

## NORTH YORKSHIRE COUNTY COUNCIL

## PENSION FUND COMMITTEE

21 NOVEMBER 2013

PERFORMANCE OF THE FUND'S PORTFOLIO FOR THE QUARTER  
AND YEAR ENDING 30 SEPTEMBER 2013

## Report of the Treasurer

**1.0 PURPOSE OF REPORT**

- 1.1 To report the investment performance of the overall Fund, and of the individual Fund Managers, for the Quarter to 30 September 2013 and the twelve months ending on that same date.

**2.0 PERFORMANCE REPORT**

- 2.1 The Fund Analysis & Performance Report (**circulated as a separate document**) produced by BNY Mellon Asset Servicing (MAS) provides a performance analysis of the North Yorkshire Pension Fund for the quarter and year ending 30 September 2013.
- 2.2 The report highlights the performance of the total Fund by asset class against the customised Fund benchmark. It also includes an analysis of the performance of each manager against their specific benchmark and a comparison of performance levels over time.

**3.0 PERFORMANCE OF THE FUND**

- 3.1 **The absolute overall return for the quarter (+5.6%) was above the customised benchmark for the Fund (+2.6%) by 3%.**
- 3.2 **The 12 month absolute rolling return was +22.5%, 6.2% above the customised benchmark.**
- 3.3 Absolute and relative returns over the rolling years to each of the last four quarter ends were as follows.

Year End	Absolute %	Relative %
30 September 2013	+22.5	+6.2
30 June 2013	+21.0	+3.5
31 March 2013	+16.4	+1.1
31 December 2012	+6.0	+2.1

- 3.4 The performance of the various managers against their benchmarks for the Quarter ended 30 September 2013 is detailed on **page 8** of the MAS report and in **Section 4** below. This performance is measured on a time-weighted basis and expressed as a +/- variation to their benchmark.
- 3.5 The Appendices used in this report have been designed to present a fuller picture of recent investment performance.

**Appendix 1** Fund Manager Performance over the three years to 30 September 2013 in absolute percentage terms from a starting point of “100”

**Appendix 2** Performance of NYPF relative to other LGPS Funds over the last ten years

**Appendix 3** Solvency position (in % and £ terms) since the 2001 Triennial Valuation; this Appendix also shows in absolute terms the +/- in the value of assets and liabilities of the Fund

**Appendix 4** Solvency graph – this shows the key figures from **Appendix 3** since March 2004 in a simple graphical format

**Appendix 5** Details of Rebalancing up to the date of this report

- 3.6 The separate reports of the Investment Adviser and Investment Consultant explain what has been happening in the financial markets and to NYPF’s investments, and look ahead over the short, medium and longer term.

#### 4.0 **FUND MANAGER PERFORMANCE**

- 4.1 In monetary terms, the positive absolute return of +5.6% in the Quarter increased the invested value of the Fund by £103m. After taking new money into account, the value of the Fund increased by £108m. In absolute terms this movement is primarily attributable to gains made by Standard Life (£41m), Baillie Gifford (£32m) and Fidelity (£9m).

- 4.2 Eleven out of twelve of the Fund’s managers outperformed their respective benchmarks, representing 89% of the Fund’s assets, which was another excellent quarterly result for the Fund. At the end of the September 2013 quarter the value of the Fund was £377m above the value at the end of September 2012, an increase of 24%.

#### **Performance relative to other LGPS Funds**

- 4.3 **Appendix 2** shows the **performance of NYPF relative to other Funds in the LGPS universe**. NYPF outperformed the local authority average by 3% for the quarter and 8.2% for the year to 30 September 2013. NYPF has shown a strong and consistent correlation to the performance of other LGPS funds over the last 10 years but has tended to relatively outperform when markets are rising and underperform in falling markets conditions. This reflects to a greater inherent potential for volatility in the NYPF Investment Strategy relative to many other LGPS funds.

## Overseas Equities

- 4.4 **Fidelity** produced a positive relative return in the quarter (+2.6%) against a benchmark return of +2.2%. Performance over the year to September 2013 was +0.8% relative.

