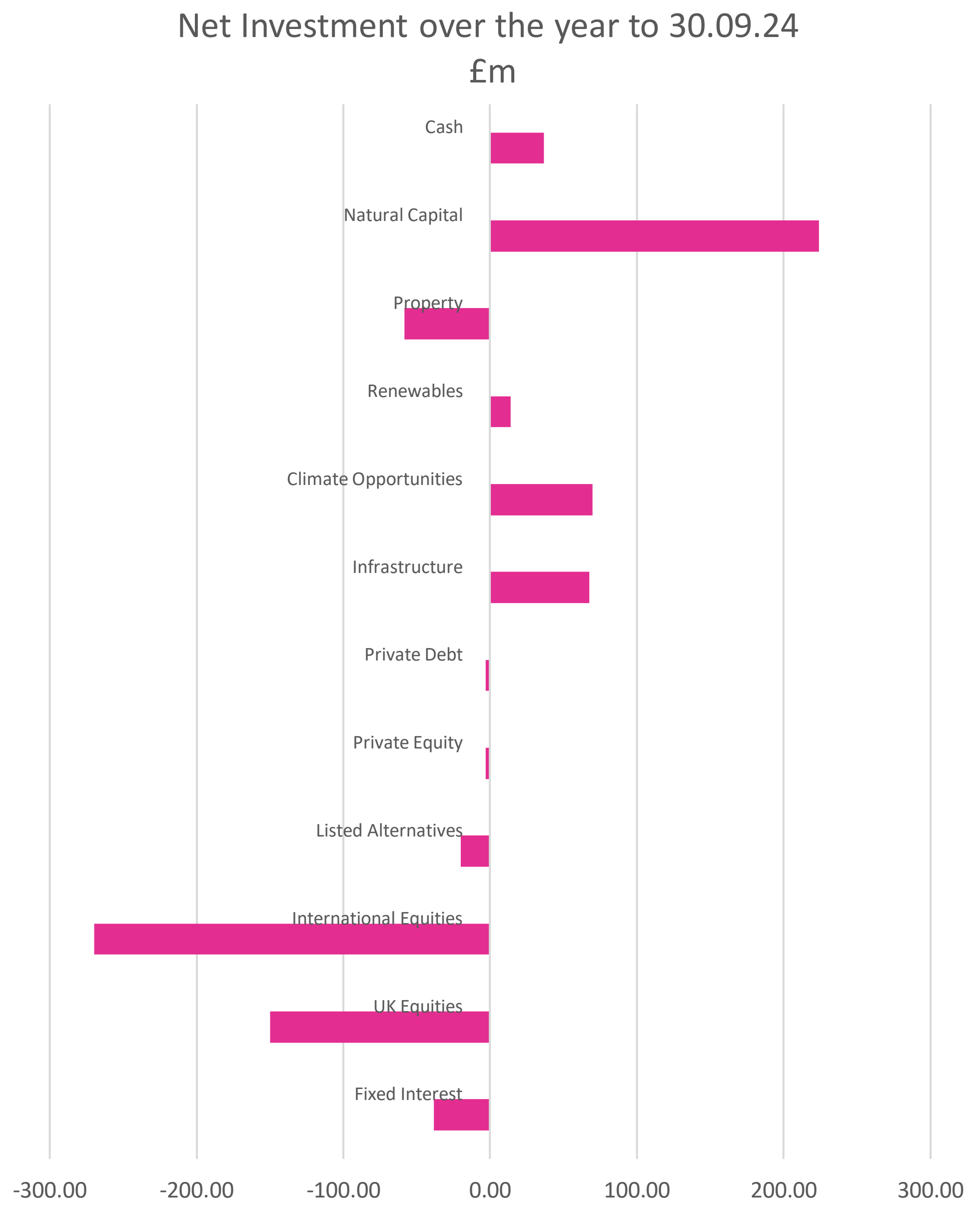
We have now fully funded our allocation to diversified forestry assets across two managers (£50m commitment to Gresham House Forestry fund, which is a diversified portfolio of UK assets, plus a $100m commitment to the Campbell Global Forestry and Climate Solutions Fund II). These are complementary strategies which support the Authority's Net Zero strategy.

