

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

22 NOVEMBER 2018

**PERFORMANCE OF THE FUND'S PORTFOLIO FOR THE QUARTER
ENDING 30 SEPTEMBER 2018**

Report of the Treasurer

1.0 PURPOSE OF REPORT

- 1.1 To report the investment performance of the overall Fund, and of the individual Fund Managers, for the period to 30 September 2018.

2.0 PERFORMANCE REPORT

- 2.1 The Fund Analysis & Performance Report produced by BNY Mellon Asset Servicing (MAS) provides a performance analysis of the North Yorkshire Pension Fund for the quarter ending 30 September 2018.
- 2.2 The report highlights the performance of the total Fund by asset class against the customised Fund benchmark. It also includes an analysis of the performance of each manager against their specific benchmark and a comparison of performance levels over time.

3.0 PERFORMANCE OF THE FUND

- 3.1 The absolute overall return for the quarter, +1.6%, was below the customised benchmark for the Fund, +2.2%, by -0.6%.
- 3.2 The 12 month absolute rolling return was +10.5%, +2.8% above the customised benchmark of +7.7%.
- 3.3 Absolute and relative returns over the rolling years to each of the last four quarter ends were as follows:

Quarter End	Absolute %	Relative %
30 September 2018	+10.5	+2.8
30 June 2018	+12.0	+5.1
31 March 2018	+8.4	+5.0
31 December 2017	+17.0	+6.4

3.4 The performance of the various managers against their benchmarks for the quarter ended 30 September 2018 is detailed in **Section 4** below. This performance is measured on a time-weighted basis and expressed as a +/- variation to their benchmark.

3.5 The Appendices used in this report have been designed to present a fuller picture of recent investment performance.

Appendix 1 Fund Manager Performance over the three years to 30 September 2018 in absolute percentage terms from a starting point of “100”

Appendix 2 Solvency graph – this shows the key Asset, Liability and Deficit figures in a simple graphical format

Appendix 3 Solvency position (in % and £ terms) since the 2004 Triennial Valuation; this Appendix also shows in absolute terms the +/- in the value of assets and liabilities of the Fund

3.6 The separate report of the Investment Consultant explains developments in the financial markets and in NYPF’s investments, and also look ahead over the short, medium and longer term.

4.0 **FUND MANAGER PERFORMANCE**

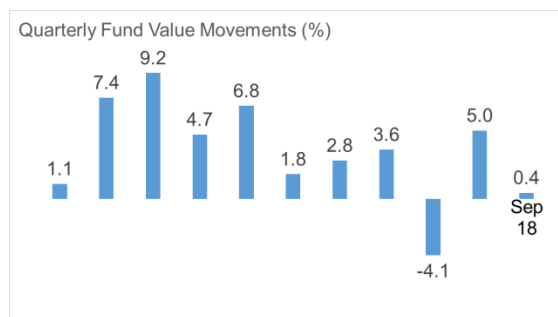
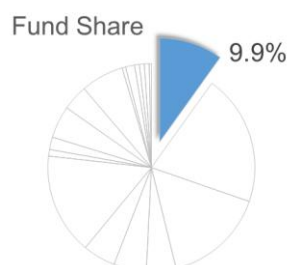
4.1 In monetary terms, the absolute return of +1.6% in the quarter increased the invested value of the Fund by £58.8m. This quarter, 10 managers/funds outperformed their respective benchmarks and 7 underperformed against their respective benchmarks. At the end of the September 2018 quarter the value of the Fund was £340m above the value at the end of September 2017, an increase of 10.5%

4.2 The table below shows the performance of the Fund’s investments against the relevant benchmarks as at 30 September 2018. Performance targets set by the Fund are measured on a rolling 3 year basis and shown in the ‘3 Years’ section of the table.

Manager	Quarter		One Year		3 Years		
	Fund (%)	B'mk (%)	Fund (%)	B'mk (%)	Fund (%)	B'mk (%)	Target (%)
Overseas Equities							
Fidelity	4.8	4.6	9.2	9.3	17.7	18.2	20.2
Global Equities							
Baillie Gifford GA	3.1	5.7	15.3	13.4	23.6	19.8	21.8
Baillie Gifford LTGG	1.7	5.7	29.2	13.4	32.9	19.8	22.8
Dodge & Cox	4.8	5.7	6.2	13.5	19.4	19.9	19.9
Veritas	8.0	5.7	12.5	13.5	19.9	19.9	7.9 - 11.9
UK Equities							
Standard Life	-4.9	-2.0	2.7	4.3	11.4	10.5	13.5
Fixed Income							
M&G	-1.8	-2.1	1.9	1.5	8.7	7.9	8.4
Property							
Hermes	2.7	1.7	11.2	9.5	9.6	7.7	8.2
LGIM Property	1.1	1.6	7.0	8.8	6.1	7.1	7.1
Threadneedle	1.3	1.6	9.0	8.8	7.4	7.1	8.1 - 8.6
Diversified Growth							
Newton Diversified	2.0	0.2	2.0	0.5	3.2	0.4	4.5
Standard Life Diversified	0.2	0.2	-1.2	0.5	-0.4	0.4	5.5
Private Debt							
Bluebay	-1.9	2.1	6.5	8.3			
Permira Credit	1.5	1.5	5.9	6.0			
Insurance Linked Securities							
Leadenhall DI	0.3	0.0					
Leadenhall NA	2.1	0.2					
Leadenhall RE	0.2	0.2					