	Individual Quarters Ending				12 Months to 30 Sep 2013
	31 Dec 12	31 Mar 13	30 Jun 13	30 Sep 13	
Portfolio	4.3	12.5	-0.3	2.6	20.1
Benchmark	3.9	13.0	-0.6	2.2	19.3
Difference	0.4	-0.5	0.3	0.4	0.8

Allocations to North America and Asia Pacific outperformed in the quarter, with Europe and Emerging Markets underperforming. Emerging Markets has underperformed in 9 out of the last 12 quarters.

The manager has achieved +0.6%pa over the benchmark over the rolling three year period to September 2013 against the target of +2%pa. Since inception in November 2008 the manager has matched the benchmark (gross of fees).

- 4.5 The Global Alpha fund managed by **Baillie Gifford** produced a positive relative return (+1.8%) continuing an exceptional run of outperformance of seventeen of the last eighteen quarters. The Fund was an impressive 7.1% above the benchmark for the year to September 2013.

	Individual Quarters Ending				12 Months to 30 Sep 2013
	31 Dec 12	31 Mar 13	30 Jun 13	30 Sep 13	
Portfolio	3.0	15.9	1.9	3.0	25.3
Benchmark	2.5	14.0	0.0	1.2	18.2
Difference	0.5	1.9	1.9	1.8	7.1

The LTGG fund, also managed by **Baillie Gifford** produced a positive relative return (+11.6%) for the quarter. The concentrated nature of this fund (30-40 stocks) means that significant volatility over short term periods should be expected from time to time. The strategy for this fund is to outperform over three to five year periods.

	Individual Quarters Ending				12 Months to 30 Sep 2013
	31 Dec 12	31 Mar 13	30 Jun 13	30 Sep 13	
Portfolio	2.4	7.3	1.5	12.8	25.8
Benchmark	2.5	14.0	0.0	1.2	18.2
Difference	-0.1	-6.7	1.5	11.6	7.6

Both funds managed by Baillie Gifford have performed exceptionally well over the long term, since the manager was appointed in 2006. At the end of September 2013 the annualised performance figures were 3.1% (Global Alpha) and 3.4% (LTGG) ahead of the FTSE All World benchmark over the last three years, compared to targets of +2% and +3% respectively.

## UK Equities

- 4.6 **Standard Life** produced a positive relative return (+3.3%) in the quarter against the FTSE 350 equally weighted benchmark return of +9.9%. Relative performance for the year was an exceptional 15.7% above the benchmark.

	Individual Quarters Ending				12 Months to 30 Sep 2013
	31 Dec 12	31 Mar 13	30 Jun 13	30 Sep 13	
Portfolio	12.2	10.3	2.3	13.2	43.3
Benchmark	6.1	10.8	-1.3	9.9	27.6
Difference	6.1	-0.5	3.6	3.3	15.7

The manager has achieved +1.3% pa over the benchmark over the rolling three year period to September 2013 against the target of +3% pa. Since inception the fund is below the benchmark by an annualised 0.6%.

Compared to the FTSE All Share which was +5.6% for the quarter, the benchmark of the FTSE 350 Equally Weighted (excluding Investment Trusts), which has a greater focus towards the UK economy, demonstrated slightly stronger performance.

- 4.7 Disinvestment from the ethical equity portfolio operated by **R C Brown** commenced on 28 June, the last working day of the previous quarter and was completed by 5 July, which is why performance figures appear in the MAS report.
- 4.8 These results give a combined absolute and relative performance in the quarter in global equities of +7.1% and +3.1% respectively.

## Fixed Income

- 4.9 **ECM** produced +1.1% relative against the cash benchmark for the quarter and +4.4% relative for the year to September 2013. The performance target is to beat the cash benchmark by 3% each year. The manager also outperformed the most comparable corporate bond index, the Merrill Lynch ER00 (duration hedged) index by 0.2% for the quarter to September 2013.

