Agenda

Please note change of date of meeting from that published in the original Meetings Timetable

Meeting: Pension Fund Committee

Venue: Brierley Room, 3 Racecourse Lane, Northallerton, DL7 8QZ

Date: Friday 21 February 2020 at 10 am

PLEASE NOTE: The Brierley Building (main County Hall building) is closed now until Autumn 2020. All Committee meetings will be held in either No. 1 or No. 3 Racecourse Lane, Northallerton, DL7 8QZ. Please note the venue above for the location of this meeting. Visitors please report to main reception which is located in No. 3 Racecourse Lane and you will be guided to the venue.

Recording is allowed at County Council, committee and sub-committee meetings which are open to the public. Please give due regard to the Council's protocol on audio/visual recording and photography at public meetings, a copy of which is available to download below. Anyone wishing to record is asked to contact, prior to the start of the meeting, the Officer whose details are at the foot of the first page of the Agenda. We ask that any recording is clearly visible to anyone at the meeting and that it is non-disruptive. http://democracy.northyorks.gov.uk

Business

1. **Exclusion of the Public and Press – To consider the exclusion of the public and press from the meeting during consideration of Appendix 1 of item 5, 2019 Triennial Valuation – Update, on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government (Access to information)(Variation) Order 2006.**

2. **Minutes of the meeting held on 22 November 2019**

   (Pages 5 to 18)

3. **Declarations of Interest**

Enquiries relating to this agenda please contact Steve Loach Tel: 01609 532216
or e-mail stephen.loach@northyorks.gov.uk Website: www.northyorks.gov.uk

4. **Public Questions or Statements**

Members of the public may ask questions or make statements at this meeting if they have given notice (including the text of the question/statement) to Steve Loach of Democratic Services *(contact details at the foot of page 1 of the Agenda sheet)* by midday on Tuesday 18 February 2020. Each speaker should limit themselves to 3 minutes on any item. Members of the public who have given notice will be invited to speak:-

- at this point in the meeting if their questions/statements relate to matters which are not otherwise on the Agenda (subject to an overall time limit of 30 minutes);

- when the relevant Agenda item is being considered if they wish to speak on a matter which is on the Agenda for this meeting.

If you are exercising your right to speak at this meeting, but do not wish to be recorded, please inform the Chairman who will instruct those taking a recording to cease while you speak.

5. **2019 Triennial Valuation – Update –** Report of the Treasurer **(Pages 19 to 43)**

6. **Business Plan –** Report of the Treasurer **(Pages 44 to 56)**

7. **Budget/Statistics -** Report of the Treasurer **(Pages 57 to 60)**

8. **Pensions Administration Report -** Report of the Treasurer **(Pages 61 to 74)**

9. **Performance of the Fund** - Report of the Investment Consultants **(Pages 75 to 84)**

10. **Investment Strategy Review** – Report of the Treasurer **(Pages 85 to 88)**

11. **Pension Board – Draft Minutes of the meeting held on 16 January 2020 –**

    Verbal update by the Chair of the Pension Board

    (Not yet available)

12. **Such other business as, in the opinion of the Chairman should, by reason of special circumstances, be considered as a matter of urgency**

A Pension Fund Workshop will be held on Thursday 20 February at 10am in the Brierley Room, 3 Racecourse Lane, Northallerton, DL7 8QZ – Representatives of BCPP will be in attendance.

Barry Khan
Assistant Chief Executive (Legal and Democratic Services)
County Hall
Northallerton

February 2020

Notes:

Emergency Procedures for Meetings

Fire

The fire evacuation procedure is outlined at the venue.

Accident or Illness

First Aid treatment can be obtained by telephoning Extension 7575.

PENSION FUND COMMITTEE

1. Membership

County Councillors (8)		
	Councillors Names	*Political Group*
1	CHAMBERS, Michael MBE	Conservative
2	LUNN, Cliff	Conservative
3	MULLIGAN, Patrick	Conservative
4	PARSONS, Stuart	NY Independent
5	SOLLOWAY, Andy	Independent
6	SWIERS, Helen (Vice-Chairman)	Conservative
7	THOMPSON, Angus	Conservative
8	WEIGHELL, John OBE (Chairman)	Conservative

Members other than County Councillors (1 and 2) Voting (3) Non-voting		
1	CUTHBERTSON, Ian	City of York
2	CLARK, Jim	North Yorkshire District Councils
3	PORTLOCK, David	Chair of the Pension Board
Total Membership – (10)		**Quorum – (3) County Councillors**

Con	Lib Dem	NY Ind	Labour	Ind	Other Voting Members
6	0	1	0	1	2

2. Substitute Members

Conservative			
	Councillors Names		*Councillors Names*
1	BLADES, David	**1**	
2	PEARSON, Chris	**2**	
3	LES, Carl	**3**	
4	WINDASS, Robert	**4**	
5	MANN, John	**5**	
NY Independents			
	Councillors Names		
1			
2			
3			
4			
5			

3. Substitute Members

1	AYRE, Nigel	City of York
2	DALE, Angie	North Yorkshire District Councils

North Yorkshire County Council

Pension Fund Committee

Minutes of the meeting held on 22 November 2019 at Racecourse Lane, Northallerton, commencing at 10 am.

Present:-

County Councillors John Weighell OBE (Chairman), Michael Chambers MBE, Cliff Lunn, Patrick Mulligan, Helen Swiers and Angus Thompson.

Councillor Jim Clark - North Yorkshire District Councils.

