

**NORTH YORKSHIRE COUNTY COUNCIL****PENSION FUND COMMITTEE****24 MAY 2018****INVESTMENT STRATEGY REVIEW UPDATE REPORT****Report of the Treasurer****1.0 PURPOSE OF REPORT**

- 1.1 To update Members on progress towards the implementation of the agreed Investment Strategy changes as a result of the recent Investment Strategy Review.

**2.0 BACKGROUND AND RECENT EVENTS**

- 2.1 Over recent months an investment strategy review of the Fund has been undertaken. To remind Members, in recent investment strategy workshops the following changes to the current investment strategy were agreed:

- To de-risk the Fund in light of the current funding level by disinvesting 10% from equities
- To reinvest this 10% in other alternative asset classes, including Insurance Linked Securities and Property Debt
- To reintroduce an element of currency hedging within the Fund

An update of each of the changes above will be provided in the sections below.

**3.0 INSURANCE LINKED SECURITIES MANAGER PROCUREMENT**

- 3.1 As part of a de-risking strategy Members resolved to undertake a procurement for an Insurance Linked Security (ILS) Manager with the intention of reducing equity investment levels. This was determined on 23 November 2017.
- 3.2 Due to the nature of ILS investments, they can only be accessed twice a year, in June and December. In order to begin to de-risk the Fund in the short term, the preference was to meet the June deadline. Therefore a restricted OJEU compliant procurement was undertaken to meet the June 2018 intake of funds.
- 3.3 This procurement has now been concluded and the contract has been awarded to Leadenhall Capital Partners. The initial investment will be £80m in total and officers are currently working with Leadenhall and the consultants to ensure that the necessary documentation is completed to

transfer funds by June. In order to provide diversification this investment will be split equally across the following three Leadenhall Funds:

- Diversified Fund- £26.67m
- Nat Cat Focus Fund- £26.67m
- Remote Fund- £26.67m

Further details on the Diversified Fund and Nat Cat Fund have been included in the Aon fact sheets in **Appendix 1 & 2** respectively. As the Remote Fund is newly buy rated there is not yet a fact sheet available, however further detail can be provided on this Fund in the meeting.

- 3.4 Members agreed at the November meeting to invest up to 5% of the Fund in Insurance Linked Securities, which was around £160m of the Fund. The initial investment is lower due to the current capacity limitations within the Leadenhall Funds. It is anticipated that this investment be increased once further capacity is available. Members are asked to delegate authority to the Treasurer to invest up to the agreed £160m investment in ILS when the capacity becomes available.
- 3.5 To fund this investment in ILS, Members agreed at the February PFC meeting to disinvest 5% from UK equities. Officers have been working with Standard Life and the Consultants to carry out this disinvestment of £160m in tranches across April and May to ensure the funds are available. Standard Life has been transferring the funds, following disinvestment, into a money market fund in the short term. In June £80m will be transferred to the ILS manager and it is proposed that the remaining £80m be moved to fixed income until it is invested into ILS. Members are asked to approve the transfer of £80m into fixed income in the short term pending opportunities to invest further in ILS.

#### **4.0 PROPERTY DEBT MANAGER**

- 4.1 In the November meeting it was agreed that Property Debt was another possible alternative investment option for the remaining 5% of the Fund that is to move from equities as part of the de-risking strategy.
- 4.2 Members authorised officers to commence a procurement process for a Property Debt manager. Prior to the commencement of a procurement, a property debt workshop has been arranged for 25 May 2018 to provide Members with an educational session on the asset class.

#### **5.0 CURRENCY HEDGING**

- 5.1 In the November PFC meeting Members agreed to the principle of reintroducing some currency hedging within the Fund using Fidelity's currency hedging facility. Officers have been working with Fidelity and the consultants to ensure that the necessary paperwork has been completed to

put this facility in place. The final stage is to provide an instruction letter to Fidelity outlining the levels of currency hedging that we would like them to undertake.

- 5.2 In the February meeting the approach to currency hedging was discussed including the currency levels and timing of hedging. It was agreed that 50% of the underlying Euro and Yen currency exposures within the Fidelity portfolio be hedged. In light of updated market conditions, Aon will provide Members with an updated view on this approach in the May meeting to determine if it is still appropriate.

## **6.0 RECOMMENDATIONS**

Members are recommended to:-

- 6.1 note the content of the report.
- 6.2 delegate authority to the Treasurer to increase the investment in ILS up to £160m when the capacity becomes available
- 6.3 approve the transfer of £80m into fixed income in the short term pending opportunities to invest further in ILS
- 6.4 consider the preferred option for hedging following further advice.

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