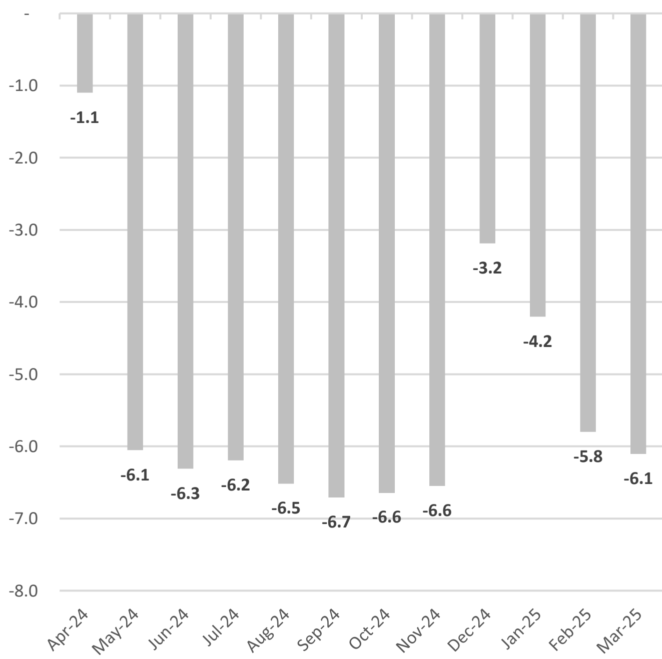
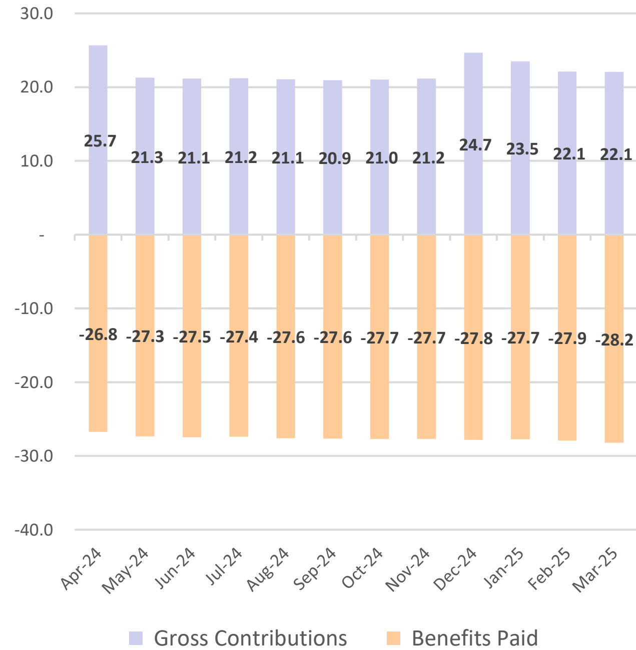
SOUTH YORKSHIRE PENSIONS AUTHORITY

