

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

9 JULY 2015

BOND STRATEGY REVIEW

Report of the Treasurer

1.0 PURPOSE OF REPORT

- 1.1 To update Members on the progress of the review
- 1.2 To seek a decision from Members on rebalancing the allocation to bonds

2.0 BOND STRATEGY REVIEW – PROGRESS TO DATE

- 2.1 In early 2015 discussions took place between officers and advisers on the Fund's allocation to bonds. This included reviewing the Fund's managers and mandates, the complimentary characteristics of those mandates and their contribution to the overall strategy off the Fund.
- 2.2 On 21 May 2015 a Bond Strategy Workshop was held to consider:
 - 1. is the current allocation to bonds (c.23%) appropriate
 - 2. is the Committee happy with the overall structure of the bond portfolio and the allocation between the 3 managers
 - 3. does the Committee have confidence in the current bond managers, both in terms of adding value to the Fund's strategy and in their ability to outperform going forward
 - 4. does the Committee wish to change the structure and/or add new managers to the portfolio
- 2.3 The current allocation to bonds of 23% is approximately at the mid-point of the strategic asset allocation range of 15% - 30%. Members considered issues including liability matching, return expectations and interest rate forecasts and concluded that no changes were necessary at this time. However all issues, including the strategic asset allocation, may be revisited as the review draws to a close.
- 2.4 The corporate bond portfolio managed by ECM was discussed, including the cash benchmark and it was agreed that no immediate changes were necessary.
- 2.5 The liability matching characteristics of the returns provided by M&G and Amundi were considered, as were the contrasting underlying investments. The only short term change discussed was with regard to the allocation between these two managers. The present allocation places a greater dependence upon Amundi as it manages £250m (10.6%) and M&G £170m (7.2%). It was agreed that consideration should be given to changing the allocations in order that both Amundi and M&G each manage approximately £210m (8.9%).

- 2.6 Members expressed an interest in exploring alternative bond and other fixed income strategies so it was agreed that a second Bond Workshop would be arranged. On 9 July 2015, immediately following the PFC meeting, a workshop will take place and will include presentations from M&G on Multi-Asset Credit and from BNY Mellon on European Direct Lending.

3.0 **RECOMMENDATIONS**

- 3.1 Members to agree a reallocation of £40m from Amundi to M&G so as to provide each manager with a total allocation of £210m (8.9%).

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1 July 2015