David Portlock - Chair of the Pension Board.

Apologies were received from County Councillor Andy Solloway and Councillor Ian Cuthbertson (City of York representative).

Copies of all documents considered are in the Minute Book

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144. Exclusion of the Public and Press

Resolved -

That the public and press be excluded from the meeting during consideration of Minute No. 149 on the grounds that this involve the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government (Access to Information) (Variation) Order 2006.

145. Minutes

Resolved -

That the Minutes of the meeting held on 13 September 2019 were confirmed as read and signed by the Chairman as a correct record.

146. Declarations of Interest

There were no declarations of interest.

147. Public Questions or Statements

There were no public questions or statements.

148. Budget/Statistics

The Chairman agreed to bring this item forward on the agenda as it involved discussions relating to the Investment Consultants fees, and they would remain out of the room while the discussions were taking place, allowing them to return for the remainder of the meeting.

Considered-

The report of the Treasurer relating to the 2019/20 budget (cost of running the Fund) and the 2019/20 cash flow projection for the Fund.

The report indicated that the latest forecast outturn position for the 2019/20 budget, attached as an Appendix to the report, highlighted an overspend of £6.5m which was, in the main, due to overspends on investment fees (£6.2m) and Consultant's fees (£230k).

The investment fees overspend was due mainly to fees becoming more transparent, following the implementation of the Transparency Policy, and were not, therefore, additional fees. As such, these did not have an impact on performance or cash flow. It was noted that, over the previous quarter, there had been a reduction in investment fees, which was mainly due to the Baillie Gifford Global Alpha Fund.

The overspend in respect of the Consultant's fees related to the establishment of equity protection, due diligence on a number of BCPP sub funds and the Investment Strategy review undertaken as part of the 2019 triennial valuation. It was noted that fees were identified within the budget, but those reported at the meeting were increases on the 2019/20 budget.

An Appendix to the report outlined the current cash flow position of the Fund and a one year cash flow projection.

Following the initial report a number of issues and points were raised as follows:-

- An issue relating to a potential increase in pooling costs was outlined.

- A Member asked about the advisory purpose of the Investment Consultants and Independent Investment Adviser to the Fund, following transition to the BCPP sub funds. In response it was noted that there would still be a role for the Investment Advisers for at least 2-3 years, going forward, as advice would be required in relation to investment into the sub-funds and, also, some of the North Yorkshire Pension Fund's (NYPF) investments continued to be outside the pooling arrangements. It was likely that the role of those advisers would alter going forward and it would be for the Committee to determine the shape of that role. It was noted that currently, and for the foreseeable future, the Investment Advisers would be required to give their views on market conditions and the NYPF's Investment Strategy.

- It was unclear, at this stage, how the BCPP would be undertaking monitoring of investments and whether they would appoint their own Investment Consultants/Advisers. It was noted that the matter had been raised by representatives of the NYPF, however, the matter was yet to be given full consideration by BCPP.

- In relation to this it was asked what arrangements were in place to scrutinise BCPP itself, similar to the Pension Board arrangements for the Pension Fund Committee. In response it was stated that it was expected that appropriate arrangements would be put in place, although, currently BCPP needed to develop further before these arrangements were established. Members raised concerns regarding the blurring of the separation between shareholders and clients and it was emphasised that they would wish to see a full separation of those roles, in the governance arrangements, going forward.

- A Member asked, in relation to the Consultant's fees, whether there was other hidden expenditure yet to be revealed, as the figures presented were a fairly large overspend in terms of the proportion of fees paid. In response it was stated that the Consultant fees would be budgeted for appropriately going forward, and would take account of the due diligence being undertaken on behalf of the NYPF in relation to the sub-funds within BCPP being considered. It was noted that, rightly, the NYPF had undertaken very thorough due diligence, led by the Investment Consultants, in terms of the Fund Managers within the pool, which had resulted in a large increase in the fees generated.

Resolved -

That the report be noted.

Minute No. 149 - 2019 Triennial Valuation - Update - included confidential details, as outlined at Minute No. 144, and, as such, the Minutes reflect the confidential nature of some of that information.

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149. 2019 Triennial Valuation - Update

Considered -

The report of the Treasurer updating Members on the progress made to date on the 2019 triennial valuation.

Members were reminded that the initial Fund level results of the 2019 triennial valuation were reported to the previous meeting of the Pension Fund Committee. The Funding Strategy Statement (FSS) was also brought to that meeting for approval and the key changes for the approach were detailed as a reminder. Following approval of the FSS and the assumptions of the 2019 triennial valuation an employer event was held to discuss the Fund level results and what impact these might have on different categories of employers.

Following on from the event the actuary had started to provide the Fund with employer results in tranches and, once received, the results had been issued to individual employers. There was now a six week consultation period in which employers could raise any queries or issues on their results and negotiations could take place where necessary. The results of the main Councils and the other main scheduled bodies, together with the colleges and universities, were provided, with details attached as Appendices to the report.

The main scheduled bodies had seen an improvement in their funding position and most of them were now in a surplus position, with this surplus being refunded back over a 21 year period. The college and universities had seen an improvement in their funding position but had small increases in contribution rates due to changes in assumptions as a result of their move from the scheduled body basis to the intermediate funding basis.

The remaining results were to be provided by the actuary in further tranches prior to the end of the calendar year at which point remaining employers would be put into their six week consultation period.