QUARTERLY REPORT TO 31 MARCH 2025

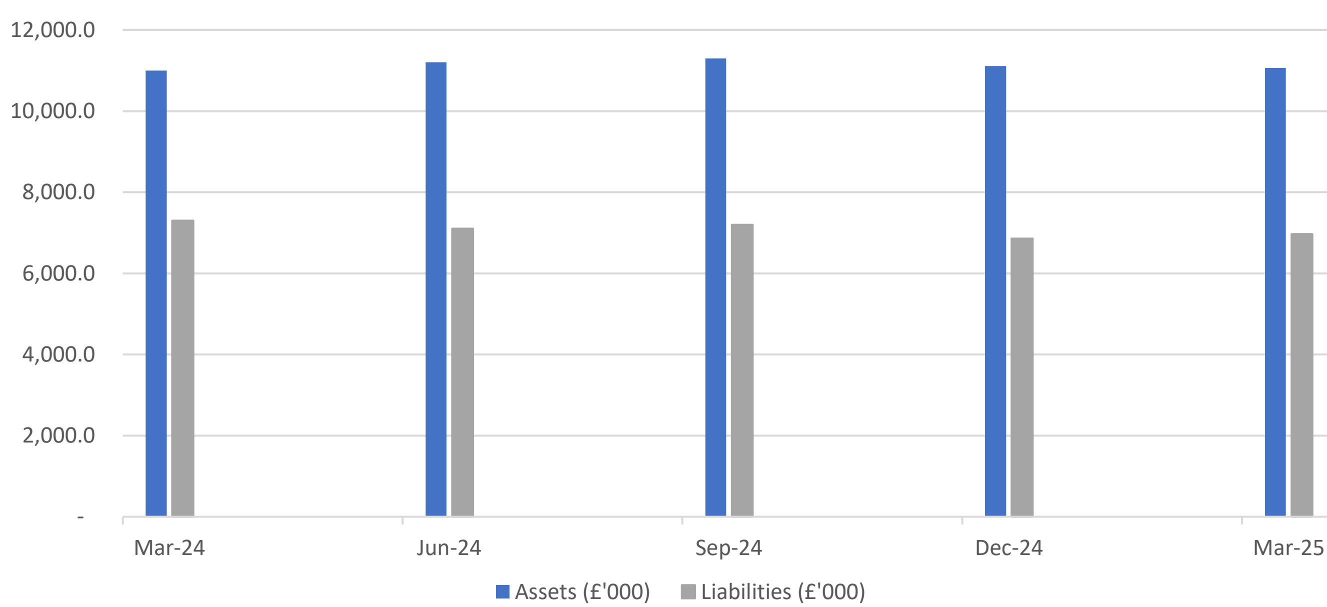
NET CONTRIBUTIONS



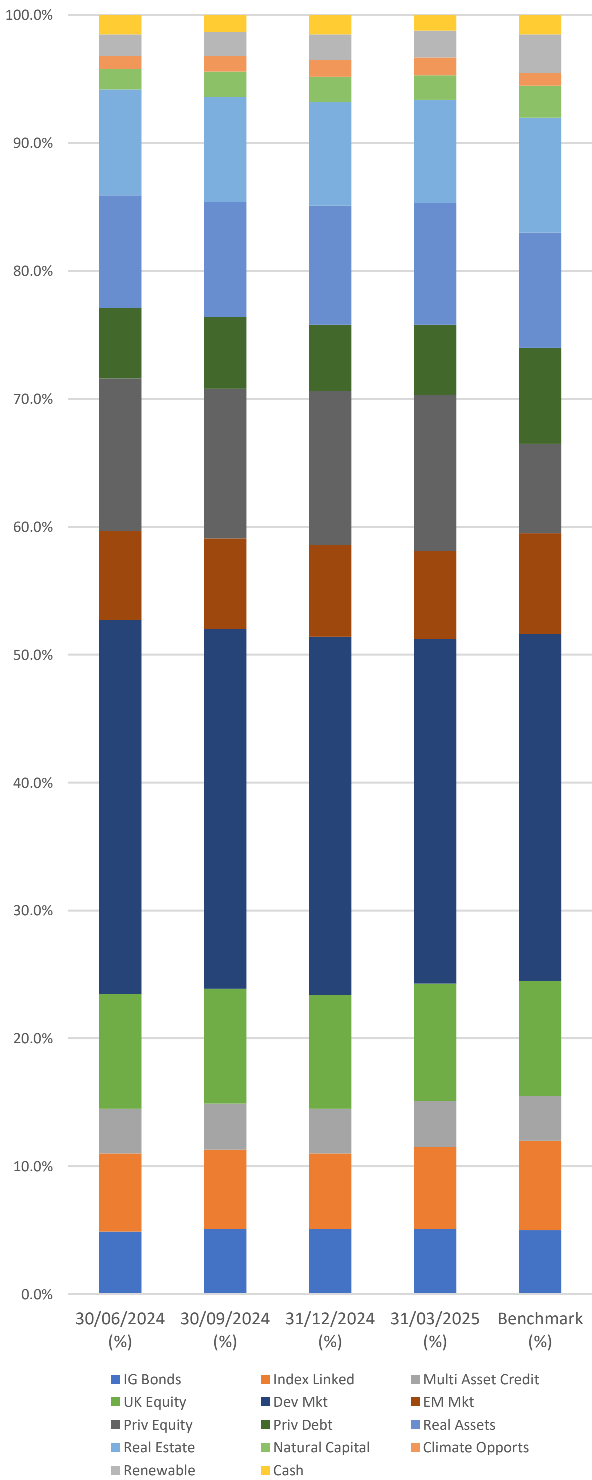
BREAKDOWN OF NET CONTRIBUTIONS



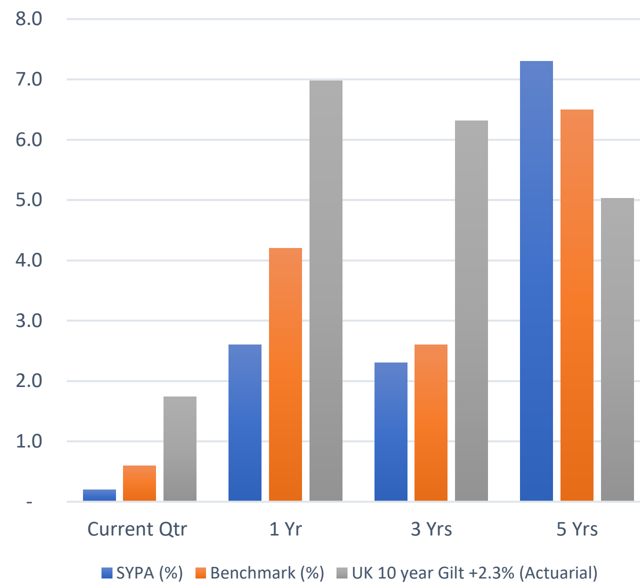
ASSET LIABILITY RATIO SINCE MAR 2024



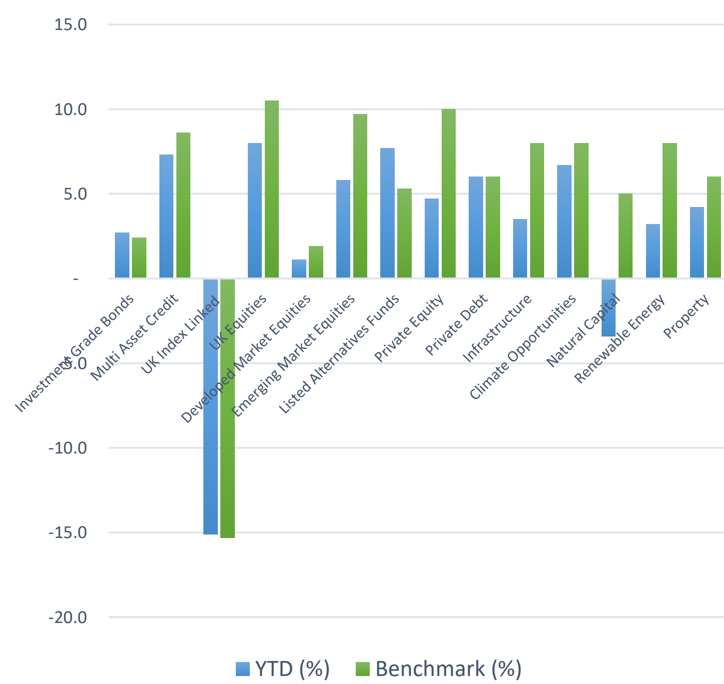
ASSET ALLOCATION



TOTAL FUND RETURN



ASSET PERFORMANCE BY TOTAL ASSET CLASS - 12M TO MARCH 2025



Market background

The first quarter of 2025 began with markets near all-time highs following President Trump's election win. However, the tide turned as the quarter progressed, with the **US** equity market falling by around 7.2% over the 3 months. A key driver was, of course, the trade war ignited by the Trump administration upon the globe, with China in particular being targeted.

The market fall was not all down to trade and tariffs, however, but was also impacted by the news that a Chinese company, Deepseek, had developed a cost-effective AI model which was more than comparable to what was already in the market. This was a massive market disruptor, especially to the Magnificent Seven group of US tech stocks, which had contributed to the recent success of equity markets. Nvidia, one of the gang of seven, had almost $600 billion wiped off its balance sheet overnight.

In terms of specific stocks, the overall winners tended to be those companies falling under the "value" banner (e.g. the likes of healthcare and energy) which returned just under 5% during the quarter. Smaller companies and those with a focus toward "growth" (such as the Magnificent Seven) struggled over this period, with the US announcing its GDP target for the year would be reduced from 2.1% to 1.7%. With inflation expected to be higher at around 2.7%, an increase of 0.2% over the previous period, US interest rates were kept on hold for the quarter.