4.3 In the following section, the Fund's investments are analysed under the relevant asset heading with diagrams showing the size of the investment in relation to the total assets of the Fund as at 30 September 2018 and the quarterly increase or decrease in value of each investment up until 30 September 2018.

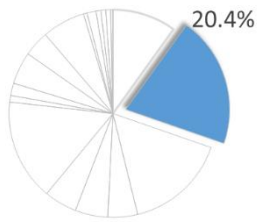
4.4 Overseas Equities



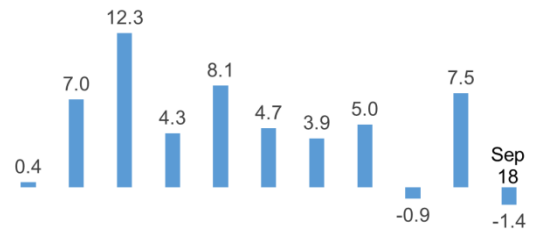
Fidelity returned +4.8% for the quarter against a benchmark return of +4.6% in the quarter. Relative performance over the year to September 2018 was -0.1% against the benchmark of +9.3%. Over the last 5 years the manager has exceeded the benchmark by +0.5% p.a.

4.5 Global Equities

Fund Share

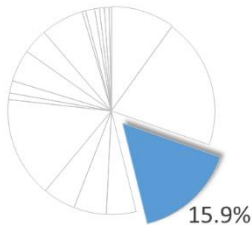


Quarterly Fund Value Movements (%)

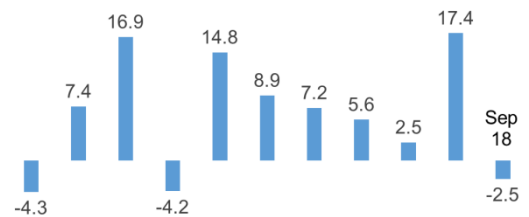


- 4.6 The Global Alpha fund managed by **Baillie Gifford** returned +3.1% for the quarter against a benchmark return of +5.7%. Relative performance over the longer term was +1.9% over 1 year and +3.8% annually over 5 years. Since inception in 2006, the Fund has outperformed the FTSE All World by 2.6%.

Fund Share

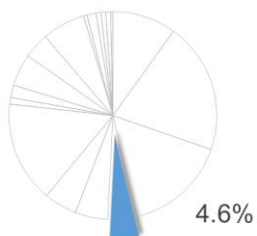


Quarterly Fund Value Movements (%)

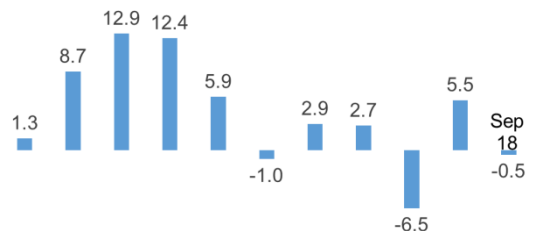


- 4.7 The **Baillie Gifford LTGG** fund gave a return of +1.7% in the quarter against a benchmark of +5.7% resulting in a relative return of -4.0%. Over the past year the performance has well exceeded the benchmark giving a relative return of +15.8% and overall the relative return for the past five years on an annual basis has been +9.7%.

Fund Share

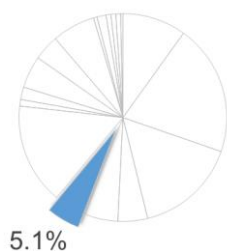


Quarterly Fund Value Movements (%)

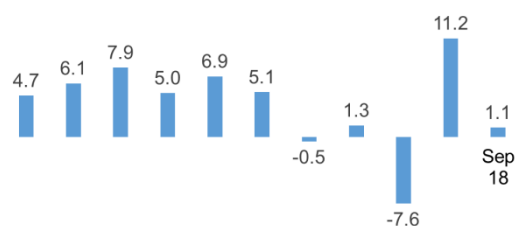


- 4.8 The **Dodge & Cox** Fund gave a relative return of -0.9% for the quarter, with a performance of +4.8% against the benchmark of +5.7%. Annually the relative performance is lower at -7.3% though this improves when looking at the relative return from inception which increases slightly to -1.9%.