The FSS consultation was due to conclude on 31 December 2019 and all contribution rates would be finalised with the actuary at the end of the consultation period. The rates and adjustment certificates would then be produced by the actuary to be signed by the Fund and issued on the NYPF website in advance of the 31 March 2020 deadline.

Following the initial report Members undertook a discussion and the following issues and points were raised:-

- It was noted that the employer event had been successful with over 30 different employers in attendance and the majority pleased with the details provided. There had been a number of queries following the event in respect of the slight increases in contributions for some bodies, however, generally these had been accepted. It was acknowledged that it was difficult to explain to some bodies why costs had increased when funding was at a higher level, however, the position had been explained and was accepted by the majority.

- It was clarified that as the Fund was over 110% funded the main employers would be provided with an enhanced settlement in comparison to previous years, however, this would not be provided in one go and would be implemented over 21 years, allowing the NYPF to alter those payments, should this be required, if the funding position was to alter substantially.

- It was noted that further updates would be provided to the Committee, at the next meeting.

Resolved -

(i) That the progress made on the 2019 triennial valuation be noted.

(ii) That the initial results for employers, as detailed in Appendices to the report, be noted.

150. Investment Consultant Strategic Objectives

Considered -

The report of the Treasurer requesting Members to set strategic objectives for the Fund’s investment consultants, AON.

The representative of the Treasurer explained that from 10 December 2019 the Competition and Markets Authority (CMA) introduced a new order aiming to address several issues found by the CMA as part of its investment consultancy and fiduciary management market investigation which required new duties for Members and officers of pension Funds.

Part of the new requirements applied to all defined benefit and defined contribution pension schemes based in the UK and were to set strategic objectives for their investment consultants. It was expected that MHCLG would be introducing regulations, in line with those introduced by the Department for Works and Pensions (DWP), the adoption of which would be monitored by the Pensions Regulator (tPR). The new requirements were expected to be:-

- Set strategic objectives for investment consultants.

- View the performance of the investment consultants against three objectives at least every 12 months.

- Review the objectives set at least every three years and immediately following any significant change in investment policy.

Guidance on setting objectives for providers of investment consultancy services had been produced by tPR and were attached as an Appendix to the report.

It was noted that it was also good practice, in terms of governance, to set objectives for investment consultants to enable the Fund to be in a better position to assess the quality of service received.

A list of strategic objectives for the Fund's investment consultants had been drafted, in consultation with AON, the current investment consultants for the Fund, and were as follows:-

(i) Support the Fund in the development and implementation of a suitably diversified investment strategy.

(ii) Support the Fund in influencing the development of suitable sub-funds within the Border to Coast Pensions Partnership pool.

(iii) Provide clear, concise timely and understandable investment advice to the Pension Fund Committee and officers of the Fund.

(iv) Support the Fund in ensuring that its investment arrangements are in accordance with relevant regulations.

(v) Provide advice and assistance to the Pension Fund Committee, or officers of the Fund, on any other relevant issues that could impact on the Fund's ability to achieve its long term investment objectives.

The Fund was required to set the objectives for the investment consultants by 10 December 2019 and these would then be monitored annually by officers.

A detailed list of the operational objectives under each of the strategic objectives listed above were attached as an Appendix to the report.

Following the completion of various consultations on the new guidance changes to the requirements may be issued at a later date and Members were asked to delegate authority to the Treasurer of the Pension Fund, in conjunction with the Chair of the Committee, to amend the objectives if required.

The objectives would be brought back to the Committee at least every three years for review.

Following the initial presentation of the report a number of issues and points were raised as follows:-

- It was clarified by the investment consultants that these were the right objectives for the Pension Fund Committee and the NYPF.

- A Member noted that the Pension Fund Committee had a good relationship with its advisers and asked how the objectives would enhance that position. In response it was stated that while the relationship between Committee and advisers was good, then the objectives did little to enhance that relationship, however, these added a level of security for situations when differences arose between the Committee and its advisers.

- A Member noted that the new regulations were being applied to investment consultants and asked whether the regulations were to be extended to independent investment advisers. In response it was stated that there was nothing in place as yet, but there was an expectation that these regulations would be extended to cover all investment advice provided to Pension Funds, going forward. The independent investment adviser to the Pension Fund Committee agreed that this was likely to be the case, but raised concerns that such regulations could eliminate truly independent advice, as advisers would likely be put in a position of having to adopt a corporate approach and becoming part of organisations that provided such advice. He emphasised that, in the meantime, he would continue to provide independent advice to the Fund and would take account of regulations as they developed. Members stated that they preferred to have genuine independent advice alongside the advice of the investment consultants. It was noted that the independent investment adviser had a contract with the Pension Fund Committee which set out terms, conditions and objectives.

Resolved -

(i) That the draft strategic objectives for the Fund's investment consultants, AON, as detailed in section 3.2 of the report, be approved.

(ii) That authority be delegated to the Treasurer of the Fund, in conjunction with the Chairman of the Pension Fund Committee, to amend the objectives following the issuing of any further guidance.

151. Pensions Administration Report

Considered -

The report of the Treasurer providing Members with information relating to the administration of the Fund over the years to date and providing an update on key issues and initiatives which impacted the administration team.

The report provided details on the following issues:-

- Admission agreements and new academies.
- Administration - membership statistics, throughput statistics, performance statistics, commendations and complaints.
- Annual Benefit Statements (ABS) 2019.
- Issues and initiatives
  - GMP reconciliation
  - Breaches Policy and Log
  - Efficiency initiatives
  - Administration system review.
- Member training.
- Meetings timetable.