Following the trades mentioned above there is only private equity which sits outside its tactical range, although private debt is now at its threshold.

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



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	685.7	6.2	-0.8
Sterling Inv Grade Credit	5	4 - 6	572.9	5.1	0.1
Multi Asset Credit	3.5	1.5 - 5.5	401.5	3.6	0.1
UK Equities	9	4 - 14	999.8	9.0	0.0
Overseas Equities	35	30 - 40	3928.4	35.3	0.3
Private Equity	7	5 - 9	1140.1	10.2	3.2
Private Debt	7.5	5.5-9.5	617.2	5.5	-2.0
Infrastructure	9	6 - 12	1009.4	9.1	0.1
Renewables	3	1 - 5	207.5	1.9	-1.1
Listed Alternatives	0	0 - 2	166.4	1.5	1.5
Climate Opportunities	1	0 - 3	133.9	1.2	0.2
Natural Capital	2.5	0 - 3.5	218.5	2.0	-0.5
Property	9	7 - 11	910.2	8.2	-0.8
Cash	1.5	0.5 - 2.5	141.8	1.3	-0.2
Total	100		11133.3	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 30 September 2024

	Qtrly Performance		Financial Y.T.D.	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Investment Grade Credit - BCPP	2.3	2.3	2.3	2.2
UK ILGs	1.5	1.5	-2.5	-2.5
Multi Asset Credit - BCPP	4.5	2.1	5.4	4.4
UK EQUITIES	**2.1**	**2.3**	**5.3**	**6.1**
INTERNATIONAL EQUITIES				
Developed Market - BCPP	-0.8	0.3	1.6	1.6
Emerging Market - BCPP	2.5	4.6	7.9	10.5
TOTAL	**-0.1**	**1.3**	**2.8**	**3.6**
PRIVATE EQUITY	**-1.3**	**2.4**	**0.9**	**4.8**
PRIVATE DEBT FUNDS	**-0.5**	**1.5**	**1.2**	**3.0**
INFRASTRUCTURE	**1.0**	**1.9**	**2.3**	**3.9**
RENEWABLES	**-1.5**	**1.9**	**1.1**	**3.9**
CLIMATE OPPORTUNITIES	**1.4**	**1.9**	**2.5**	**3.9**
PROPERTY	**1.3**	**1.5**	**2.2**	**3.0**
NATURAL CAPITAL	**0.0**	**1.1**	**0.0**	**1.1**
CASH	**1.1**	**1.3**	**2.2**	**2.7**
TOTAL FUND	**0.6**	**1.7**	**2.3**	**3.3**