	Individual Quarters Ending				12 Months to 30 Sep 2013
	31 Dec 12	31 Mar 13	30 Jun 13	30 Sep 13	
Portfolio	2.2	1.0	0.5	1.2	4.9
Benchmark	0.1	0.1	0.1	0.1	0.5
Difference	2.1	0.9	0.4	1.1	4.4

- 4.10 Between July 2005 and May 2007 NYPF invested £125m with ECM. The valuation reached a peak of £141m in December 2007, dropped to a low point of £58m in February 2009. By the end of September 2013 the value of the investment stood at £122m. ECM's Information Ratio (see **paragraph 5.5**) is the highest of all of the Fund's managers at +0.7.
- 4.11 **Amundi** was the only manager to perform below the benchmark (-0.3% relative) in the quarter but was 3.3% above it for the year to September 2013 which was a good result in a difficult trading environment. The performance target is to exceed the benchmark by 2.5% each year.

	Individual Quarters Ending				12 Months to 30 Sep 2013
	31 Dec 12	31 Mar 13	30 Jun 13	30 Sep 13	
Portfolio	7.0	9.6	-6.0	0.3	10.5
Benchmark	5.2	8.6	-6.8	0.6	7.2
Difference	1.8	1.0	0.8	-0.3	3.3

The investment with this manager has proven to be a helpful contributor to Fund performance, outperforming liabilities since inception (+1.2%, annualised).

- 4.12 The investment in Gilts with **M&G** produced +1% against the liability matching benchmark of +0.6% for the quarter to September 2013. Performance for the year to September 2013 was above the benchmark by 1.1%. The performance target is to exceed the benchmark by 0.5% each year.

	Individual Quarters Ending				12 Months to 30 Sep 2013
	31 Dec 12	31 Mar 13	30 Jun 13	30 Sep 13	
Portfolio	6.7	6.7	-5.8	1.0	8.3
Benchmark	5.2	8.6	-6.8	0.6	7.2
Difference	1.5	-1.9	1.0	0.4	1.1

- 4.13 These results give a combined relative and absolute performance in global fixed income of +0.2% and +0.7% respectively in the quarter.

### Property

- 4.14 The investments with **Hermes**, **Threadneedle** and **L&G** produced +1.6%, +3.3% and +2.4% respectively in relative terms, against the RPI benchmark of +0.9% for the quarter to September 2013.

### Diversified Growth Funds

- 4.15 Investments were made into the **Standard Life** Global Absolute Return Strategy (GARS) Fund and the **Newton Investments** Real Return Fund during March 2013. Both funds recovered some of the underperformance in the June 2013 quarter, producing +0.1% and +1.6% respectively against the cash benchmark of +0.1%.

## 5.0 RISK INDICATORS

- 5.1 The Report (**pages 10 and 11**) includes three long-term risk indicators.
- 5.2 The Fund's annualised **Standard Deviation**, which is a reflection of volatility, is 10.2% for the rolling three year period to September 2013 and is higher than the benchmark average (8.7%) which in turn is relatively high when compared to pre financial crisis levels (6-7%).
- 5.3 The **Sharpe Ratio** is a measure of how well the return compensates an investor for the risk taken. A higher Sharpe Ratio reflects a better return for a given level of risk or lower risk for a given level of return. The ratio for the Fund for the rolling three year period to September 2013 is -0.1.
- 5.4 The **Tracking Error** figure reflects how closely a fund manager's actual return follows their respective benchmark. As at September 2013 the figure was 3.2% which compares to a pre-financial crisis level of approximately 2%. During the middle of the crisis this figure rose to over 9%.

5.5 The **Information Ratio** is a measure of excess returns in relation to the benchmark and the consistency of those returns. A high IR could be derived from a high portfolio return, a low benchmark return and a low tracking error. Beating the benchmark by a significant margin inconsistently generates a lower IR than beating the benchmark consistently but modestly. For the period to September 2013 the ratio for the Fund was +0.4%.

5.6 If the measures to reduce volatility (particularly regarding equities) inherent in the Investment Strategy (and the Fund's managers) are successful it will gradually have a positive impact on the four measures referred to above.