Fund Share



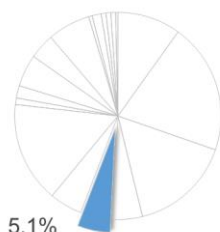
Quarterly Fund Value Movements (%)



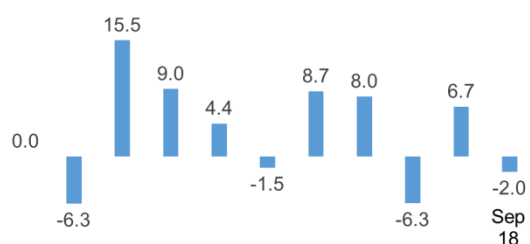
4.9 **Veritas** has performed strongly in the quarter with a relative return of + 2.3% against a benchmark of +5.7%. Over the longer term, Veritas has achieved an annual relative performance figure of -1.0% and a relative performance of +1.1% since its inception in April 2015.

4.10 UK Equities

Fund Share



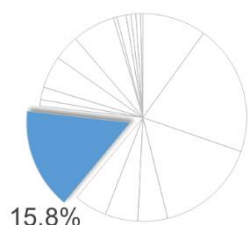
Quarterly Fund Value Movements (%)



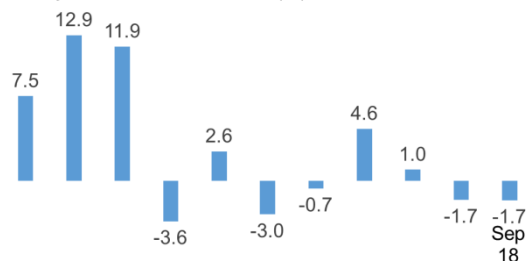
In the last quarter **Standard Life** returned -4.9% against the benchmark of -2.0% giving a relative return of -2.9% Over the longer term they have produced relative returns of -1.6% for the year and -1.5% over a five year period.

4.11 Fixed Income

Fund Share

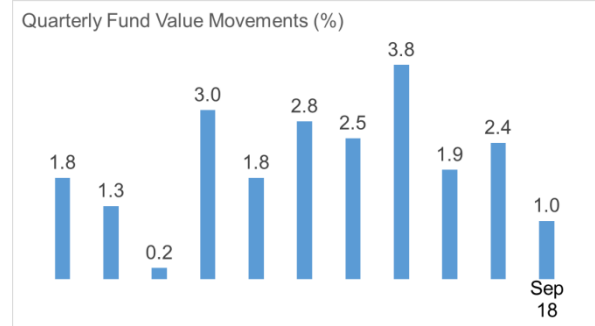
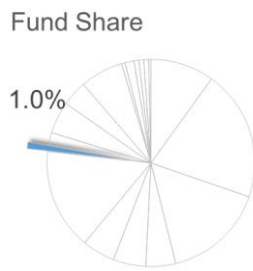


Quarterly Fund Value Movements (%)

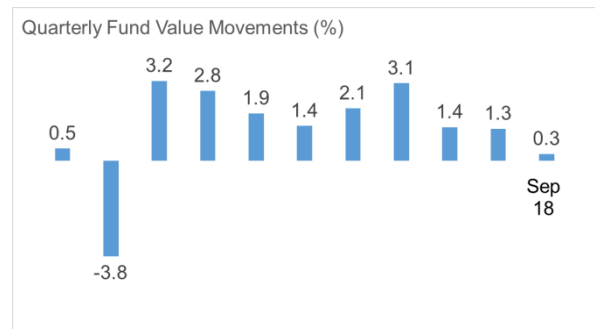
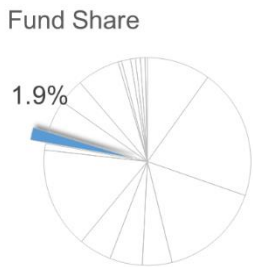


The investment in Gilts with **M&G** outperformed against the liability matching benchmark of -2.1% for the quarter to September 2018 by +0.3%. Performance for the year was +0.4% above the benchmark return of +1.5% and annualised performance since inception in 2011 was +0.8% above the benchmark of +8.2%.

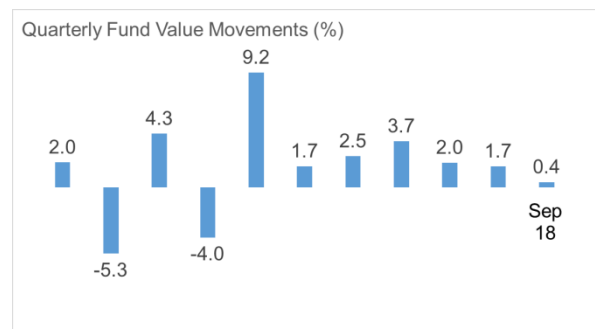
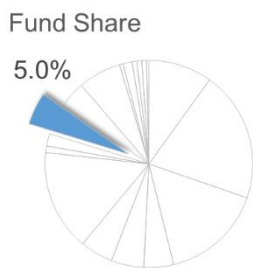
4.12 **Property**



Hermes is showing consistent levels of performance with the relative return for the quarter being +1.0%. This compares with the annual relative performance of +1.7%.