The following issues were highlighted in relation to the report:-

- An issue relating to the transfer of staff from York College to the Grimsby Institute, requiring a transfer of money to the East Riding Pension Fund as a result, had been under negotiation since January 2010. A conclusion had been reached in relation to this and a sum of £2.73m would be transferred. This would be reflected in forthcoming accounts.

- Annual Benefit Statements (ABS) 2019.

At 31 August 2019, 1342 statements were still outstanding. Subsequently this had been reduced to 329 and the reasons for the non-issuing of those statements was set out in the report. This was the final position for the 2019 ABS and details had been entered into the Breaches Log.

The issue of the breach had been discussed with the Pension Board and detailed discussions of why this had occurred were undertaken. Given the much improved position in comparison to previous years, in relation to issuing the statements, and the work being undertaken to address the position with employers, a decision had been taken not to report the breach to tPR at that time. The Chairman of the Pension Board stated that, at the time of the meeting, Members had been ambivalent in terms of reporting the breach and the issue was subject to further discussion with officers to determine the action being taken to address the statements that had not been issued. It had subsequently been agreed that appropriate action was being undertaken, which was why the breach had not been reported.

It was noted that, due to 100% of ABS not being published by 31 August the position was technically a breach of the Regulations and therefore had been included in COP14. It was emphasised that officers had done all that was possible to issue statements and that there had been a significant reduction in outstanding, unissued statements in comparison to previous years. Therefore there was some comfort in not reporting the breach to tPR.

- GMP Reconciliation

  The contractor, ITM, had now undertaken a dry run of the rectification calculation for pensioner and dependant members which had resulted in around 500 needing re-calculations. Details of the dry run were provided in Appendices to the report and a summary was provided in the report.

  It was noted that all differences would be corrected, with payments and interest provided in relation to underpayments and, although overpayment monies would not be recovered, a correction would be made to the position to ensure that the payments were correct, going forward.

  It was noted that a decision had been taken to only write and inform those of the corrections taking place where the change was £5 or above, to ensure that this was cost effective.

- Breaches Log

  The Breaches Log had been updated and was provided in an Appendix to the report, and now included details of the 2019 ABS.

- Administration System Review

  A full two years' extension of the Altair system would be undertaken when the contract expires on 31 December 2019 allowing a full review and procurement process to be undertaken. A new specification document was now being prepared and details of what was required from the system were outlined in the report. A number of site visits were being undertaken to observe the potential systems in action.

  Approval had been obtained from the Project Board to proceed to procure the following:-

- Employer online portal.
- Member online portal.
- Administration system.
- Integrated payroll.

This would enable the service to move to monthly online returns, removing the need for the larger year end process and also remove the need to input data manually onto separate payroll systems and the overhead of maintaining and managing two separate sets of data.

Following the presentation of the report a number of issues and points were raised as follows:-

♦ The upturn in the number of outstanding cases was noted by a Member and it was explained that as the year end came about the number of cases increased, and these were being dealt with effectively. The issuing of ABS also led to more enquiries, which had seen an increase in cases being investigated.

♦ The Chairman encouraged Members to attend at least one conference per year, noting that details of upcoming courses and conferences were contained within the report.

♦ It was noted that, in terms of the meetings timetable, ordinary meetings of the Pension Fund Committee had now moved to Fridays with workshop events being held on the Thursday immediately prior to the main meeting.

♦ It was noted that the July meeting did not correspond with Thursday and Friday dates and it was agreed that this matter be checked out and clarified with Members.

♦ It was noted that the report stated that there would be meetings with BCPP sub-fund Managers at workshop events, however, this was an error and should read meetings with representatives of BCPP and remaining Fund Managers.

Resolved -

(i) That the contents of the report be noted.

(ii) That the contents of the Breaches Log be noted.

152. Performance of the Fund

The Fund's investment consultants, AON, had provided a report which gave an in-depth analysis of the investment performance of the Fund.

This performance was discussed with Members and the following issues and points were highlighted:-

♦ The total asset value of the Fund had risen by £8.3m during the quarter (period to 30 September 2019), a 2.2% increase, which had seen funding levels rise to 119%. The main drivers behind the performance were outlined.

♦ Details of the performance of individual Fund Managers were provided and a commentary was given in relation to their specific performance.

- Details were provided in relation to the performance of the portfolio including gilt yields and global equities. Issues relating to how equity protection had gained value were discussed.

- Consideration was given to investments in direct lending and the performance of the Fund Managers in relation to that.

- Work was still taking place in respect of the move towards the new investment portfolio, together with the transition of funds to BCPP and details were set out in the report provided by AON.

- Key movements within the structures and organisation of key Fund Managers were provided.

- Issues around the performance of Dodge and Cox were discussed, particularly in respect of their recent investments. AON explained that the investment was held temporarily and brought balance to the portfolio in terms of it having a different style in comparison to other investments.

- It was noted that forthcoming transfers into BCPP sub-funds would see a decrease in some of the investments with current Fund Managers.

- The independent investment adviser highlighted the need to closely monitor the impact of Typhoon Hagibis on the insurance linked securities, as this may have a much more substantial effect than has currently been seen.

- It was expected that future reports would include more information in relation to the BCPP investments, as they were currently at their initial stages, with little detail to report at this stage. Members asked that details of the performance of the individual Managers within the sub-funds be included in those reports.

Resolved -

That the investment performance of the Fund for the period ending 30 September 2019 be noted.

