

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

21 FEBRUARY 2019

PERFORMANCE OF THE FUND'S PORTFOLIO FOR THE QUARTER
ENDING 31 DECEMBER 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 31 December 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 31 December 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, -7.6% was below the customised benchmark for the Fund, -6.4%, by -1.2%.
- 3.2 The 12 month absolute rolling return was -2.1%, 0.9% above the customised benchmark of -3.0%
- 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 %
31 December 2018	-2.1	-3.0
30 September 2018	+10.5	+2.8
30 June 2018	+12.0	+5.1
31 March 2018	+8.4	+5.0

- 3.4 The performance of the various managers against their benchmarks for the quarter ended 31 December 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 31 December 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 -7.6% in the quarter decreased the invested value of the Fund by £275.4m to £3,306m. This quarter, 5 managers/funds outperformed their respective benchmarks and 13 underperformed against their respective benchmarks. At the end of the December 2018 quarter the value of the Fund was £69m below the value at the end of December 2017, a decrease of -2.1%
- 4.2 The table below shows the performance of the Fund’s investments against the relevant benchmarks as at 31 December 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.

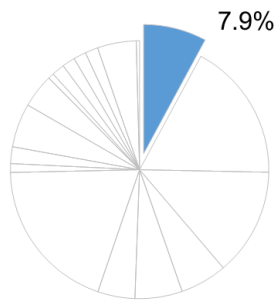
Manager	Quarter		One Year		3 Years		
	Fund (%)	B'mk (%)	Fund (%)	B'mk (%)	Fund (%)	B'mk (%)	Target (%)
Overseas Equities							
Fidelity	-11.5	-10.3	-6.7	-5.7	10.2	11.2	13.2
Global Equities							
Baillie Gifford GA	-12.4	-10.5	-3.8	-3.4	14.4	12.5	14.5
Baillie Gifford LTGG	-14.1	-10.5	5.1	-3.4	19.6	12.5	15.5
Dodge & Cox	-10.9	-10.6	-7.8	-3.3	12.6	12.5	12.5
Veritas	-9.9	-10.6	-0.1	-3.3	12.5	12.5	8.0 - 12.0
UK Equities							
Standard Life	-16.3	-12.5	-20.4	-12.8	4.3	4.6	7.6
Fixed Income							
M&G	0.5	2.0	-2.0	-1.3	9.9	10.0	10.5
Property							
Hermes	1.1	1.3	8.4	7.4	8.7	7.2	7.7
LGIM Property	0.1	0.9	3.9	6.5	5.1	6.4	6.4
Threadneedle	1.1	0.9	6.3	6.5	6.7	6.4	7.4 - 7.9
Diversified Growth							
Newton Diversified	-1.7	0.2	-0.1	0.6	2.1	0.4	4.5
Standard Life Diversified	-1.2	0.2	-4.2	0.6	-1.4	0.4	5.5
Private Debt							
Bluebay	3.5	1.7	7.4	7.7			
Permira Credit	0.8	1.5	8.8	6.0			
Insurance Linked Securities							
Leadenhall DI	-1.6	0.2					
Leadenhall NA	-7.7	0.2					
Leadenhall RE	0.9	0.2					
Cash							
Treasury Investment	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 31 December 2018 and the quarterly increase or decrease in value of each investment up until 31 December 2018.

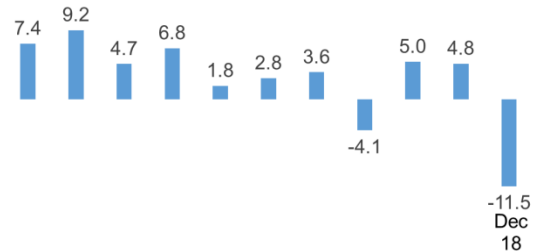
4.4 Overseas Equities

a) Fidelity

Fund Share



Quarterly Fund Value Movements (%)

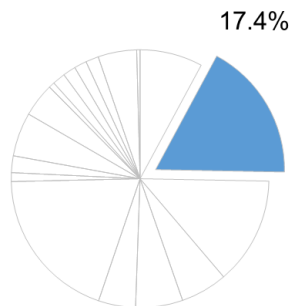


Fidelity returned -1.2% for the quarter against the benchmark return of -10.3%. Relative performance over the year was -1.0% against the benchmark of -5.7%. Over the longer term the Fund matched the benchmark return of +8.8% over 5 years.