Performance Summary

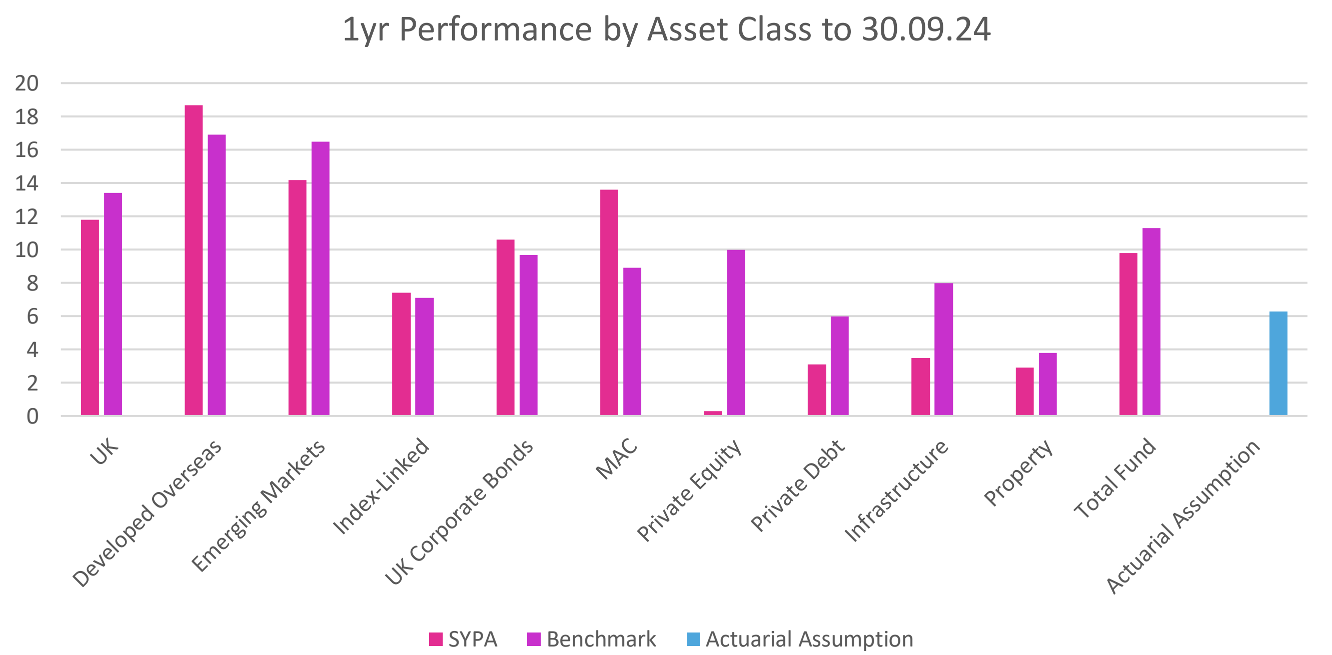
For the quarter to the end of September, the Fund returned 0.6% against the expected benchmark return of 1.7%.

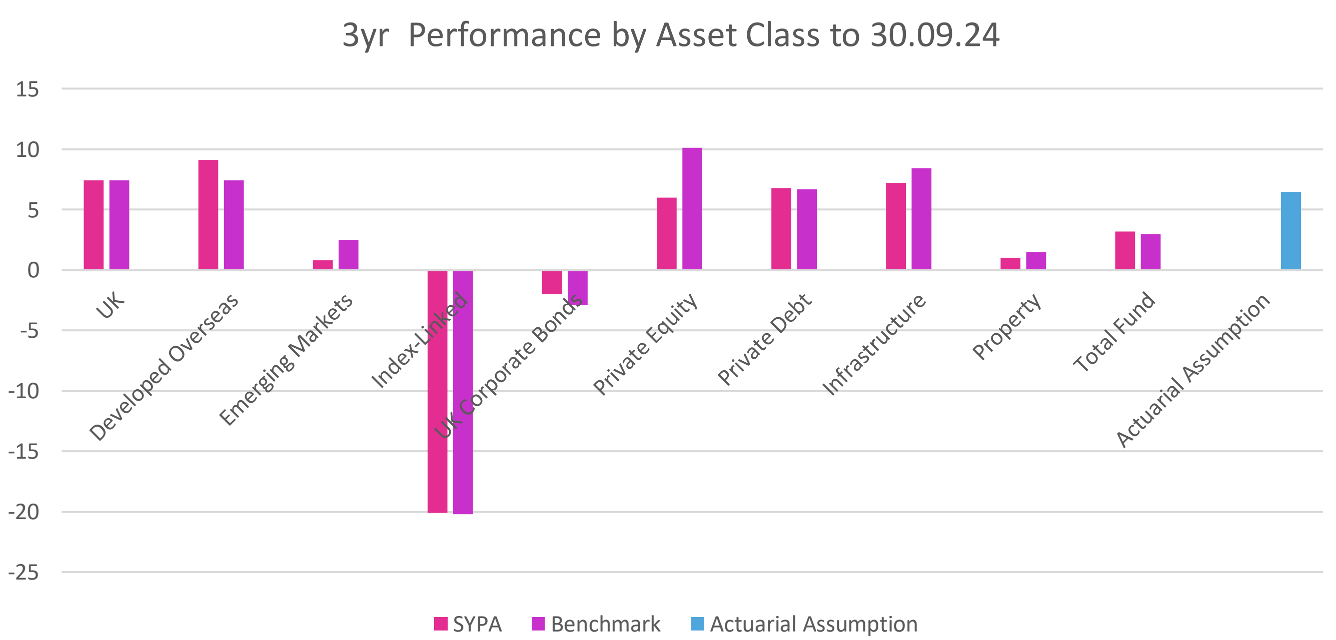
Asset allocation relative to benchmark made no material contribution to performance, with stock selection detracting just over 1.0% from performance.