153. Investment Strategy Review

Considered -

The report of the Treasurer requesting Members to:-

(i) Consider an allocation to BCPP's Multi-Asset Credit Fund (MAC).

(ii) Consider a short term allocation to PIMCO's pooled Multi-Asset Credit Fund (MAC).

(iii) Take account of the BCPP responsible investment policies.

(iv) Consider an update on the UK equity transition.

Allocation to Multi-Asset Credits (MAC)

The BCPP Multi-Asset Credit (MAC) sub-fund is due to launch in the second half of 2020 and is intended to meet partner funds' requirements for higher return, harder to access credit investments that offered diversification from equities. This would be a mainly externally managed sub-fund using a core and satellite approach, with one core manager, investing across multiple asset classes, generating performance through asset class allocation and a number of satellite managers, specialising in different asset classes expected to deliver performance through stock selection. Details of the structure for the Fund were provided.

PIMCO have been appointed as the core manager and will support BCPP in the appointment of satellite managers and finalisation of the product design.

In order to inform the RFP for the satellite managers, BCPP had asked for Committees to confirm commitments to this Fund by the end of December 2019. The issue had been discussed with representatives of BCPP at a Pension Fund workshop meeting held on 20 November 2019.

The Fund has a strategic allocation of 7.5% in liquid credit and, at the September meeting of the Committee, it was recommended that this allocation be invested across the BCPP MAC and investment grade credit sub-funds subject to further due diligence on those.

Detailed design work was still ongoing, therefore, further work was still outstanding in areas such as asset allocation, internal/external management, liquidity management and cost sharing. An initial high level review had been carried out by the Fund's investment consultants and the queries raised through that had been discussed at the Pension Fund workshop.

It was recommended, at this stage, that the Committee consider an allocation of up to 5% in the BCPP MAC fund, subject to further due diligence.

PIMCO MAC Fund Investment

A number of partner funds had expressed an interest in being able to invest in a MAC investment in advance of the BCPP MAC fund. An option available for partner funds was the ability to invest in PIMCO's diversified income fund (DIF), an existing pooled MAC fund, in the short term, until BCPP's MAC fund was available.

The PIMCO's DIF was already 'buy' rated by AON and due diligence had been carried out on the DIF specifically for the NYPF.

In terms of suitability, AON considered the PIMCO DIF to be a suitable investment that was appropriate for the NYPF. The Fund currently included an allocation of around 24% to investment grade credit in addition to sub-investment grade investments making it align well to the overall risk and return objectives for the Fund's 7.5% allocation to liquid credit. The PIMCO DIF was liquid and dealt on a daily basis. It did not impose any lock-up or extended notification periods, however, it could provide a limit to redemptions on any dealing date up to the value of 10% of the total fund assets.

Representatives of PIMCO had attended the pension Fund workshop on 21 November 2019 and provided further information.

The report set out the benefits that could be obtained by investing with PIMCO in the short term, as well as the risks. It was emphasised that AON did not believe that an investment with the DIF would expose the NYPF to any exceptional risks.

Issues around the limited capacity available for investment in the DIF were set out and, subject to partner Fund interest, it could be that the full desired allocation could not be achieved. Further discussions would be held with PIMCO on their availability should the Committee wish to invest.

AON's due diligence was highlighted at the pension Fund workshop held on 21 November 2019 and it was recommended that the Committee consider an investment of 5% in the diversified income fund in the short term, until the BCPP MAC fund was launched.

Details of options available for the funding the 5% were provided as follows:-

1. Partial sale of the excess M & G gilt allocation.

2. Use of the current NYCC Treasury Management cash holdings.

3. Full disinvest from the Newton Real Return Holding.

4. Disinvest from equity holdings.

It was noted that the preferred option would be Option 1.

Should an investment in PIMCO's DIF be approved Members were asked to determine where the investment should come from.

<u>BCPP Responsible Investment Policy</u>

The BCPP responsible investment policy and corporate governance and voting guidelines were developed in 2017, in conjunction with partner Funds, and were both reviewed annually. The latest versions were attached as Appendices to the report. The documents had been taken to BCPP Joint Committee for review on 20 November 2019 and, as part of the process, Pension Fund Committees were also asked to review these documents and consider the adoption of the principles within the Fund's own responsible investment policies.

<u>UK Equity Transition</u>

The final residual balance of £8m had been transferred out of Standard Life during the quarter and their account was now closed. The total transitions cost had been calculated as £1.7m. A reconciliation had been carried out and the remaining variance between the assets that left Standard Life and those transitioned into BCPP UK Equity Alpha Fund over the full transition period was, due to market movement, around - £6.9m.

Following the initial report Members undertook a discussion and the following issues and points were raised:-

- It was noted that the allocation to multi-asset credit, both the BCPP MAC fund and an investment into PIMCO's MAC fund, had been the subject of extensive discussion at the previous day's workshop. The Chairman highlighted the issues raised at the workshop, which would be set out in the resolution in the Minutes relating to this matter. He noted this highlighted the concerns of the Pension Fund Committee in relation to the investment with BCPP and ensured that these were emphasised.

- The Chairman of the Pension Board noted issues that he had raised in relation to the resolution, which he considered should be added to ensure there was no ambiguity. It was agreed that the issues raised should be included within the final resolution to mitigate against those concerns.

- It was noted that Option 1, a partial sale of the excess M & G gilt allocation to bring it more in line with the new reduced total allocation of 10%, had been identified as the most appropriate method of funding the short term investment in the PIMCO MAC fund.

