

**NORTH YORKSHIRE COUNTY COUNCIL****PENSION FUND COMMITTEE****24 NOVEMBER 2016****EQUITY PORTFOLIO: STRATEGIC CURRENCY HEDGING****Report of the Treasurer**

**Appendix 1 contains exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) Order 2006.**

**1.0 PURPOSE OF REPORT**

- 1.1 To review the merits of currency hedging and consider its re-introduction for the Fund.

**2.0 BACKGROUND**

- 2.1 Members may remember that the Fund previously had a currency hedging programme in place, based on the overseas equity portfolio, until Q1 of 2014.

- 2.2 At that time the decision was made to remove the programme from the Fund. There were three main reasons, being:

- a reassessment of the risk reduction effect of the programme, which was relatively small when measured against the inherent risk in the Fund's allocation to equities
- the Fund's Investment Consultant, Independent Adviser and specialist currency manager, Amundi, had no strong views on the likely direction of currency exchange rate movements
- the impact the settling of currency hedging trades may have on the Fund's cashflow in the future, potentially requiring disinvestment.

**3.0 RECENT CURRENCY MOVES AND NEXT STEPS**

- 3.1 Since the EU referendum on 23 June 2016 sterling has fallen dramatically. Over this period Fund's portfolio has increased by 13%, principally due to the unhedged overseas equities which have benefitted from the weakening of sterling.

- 3.2 Given the recent fall in sterling our consultants, Aon Hewitt, have suggested that now is an appropriate time to consider whether to re-implement

currency hedging. Attached as **Appendix 1** is a report from Aon Hewitt where they make their recommendations.

- 3.3 In addition to the advice included in the report from Aon Hewitt, further advice will be provided at the meeting.

4.0 **RECOMMENDATION**

- 4.1 Members to decide whether to re-implement currency hedging, and if so the approach they wish to take.

GARY FIELDING  
Treasurer  
Central Services  
County Hall  
Northallerton

14 November 2016

**Background documents:** None