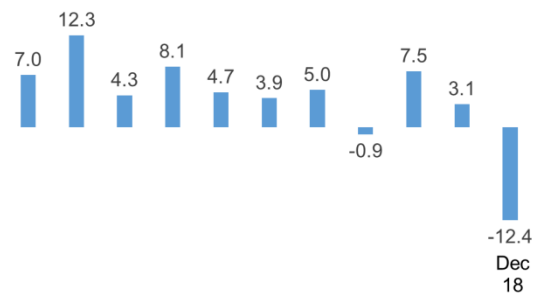
4.5 Global Equities

a) Baillie Gifford

Fund Share



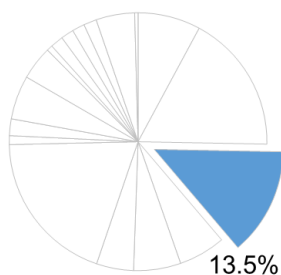
Quarterly Fund Value Movements (%)



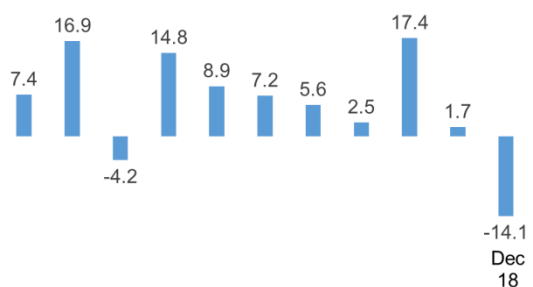
The Global Alpha fund returned -1.9% for the quarter against the benchmark return of -10.5%. Relative performance over the year was -0.4% against the benchmark of -3.4%. Relative return since inception was +2.3% against the benchmark of +8.5%.

b) Baillie Gifford LTGG

Fund Share



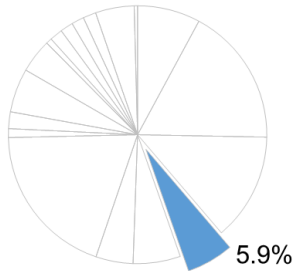
Quarterly Fund Value Movements (%)



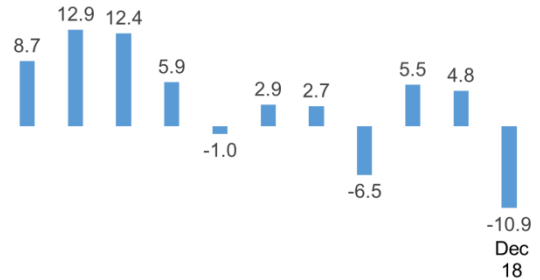
The LTGG Fund had a relative return of -3.6% for the quarter against a benchmark return of -10.5%. Relative performance over the year was +8.5% against the benchmark of -3.4%. Since inception the relative performance was +5.4% against the benchmark of +8.5%.

c) Dodge & Cox

Fund Share



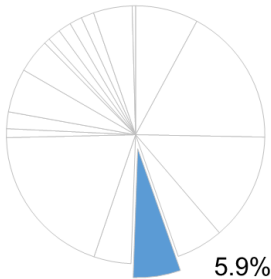
Quarterly Fund Value Movements (%)



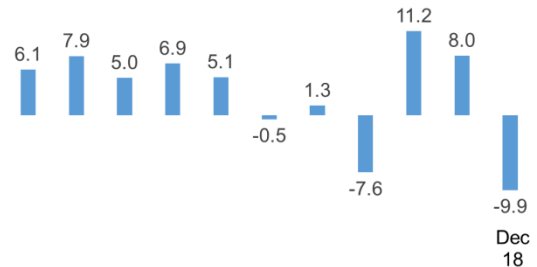
Dodge and Cox returned -0.3% for the quarter against a benchmark return of -10.6% in relative terms. Relative performance over the year was -4.5% against the benchmark of -3.3% and over 3 years +0.1% against a benchmark of +12.5%.

a) Veritas

Fund Share



Quarterly Fund Value Movements (%)

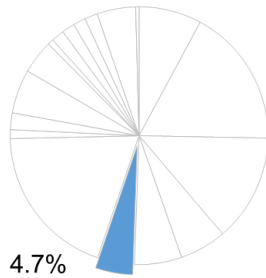


Veritas had a relative return of +0.7% for the quarter against a benchmark return of -10.6%. Relative performance over the year was +3.2% against the benchmark of -3.3%. Over 3 years the fund matched the benchmark of +12.5%.