- In relation to the responsible investment policy of BCPP Members emphasised that it was appropriate that each of the partner Funds should have the same policy and it was noted that the NYPF's policy would be based on that provided by BCPP, going forward.

- In respect of the transition to the BCPP UK Equity Alpha fund it was asked whether, overall, this had cost £6.9m. In response it was stated that the actual cost was £1.7m for the transition, the remainder of the sum up to £6.9m had been created by market variations and it was emphasised that these would have occurred whether the transition had taken place or not. In total a sum of £167m had been moved from the NYPF to the BCPP UK Equity Alpha Fund.

  The investment consultants noted that there had been some difficulties for the NYPF in the transition into this sub-fund as this had been undertaken later than the other Funds involved in the pool, and there was some advantage to transitions being undertaken in a co-ordinated manner, rather than acting alone. It was expected that the Global Equity transition would be much more effective.

Resolved -

(i) That an investment of up to 5% in BCPP's MAC fund be undertaken, subject to further due diligence.

(ii) That the following statement be conveyed to BCPP in relation to the commitment to invest in BCPP's MAC sub-fund:-

"Having reviewed the MAC sub-fund the PFC has considered that, on balance it is willing to commit, in principle, up to 5% of fund assets. The PFC has concerns around the EMD $ internally managed sleeve as the Fund has a preference for external fund management. However the Fund is willing, in principle to invest up to 5% of assets in the BCPP MAC fund, subject to further due diligence including the following:

- Further detail on the asset allocation process to ensure:-

  1. that the balance between the different sleeves is determined based on an appropriate level of risk and with full consideration of the drivers of, and correlations within, those risks; and

  2. that there is sufficient flexibility to allow timely decisions to be taken on asset allocation outside of the routine reviews, in extreme circumstances.

- An outline of the internal team structure; its processes; risk controls; and succession planning.

- Assessment of the level of resource in place to manage the internally managed sleeve, including assurance that the CIO is personally satisfied that this resource level is adequate to allow the mandate to be managed successfully.

- Commitment to ongoing monitoring and reporting of the internal management of the EMD mandate over the medium term and, in the event that this is not effective then a move to external management rather than continuing with a business strategy of internal management.

We also believe that it is important the proposed asset allocation approach, and scoring structure to choose the specialist managers, are discussed with Funds, their advisers and investment consultants before these are finalised."

(iii) That a short-term investment in the PIMCO DIF be approved.

(iv) That the partial sale of the excess M & G gilt allocation be undertaken to fund the short-term investment in the PIMCO DIF.

(v) That the updated BCPP responsible investment policies be noted and the principles adopted in the NYPF's policies.

(vi) That the update on the UK equity transition be noted.

154. Pension Board - Draft Minutes of the meeting held on 3 October 2019

The Chairman of the Pension Board presented the Minutes of the meeting held on 3 October 2019, highlighting the following:-

- ♦ A number of Members of the Fund, and the Independent Chairman, who had been appointed at the inception of the Fund in 2015 had come to the end of their terms of office and, subsequently, had either agreed to continue their role or step down from the Board. As a result the Chairman, Gordon Gresty and Louise Branford-White had sought re-election to the Board, for a further four years and County Councillor Mike Jordan had stepped down. At the meeting of the County Council in November the three Members indicated had been re-appointed and County Councillor Bob Baker had been appointed as the North Yorkshire County Council employer representative, in place of County Councillor Jordan.

- ♦ Also in relation to this matter it was noted that an application had been received for the current employer representative vacancy from the Vice-Principal at York College. The applicant had been invited to an interview prior to the meeting of the Pension Board in January 2020 with a view to an appointment being made.

- ♦ The issue in relation to the publication of Annual Benefit Statements 2019 had been discussed earlier in this meeting.

- ♦ The issue of the reporting of Internal Audit reports had been discussed at the meeting, in relation to a statement that had been made by the Fund's Independent Observer relating to Internal Audit reports not being taken to the Pension Fund Committee. The Chairman asked whether Members would like to have sight of the Internal Audit reports at the Committee or whether they were satisfied with the current arrangements, whereby issues would be raised by the Pension Board or the Treasurer to the Fund. In response Members suggested that they were satisfied with the current arrangements and considered it appropriate that, should matters of concern arise, these would be referred to the Pension Fund Committee by the Treasurer to the Fund or the Board.

Resolved -

That the Minutes of the meeting of 3 October 2019, together with the highlights provided by the Chairman of the Pension Board, be noted.

The meeting concluded at 11.40 am. SL/JR

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

21 FEBRUARY 2020

2019 TRIENNIAL VALUATION

Report of the Treasurer

1. PURPOSE OF REPORT

1.1. To update Members on the progress made to date on the 2019 Triennial Valuation.

2. BACKGROUND AND RECENT EVENTS

2.1. At the 13 September 2019 Pension Fund Committee meeting the Fund's Actuary, Aon, presented the initial Fund level results of the 2019 Triennial Valuation. An initial draft Funding Strategy Statement (FSS) was also brought to the September PFC meeting for approval. To remind Members, the key changes to the approach outlined in the FSS are listed below:

- The introduction of an intermediate funding target for some employers
- A reduction in the maximum deficit recovery period allowed by 3 years to 21 years
- An increase in the payback period to employers of surpluses over 110% in line with the maximum deficit recovery period of 21 years
- The introduction of the phasing in of reductions in contribution rates over a number of years in line with the current phasing of rate increases
- Increase in the probability of funding success to 80% to increase the level of prudence in the Fund
- Inclusion of pooling in the risk section
- The inclusion of current issues, for example, McCloud, cost cap and GMP which have been reflected in the contribution rates

2.2. Following approval of the FSS and assumptions of the 2019 Triennial Valuation, the Fund held an Employer Event to discuss the Fund level results and the impact this might have on the different categories of employers (scheduled, intermediate and orphan).