## 6.0 **SOLVENCY**

6.1 The **solvency position** is presented in **Appendices 3 and 4**. As at 30 September 2013 the estimated solvency increased in the last quarter from 78% to 80%.

6.2 The assets of the Fund increased by 6% in the Quarter (including new money), whilst liabilities (as modelled by the Actuary) fell by 3%, the two combining to produce a 2% increase in solvency in the Quarter.

6.3 The relative position, over time, between liabilities and assets is shown very clearly in **Appendix 4** which is a simple graph using data from **Appendix 3**. It is clear from this graph that

(a) liability growth was matched by asset growth for the period March 2004 to March 2007 (hence the steady improvement in solvency from 59% to 67% over that period)

(b) from March 2007 to March 2009 liability value accelerated and asset value fell, which had a significant and consequential impact on solvency

(c) the rapid recovery of asset values following the financial crisis and changes to the assumptions used to value liabilities (as determined by the 2010 Triennial Valuation) resulted in solvency returning to 67% by March 2010

(d) between March 2010 and December 2012 the significant improvement in asset values in volatile financial market conditions was achieved alongside a much more significant increase in liability values (as modelled by the Actuary), resulting in a fall in solvency of 8%

(e) the financial assumptions used to value liabilities were revised as part of the 2013 Triennial Valuation resulting in an updated solvency level as at March 2013 from the previously reported 59% to 73%

(f) assets continued to grow strongly between March 2013 and September 2013 and liability values (as determined by the 2013 Triennial Valuation) reduced further, improving solvency to the current 80%

6.4 What this analysis illustrates very clearly is that the Fund has no effective control over the value of liabilities because it is influenced by market conditions, actuarial

assumptions and political decisions regarding the macro economy. To illustrate this, **Appendix 4** includes “ex yield/inflation change” liability and deficit values eliminating the changes to the discount factor and inflation assumptions between March 2010 and December 2012 (see 6.3d above), smoothing out some of the short term volatility between valuations. The Fund must therefore concentrate on the performance of its invested assets over the longer term.

## 7.0 REBALANCING

7.1 The rebalancing schedule is attached as **Appendix 5**. During the quarter £7.5m was transferred from cash reserves into the property investment with Threadneedle. On 29 October 2013 a further £5.2m was transferred from cash to the same manager.

## 8.0 PROXY VOTING

8.1 The report from PIRC is available on request summarising the proxy voting activity in the period July to September 2013. This report covers the votes cast on behalf of NYPF at all relevant company AGMs in the period and includes an analysis of voting recommendations at selected meetings and responses to company engagement.