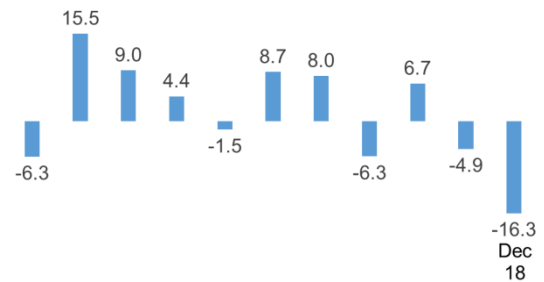
4.7 UK Equities

a) Standard Life

Fund Share



Quarterly Fund Value Movements (%)

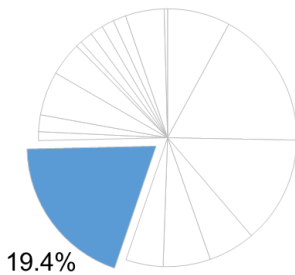


The Standard Life equities fund returned -3.8% for the quarter against a benchmark return of -12.5%. Relative performance over the year was -7.6% against the benchmark of -12.8%. Since inception the relative return was -1.3% against a benchmark of +7.5%.

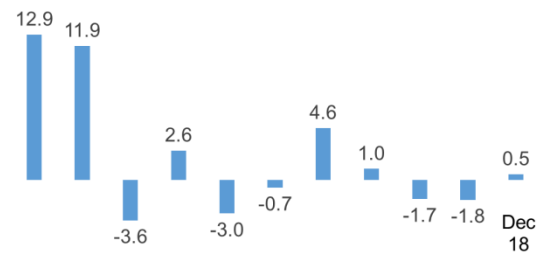
4.8 Fixed Income

a) M&G

Fund Share



Quarterly Fund Value Movements (%)

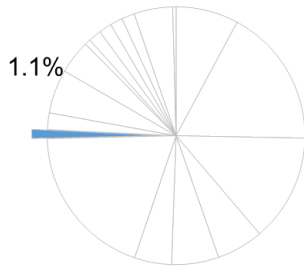


M&G returned -1.5% for the quarter against a benchmark return of 2.0%. Relative performance over the year was -0.7% against the benchmark of -1.3% and +0.5% against a benchmark of +8.2% since inception.

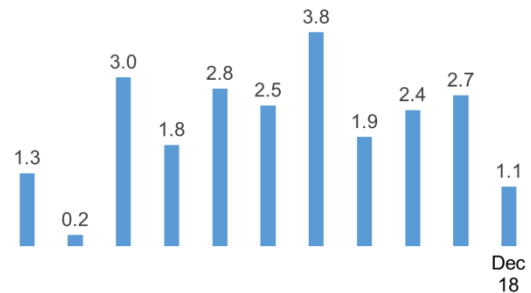
4.9 Property

a) Hermes

Fund Share



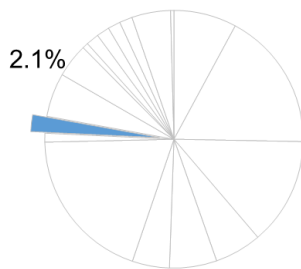
Quarterly Fund Value Movements (%)



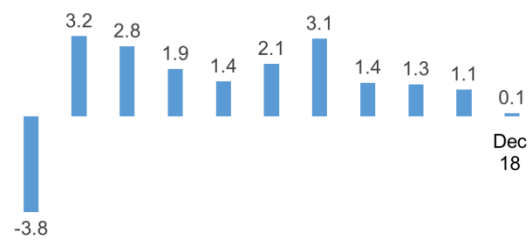
Hermes have returned +0.2% for the quarter against a benchmark return of +1.3%. Relative performance over the year was +1.0% against the benchmark of +7.4%. Over 5 years the relative performance was +3.7% against a benchmark of +7.2%.

