

Quarterly Investment Report Quarter 4 2019

North Yorkshire Pension Fund

Prepared for The Pension Fund Committee

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1. Introduction

This report provides performance and asset allocation information for the North Yorkshire Pension Fund (the 'Fund') along with a background to the investment markets during the fourth calendar quarter of 2019.

- Section 2 is a high level executive summary of the key points from this report
 - Section 3 is an investment summary which provides details of the latest performance and asset allocation for the Fund, a brief review of the market background for the latest quarter, list of rebalancing and solvency position.
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2. Executive Summary

Overall Fund performance

- The Fund assets increased in value by £30.0m to £3,823.4 over the fourth quarter of 2019.
- In relative terms, the Fund outperformed the composite benchmark by 1.7% over the quarter, returning 0.7% in absolute terms. Much of the outperformance this quarter was a result of significant relative performance from the Baillie Gifford LTGG (+10.3%) portfolio.

Asset Allocation

- The Fund's asset allocation at the end of Q4 2019 was 4.2% overweight equity, 3.4% underweight alternatives and 0.8% underweight bonds & cash.

3. Investment Summary

Investment returns – 3 months to 31 December 2019	<p>The market value of the Fund's assets as at 31 December (£3,823.4m) was £30.0m higher than the value as at 30 September.</p> <p>The Fund returned 0.7% over the fourth quarter of 2019, outperforming its composite performance benchmark by 1.7%.</p> <ul style="list-style-type: none">▪ In relative terms, the performance from the Baillie Gifford LTGG (+10.3%) portfolio was the key driver of the outperformance. Dodge & Cox (+1.3%) also outperformed the benchmark during the quarter. In contrast, Veritas (-0.2%) underperformed over the quarter.▪ Hermes (+0.1%) and Legal and General (+0.2%) outperformed over the quarter, whereas Threadneedle performed in line with its respective benchmark.▪ The Leadenhall Diversified (-0.7%) and Nat Cat (-0.4%) underperformed the benchmark, whereas the Remote Risk (+1.1) outperformed the benchmark.▪ Newton Real Return (+1.4%) outperformed.▪ M&G performed in line with the benchmark return of -10.0%.▪ The LGIM Equity Protection portfolio (including the Gilt collateral holdings) returned -10.7%.▪ Both Permira (+0.8%) and BlueBay (+0.3%) outperformed their respective benchmarks. Please note that both mandates are currently going through the commitment phase and hence performance can be distorted by the timing of cash being received by the investment managers.
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Investment returns – 12 months to 31 December 2019	<p>The market value of the Fund's assets (£3,823.4m) was £517.6m higher than the value as at 30 September 2018 (£3,305.8m).</p> <ul style="list-style-type: none">▪ In relative terms the Fund was 2.3% ahead (15.9% vs. 13.6%) its composite performance benchmark return over the past 12 months.▪ Outperformance from the Baillie Gifford LTGG (+7.4%) portfolio was the key driver of the outperformance. Veritas (+1.7%) also produce a favourable relative return. In contrast, Dodge & Cox (-3.6%) underperformed over the 12 month period.▪ The Leadenhall Diversified (+1.4%), Nat Cat (+3.3%) and the Remote Risk (+1.9) outperformed the benchmark over 2019.▪ Newton outperformed its cash benchmark by 11.8% over the year.▪ Legal & General and Hermes outperformed the property benchmark by 1.1% and 0.7% respectively, whereas Threadneedle underperformed the benchmark by 0.2%.▪ M&G returned 8.8%, 0.3% ahead of the benchmark return of 8.5%.▪ Permira (+0.4%) and BlueBay (+0.1%) outperformed their respective benchmarks over the past 12 months. Both private debt mandates are currently going through the commitment phase and hence performance can be distorted by the timing of cash being received by the investment managers.
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Market background Q4 2019

- Although economic data appeared to stabilise in the fourth quarter, a number of economic indicators were still weak. Equity markets, however, largely shrugged off economic concerns as positive market momentum was also predicated on progress in US-China trade negotiations. Expectations of more conciliatory talks and the eventual agreement of a "Phase One" trade deal bolstered risk appetite, helping equity markets post impressive quarterly gains. The MSCI AC World Index returned 7.7% in local currency terms.
- A UK Brexit deadline came and went in the fourth quarter, and yet another extension was granted. However, a General Election later in the quarter culminated in a significant majority for the incumbent Conservative Party, reducing parliamentary deadlock and therefore Brexit uncertainty.
- The US Federal Reserve (Fed) cut rates once again in October, lowering the Federal Funds Rate target to 1.50%-1.75%. To arrest concerns of volatility in money markets, the Fed has also resumed asset purchases, albeit focusing on money-market securities, to keep the Fed rate within target. Other major central banks maintained monetary policy at previous levels.
- On the back of higher yields, the FTSE All Stocks Gilts Index and the FTSE All Stocks Index-Linked Gilts Index both posted negative returns over the quarter, returning -3.9% and -8.5%, respectively. UK investment-grade credit spreads narrowed but were offset by the increase in underlying government bond yields, leading to a slightly negative return of -0.7%.
- Sterling, acting as a barometer of Brexit developments, strengthened by 4.9% on a trade-weighted basis. Consequently, global equity returns in sterling terms were more muted – returning just 1.3%.
- UK property capital values continue to trend lower but steady income returns supported a positive overall return.