2.3. Updates on the progress made to date and some initial results were also provided to the Committee in the November 2019 PFC meeting.

3. EMPLOYER RESULTS AND CONSULTATION PROCESS

3.1. All employers have now received their results and have been placed into a six-week consultation period in which they have had the opportunity to raise any queries or issues on their results and negotiations have taken place where necessary. Any flexibility allowed to employers on their contribution rates is to ensure affordability and is assessed on a case by case basis. At the time of writing the report the consultation period has closed for 151 employers and 4 employers are still in their consultation period. The Fund has been in negotiations with 4 employers on their contribution rates.

3.2. The draft results for all employers have been included in **Appendix 1** for Members to note.

3.3. Broadly, whilst costs of future benefit payments are increasing, employers have seen an improvement in their funding position at this Valuation as a result of the asset returns seen over the last 3-year period. Most of the main scheduled bodies are now in a surplus position with this surplus being refunded back over a period of 21 years, in most cases this refund of surplus has resulted in an overall contribution rate reduction. Most colleges and universities are also now in a surplus position, but have still had small increases in their total contribution rates due to the change in assumptions as a result of their move from scheduled body to intermediate body status. The academies have also seen small increases in their total contribution rates. Admitted bodies have seen a larger increase in their primary contribution rates as these are based on gilt yields which have reduced since the last valuation, however these increases have been partially offset by improvements in funding levels. In total, there are 85 employers that are now in a surplus position.

4. FUNDING STRATEGY STATEMENT

4.1. The Funding Strategy Statement went out to all employers for consultation following its approval at the September PFC Meeting. The consultation period ended on 31 December 2019. The Fund received feedback from three employers during the consultation period. The latest version of the statement is attached as **Appendix 2** that reflects these minor changes for Members to approve, tracked changes have been included.

5. NEXT STEPS

5.1. It is expected that all employer consultations will end by 28 February 2020. Once all employers are out of their consultation period, the results will be finalised with the Actuary and a Rates and Adjustment Certificate will be issued which sets out the contributions required from each employer for the next 3 years.

5.2. This Rates and Adjustment Certificate is required to be signed by the Administering Authority by 31 March 2020. As there are no further Committee meetings before 31 March 2020, Members are asked to delegate authority to the Treasurer of the Pension Fund to sign the final Rates and Adjustment Certificate.

6. RECOMMENDATIONS

Members are to:

6.1. Note the progress made on the 2019 Triennial Valuation.

6.2. Note the latest results for all employers, attached as **Appendix 1**.

6.3. Approve the latest version of the Funding Strategy Statement, attached as **Appendix 2**.

6.4. Delegate authority to the Treasurer of the Fund to sign the final Rates and Adjustment Certificate by the 31 March 2020 deadline.

GARY FIELDING
Treasurer to North Yorkshire Pension Fund
NYCC
County Hall
11 February 2020

NORTH YORKSHIRE PENSION FUND (NYPF)
2019 Funding Strategy Statement (FSS)

This Statement has been prepared by North Yorkshire County Council (the Administering Authority) to set out the funding strategy for the North Yorkshire Pension Fund (the NYPF), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and the 2016 guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) ("the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a FSS. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund, the Administering Authority will prepare and publish their funding strategy.
- In preparing the FSS, the Administering Authority must have regard to:-
    - the guidance issued by CIPFA for this purpose; and
    - the Investment Strategy Statement (ISS) for the NYPF published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the ISS.

Benefits payable under the NYPF are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit arrangement with principally final salary related benefits for contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution rate.

The benefits provided by the NYPF are specified in the governing legislation (the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014) and the Regulations referred to above. The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the NYPF should be set so as to "secure its solvency” and to "ensure long-term cost efficiency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. PURPOSE OF THE FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the desirability of maintaining as nearly constant a primary contribution rate as possible;
- to ensure the regulatory requirements to set contributions so as to ensure the solvency and long-term cost-efficiency of the fund are met; and
- to take a prudent longer-term view of funding those liabilities.

The intention is for this strategy to be both cohesive and comprehensive for the NYPF as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3. AIMS AND PURPOSE OF THE NYPF

The aims of the Fund are to:

- enable primary contribution rates to be kept as nearly constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, whilst achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the fund and employers, and the risk appetite of the Administering Authority and employers alike
- manage employers’ liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- seek returns on investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income,
- and pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

4. RESPONSIBILITIES OF THE KEY PARTIES

The Administering Authority should:

- operate a pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in LGPS Regulations
- pay from the pension fund the relevant entitlements as stipulated in LGPS Regulations
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the NYPF’s actuary
- prepare and maintain an FSS and an ISS, both after proper consultation with interested parties, monitor all aspects of the NYPF’s performance and funding and amend the FSS/ISS accordingly
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and scheme employer
- enable the local pension board to review the valuation process as set out in their terms of reference.