The breakdown of the stock selection is as follows:-

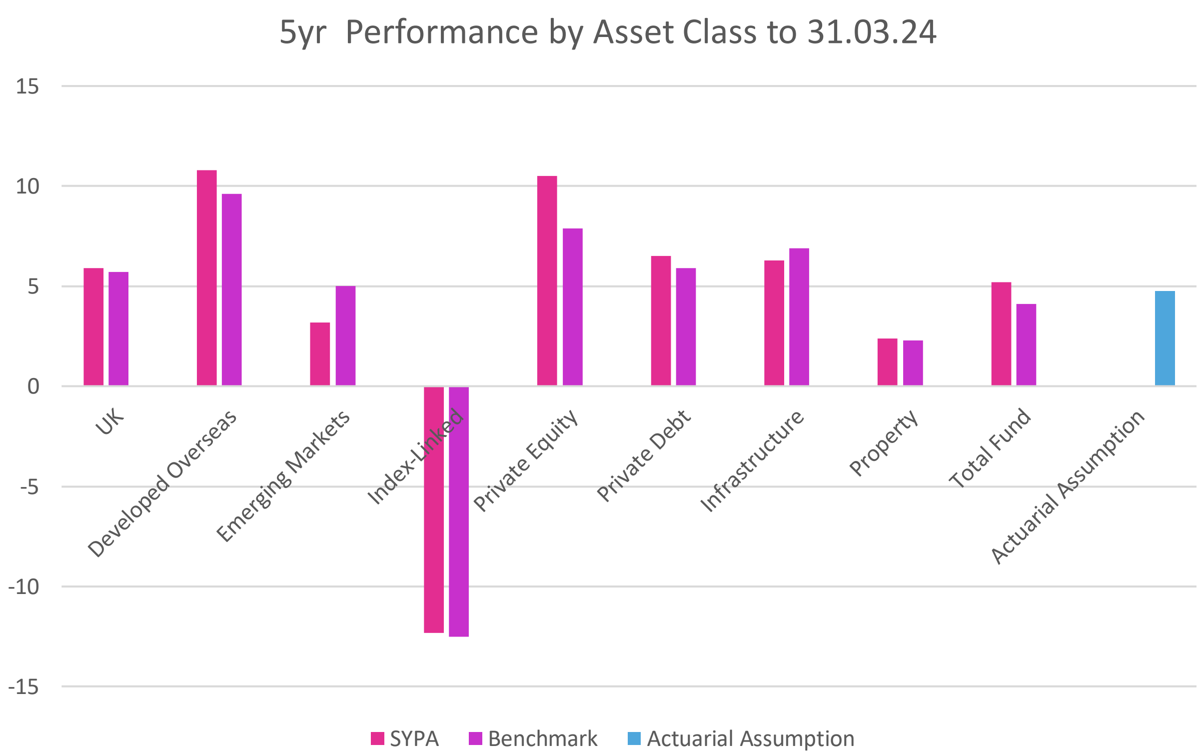
Overseas developed equities	-0.3%
Emerging market equities	-0.1%
Fixed income	+0.1%
Renewables	-0.1%
Private equity	-0.4%
Private debt	-0.1%
Infrastructure	-0.1%
Natural capital	-0.1%

Performance-Medium term





Performance-Medium term



Performance – Border to Coast Funds

The **UK Equity** fund underperformed its benchmark over the quarter, returning 2.10% against the benchmark return of 2.26%. Since inception the portfolio is only outperforming by 0.45%, below the target of 1% outperformance. The portfolio was impacted by stock selection decisions in common stock funds and the industrials and real estate sectors.