List of rebalancing

In the quarter to 31 December 2019, the following rebalancing took place:

- The Fund fully disinvested from Baillie Gifford Global Alpha (£700m) and Fidelity (£309m) and invested the funds in BCPP Global Equity Alpha
- £7.5m was disinvested from NYCC Treasury Management and invested in Bluebay
- Cash investments were made in BCPP Infrastructure (£1.9m) and Bluebay (£2m)

Solvency position

The solvency position of the Fund as at 31 December 2019 was estimated to be 115%. This funding level now reflects the initial 2019 Triennial Valuation results and is at the same level as the 31 March 2019 valuation date. The position is 4% lower than the previous quarter due to the lower asset performance experienced and increased valuation of liabilities in the quarter.

Quarter 4 2019 – Performance

Investment	Quarterly (%)			Annual (%)			3 Years (% pa)			
	Portfolio	B'mark	Relative	Portfolio	B'mark	Relative	Portfolio	B'mark	Relative	Target
Equities										
UK Equities										
BCPP UK Equity	7.8	4.2	+3.6	-	-	-	-	-	-	-
Global Equities										
Baillie Gifford LTGG	11.8	1.5	+10.3	29.7	22.3	+7.4	24.5	10.4	+14.1	13.4
BCPP Global Equity	2.7*	1.5*	+1.2*	-	-	-	-	-	-	-
Dodge & Cox	2.8	1.5	+1.3	18.8	22.4	-3.6	6.7	10.5	-3.8	<10.5
Veritas	1.3	1.5	-0.2	24.1	22.4	+1.7	12.0	10.5	+1.5	7.3
Diversified Growth										
Newton Real Return	1.6	0.2	+1.4	12.5	0.7	+11.8	4.8	0.5	+4.3	4.5
Property										
Hermes	0.4	0.3	+0.1	2.5	1.8	+0.7	7.4	6.5	+0.9	7.0
L&G	0.5	0.3	+0.2	2.7	1.6	+1.1	4.9	6.0	-1.1	<6.0
Threadneedle	0.3	0.3	0.0	1.4	1.6	-0.2	5.7	6.0	-0.3	7.0
Insurance-Linked										
Leadenhall Remote Risk	1.3	0.2	+1.1	2.6	0.7	+1.9	-	-	-	-
Leadenhall Diversified	-0.5	0.2	-0.7	2.1	0.7	+1.4	-	-	-	-
Leadenhall Nat Cat	-0.2	0.2	-0.4	4.0	0.7	+3.3	-	-	-	-
Infrastructure										
BCPP Infrastructure	1.4	1.2	+0.2	-	-	-	-	-	-	-
Global Bonds										
Fixed Income – UK Bonds										
M&G	-10.0	-10.0	0.0	8.8	8.5	+0.3	3.3	3.4	-0.1	3.9
LGIM Equity Protection (Inc. collateral)	-10.7	-10.7	0.0	-	-	-	-	-	-	-
Fixed Income – Private Debt										
BlueBay	1.8	1.5	+0.3	6.1	6.0	+0.1	7.1	6.0	+1.1	n/a
Permira	2.3	1.5	+0.8	6.4	6.0	+0.4	-	-	-	-
Overall	0.7*	-1.0*	+1.7*	15.9*	13.6*	+2.3*	9.9*	6.8*	+3.1*	

Source: BNY Mellon, Managers

Notes: Hermes, Threadneedle, and L&G performance & benchmark numbers provided by the investment managers.

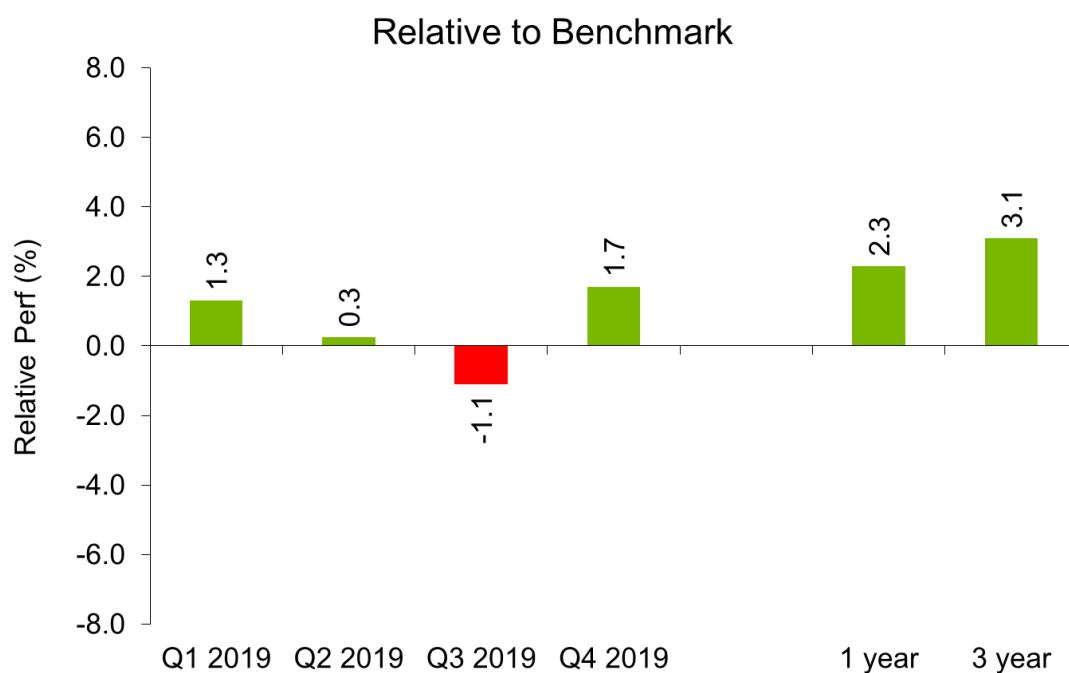
*The BCPP Global Equity and total fund performance and benchmark figures reported by BNY Mellon are currently under review and subject to change.