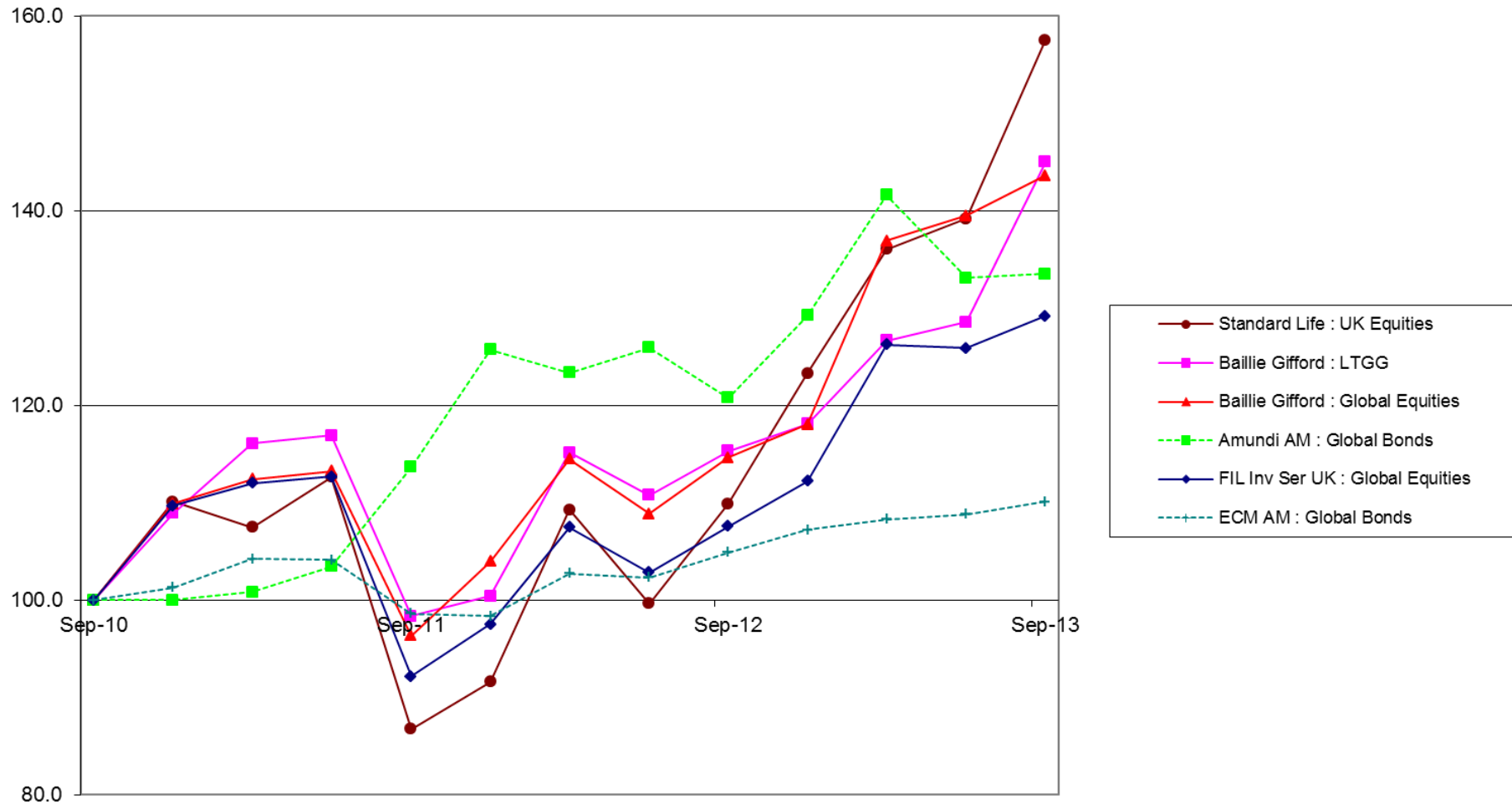
## 10.0 RECOMMENDATION

10.1 Members are asked to note the investment performance of the Fund for the Quarter and 12 months ending 30 September 2013.

GARY FIELDING  
Treasurer  
Corporate Director – Strategic Resources  
County Hall  
Northallerton