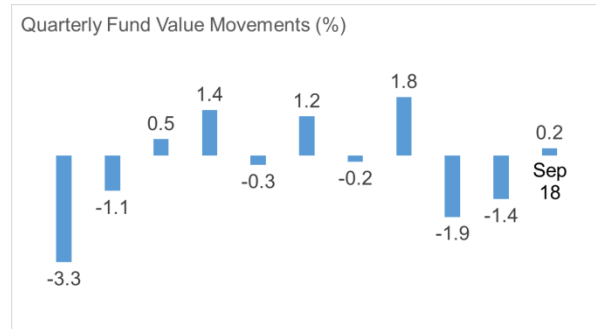
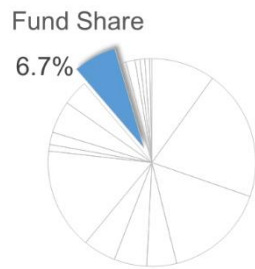


4.13 **Legal & General's** property portfolio has returned +1.1% against the benchmark of +1.6% The 3 year performance is down with a relative return of -1.0% and the 5 year performance up by a relative return of +1.4%.

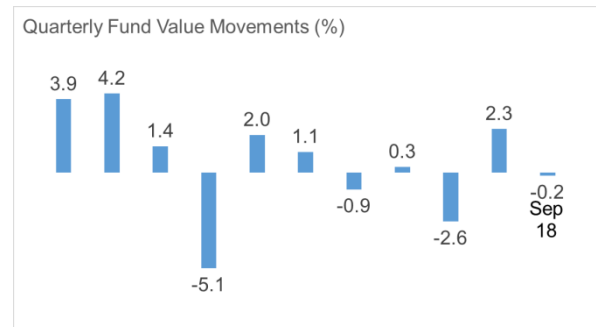
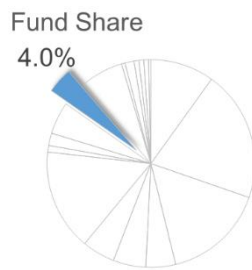


4.14 **Threadneedle** produced a relative return of -0.3% for the quarter and had a one year return of +9.0% against the property index value of +8.8%.

4.15 Diversified Growth Funds

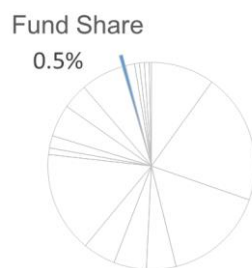


Standard Life's GARS fund has produced a relative return for the quarter of +0.1% against a benchmark of +0.2%. The performance since inception is a return of +1.8% against a benchmark of +0.5%. This is however under the target performance of 5.5%. The Fund share above of 6.7% includes £80m in a Treasury Deposit Fund, the true Fund Share for GARS is 4.5%.

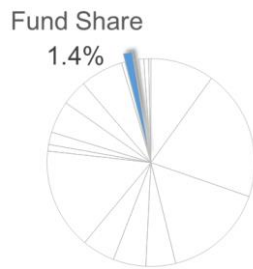


4.16 **Newton Investments** shows a performance of a +1.8% relative return for the quarter and has an overall performance of +2.3% against the +0.5% benchmark since inception. This is however under the target performance of 4.5%.

4.17 Private Debt

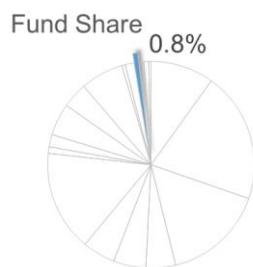


4.18 The **Bluebay** private debt Fund has produced a relative return of -4.0% for the quarter against a benchmark value of +2.1%. The annual performance shows a negative relative performance of -1.8%.



4.19 **Permira** produced a return of +1.5% against the benchmark of 1.5%. Both Private Debt mandates are still in the investment period which makes it difficult to produce meaningful reporting at this stage.

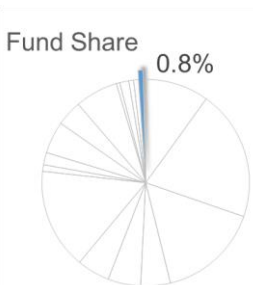
4.20 **Insurance Linked Securities**



4.21 **Leadenhall Diversified** produced a return of +0.3% compared against the benchmark of +0.0%.



4.22 **Leadenhall Natcat Focus** produced a return of +2.1% compared against the benchmark of +0.2%.



4.23 **Leadenhall Remote** produced a return of +0.2% compared against the benchmark of +0.2%.