b) Legal & General

Fund Share



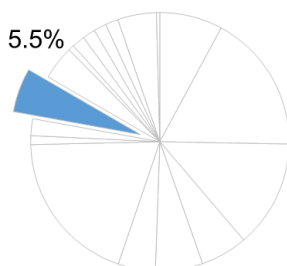
Quarterly Fund Value Movements (%)



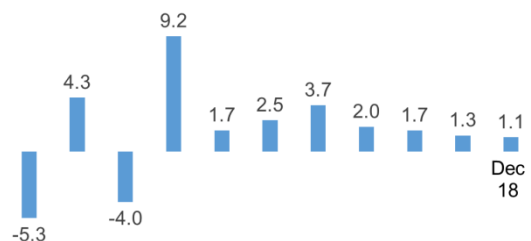
LGIM returned -0.8% for the quarter against a benchmark return of +0.9%. Relative performance over the year was -2.6% against the benchmark of +6.5%. Over 5 years the relative performance was +0.5% against a benchmark of +7.6%.

c) Threadneedle

Fund Share



Quarterly Fund Value Movements (%)

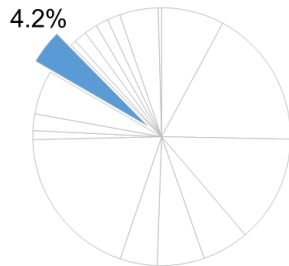


Threadneedle returned +0.2% for the quarter against a benchmark return of +0.9%. Relative performance over the year was -0.2% against the benchmark of +6.5%. Over 5 years the relative performance was +2.7% against a benchmark of +7.6%.

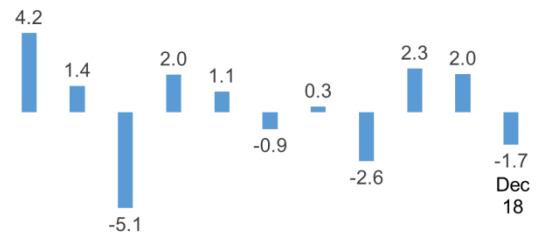
4.10 Diversified Growth Funds

a) Newton Investments

Fund Share



Quarterly Fund Value Movements (%)



Newton returned -1.9% for the quarter against a benchmark return of +0.2%. Relative performance over the year was -0.7% against the benchmark of +0.6%. Over 5 years the relative performance was +1.7% against a benchmark of +0.5%.

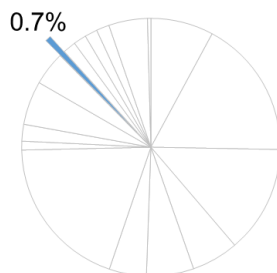
b) Standard Life GARS Fund

In the quarter NYPF fully disinvested from the GARS Fund, as approved by the Committee in the November meeting following advice from the Fund's consultants.

4.11 Private Debt

a) Bluebay

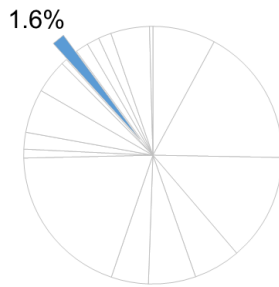
Fund Share



Bluebay returned +1.8% for the quarter against a benchmark return of +1.7%. Relative performance over the year was -0.3% against the benchmark of +7.7%.

b) Permira

Fund Share

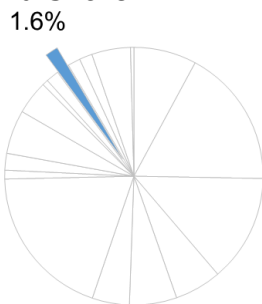


Permira returned -0.7% for the quarter against a benchmark return of +1.5%. Relative performance over the year was +2.8% against the benchmark of +6.0%.