The **Overseas Developed Markets Equity** fund experienced a challenging quarter, underperforming in all four of its regional portfolios, with an overall performance of -0.75% compared to a benchmark return of 0.27%. Over the longer-term, the fund remains well ahead of its 1% outperformance target though.

The primary detractor from performance during the quarter was the fund's Japanese equity portfolio (2.72% below the benchmark return) with allocations to export-oriented companies and banks hindering relative performance. The Asia Pacific ex-Japan region was the best performing market over Q3, and the fund benefitted from its overweight position in Hong Kong following the announcement of a stimulus package in China.

At a sector level, healthcare proved the biggest detractor from performance over the quarter, closely followed by the technology and communication services. These had been some of the strongest performing sectors year-to-date.

The **Emerging Markets Equity** fund produced a return of 2.54% over the quarter, which was 2.1% below the benchmark. Longer-term, the fund's relative performance remains negative over all time periods. During quarter three, the Chinese market posted a very strong return of 16.7%, which was driven by State-led stimulus measures announced towards the end of this period. Continued volatility is expected though.

Both China managers in the portfolio underperformed their benchmarks, with some underweight positions in strongly rallying technology companies contributing towards this. Border to Coast's internally-managed Emerging Markets ex-China portfolio also underperformed its benchmark.

Performance – Border to Coast Funds

UK government bond yields decreased over the quarter, particularly for shorter-dated bonds, as the Bank of England began its rate-cutting cycle. This was accompanied by cooling inflation expectations. **The Sterling Index-Linked Bond** fund returned 1.5% over the quarter, in line with its benchmark. The positive contribution from an overweight position in ultra-long gilts was offset by the performance of corporate holdings, particularly in the water sector.

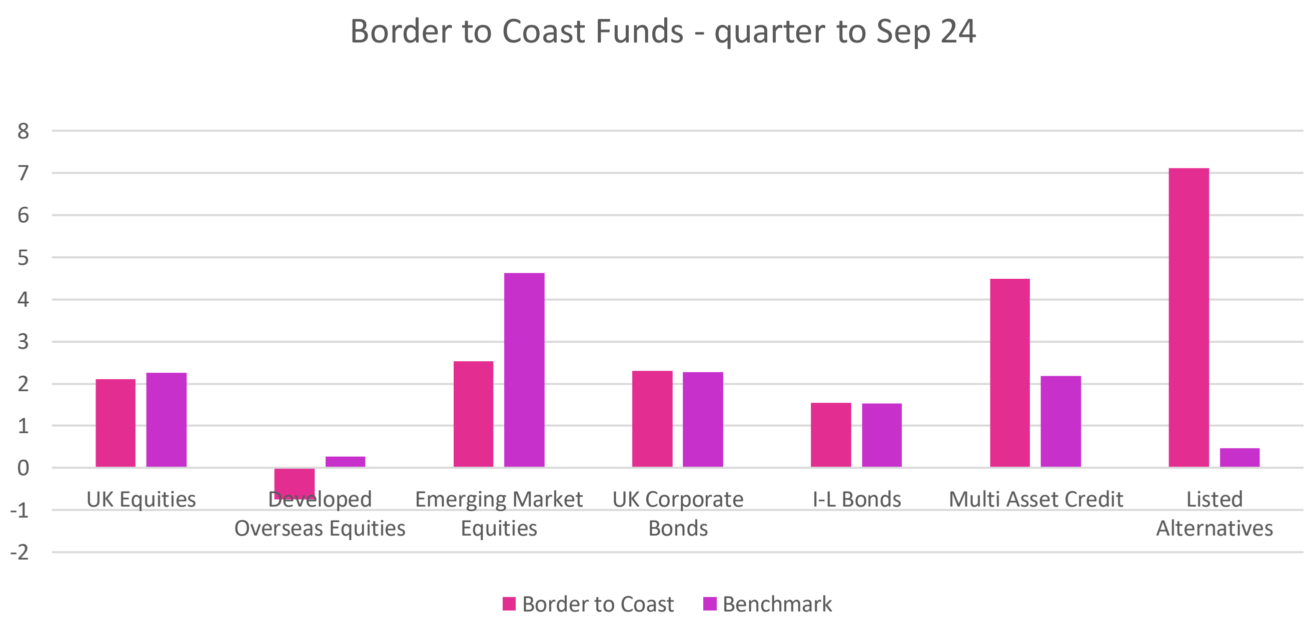
The **Sterling Investment Grade Credit** fund generated a return of 2.3% during the quarter, which was broadly in line with its benchmark return. RLAM outperformed the benchmark by +0.3%, M&G was flat and Insight underperformed by 0.2%. Longer-term, the fund is still comfortably ahead of its +0.5% relative performance target.

