

# ITEM 9 - LATE REPORT

## NORTH YORKSHIRE COUNTY COUNCIL

### PENSION FUND COMMITTEE

13 SEPTEMBER 2019

### INVESTMENT STRATEGY REVIEW

#### Report of the Treasurer

## 1. PURPOSE OF REPORT

- 1.1. To confirm the NYPF allocation to BCPP's Private Debt Fund.
- 1.2. To update on the BCPP Multi Asset Credit and Investment Grade Credit sub-funds as part of NYPF's liquid credit allocation.
- 1.3. To update on the Global Equity Transition.
- 1.4. To update on the implementation of the Equity Protection Strategy.

## 2. ALLOCATION TO PRIVATE DEBT

- 2.1. The next BCPP sub-fund to launch is the Private Debt Fund in Q4 of 2019. BCPP have asked for Committees to confirm final commitments to this Fund by the end of September. Due to the illiquid nature of alternative investments, commitments will be raised in subscription windows. These would usually be annual windows, however over the first three year period there will be two investment windows for the Private Debt Fund rather than three. The two opportunities to invest in this sub-fund will therefore be in Q4 2019 and Q2 2021.
- 2.2. To remind Members, in the May Committee meeting a review of the investment strategy was undertaken for the Fund to inform the 2019 Triennial Valuation; the agreed long-term strategy is as follows:

Asset Group	Asset Allocation (%)	
	Previous Strategy	New Strategy
Equity	55	45
Property	10	10
Illiquid growth	0	7.5
Illiquid credit	10	10
Liquid credit	0	7.5
Absolute return	10	10
Gilts	15	10
	<b>100</b>	<b>100</b>

- 2.3. There is currently a 10% allocation to illiquid credit, which includes a 5% allocation to private debt, c3.5% of which is already committed (prior to pooling) to European direct lending through Permira and Bluebay (£130m). It was agreed that the remaining 5% would be allocated to Property Debt however an investment has not yet been made as alternative options were imminent from BCPP and presented an easier route to invest.
- 2.4. The Fund's investment consultants, Aon, have undertaken a high level due diligence review of the BCPP Private Debt Fund. They have proposed that the Committee review the current strategic allocation to private debt and consider a commitment of up to 4% in the BCPP Private Debt sub-fund, subject to further due diligence. An investment of c.2% is recommended to bring the total commitment in line with the current 5% allocation. There is also a further option to increase the strategic allocation to private debt and make an investment of up to 4% in the BCPP sub-fund. These options, along with any considerations prior to investment and next steps, will be covered by Aon in the meeting.
- 2.5. The aim of the BCPP Private Debt Fund is to invest in a diversified portfolio of global private debt investments to generate a long-term return of 6% p.a. net of fees. Investments will be made across a wide range of strategies, including direct lending, property/ infrastructure debt, mezzanine and stressed/ distressed debt. The CIO of BCPP, Daniel Booth, will be attending the meeting to provide further information on BCPP's Private Debt offering.

### **3. LIQUID CREDIT ALLOCATION**

- 3.1. In the new long term strategy (shown in section 2.2. above) there is an allocation of 7.5% to liquid credit. Aon proposed allocating this across investment and sub-investment grade credit assets in the investment strategy review, for example, a Multi-asset credit (MAC) investment. The next steps for investment of this allocation were to provide the Committee with further training on credit investments and work with BCPP on their credit offerings with a view to investing when suitable sub-funds become available.
- 3.2. An educational session on MAC was provided by M&G following the 4 July 2019 Committee meeting and BCPP have also provided an informal session on their MAC offering at a workshop on 24 May 2019. The target launch of the BCPP MAC sub-fund is Q2 2020. This sub-fund is going to have a core/satellite structure and the appointment of the core MAC manager is in progress.
- 3.3. There will be a separate sub-fund launched in Q4 of 2019 for Investment Grade Credit. Committees are asked to confirm their initial investment in this sub-fund by the end of September.
- 3.4. It is not proposed that NYPF makes a commitment to Investment Grade credit on initial launch of the sub-fund. It is advised that the Fund awaits further details on the MAC sub-fund first and then determine the best blend of

investment across these sub-funds to achieve the requirements of the Fund, subject to further due diligence. As an investment in either of these funds would be a change in asset class the Fund would not benefit from cost sharing by investing on the initial launch as the cost of liquidating to cash outside of the cost sharing.

#### **4. GLOBAL EQUITY TRANSITION**

- 4.1. The preparation stages of the transition into the Global Equity Alpha Fund have commenced to ensure that the target date is achieved. Funds were asked to confirm their allocation based on 31 July 2019 market conditions. To remind Members, in the 20 June 2019 special PFC meeting, where the Global Equities investment in BCPP was considered, an investment of up to £1bn was approved based on current market conditions which represented 55% of the Fund at the time. The total invested in global equities at 31 July 2019 was c.£2.07bn therefore an investment of c.£1bn was confirmed to BCPP, which represented 48.4% of the total global equity allocation.
- 4.2. A verbal update on any further progress will be provided in the meeting.

#### **5. EQUITY PROTECTION STRATEGY**

- 5.1. At the 21 February 2019 meeting it was decided to implement an equity protection strategy on retained global equities. This would be a short term strategy to protect the Fund against equity risk whilst investment in alternative asset classes is being implemented. LGIM was appointed as the Manager to implement the strategy.
- 5.2. In July 2019 protection was put in place on £800m of global equities. As agreed in the 25 April 2019 meeting this protection was split equally over two end dates of July 2020 and January 2021. In both of these strategies downside protection was put in place against losses of 5% to 25%, with the Fund bearing losses of up to 5% and over 25%. The upside given up for this downside protection is any increase in the equity market over 6.9% for the 12 month strategy and over 9.1% for the 18 month strategy. Collateral of c£250m in gilts was transferred from M&G to LGIM for them to manage passively whilst protection is in place.
- 5.3. In future PFC meetings reporting on this strategy will be presented to Members as part of the quarterly performance review.

#### **6. RECOMMENDATIONS**

Members are to:

- 6.1. Review the long term allocation to Private Debt.

- 6.2. Consider an initial investment in the BCPP Private Credit Fund.
- 6.3. Note the update on the BCPP Investment Grade Credit and Multi-Asset Credit sub-funds.
- 6.4. Note the update on the global equities transition.
- 6.5. Note the update on the equity protection implementation.

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11 September 2019