5.0 RISK INDICATORS

- 5.1 The Report includes three long-term risk indicators.
- 5.2 The Fund's annualised **Standard Deviation**, which is a reflection of volatility, was 6.3% for the rolling three year period to 30 September 2018, 0.7% above the benchmark.
- 5.3 The **Sharpe Ratio** is a measure of how well the return compensates an investor relative to the risk taken. A higher Sharpe Ratio reflects a better return for a given level of risk or lower risk for a given level of return. The ratio for the Fund for the rolling three year period to September 2018 was +0.2% above benchmark at 2.1%.
- 5.4 The **Tracking Error** figure reflects how closely a fund manager's actual return follows their respective benchmark. As at September 2018 the figure was 2.8%.
- 5.5 The **Information Ratio** is a measure of excess returns in relation to the benchmark and the consistency of those returns. A high IR could be derived from a high portfolio return, a low benchmark return and a low tracking error. For the period up to September 2018 the ratio for the Fund was +1.0%.

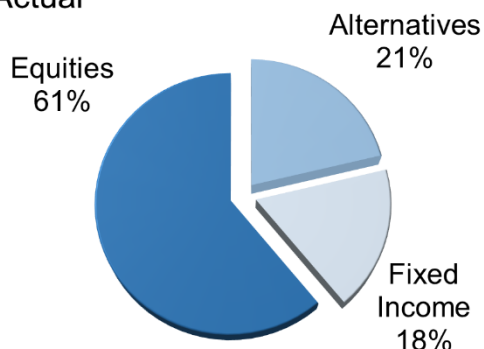
6.0 SOLVENCY

- 6.1 The **solvency position** is presented in **Appendices 2 and 3**. As at 30 September 2018 the estimated solvency was 115%. This is a 25 percentage point increase from the solvency figure as at 31 March 2016, calculated by the Actuary during the 2016 Valuation process.
- 6.2 This increase in solvency is primarily due to asset outperformance with Equities being the best performing asset class throughout the period.
- 6.3 The solvency figure does not yet reflect any changes to the investment strategy as part of the recent investment strategy review. Changes in the investment strategy will have an impact on the discount rate used to calculate the funding level as both the volatility and return are taken into account. These anticipated changes in the investment strategy will be reflected in the funding level in a future quarter.

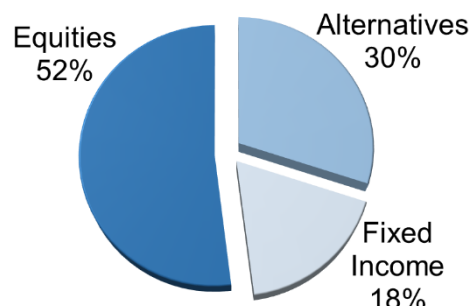
7.0 REBALANCING

7.1 Asset Allocations as at 30 September 2018

Actual



Target



7.2 This overweight equity position is in part due to property debt allocation that was not transferred into cash until after the quarter end. If this is taken out the remaining equity allocation is 56% against the target of 52%. The alternative allocation will also increase to 26% following the transfer to property debt. The remaining underweight position in alternatives is due to the Fund being 2% underweight in property and around 1.6% underweight in DGFs.