Rotating out of "growth" companies and into more defensive sectors, played into the hands of the large **UK** energy and healthcare companies which dominate the UK market index. The UK was one of the strongest equity market performers this quarter generating a return of 4.5%. Although this is a good story for the UK, it is not all plain sailing, as issues still remain around government spending cuts and weak growth prospects.

Europe (equities up 7.8%) was the standout performer this quarter globally, with financial stocks (especially banking) being one of the top performing sectors. BNP Paribas and Intesa Sanpaolo exceeded expectations with strong year-end earnings. Industrials, Energy and Utilities also contributed positively to performance.

A point to note - the ECB did manage to cut rates in both January and March as inflation eased during the period.

Market background

It was a mixed bag for **Emerging Markets.** Generally, equities fell modestly this quarter (-0.9%) although Chinese markets turned positive with the news around DeepSeek and stimulus measures from the authorities. This led to a surprise uplift around China going forwards, although tariffs and trade concerns remain as structural challenges. This wasn't the case for the Central bank of India, who reduced rates for the first time in a long while amid concerns about growth and short-term outlook. A falling US 10-year treasury yield and a weaker dollar help support the EM countries.

With increased equity market volatility, US treasuries performed positively this quarter with yields fallings. Most corporate **fixed income** sectors underperformed government bonds as credit spreads widened. i.e. the cost of borrowing for companies rose relative to the government's borrowing costs.

In the UK, long-dated gilts yields rose due to re-accelerating inflation expectations, while short dated yields declined as markets anticipated nearer-term base rate cuts from the Bank of England.

The expected default rates on high yield and leveraged loans remains fairly elevated at 4.7%. For context, this can be compared to the recent low of just under 2% in late 2022 and high of just under 7% during the pandemic. The general air of uncertainty has impacted government bond markets, with questions remaining over the implementation of tariffs and their potential impacts on inflation, borrowing costs and the wider economy.

The outlook is to remain resilient as inflation has stabilised, albeit above the target limit. However, ongoing or escalating trade disputes could disrupt global supply chains and feed into inflationary pressures. Prolonged uncertainty about US trade policy flip-flops could undermine economic activity, possibly triggering recession.

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Fund Valuation

as at 31 March 2025

	Dec-24 £m	%	Quarterly Net Investment	Mar-25 £m	%
FIXED INTEREST					
Inv Grade Credit - BCPP	564.4	5.1	0.0	563.2	5.1
UK ILGs - BCPP	654.3	5.9	75.0	707.8	6.4
MAC - BCPP	396.3	3.6	-4.8	399.4	3.6
TOTAL	**1615.0**	**14.6**	**70.3**	**1670.4**	**15.1**
UK EQUITIES	**984.9**	**8.8**	**-10.0**	**1015.7**	**9.2**
INTERNATIONAL EQUITIES					
Developed Market - BCPP	3110.0	28.0	-75.0	2973.8	26.9
Emerging Market - BCPP	794.7	7.2	-15.0	766.0	6.9
Emerging Market - SYPA	0.7	0.0	-0.1	0.6	0.0
TOTAL	**3905.4**	**35.2**	**-90.1**	**3740.4**	**33.8**
LISTED ALTERNATIVES -BCPP	**167.7**	1.5	**0.0**	**164.7**	1.5
PRIVATE EQUITY					
BCPP	415.3		15.2	457.1	
SYPA	750.9		-12.6	722.5	
TOTAL	**1166.2**	**10.5**	**2.6**	**1179.6**	**10.7**
PRIVATE DEBT FUNDS					
BCPP	218.5		25.7	255.6	
SYPA	381.1		-4.3	376.7	
TOTAL	**599.6**	**5.4**	**21.4**	**632.3**	**5.7**
INFRASTRUCTURE					
BCPP	571.0		20.3	620.8	
SYPA	437.5		-19.9	406.6	
TOTAL	**1008.5**	**9.1**	**0.4**	**1027.4**	**9.3**
RENEWABLE ENERGY	**225.0**	**2.0**	**9.2**	**232.8**	**2.1**
CLIMATE OPPORTUNITIES	**142.2**	**1.3**	**9.5**	**156.8**	**1.4**
NATURAL CAPITAL	**221.8**	**2.0**	**-14.3**	**204.9**	**1.9**
PROPERTY	**902.4**	**8.1**	**-17.0**	**897.0**	**8.1**
CASH	**168.0**	**1.5**		**138.1**	**1.2**
TOTAL FUND	**11106.7**	**100.0**		**11060.1**	**100.0**

Asset Allocation Summary

Strategic vs Current Asset Allocation					
Asset Class	SAA Target	Range	Current Asset Allocation		
	%	%	£m	%	OW/(UW)
Equities	38.0	+/- 5%	4756.1	43	**5**
Private Equity	7.0	+/- 2%	1179.6	10.7	**5.2**
Listed Alternatives			164.7	1.5	**1.5**
Total Growth	**45.0**		**6100.4**	**55.2**	
Multi Asset Credit	2.5	+/- 2%	399.4	3.6	**1.1**
Infrastructure	9.0	+/- 3%	1027.4	9.3	**0.3**
Private Debt	7.5	+/- 2%	632.3	5.7	**-1.8**
Property	9.0	+/- 2%	897	8.1	-0.9
Natural Capital	3.5	+/- 2%	204.9	1.9	**-1.6**
Climate Opportunities	5.0	+/- 2%	156.8	1.4	**-3.6**
Renewable Energy	5.0	+/- 2%	232.8	2.1	**-2.9**
Total Income	**41.5**		**3550.6**	**32.1**	
UK Index Linked Gilts	7.0	+/- 2%	707.8	6.4	**-0.6**
Corporate Bonds	5.0	+/- 1%	563.2	5.1	**0.1**
Cash	1.5	+/- 1%	138.1	1.2	**-0.3**
Total Protection	**13.5**		**1409.1**	**12.7**	
Total	**100.0**		**11060.1**	**100.0**	

OW/UW 'RAG' ratings

Green ratings indicate that current asset allocation is within agreed tolerances

Red ratings indicate that current asset allocation is out of range

Asset Allocation Summary

The long-term aim of reducing our overweight position in equities continued, with modest amounts of Overseas and UK equities being sold. These proceeds were directed towards protection assets such as index-linked gilts, plus the continuing build-up of allocations to private debt and newer areas such as Climate Opportunities and Renewables.

