

NORTH YORKSHIRE COUNTY COUNCIL**PENSION FUND COMMITTEE****20 FEBRUARY 2014****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 December 2013 the allocation stood at 4.7% (£96m). The increase of 0.7% during the quarter included £14.1m transferred to Threadneedle from cash reserves.

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 where 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.

3.2 A second Investment Strategy Workshop took place on 16 January 2014 to review the Fund's current allocation to Equities, specifically:

- prospects for equities as an asset class
- an analysis of individual managers, their performance and portfolio characteristics

- an analysis of the overall equity portfolio and the 'fit' of the managers
- possible next steps

3.3 There were 5 specific objectives of the Workshop:

1. Do Members have confidence in the current equity managers?
2. Based on the individual manager analysis do Members wish to change any managers?
3. Are Members happy with the overall structure of the equity portfolio?
4. Does the overall portfolio have a suitable regional allocation?
5. Based on the overall analysis do Members wish to change/add managers?

3.4 There was sufficient confidence in all three equity managers to agree that no imminent changes are required. However Members expressed a degree of concern over:

- the relative risk the fund is exposed to through the portfolio managed by Standard Life
- Fidelity's ability to achieve their performance target of 2% above their benchmark
- the size of mandates with each of the equity managers

3.5 The analysis of the overall structure of the equity portfolio gave particular focus to the Fund's regional weighting, particularly to the Emerging Markets, but based on economic exposure the Fund's allocation is in line with GDP for that sector. The analysis also identified a slight bias towards growth stocks, but otherwise the conclusion was that there are no significant gaps or weaknesses. Members then agreed that the existing managers/portfolios are a good fit with each other.

3.6 To respond to the concerns expressed in paragraph 3.4 above, Members decided that further research should take place on the merits of adding a fourth mandate to complement the existing three. This research is to include looking at the benefits of a value based approach, although it was recognised that the Fund's bias to growth stocks does not necessarily need addressing.

3.7 While the Workshop provided a forum for discussion it was not a PFC meeting therefore no formal decisions were made; also some PFC Members were unable to attend. Members are therefore asked to ratify the conclusions reached at the Workshop.

3.8 In anticipation of this decision there have been subsequent discussions between officers and the Fund's Investment Consultant who will propose options for the direction of the research at the meeting. In addition, the investment manager presentations due to take place from 10am on Friday 21 February 2014 have been arranged to assist. Fidelity will present at 10am, and Dodge & Cox at 11am. Dodge & Cox manage a number of funds including a global equity fund targeting long term growth with a bias towards value stocks. Members will then decide whether they wish to further explore this issue.

3.9 Members may also wish to consider whether any rebalancing should take place considering the recent strong performance of global equity markets, in advance of any such exploration. The asset allocation comments section on pages 3 and 4 of

the report of the Investment Consultant refers to this. The Investment Consultant and Independent Adviser will make their recommendations at the meeting.

4.0 CURRENCY HEDGING

- 4.1 At the PFC meeting on 21 November 2013 Members agreed to unwind the passive currency hedge. This has taken place over a three month period with the last positions due to be settled on 19 February 2014.

5.0 RECOMMENDATIONS

- 5.1 Members to ratify the conclusions reached at the Workshop (see **paragraph 3.7**)
- 5.2 Subject to the update and presentations referred to in **paragraph 3.8**, Members to decide whether they wish to pursue adding a fourth equity manager, and if so, provide sufficient guidance to officers and advisers
- 5.3 Members to decide on the rebalancing to take place (see **paragraph 3.9**)

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