4.12 Insurance Linked Securities

a) Leadenhall Diversified

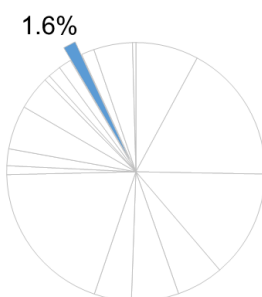
Fund Share



The Leadenhall Diversified Fund returned -1.8% for the quarter against a benchmark return of +0.2% in relative terms.

b) Leadenhall Natcat Focus

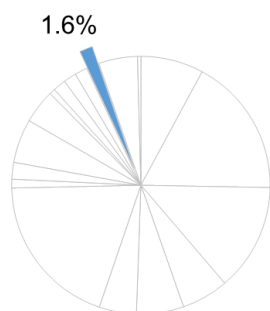
Fund Share



The Leadenhall Nat Cat Focus Fund returned -7.9% for the quarter against a benchmark return of +0.2% in relative terms. This Fund experienced losses over the quarter, exposures to Hurricane Michael and the Californian wildfires were the main reasons for this loss. As this Fund is the highest in risk of the three Leadenhall Funds that NYPF are invested in, this Fund saw the highest losses.

c) Leadenhall Remote

Fund Share

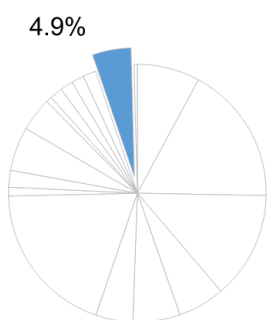


The Leadenhall Remote Fund returned +0.7% for the quarter against a benchmark return of +0.2% in relative terms.

4.13 Cash Investment

a) North Yorkshire County Council

Fund Share



In the quarter the Fund invested in the NYCC Treasury Management cash investment (as detailed in paragraph 7.3 below). This fund achieved the benchmark return of +0.2% in the quarter.

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 7.3% for the rolling three year period to 31 December 2018 +1.0% 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 December 2018 was +0.1% above benchmark at 1.4%.

5.4 The **Tracking Error** figure reflects how closely a fund manager's actual return follows their respective benchmark. As at December 2018 the figure was 2.9%.

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 December 2018 the ratio for the Fund was 0.6%.

6.0 SOLVENCY

6.1 The **solvency position** is presented in **Appendices 2 and 3**. As at 31 December 2018 the estimated solvency was 105%. This is a 15 percentage point increase from the solvency figure as at 31 March 2016, calculated by the Actuary during the 2016 Valuation process.

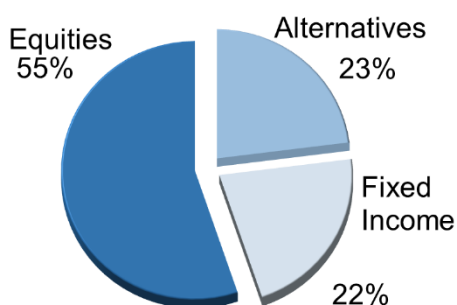
6.2 The funding level has dropped in the quarter by 10 percentage points. This is mainly due to the negative performance of the Fund, particularly in equities, during the quarter.

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. The assumptions used for the funding level are from the 2016 Triennial Valuation. These assumptions will be updated as the Fund progresses through the 2019 Triennial Valuation.

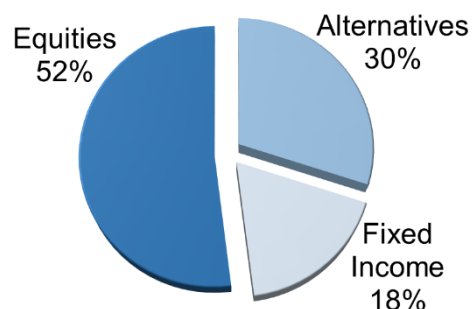
7.0 REBALANCING

7.1 Asset Allocations as at 31 December 2018

Actual



Target



7.2 There is currently an underweight position in alternatives; this is mainly due to the disinvestment from the Standard Life GARS Fund in the quarter which was around 5.5% of the Fund. In the short term this disinvestment has been split equally between equities and fixed income (described in 7.3 below) which explains the overweight positions that the Fund has in both of those asset classes.

7.3 In the quarter to 31 December 2018, the following rebalancing took place:

- Permira made their 10th capital call totalling £4.7m

- Bluebay made their 8th capital call totalling £4.1m
- £167m was disinvested from the Standard Life GARS Fund and invested with M&G (£77.5m) Dodge & Cox (£48.8m) and Veritas (£33.7m).