Our total allocation to Private Equity also remains materially overweight relative to the strategic asset allocation, albeit this is partly a product of relatively strong performance, plus its illiquid nature. Future allocations to this asset class are likely to be lower to help us mitigate the overweight position.

Redemption cashflows from our legacy Private Equity and Private Debt funds over the quarter largely offset the drawdowns required by Border to Coast's private market offerings.

To support the growth of small and medium sized organisations locally, the Pension Authority, in alignment with the South Yorkshire Mayoral Combined Authority's economic development strategies, has pledged £20m of equity investment and £20m of debt funding to two investment managers who specialise in these types of businesses. The remit given to the managers will incorporate a focus on key metrics such as the number of jobs and apprenticeships in the region. The broader intention is to provide private sector investment within South Yorkshire, helping to boost the local economy.

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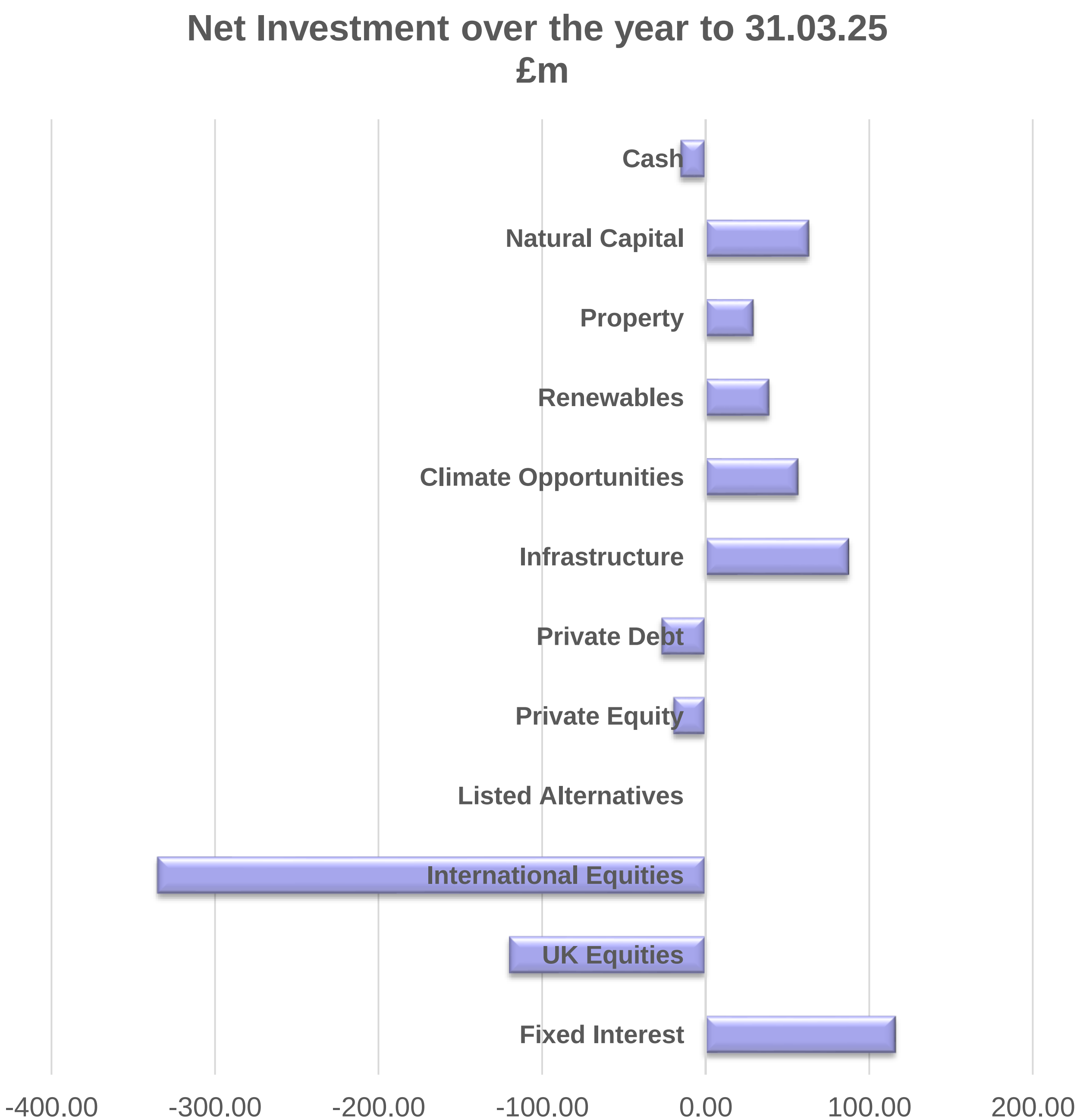
Asset Allocation Summary



Performance

as at 31 March 2025

	Qtrly Performance		Performance last 12 months	
	SYPA	Benchmark	SYPA	Benchmark
	%	%	%	%
FIXED INTEREST				
Investment Grade Credit - BCPP	0.9	0.7	2.7	2.4
UK ILGs	-3.1	-3.4	-15.1	-15.3
Multi Asset Credit - BCPP	2.0	2.0	7.3	8.6
UK EQUITIES	**4.1**	**4.5**	**8.0**	**10.5**
INTERNATIONAL EQUITIES				
Developed Market - BCPP	-2.1	-1.2	1.1	1.9
Emerging Market	-1.8	-0.9	5.8	9.7
TOTAL	**-2.0**	**-1.1**	**2.0**	**3.7**
PRIVATE EQUITY	**0.9**	**2.4**	**4.7**	**10.0**
PRIVATE DEBT FUNDS	**2.2**	**1.5**	**6.0**	**6.0**
INFRASTRUCTURE	**1.9**	**1.9**	**3.5**	**8.0**
RENEWABLES	**-0.5**	**1.9**	**3.2**	**8.0**
CLIMATE OPPORTUNITIES	**3.5**	**1.9**	**6.7**	**8.0**
PROPERTY	**2.1**	**1.5**	**4.2**	**6.0**
NATURAL CAPITAL	**-1.2**	**1.3**	**-3.4**	**5.0**
CASH	**0.9**	**1.1**	**4.3**	**5.1**
TOTAL FUND	**0.2**	**0.6**	**2.6**	**4.2**