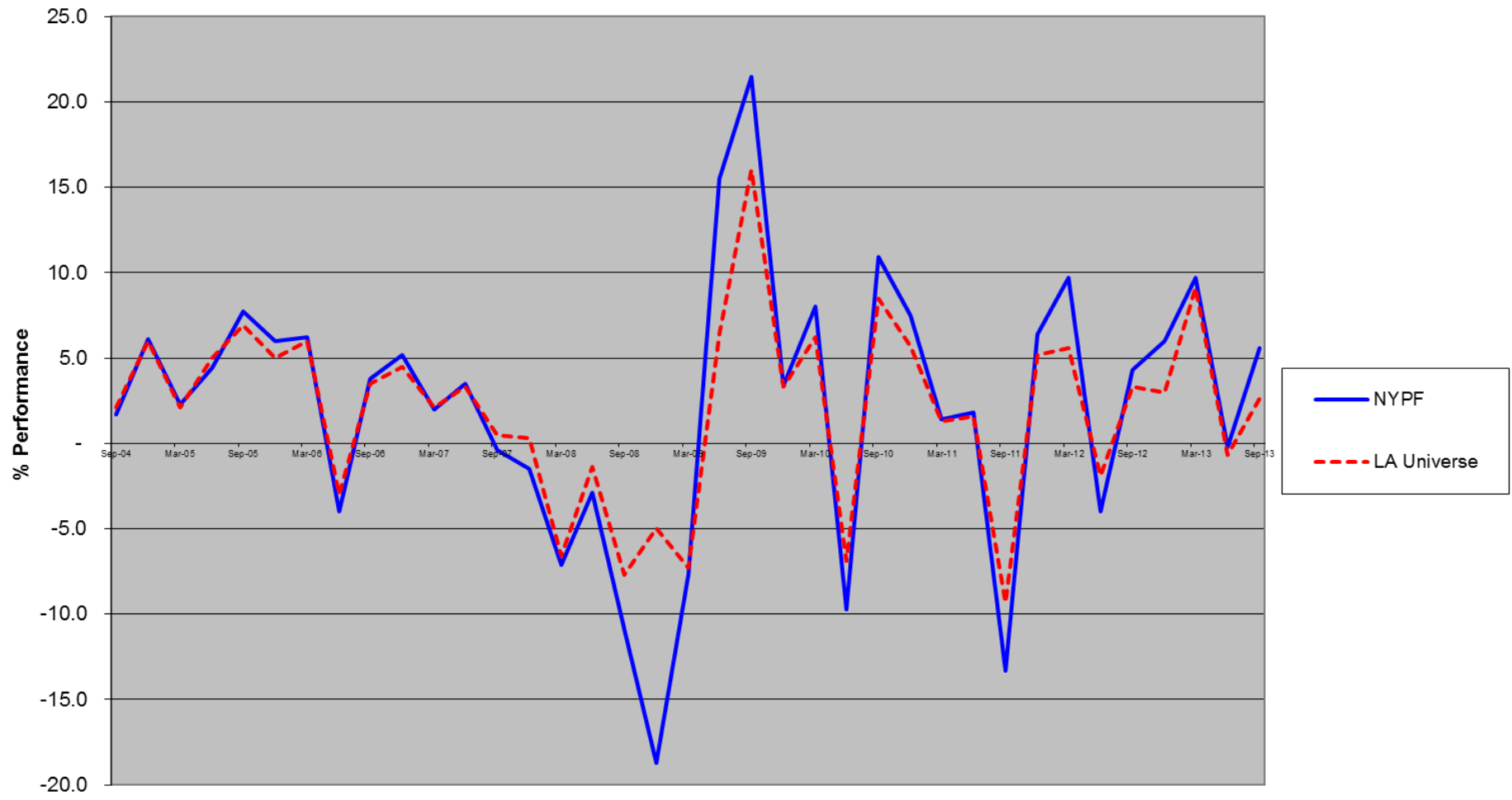
8 November 2013

Investment Manager Performance - cumulative absolute performance since September 2010