As part of the investment strategy review :-

- £60m was disinvested from Fidelity, £60m from Baillie Gifford Global Alpha and £40m from Baillie Gifford LTGG and invested with the North Yorkshire County Council Treasury Management cash investment (£160m) in the short term until an investment is made in property debt in line with the investment strategy.

8.0 PROXY VOTING

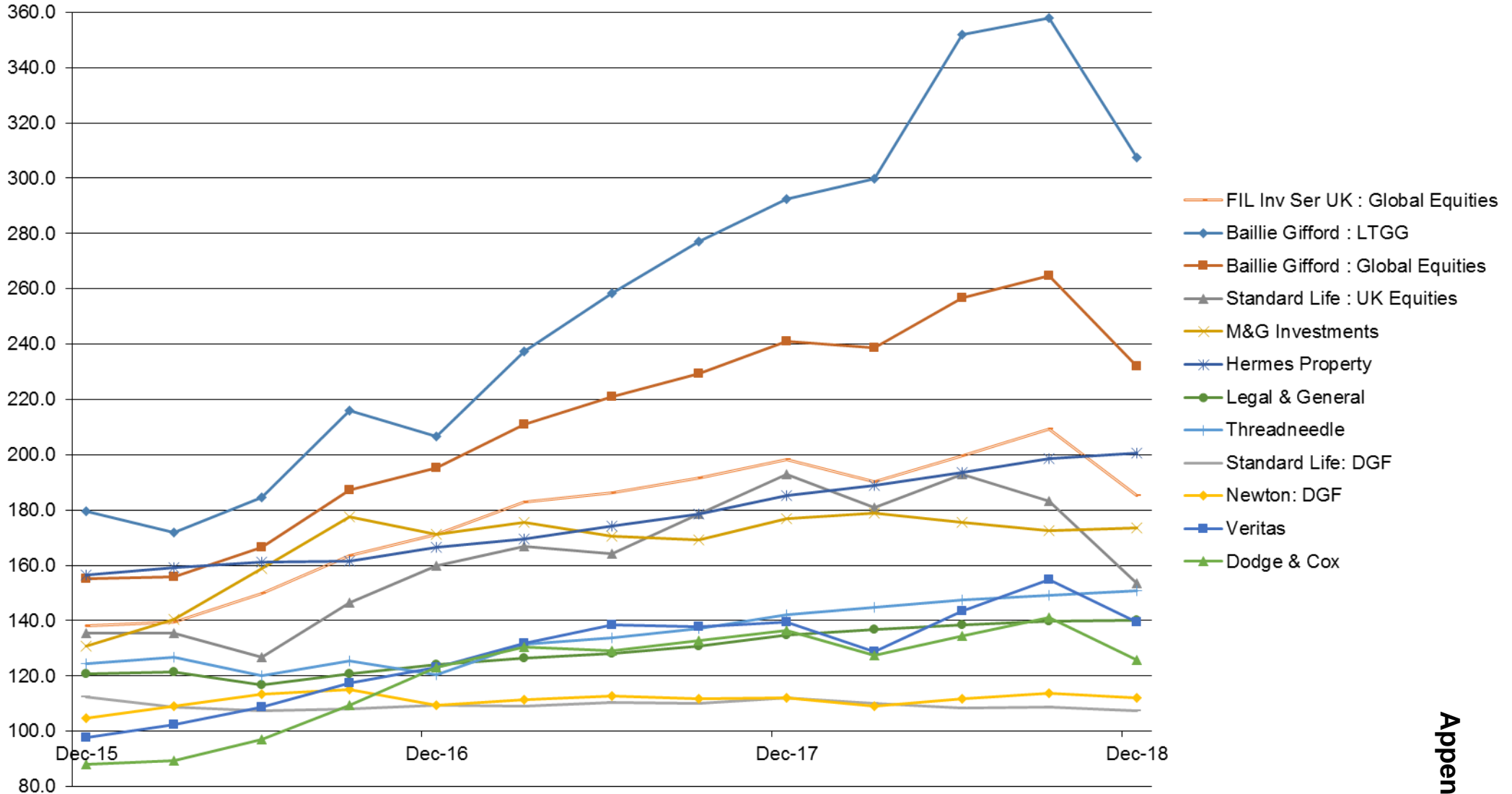
- 8.1 The report from PIRC is available on request summarising the proxy voting activity in the period September 2018 to December 2018. This report covers the votes cast on behalf of NYPF at all relevant company AGMs in the period and includes an analysis of voting recommendations at selected meetings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