Performance Summary

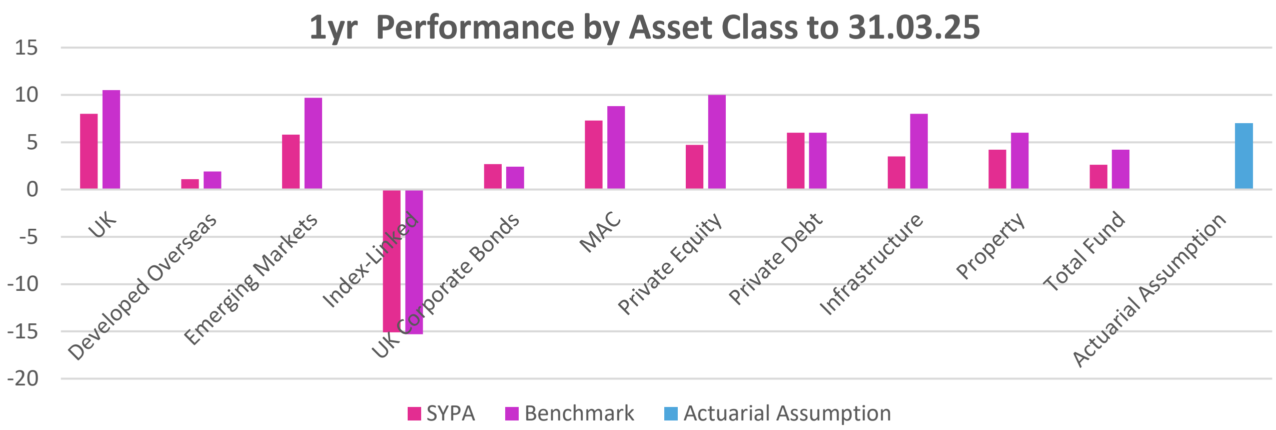
For the quarter to the end of March, the Fund returned 0.2% against the expected benchmark return of 0.6%.

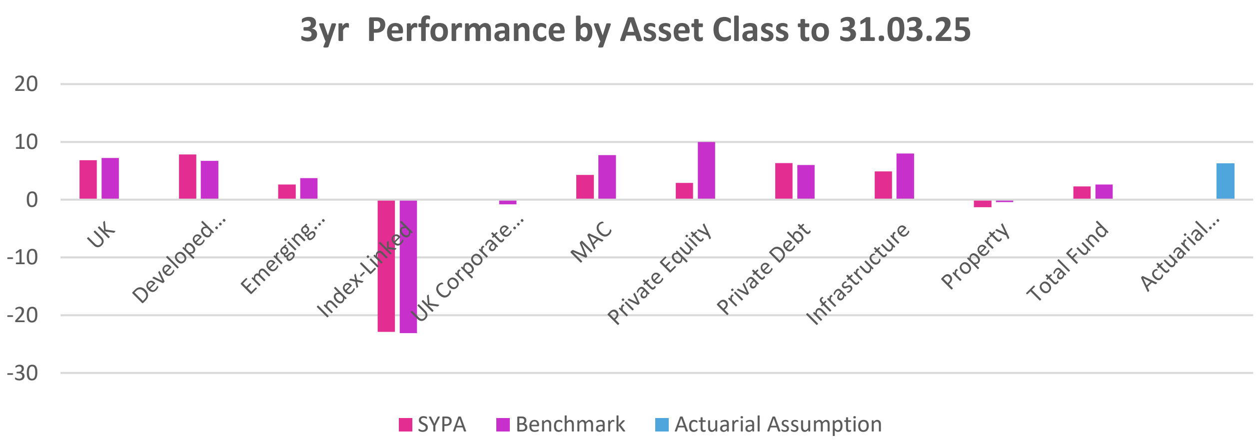
Asset allocation relative to benchmark neither added or detracted contribution to performance, whilst stock selection detracted 0.4% from performance.

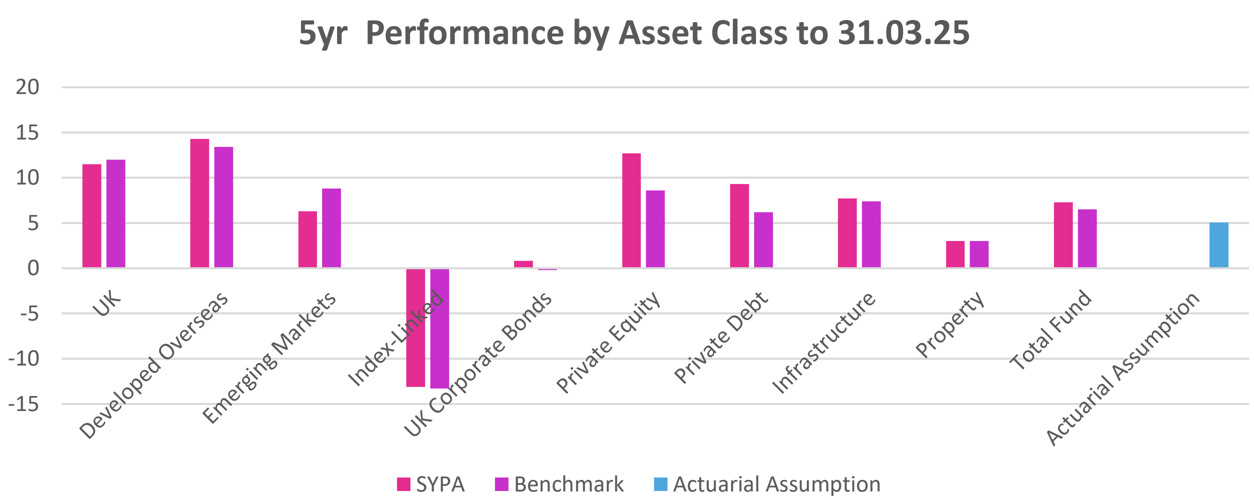
The breakdown of the stock selection is as follows:-

Emerging Market Equity	-0.1%
Overseas Developed Equity	-0.2%
Private Equity	-0.1%
Total Bonds	+0.1%

Performance-Medium term







SOUTH YORKSHIRE PENSIONS AUTHORITY

Performance – Border to Coast Funds

For the three-month period to March, the **UK Listed Equity** fund underperformed the benchmark by 0.36%. This negative performance stemmed from stock selection and sector allocations, which resulted from positions in Industrials (BAE Systems and Melrose) and Financials (Lloyds Banking and Herald Investment Trust & Allianz Tech) and detracted from the overall performance of the fund. An allocation to UK small caps focussed funds was another detractor from fund performance.