7.3 In the quarter to 30 September 2018, the following rebalancing took place:

- Permira made their 8th and 9th capital calls totalling £6.5m

8.0 PROXY VOTING

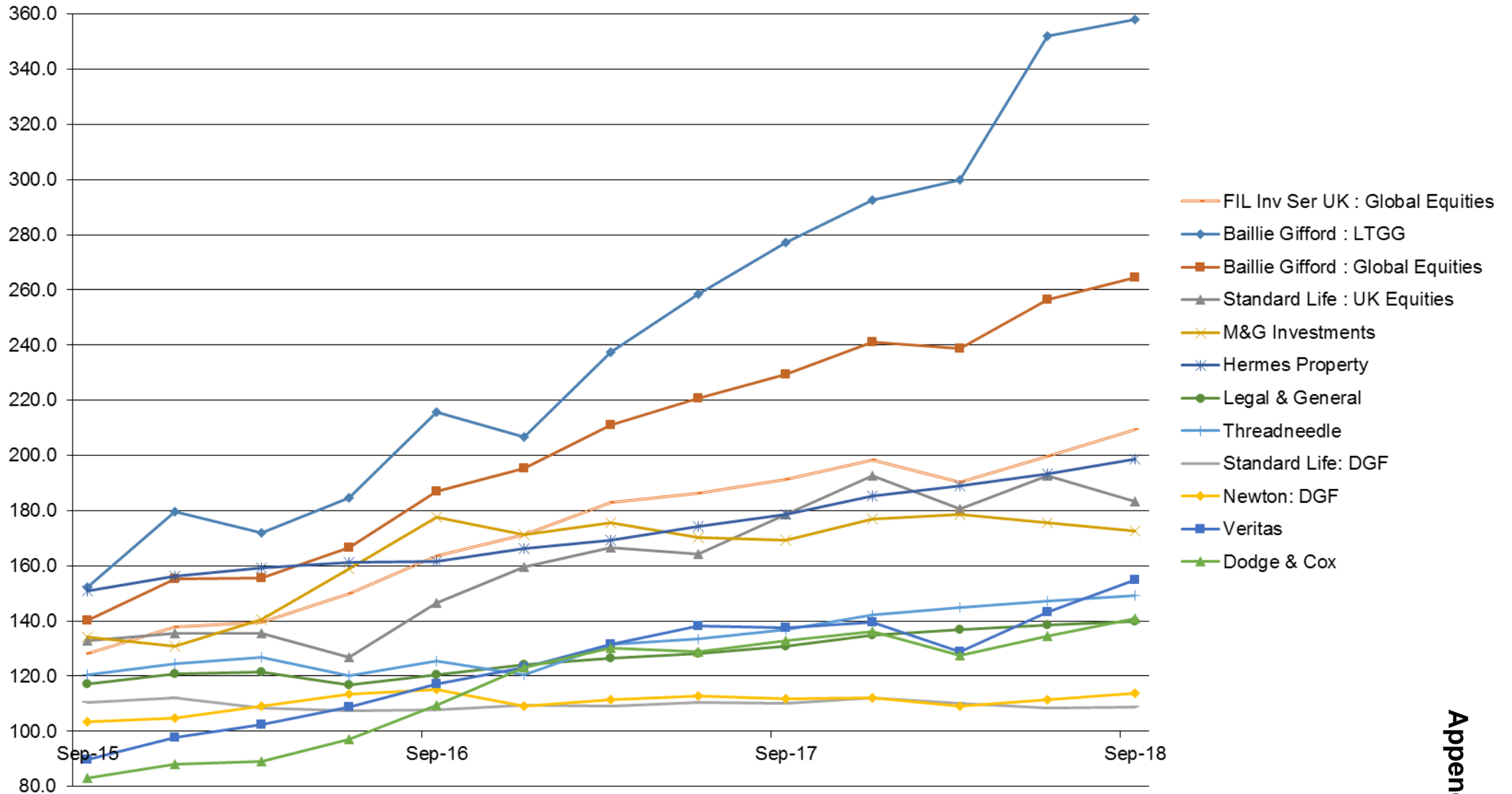
8.1 The report from PIRC is available on request summarising the proxy voting activity in the period June 2018 to September 2018. This report covers the votes cast on behalf of NYPF at all relevant company AGMs in the period and includes an analysis of voting recommendations at selected meetings and responses to company engagement.

9.0 RECOMMENDATION

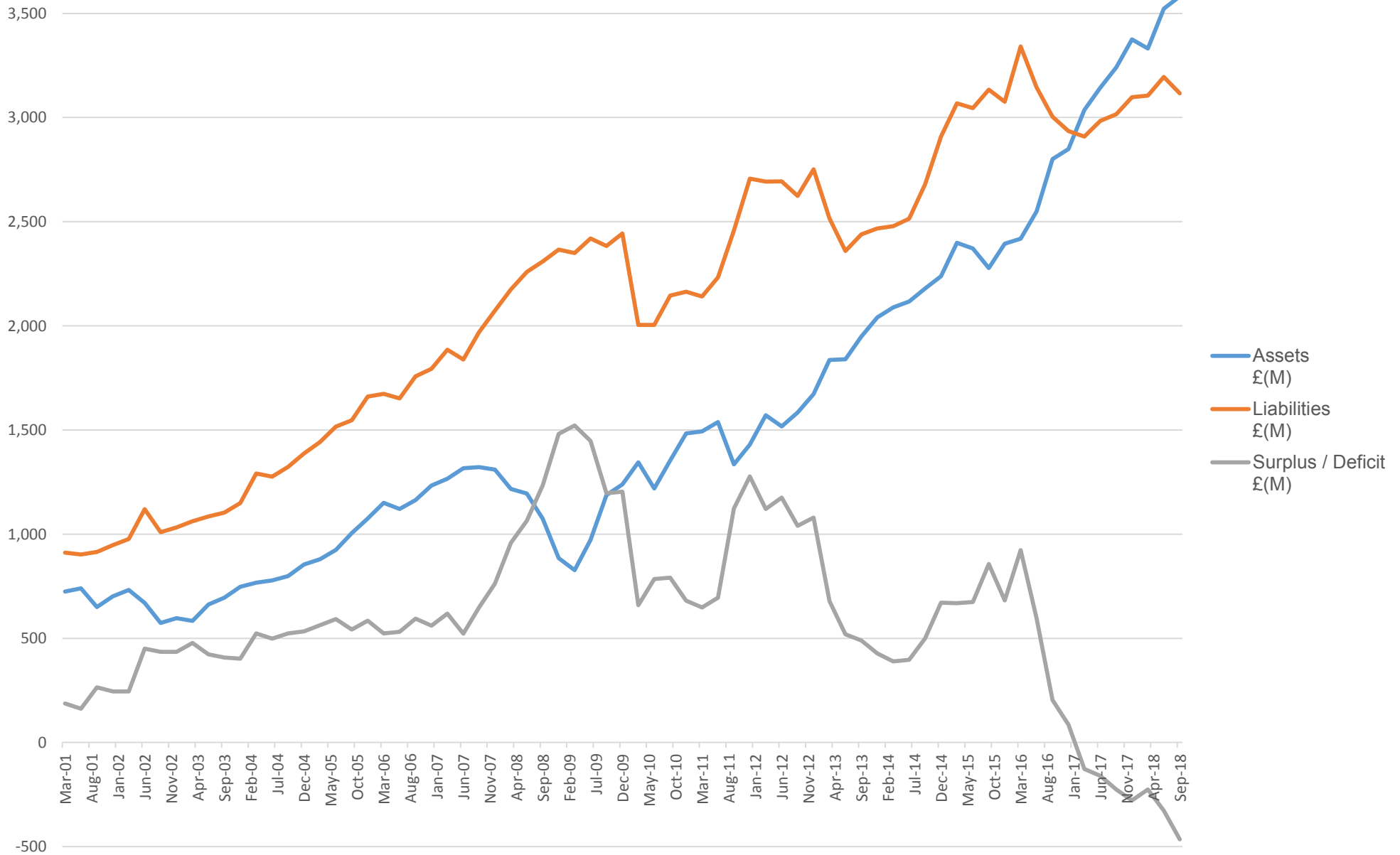
9.1 Members are asked to note the investment performance of the Fund for the period ending 30 September 2018.

