

Statement of Investment Beliefs

The following statement summarises the Authority's Investment Beliefs, which define how we go about investing the Pension Fund's money.

"SYPA is a **global, long-term** investor and looks to maintain a **diversified** portfolio of assets managed through the Border to Coast Pensions Partnership in a **responsible** manner. SYPA's objective is to achieve **net of fees, risk adjusted returns** which meet its **funding requirements**, with sufficient **liquidity** to meet benefit payments as they fall due. SYPA believes that there is a place for both **active and passive** management, and there may be risk-related benefits from hedging some of the **currency** exposures within its investments. SYPA is also committed to allocating a proportion of its investments **locally**. SYPA's overall approach to risk can be summarised as **moderate**."

The terms in bold are key parts of these beliefs, which are further explained below:

Global

Some investors may restrict themselves to investment in their home market (in SYPA's case the UK). However, SYPA believes that it will be better able to harvest the benefits of growth in the world economy by investing on a global basis.

This does not mean that we do not invest in the UK. Like most LGPS funds we have more exposure to the UK than would be justified solely based on the size of the UK economy in the context of the world economy. This exposure is spread across multiple types of investment, including equities, loans to companies and the UK government, housing, development lending, infrastructure and supporting local small and medium sized enterprises.

Long Term

The pension payments (or liabilities) which the Fund is seeking to meet through its investments will not finally mature for another 70 or 80 years and therefore we need to look to the long-term performance of our investments, rather than shorter term market movements. For this reason, we focus more on 3, 5 and 10 year performance than the shorter term.

Diversified

The old saying about not putting all your eggs in one basket applies as much to the investment world as to any other aspect of life. If we invested all the Pension Fund's assets in equities, and equity markets subsequently fell, the whole Fund's value would fall. By investing in a range of less correlated asset classes which do not all react in the same way to economic conditions, we can reduce such risks.

Responsible investment

SYPA wants to be a "good owner of good companies" which means those companies who properly address Environmental, Social and Governance (ESG) risks. Evidence shows that such companies tend to perform better and deliver better shareholder value in the long term.

Responsible investment incorporates ESG issues^(*) into the investment decision making process. Responsible investment also involves practicing investment stewardship to better manage risk and help generate the sustainable, long-term returns required.

(*) ESG issues include, but are not limited to:

- Environmental factors including climate change, pollution and biodiversity. Climate change is considered the most significant risk on SYPA's risk register. We recognise that this presents opportunities – such as investment in new technology to support future energy security – as well as downside risks.
- Social factors including human rights, health and safety and labour standards.
- Governance factors including executive pay, independence of auditors and board composition.

Net of Fees Risk Adjusted Returns

The amount of return we can expect to receive on an investment is very much driven by the degree of risk involved. Return can be seen as the value of the risk that we take in making a particular investment.

Private equity investments are inherently riskier than property, therefore our baseline assumption is that returns from private equity will be higher than for property. In simple terms this is what we mean by risk adjusted return.

We look at all performance after we have paid fees to those managing money on our behalf. This makes us conscious of the costs of delivering a given level of return and the impact of costs on return.

- For example, a product that tracks an index for a cost of 5bps will deliver net underperformance of the index of 5bps
- However, an actively managed product delivering outperformance of 1% above the same index for a cost of 20bps will deliver outperformance of the index of 80bps, thus providing better value in that scenario.

Meeting our funding requirements

Arguably the key objective for our investments is that they provide the required investment returns set by the Scheme Actuary to meet our funding requirements. Based on the 31 March 2025 actuarial valuation results, the Pension Fund requires a return of 3.5% p.a. to remain above 100% funded but will be targeting a return of 6% p.a. (the actuarial discount rate).

Liquidity

It is critical that we retain sufficient liquidity within our investments to meet pensions payments as they fall due. This may be achieved through a combination of:

- Regular, reliable income from our investments (for example, coupon payments from bond investments, rental income on properties and loan repayments).
- Retention of a proportion of our investments in cash and other liquid assets which can easily be sold.

Active and passive management

There are two broad styles of investment management - active and passive - both of which can play a part across our portfolios:

- Active investment involves selecting specific investments based on a process of analysis. SYPA believes that it is possible for skilful active managers to add value over the longer term, particularly in inefficient markets. Active management can generally be applied to any investment market.
- Passive (or index-tracking) investment involves buying all the stocks in an index in the same proportions as in the index, thus if Tesco is 5% of the index, it will be 5% of the portfolio. This style of investment can provide attractive, low-cost exposure to investment markets. The passive approach is generally restricted to publicly listed markets, which typically means equities and bonds.

Currency exposure

As noted, SYPA is a global investor, meaning that we own assets which are denominated in a range of different currencies (US dollar, euro, Japanese yen, etc). Movements in the exchange rates between these currencies and sterling (£) can have a material impact on the value of the Fund's investments – both positive and negative. For example, if we own an asset denominated in US dollar assets (such as shares in a US company):

- An increase in the value of the US dollar relative to sterling would increase the value of our holding in that asset.
- But a decrease in the value of the US dollar relative to sterling would decrease the value of our holding in that asset.

This is particularly pertinent for SYPA as the Fund's liabilities are all denoted in sterling (£). We therefore believe there may be benefits to "hedging" at least a proportion of the Fund's exposure to foreign currencies, which essentially means mitigating the impact of movements in currency exchange rates on our funding level.

Local investment

SYPA is committed to achieving place-based impact from its investments by allocating a proportion of these locally, subject to suitable risk/return characteristics being achievable. Part of this allocation will be UK-wide, but certain elements (such as local development lending) are expected to be wholly focussed on the South Yorkshire region. Within South Yorkshire, it is envisaged that these investment opportunities will align with specific strategic priorities of the South Yorkshire Mayoral Combined Authority (SYMCA).

Moderate

The Authority's Investment Strategy seeks to achieve the returns required to meet the Fund's liabilities without taking excessive risk. We have described this as a moderate attitude to risk - slightly less risky than the midpoint of the range. This is reflected in our investments.

In equities, for example, our preference is for a broad diversified portfolio, rather than a higher risk (and higher potential return) portfolio holding a much smaller number of individual stocks.

South Yorkshire Pensions Authority

December 2025