The underperformance was mitigated by exposure in Basic Materials (underweight in Glencore and overweight positions in both Antofagasta and Rio Tinto) and in Consumer Staples where an underweight position in Diageo and an overweight holding in Imperial Brands benefitted fund performance.

However, over the long term, in particular since inception, the fund has modestly outperformed its benchmark by 0.18% p.a.

The **Overseas Developed Markets Equity** has produced a positive return over the benchmark since inception of 1.26% p.a. - but was down against its benchmark by 0.88% this quarter, as the fund's overweight allocation to US and underweight exposure to European equities were material contributors to the underperformance.

Negative stock impacts was realised through overexposure to Alphabet Class A shares over the quarter, as the AI enthusiasm that emanated over the past year tampered down. An ongoing DOJ investigation into the company also didn't help matters. A similar AI theme played out at Broadcom, as investors became fearful that an infrastructure buildout slowdown would hurt Broadcom's revenue growth.

Positive influences stemmed from Europe, especially in Spain and Italy as growth prospects increased with the banking sector performing well, as both BNP Paribas and Intesa Sanpaolo exceeded expectations with strong year-end earnings. Deutsche Telecom also contributed to the upside as the company performed strongly following better than expected end of year results.

The **Emerging Markets Equity** fund continued to disappoint this quarter with relative underperformance of 0.93% and this was a similar case over the longer term too, as inception to date figure detracted against the benchmark by 1.81% p.a.

The fund is currently managed across three managers – with Border to Coast (64.6%) managing the broader Emerging Markets and UBS (21.4%) and Fountain Cap (14.0%) focussing on China. Although the fund is geographically split between most of the emerging market economies; China (~34%), India (~21%), Taiwan and Brazil take up over 70% of the share of the fund with the largest absolute allocations to China and India (albeit both are underweight relative to benchmark) whereas Taiwan and Brazil are both overweight.

Performance – Border to Coast Funds

With sentiment improving over the quarter towards China, driven by renewed optimism towards technology names following the release of DeepSeek's cost-effective R1 AI model, Chinese equities significantly outperformed EM ex-China equities, with the FTSE China index posting a 10.9% return in contrast to FTSE EM ex-China returning -6.1%.

Both China specialist managers delivered strong absolute performance during the quarter, albeit marginally underperformed the FTSE China benchmark.

Within the ex-China region, India continued to experience some cyclical economic softness, resulting from persistent inflation outpacing wage growth, weighing on domestic consumption and corporate earnings. The region's pessimistic short-term outlook continued to sustain foreign outflows, particularly from SMID-cap names, as investors looked to book profits as well as beginning to rotate back into a rejuvenated China market.

The internal Border to Coast EM ex-China mandate underperformed its regional benchmark by 0.8%, attributable to the overweight exposure to Taiwan. Additionally, positioning in Globant SA was a notable drag to performance in response to weaker than expected earnings and a downward revision to full year guidance.

The Sterling Investment Grade Credit made a positive relative return of 0.18% in the quarter and has a +1% p.a. relative return since inception. Credit spreads tightened early in the quarter before widening back to initial levels, while gilt yields stayed broadly stable. Average duration stood at around 5 years. The market volatility experienced in the quarter had a subdued effect on the positive performance of the fund, which was mostly driven by RLAM (+0.5%) and M&G (+0.2%), with Insight marginally underperforming (0.1% behind benchmark); as short-dated asset-backed securities still offered relative value.

The **Sterling Index-Linked Bond** fund delivered a total return of -3.10% during the period, compared to the benchmark return of -3.36%, resulting in outperformance of 0.26%, with the yield on long-dated index-linked gilts increasing by 19 basis points to 2.1%, amid heightened market volatility. Optimism about global growth was overshadowed by uncertainty around US trade policies and fiscal concerns in Europe and the UK. UK gilt yields climbed as markets feared rising debt pressures, though sentiment improved after the Spring Statement revealed lower-than-expected bond issuance. Positive relative contributions from the corporate holdings and an overweight position in ultra-long-dated Gilts, more than offset the negative impact of a modest overweight duration position.

Performance – Border to Coast Funds

The **Multi-Asset Credit fund** marginally underperformed its benchmark this quarter with the fund delivering a return of 1.99% vs 2.00%. Since inception to date, the relative performance has been materially below benchmark, generating relative returns of -5.04% p.a.

The fund is split between High Yield (30%) managed by Wellington, Leveraged loans (15%) managed by Barings, EM local currency (10%) managed by Ashmore, EM hard currency (20%) managed by BCPP and securitised credit (25%) manged by PGIM. PIMCO has the remit to manage the core bond portfolio which constitutes a blend of asset classes. With EM hard currency and the securitised credit currently being the two overweight sectors in the fund.

Positive attribution was delivered by PGIM through the securitised credit sector whilst EM hard currency detracted performance from the fund, in terms of performance and being overweight.