Quarter 4 2019 – Asset Allocation

	Previous Quarter		Current Quarter			
	Market Value (£m)	Weight (%)	Market Value (£m)	Weight (%)	Benchmark (%)	Relative (%)
Equities	2,152.1	56.7	2,262.1	59.2	55.0	+4.2
UK Equities	158.2	4.2	170.5	4.5		
Aberdeen Standard UK	<0.1	0.0	-	-		
BCPP – UK Equity Fund	158.2	4.2	170.5	4.5		
Global Equities	1,681.9	44.3	2,089.0	54.6		
Baillie Gifford Global Alpha	700.3	18.4	-	-		
BCPP – Global Equity Fund	-	-	1,037.0	27.1		
Baillie Gifford LTGG	516.8	13.6	577.6	15.1		
Dodge & Cox	224.7	5.9	230.9	6.0		
Veritas	240.1	6.3	243.5	6.4		
Overseas Equities	312.0	8.2	2.6	0.1		
Fidelity	312.0	8.2	2.6	0.1		
Alternatives	762.4	20.1	748.7	19.6	23.0	-3.4
Diversified Growth	155.0	4.1	157.5	4.1	5.0	-0.9
Newton Real Return	155.0	4.1	157.5	4.1	5.0	-0.9
Property	291.2	7.7	280.1	7.3	10.0	-2.7
Hermes	36.4	1.0	36.4	1.0		
L&G	71.0	1.9	71.4	1.9		
Threadneedle	183.8	4.8	172.3	4.5		
Insurance-Linked	163.0	4.3	163.3	4.3	5.0	-0.7
Leadenhall Remote Risk	54.3	1.4	55.0	1.4		
Leadenhall Diversified	54.5	1.4	54.2	1.4		
Leadenhall Nat Cat	54.2	1.4	54.0	1.4		
Property Debt	151.9	4.0	144.8	3.8	3.0	+0.8
Treasury Cash	151.9	4.0	144.8	3.8	3.0	+0.8
Infrastructure	1.3	0.0	3.1	0.1	0.0	+0.1
BCPP Infrastructure	1.3	0.0	3.1	0.0	0.0	+0.1
Global Bonds	857.4	22.6	788.0	20.6	22.0	-1.4
Fixed Income – UK Bonds	770.7	20.3	691.0	18.1	19.0	-0.9
M&G	505.2	13.3	454.0	11.9		
LGIM Equity Protection (Inc. collateral)	265.5	7.0	237.0	6.2		
Fixed Income – Private Debt	86.7	2.3	97.0	2.5	3.0	-0.5
BlueBay	28.7	0.8	38.7	1.0	1.5	-0.5
Permira	58.0	1.5	58.3	1.5	1.5	0.0
Cash	21.3	0.6	24.5	0.6	0.0	+0.6
Internal Cash	21.3	0.6	24.5	0.6	0.0	+0.6
Total Assets	3,793.4	100.0	3,823.4	100.0	100.0	

Source: BNY Mellon. Please note that the Fund's long-term investment strategy has recently been amended to a benchmark of 45% equities, 45% alternatives and 10% fixed income. This allocation will be put in place in future reports as the actual asset allocation moves towards the new long-term target.

Total Assets	£3,823.4m
Performance Target	Target an expected return of approximately 2.5% ahead of the composite benchmark



Fund (%)	8.3	4.1	2.2	0.7	15.9	9.9
Benchmark (%)	7.0	3.8	3.3	-1.0	13.6	6.8

Source: BNY Mellon, data for periods longer than 12 months are annualised.

The overall absolute performance of the Fund's assets was 0.7% over the fourth quarter of 2019, compared to the benchmark return of -1.0%.

The composite benchmark is a weighted average made up of the individual manager benchmarks.

The Fund outperformed its composite performance benchmark by 2.3% over the past 12-month period and by 3.1% per annum over the 3-year period to 31 December 2019.

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