### Pension Fund Performance - NYPF vs Other Local Authorities

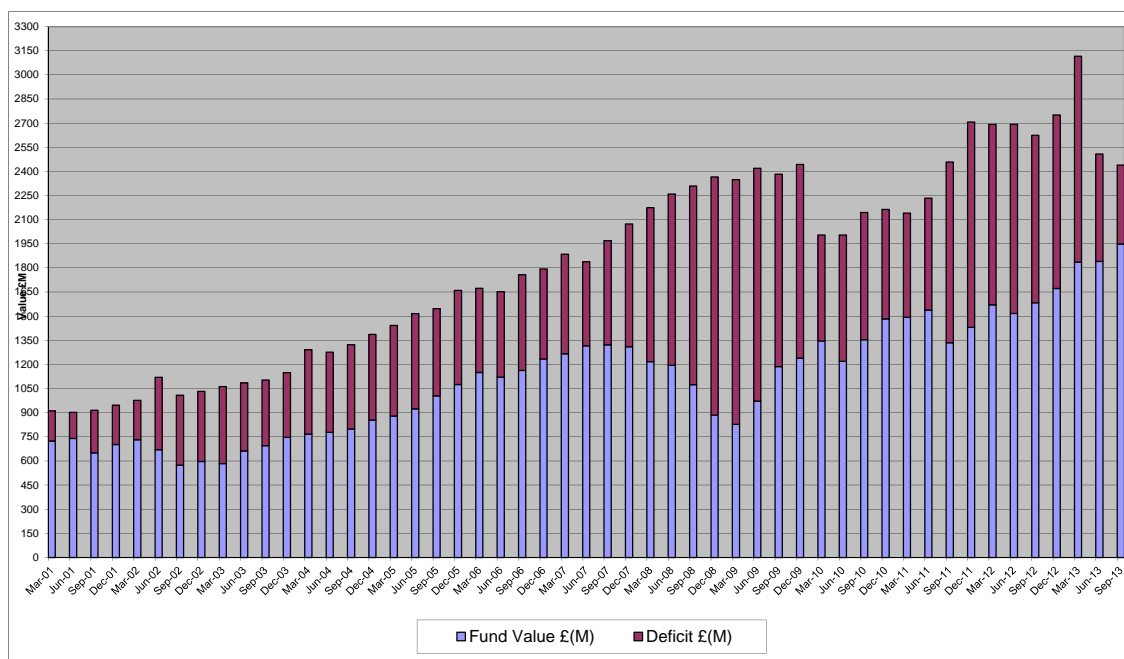


### Actuarial Model of Quarterly Solvency Position

Date	Solvency	Deficit £(M)	Fund Value £(M)	FTSE 100
March 31, 2001	79%	187	724	5,634
June 30, 2001	82%	162	740	5,643
September 30, 2001	71%	265	650	4,903
December 31, 2001	74%	245	702	5,217
March 31, 2002	75%	245	732	5,272
June 30, 2002	60%	450	670	4,656
September 30, 2002	56%	435	574	3,722
December 31, 2002	58%	435	597	3,940
March 31, 2003	55%	478	584	3,613
June 30, 2003	61%	423	662	4,031
September 30, 2003	63%	408	695	4,091
December 31, 2003	65%	402	747	4,477
March 31, 2004	59%	524	767	4,386
June 30, 2004	61%	498	778	4,464
September 30, 2004	60%	524	799	4,571
December 31, 2004	62%	533	854	4,814
March 31, 2005	61%	563	879	4,894
June 30, 2005	61%	592	924	5,113
September 30, 2005	65%	542	1005	5,478
December 31, 2005	65%	585	1075	5,619
March 31, 2006	69%	523	1150	5,965
June 30, 2006	68%	531	1121	5,833
September 30, 2006	66%	595	1163	5,961
December 31, 2006	69%	561	1233	6,221
March 31, 2007	67%	619	1266	6,308
June 30, 2007	72%	522	1316	6,608
September 30, 2007	67%	648	1322	6,467
December 31, 2007	63%	763	1310	6,457
March 31, 2008	56%	958	1217	5,702
June 30, 2008	53%	1064	1195	5,625
September 30, 2008	47%	1235	1074	4,902
December 31, 2008	37%	1481	885	4,434
March 31, 2009	35%	1522	827	3,926
June 30, 2009	40%	1447	972	4,249
September 30, 2009	50%	1196	1187	5,134
December 31, 2009	51%	1204	1239	5,413
March 31, 2010	67%	659	1345	5,680
June 30, 2010	61%	785	1219	4,917
September 30, 2010	63%	791	1354	5,549
December 31, 2010	69%	681	1483	5,900
March 31, 2011	70%	648	1493	5,909
June 30, 2011	69%	695	1538	5,946
September 30, 2011	54%	1123	1335	5,129
December 31, 2011	53%	1277	1430	5,572
March 31, 2012	58%	1121	1571	5,768
June 30, 2012	56%	1176	1517	5,571
September 30, 2012	60%	1040	1584	5,742
December 31, 2012	61%	1079	1672	5,898
March 31, 2013	73%	1280	1836	6,412
June 30, 2013	73%	668	1840	6,215
September 30, 2013	80%	490	1949	6,462

Triennial valuation results highlighted in grey

### Movement in Assets and Liabilities



# North Yorkshire Pension Fund Funding, Liabilities and Solvency