GARY FIELDING
Treasurer to North Yorkshire Pension Fund
NYCC
County Hall
Northallerton
14 November 2018

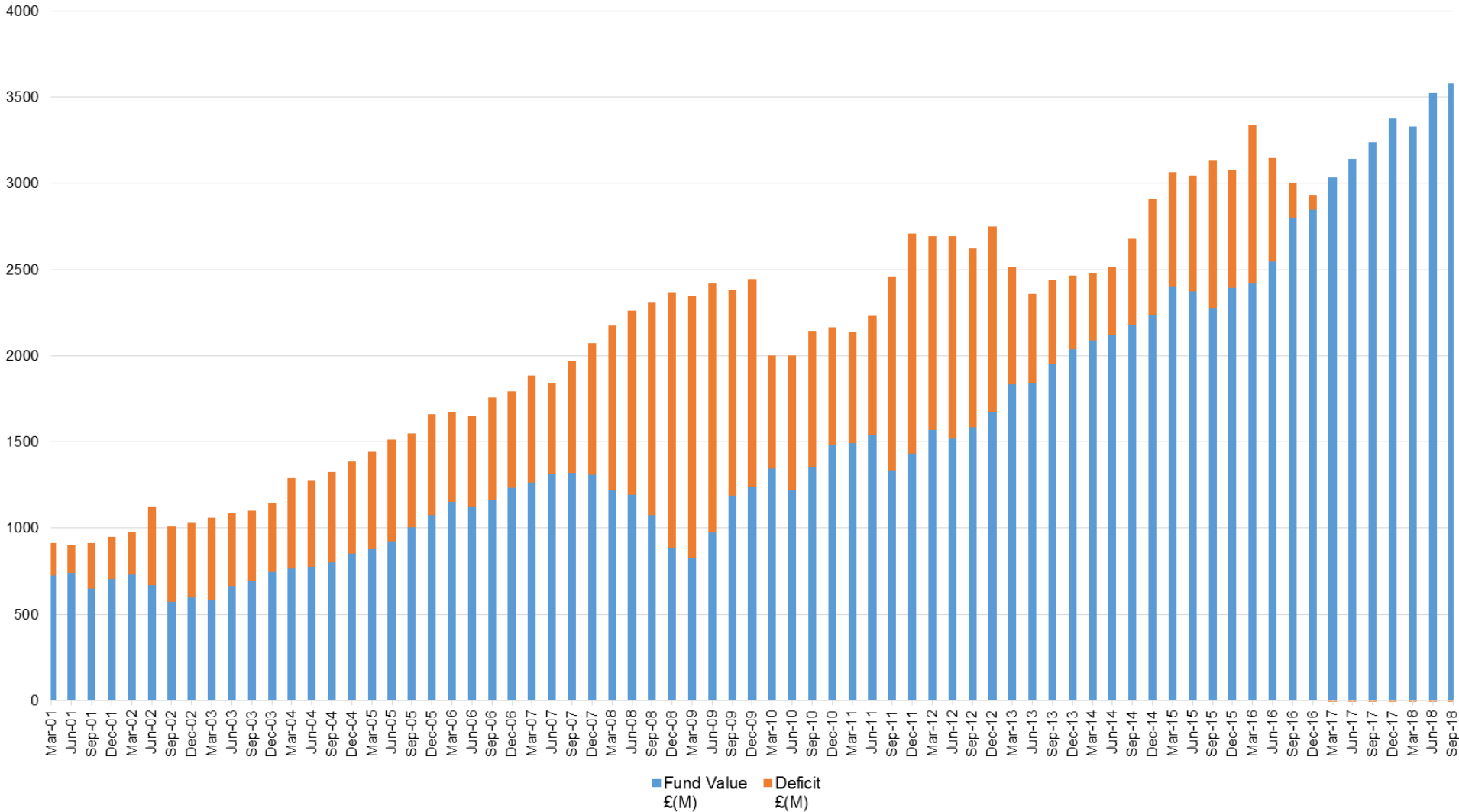
Investment Manager Performance - Cumulative Absolute Performance 3 years to September 2018