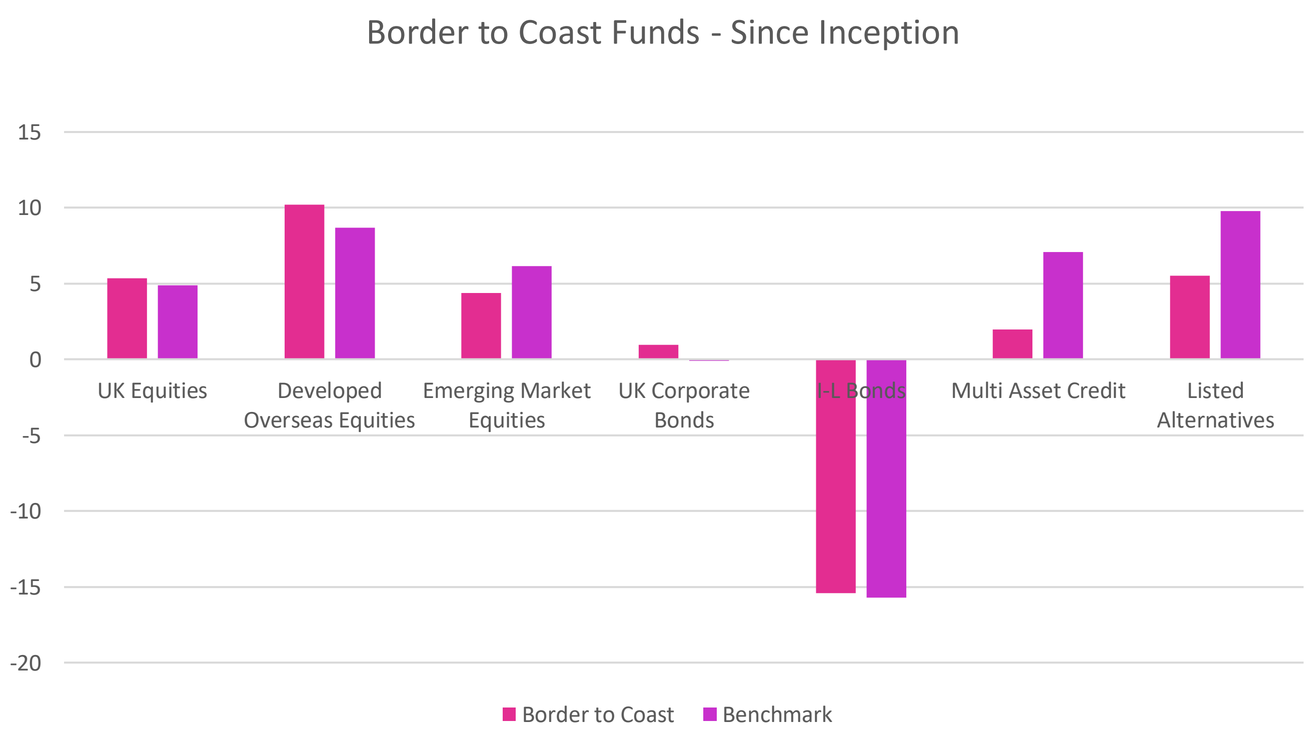
The **Multi-Asset Credit** fund gave a positive absolute return of 4.5% over the quarter, outperforming its cash+ benchmark by 2.3%. This brought its annual return to 13.7% which was 4.7% ahead of benchmark. PIMCO, Wellington, PGIM and Ashmore outperformed their benchmarks over the quarter. The fund is still behind target since inception but PIMCO, the internal team and Wellington are outperforming their benchmarks over this period.