9.0 RECOMMENDATION

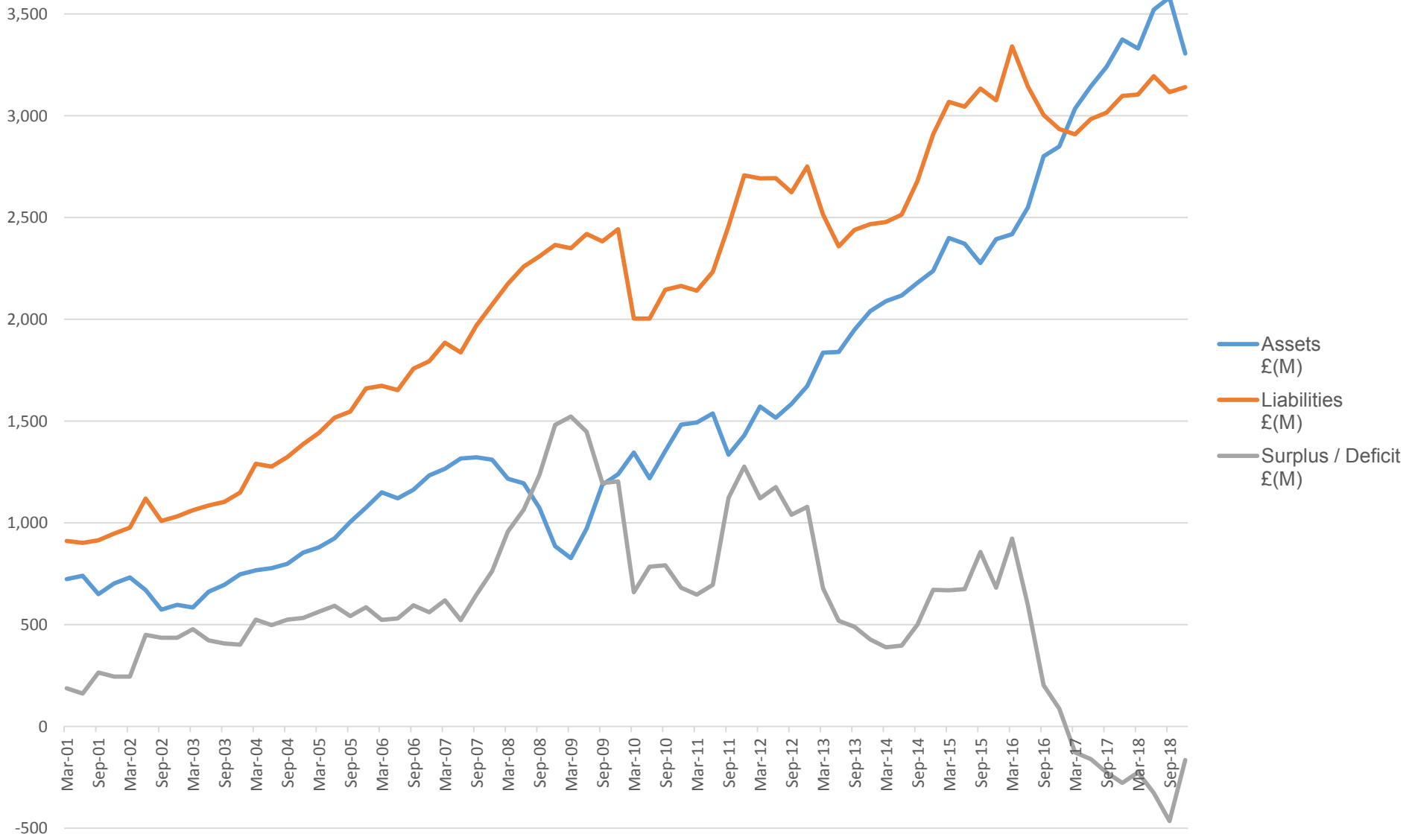
- 9.1 Members are asked to note the investment performance of the Fund for the period ending 31 December 2018.