North Yorkshire Pension Fund - Assets, Liabilities and Deficit



Movement in Assets and Liabilities



Appendix 3

Date	Solvency	Deficit £(M)	Fund Value £(M)	FTSE 100	
31 March 2001	79%	187	724	5,634	*
30 June 2001	82%	162	740	5,643	
30 September 2001	71%	265	650	4,903	
31 December 2001	74%	245	702	5,217	
31 March 2002	75%	245	732	5,272	
30 June 2002	60%	450	670	4,656	
30 September 2002	56%	435	574	3,722	
31 December 2002	58%	435	597	3,940	
31 March 2003	55%	478	584	3,613	
30 June 2003	61%	423	662	4,031	
30 September 2003	63%	408	695	4,091	
31 December 2003	65%	402	747	4,477	
31 March 2004	59%	524	767	4,386	*
30 June 2004	61%	498	778	4,464	
30 September 2004	60%	524	799	4,571	
31 December 2004	62%	533	854	4,814	
31 March 2005	61%	563	879	4,894	
30 June 2005	61%	592	924	5,113	
30 September 2005	65%	542	1005	5,478	
31 December 2005	65%	585	1075	5,619	
31 March 2006	69%	523	1150	5,965	
30 June 2006	68%	531	1121	5,833	
30 September 2006	66%	595	1163	5,961	
31 December 2006	69%	561	1233	6,221	
31 March 2007	67%	619	1266	6,308	*
30 June 2007	72%	522	1316	6,608	
30 September 2007	67%	648	1322	6,467	
31 December 2007	63%	763	1310	6,457	
31 March 2008	56%	958	1217	5,702	
30 June 2008	53%	1064	1195	5,625	
30 September 2008	47%	1235	1074	4,902	
31 December 2008	37%	1481	885	4,434	
31 March 2009	35%	1522	827	3,926	
30 June 2009	40%	1447	972	4,249	
30 September 2009	50%	1196	1187	5,134	
31 December 2009	51%	1204	1239	5,413	
31 March 2010	67%	659	1345	5,680	*
30 June 2010	61%	785	1219	4,917	
30 September 2010	63%	791	1354	5,549	
31 December 2010	69%	681	1483	5,900	
31 March 2011	70%	648	1493	5,909	
30 June 2011	69%	695	1538	5,946	
30 September 2011	54%	1123	1335	5,129	
31 December 2011	53%	1277	1430	5,572	
31 March 2012	58%	1121	1571	5,768	
30 June 2012	56%	1176	1517	5,571	
30 September 2012	60%	1040	1584	5,742	
31 December 2012	61%	1079	1672	5,898	
31 March 2013	73%	679	1836	6,412	*
30 June 2013	78%	519	1840	6,215	
30 September 2013	80%	490	1949	6,462	
31 December 2013	83%	427	2040	6,749	
31 March 2014	84%	389	2089	6,598	
30 June 2014	84%	397	2117	6,744	
30 September 2014	81%	500	2179	6,623	
31 December 2014	77%	671	2238	6,566	
31 March 2015	78%	669	2399	6,773	
30 June 2015	78%	674	2371	6,521	
30 September 2015	73%	857	2277	6,062	
31 December 2015	78%	682	2394	6,242	
31 March 2016	72%	923	2418	6,175	*
30 June 2016	81%	596	2549	6,504	
30 September 2016	93%	203	2801	6,899	
31 December 2016	97%	86	2849	7,143	
31 March 2017	104%	-127.2	3036	7,323	
30 June 2017	105%	-160.2	3144	7,313	
30 September 2017	108%	-225.6	3241	7,373	
31 December 2017	109%	-277.7	3375	7,688	
31 March 2018	107%	-226.2	3331	7,057	*
30 June 2018	110%	-327	3522	7,637	
30 September 2018	115%	-464.6	3581	7,510	*

* Triennial valuation