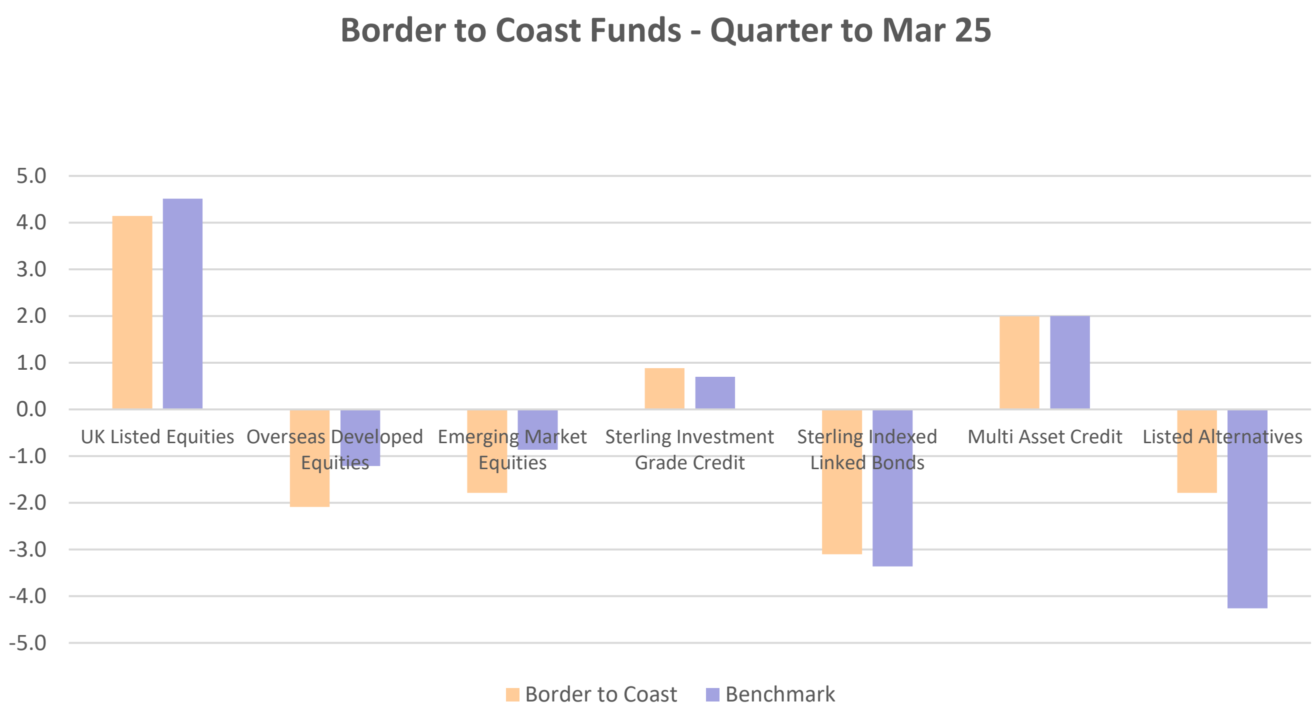
Ashmore has been put on the watchlist as performance has not matched the benchmark since inception to date, as its current high beta strategy should be conducive to the current market environment.

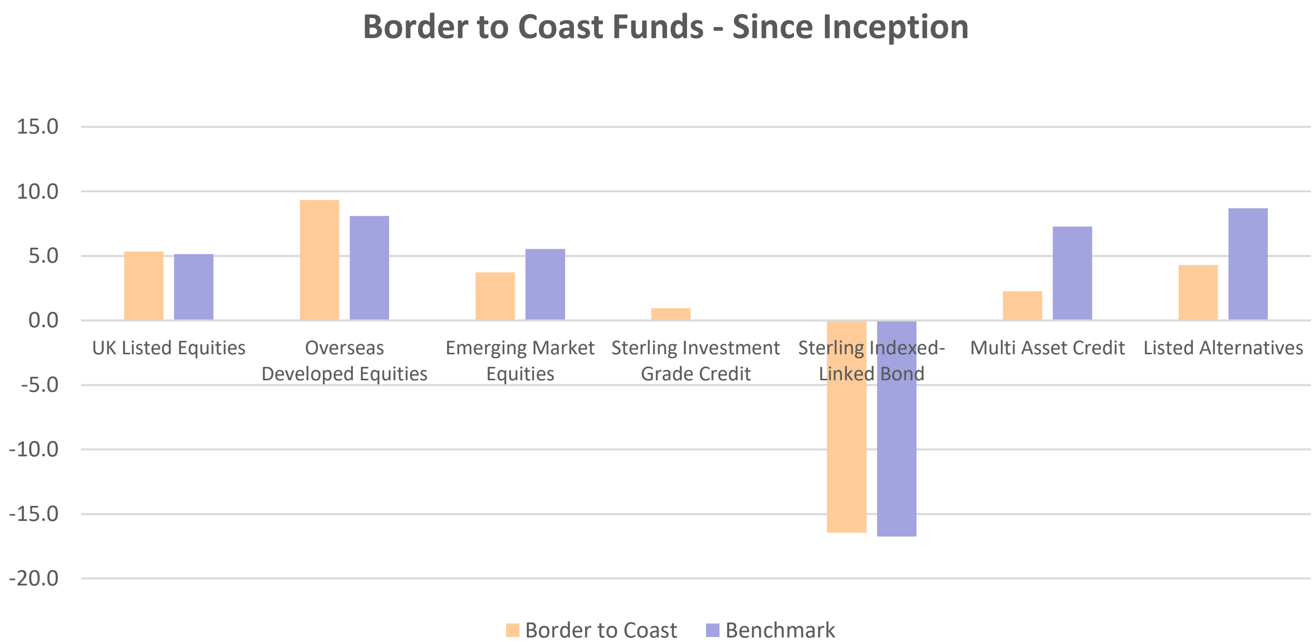
The **Listed Alternatives** fund outperformed its benchmark by 2.47% over the quarter, albeit the fund's performance has been disappointing, with a -4.41% p.a. return since inception. A key factor in the quarterly performance was down to BCPP's decision to increase its exposure to UK REITs, which outperformed their US counterparts by almost 3.5% in Q1 2025.

Robust performance was seen within the infrastructure space as it outpaced the broader market, driven by investment in the European market. Headwinds were seen in the private equity sector, which detracted significantly from overall performance due to concerns around US tariff uncertainty and a frozen IPO market.

