

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

21 NOVEMBER 2013

FUND MANAGER MATTERS

Report of the Treasurer

1.0 PURPOSE OF REPORT

1.1 To update Members and seek comments on

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| (i) the allocations to Property | (see paragraph 2) |
| (ii) the Investment Strategy Workshop | (see paragraph 3) |
| (iii) the approach to currency hedging | (see paragraph 4) |

2.0 ALLOCATION TO PROPERTY

2.1 The target allocation for Property as an asset class, to be shared between the three property managers Hermes, Legal & General and Threadneedle is from 5% to 10% of the Fund. At the end of September 2013 the allocation stood at 4%, rising to 4.2% at the end of October 2013 (see the Performance of the Portfolio Report section 7).

2.2 Members have previously agreed that further transfers be on hold unless suitably attractive opportunities on the secondary market become available or until the outlook for property improves sufficiently. The latest advice from the Investment Consultant is that this should remain the position for the time being. Members will be informed if this advice changes.

3.0 INVESTMENT STRATEGY WORKSHOP

3.1 An Investment Strategy Workshop led by Aon Hewitt took place on 25 October 2013. The main areas covered were:

- the relative importance of strategic asset allocation over manager selection
- a review of changes to the Fund since the 2010 Triennial Valuation and a comparison against other LGPS allocations
- the economic outlook for the major asset classes
- the current level of equities and bonds within the Fund's asset allocation
- currency hedging (see section 4 below)
- next steps

- 3.2 Members agreed that the current strategic asset allocation is appropriate in the context of the Fund's solvency position and the recovery plan and that no changes at this level are required at this time. This decision can of course be revisited should for example the future prospects for individual asset classes change materially.
- 3.3 The minimum, maximum and current percentage allocation for each asset class is as follows:

	Minimum %	Maximum %	Current %
Equities	50	75	66
Alternatives (Property)	5	10	4
Alternatives (ex-Property)	5	10	8
Bonds	15	30	22

A minimum holding in Equities would require a maximum holding in the other asset classes, and vice versa.

- 3.4 Members agreed that another workshop should take place early in the New Year, to look in more detail at the Fund's equity and bond allocation in light of the economic outlook for the asset classes the Fund is currently invested in and those that it is not. A date for this workshop will be proposed at the meeting.

4.0 CURRENCY HEDGING

- 4.1 At the Investment Strategy Workshop on 25 October 2013 Members discussed the pros and cons of currency hedging, the Fund's current approach to hedging 25% of currency exposure through investment in overseas equity markets, and possible alternatives to this approach.
- 4.2 The majority view was to cease the current approach, with a proposal to be brought to this meeting on when and how this could happen. Members also discussed the option to take active currency hedging positions from time to time based on advice from advisers and/or investment managers.
- 4.3 **Appendix 1** shows the inflows/outflows since January 2010 when the Committee changed the hedge from 50% to 25% of the total currency exposure through investment in overseas equity markets. Over the 3 years and 10 months to October 2013 there has been a cumulative net outflow of approximately £3m.
- 4.4 The Fund places a rolling three month hedge against the major currencies it is exposed to. An instruction to hedge approximately 8% of the value of overseas equities is placed each month, resulting in a 25% hedge being in place at any one time. Subject to advice from the Fund's investment consultant it is proposed that this hedge is not rolled over, starting from December 2013, so that the Fund gradually unwinds the positions and will be unhedged by the end of February 2014.
- 4.5 If the Fund wishes to consider taking active currency positions from time to time it makes sense to reconsider this after the next investment strategy workshop (**see paragraph 3.4**). Officers will continue to monitor exchange rates and other evidence provided by the Fund's investment managers in the mean time.

5.0 **RECOMMENDATIONS**

- 5.1 Members re-affirm the current strategic asset allocation as set out in **paragraphs 3.2 to 3.3**
- 5.2 Members to agree a date for the next Investment Strategy Workshop (see **paragraph 3.4**)
- 5.3 Members to agree to unwinding the passive currency hedge (as described in **paragraph 4.4**)

GARY FIELDING
Treasurer
Corporate Director – Strategic Resources

County Hall
Northallerton

8 November 2013

NYPF Currency Hedging - Cumulative Cashflows

APPENDIX 1