GARY FIELDING
Treasurer to North Yorkshire Pension Fund
NYCC
County Hall
Northallerton
8 February 2019

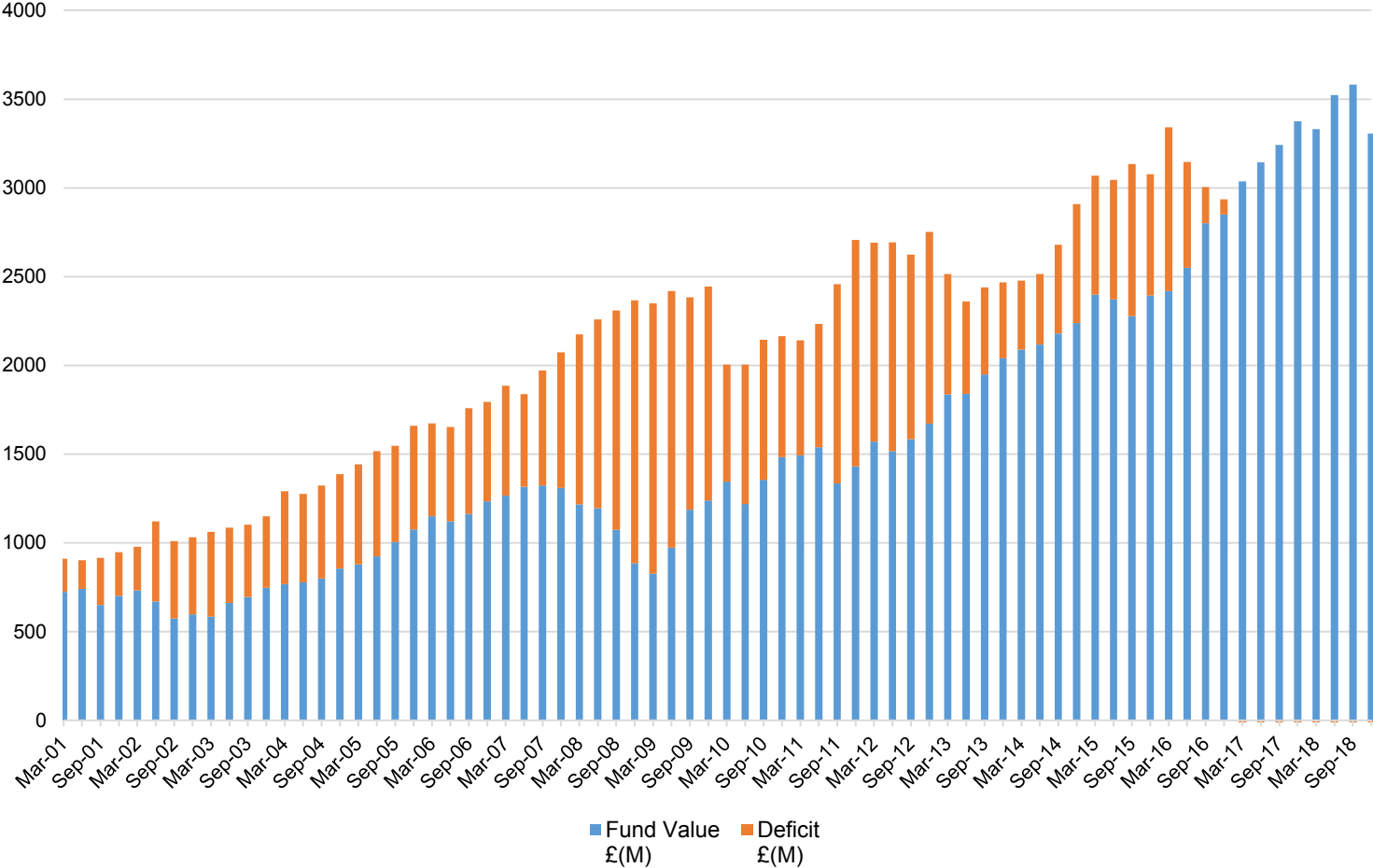
Investment Manager Performance - Cumulative Absolute Performance 3 years to December 2018



North Yorkshire Pension Fund - Assets, Liabilities and Deficit



Movement in Assets and Liabilities



Appendix 3

Date	Solvency	Deficit £(M)	Fund Value £(M)	FTSE 100
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
31 December 2018	105%	-164.8	3306	6,728

* Triennial valuation