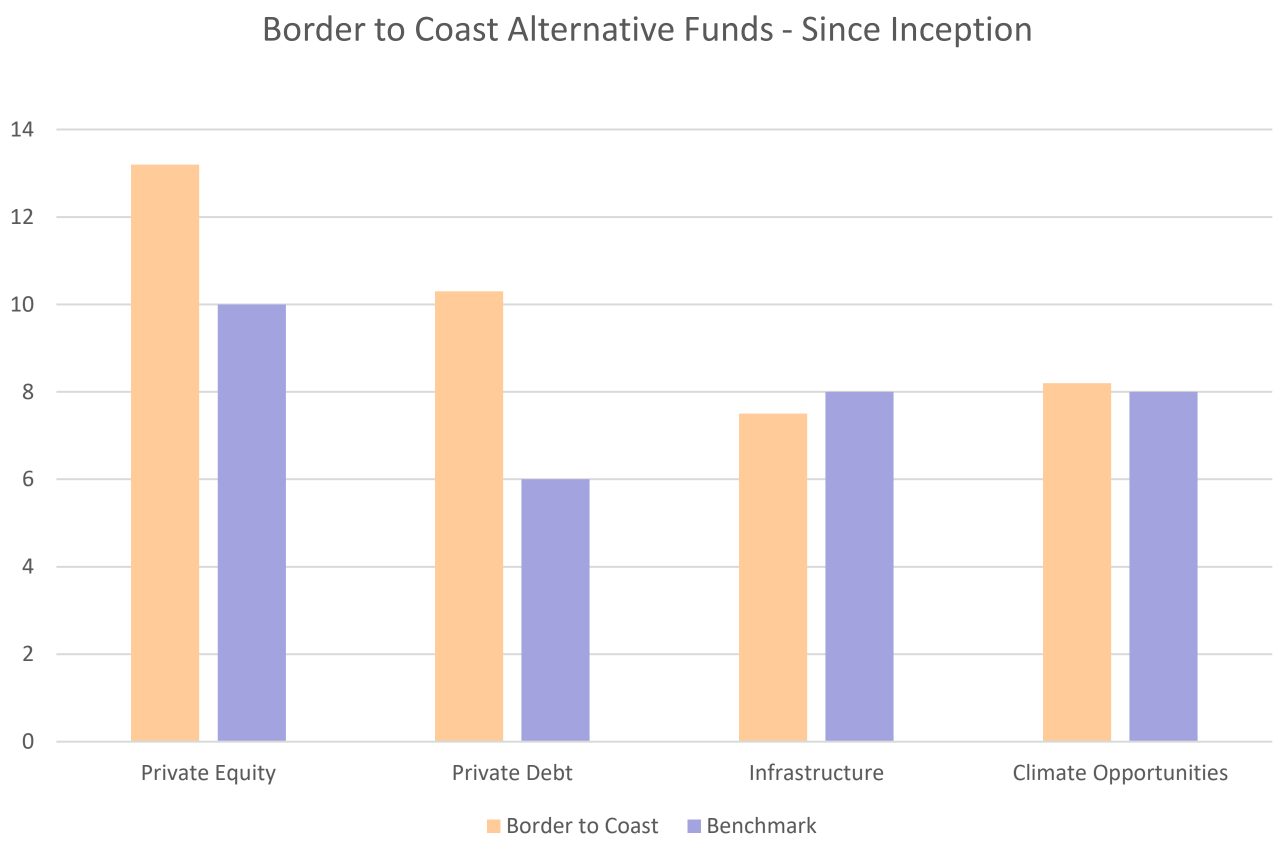
Whilst Alternative credit exhibited notable outperformance during the first quarter. This was primarily driven by the underweight in direct lending and increased allocation to Collateralized Loan Obligations (CLOs) and other Securitized products. While the fundamental credit quality within the asset class remained sound there was a widening of credit spreads.

Performance-Border to Coast Funds





Performance-Border to Coast Alternative Portfolios



(*) Performance is from inception up to the end of Q4 2024, which is the most recent available reporting date for the Alternative Portfolios.

SOUTH YORKSHIRE PENSIONS AUTHORITY

Funding Level

The funding level as at 31 March 2025 is estimated to be c159%:

The breakdown is as follows:

Fund’s Assets at 31 March:	£11,060
Funds estimated Liabilities at 31 March:	£6,970

Caveat

The estimated liabilities are 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

Up, up and away

On 12 May the US and China reached a temporary, 90-day agreement to lower tariffs on each other's products. Under the agreement, the US will reduce its tariffs from 145% to 30% while China will lower its tariffs from 125% to 10%. News of the deal caused equities to rise, with the S&P 500 up 4.6% over that week. The equity rally was further supported by global tech stocks, as talks around Nvidia and Advanced Micro Devices Inc (AMD) supplying semiconductors to Saudi Arabia for data centre projects hit the market.

I still owe money, to the money, to the money I owe

The US Treasury market appears less easily swayed than equity investors though - and borrowing costs are on the rise.

"Over more than a decade, US federal debt has risen sharply due to continuous fiscal deficits. During that time, federal spending has increased while tax cuts have reduced government revenues… Federal interest payments are likely to absorb around 30% of revenue by 2035, up from about 18% in 2024 and 9% in 2021." Moody's noted on 16 May, as they lowered the US credit rating by one notch to Aa1. Is there a reckoning awaiting further down the line?

Got those inflation blues

The Federal Reserve voted to hold interest rates at 4.25%-4.5% in March, highlighting the risks of higher unemployment and higher inflation. Whilst the US economy has thus far remained resilient since the tariff announcements, labour productivity declined for the first time since 2022 and labour costs increased to 5.7% vs the 5.2% expectation. This will cause further pressure on business profit margins, which are already subject to headwinds from import tariffs and waning consumer demand.

Outlook

Should ~~five~~ ten percent appear too small, be thankful I don't take it all

The US and UK sealed a trade deal on 8 May, with cuts to tariffs on car and steel exports. The flat 10% levy on most goods remains, albeit the University of Birmingham has estimated this will relatively save the UK economy £6.5bn by 2030. In exchange the UK will offer US farmers better market access through a lower tariff quota system.

It's not all plain sailing though. Strict security requirements included in the deal have led to China releasing a critical statement, suggesting this could be used to squeeze Chinese products out of British supply chains. Beijing has further warned countries against signing trade deals with the US that could threaten Chinese interests.

The Bank of England cut its benchmark rate by 0.25% to 4.5% on 8 May, although some members of the Committee voted for a larger 0.5% reduction. In addition, the Committee's 2025 growth forecast increased from 0.7% to 1.1% driven by the Q1 2025 looking better than anticipated.

Life on Merz

Freidrich Merz has been confirmed as the new German Chancellor, albeit this required two rounds of voting after falling short initially. The setback underscores the fragility of the new coalition and its susceptibility to MP rebellions, whilst damaging Merz's authority, as he embarks on his mission to massively increase public spending on defence and infrastructure whilst loosening the constraints on public borrowing.