The **Listed Alternatives** fund has a diversified portfolio which includes listed assets in infrastructure, specialist real estate, private equity and alternative credit. The fund achieved a return of 7.11% during the quarter. This was 6.64% above the fund's equity benchmark and 1.23% above the customised comparator which has been designed to give a more like-for-like indicator.

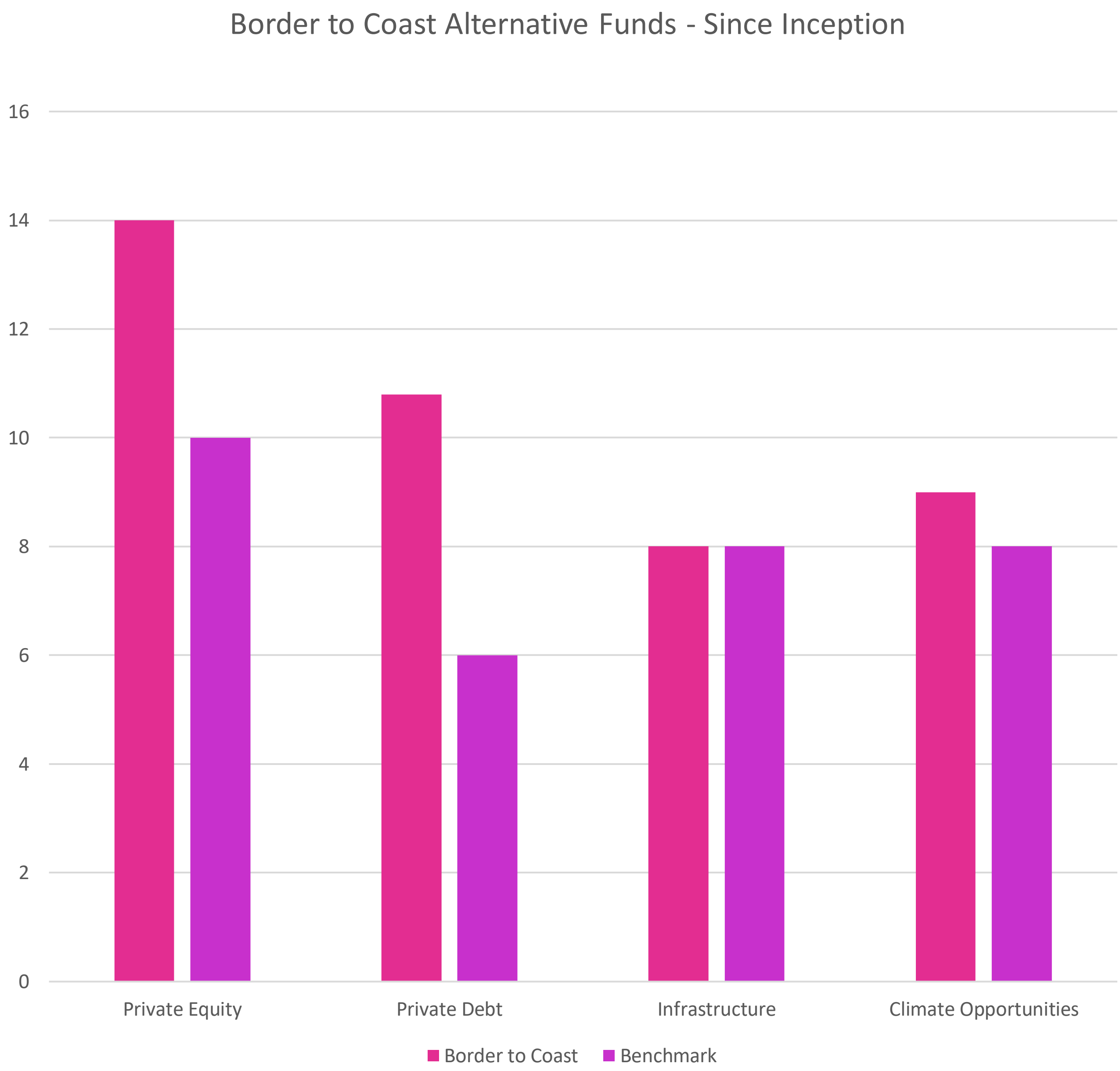
The charts below show quarterly returns but also the longer-term position of each of the Border to Coast funds that we hold.

Performance-Border to Coast Funds





Performance-Border to Coast Alternative Portfolios



Funding Level

The funding level as at 30 September 2024 is estimated to be c155%:

The breakdown is as follows:

Fund’s Assets at 30 September:	£11,133
Funds estimated Liabilities at 30 September:	£7,200

Caveat
This estimate is calculated on a roll-forward basis. This means that there is no allowance made for any actual member experience since the last formal valuation on 31 March 2022

Outlook

Post the quarter end, we now know that the US has elected Donald Trump, with a clean sweep of the House of Representatives and the Senate providing broad powers to enact the incoming president's agenda. It remains to be seen which policies Mr Trump will ultimately implement - but his proposal of 60% tariffs on imports from China (with potential further tariffs to follow for other emerging market countries) is expected to lead to material inflation. We are also conscious of the potential for wider geopolitical volatility – and economic impacts - from Trump 2.0.

UK Equities

To help manoeuvre around the UK's high debt-to-GDP ratio, Chancellor Rachel Reeves has amended the definition of debt used to incorporate all public sector net financial liabilities (including the LGPS's currently large surplus position). This is intended to free up additional billions of pounds of investment.

The UK equity market has been lagging other developed equity markets, although it has made up a little ground recently. Political stability feels more assured than in recent years, albeit markets have been concerned that additional government borrowing (£28m p.a. as announced in the 30 October Budget) has worsened the longer-term UK economic and interest rate outlook. We would like to have a neutral weighting.

Overseas equities

We would not be surprised to see volatile market conditions going forwards. The "Trump trade" has already boosted US financials and traditional energy companies, due to the incoming President's deregulatory agenda (renewable energy has fared less well). The fundamentals for the US currently appear solid too. The Fed's 0.5% interest rate cut in September has been followed by a further 0.25% cut post the election, GDP is positive, jobless claims are low and inflation seems to be behaving. However, some concerns remain over the cost of labour, and potentially whether the economy is overly reliant on consumer spending.

As noted above, there are potentially significant repercussions for international markets from an "America First" led trade war. We will look to continue rebalancing total overseas weighting towards neutral.

Outlook

Bonds

Inflation has continued to moderate in the likes of the UK and UK, allowing central banks to cut base interest rates. Potential volatility remains in bond yields, however, and a tariff-based trade war could certainly push inflation up. A comparatively healthier economy in the US suggests that the upside from here in US Treasuries is finely balanced. The UK and Europe look to offer more value and could lead to more recovery in these bond markets.

Real Estate

Immediately after quarter end, 25 of the 29 portfolio assets were transferred into Border to Coast's UK Real Estate Fund, with the others (including Scottish and Welsh properties) remaining with SYPA.

The prospects for UK real estate are improving compared to last year, with greater economic and political certainty.

The recommendation is to maintain the current position

Natural Capital

We have now funded our allocation to diversified forestry assets across two managers (£50m commitment to Gresham House Forestry fund which is a diversified portfolio of UK assets, plus a $100m commitment to the Campbell Global Forestry and Climate Solutions Fund II). These are complementary strategies which support the Authority's Net Zero strategy.

Alternatives

We are looking to add further investments into this asset class with the allocations being weighted more towards private credit and to infrastructure investments, to renewable energy funds that have secure income characteristics. We are also adding further to climate opportunity funds to further support the Authority's Net Zero Strategy, and further developing our local impact portfolios.

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.