The Individual Employer should:

- deduct contributions from employees’ pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding
- pay any exit payments on ceasing participation in the NYPF

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency and long-term cost efficiency after agreeing assumptions with the Administering Authority and having regard to the FSS and the LGPS Regulations
- prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs etc,
- provide advice and valuations on the exiting of employers from the NYPF
- provide advice to the Administering Authority on bonds or other forms of security against the financial effect on the fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations
- ensure that the Administering Authority is aware of any professional guidance or other professional requirements that may be of relevance to his or her role in advising the NYPF
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the ISS.

5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

Funding Objective

To meet the requirements of the Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "**funding target**") assessed on an ongoing past service basis including allowance for projected final pay in relation to pre-2014 benefits or where the underpin applies. In the long term, the employer rate would ultimately revert to the Primary Contribution Rate (also known as the Future Service Rate).

Determination of the Funding Target and Recovery Period

The principal method and assumptions to be used in the calculation of the funding target as at 31 March 2019 are set out in Appendix 1.

Underlying these assumptions are the following two principles:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to avoid material, and potentially unaffordable, increases in employer contribution requirements we will consider whether we can build into the funding plan the following:-

- stepping in of contribution rate changes for employers where the orphan funding target is adopted or where the intermediate funding target is being introduced (as defined later in this statement). For the 2019 valuation, the Administering Authority's default approach is to step any contribution increases over a period of 3 years, although in certain circumstances a longer period may be considered, after consultation with the Actuary.
- a longer deficit recovery period than the average future working lifetime, particularly where there are a number of younger active members.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Scheme, other than where grouping of employers has been agreed in line with the policy set out in the Fund's Admissions and Terminations Funding Policy.

In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole (except where an employer adopts a bespoke investment strategy – see below).

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation:

- A default recovery period of 15 years will apply for employers that are assessed to have a deficit.

- In addition, at the discretion of the Administering authority, a maximum deficit recovery period of 21 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).

- As a general rule, the Fund does not believe it appropriate for contribution reductions to apply compared to the 2016 funding plan for those employers where substantial deficits remain.

- For any open employers assessed to be in surplus, their individual contribution requirements will be adjusted at the 2019 valuation as follows:

  - Where the funding level is 100-110% employers will pay the future service rate only.
  - Where the funding level is over 110% the default approach for Scheduled Bodies and Admission Bodies with no subsumption commitment from a Scheduled Body in the Fund (as defined in Appendix 1) will be to remove any surplus in excess of 10% over a maximum period of 21 years.

- Where the funding level is over 110% the default approach for Admission Bodies with a subsumption commitment from a Scheduled Body in the Fund will be to remove any surplus in excess of 10% over the recovery period adopted by that Scheduled Body at the 2019 valuation.
- If surpluses are sufficiently large, contribution requirements will be set to a minimum nil total amount.
- The current level of contributions will be stepped down as appropriate, consistent with the approach of stepping contribution increases where appropriate.

For the avoidance of doubt, for practical purposes where employers are in surplus and contributions are to be set below the cost of future accrual this will be implemented via a reduction in the percentage of pensionable pay rate rather than via a negative monetary amount.

For any closed employers assessed to be in surplus, the above approach will generally be followed but the Administering Authority will consider the specific circumstances of the employer in setting an appropriate period to remove the surplus.

The employer contributions will be expressed and certified as two separate elements:

- a percentage of pensionable payroll in respect of the future accrual of benefit (less allowance for surplus as appropriate)
- a schedule of lump sum amounts over 2020/23 in respect of the past service deficit subject to the review from April 2023 based on the results of the 2022 actuarial valuation.

On the cessation of an employer's participation in the Fund, the actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.

However, the Administering Authority has ultimate discretion where the particular circumstances of any given Employer warrant a variation from these objectives. A period of consultation will take place once employers have been issued with their draft contribution rates.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

Deficit Recovery Plan

If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as annual monetary lump sums, subject to review based on the results of each actuarial valuation.

In determining the actual recovery period, and other aspects of the funding strategy, to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer; and the security of future income streams
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- length of expected period of participation in the Fund.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, it is possible that some smaller employers may be faced with contributions that could seriously affect their ability to function in the future. The Administering Authority therefore, after specific agreement has been obtained by Fund Officers from the North Yorkshire Pension Fund Committee, would be willing to use its discretion to negotiate an **evidence based** affordable level of contributions for the organisation for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Administering Authority and will only be considered after the provision of the appropriate evidence and on the basis that it is not inconsistent with the requirements to set employer contributions so as to ensure the solvency and long-term cost efficiency of the NYPF.

The Primary Contribution Rate (Future Service Contribution Rate)
In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "primary rate"). The method and assumptions for assessing these contributions are set out in Appendix 1.

6. LINK TO INVESTMENT POLICY SET OUT IN THE INVESTMENT STRATEGY STATEMENT

In assessing the value of the NYPF's liabilities in the valuation, allowance is made for a long-term investment return assumption as set out below, taking into account the investment strategy adopted by the NYPF, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches expected future benefit payments and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts. Investment of the NYPF's assets in line with the least risk portfolio would minimise fluctuations in the NYPF's ongoing funding level between successive actuarial valuations.

Departure from a least risk investment strategy, in particular to include equity type investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, as set out in the ISS, is:

Asset Class (Summary)		**%**
	Equities	40 -65
	Bonds	15-30
	Alternatives	20-30
	TOTAL	**100**

The funding strategy adopted for the 2019 valuation is based on an assumed long-term investment return assumption of 4.2% per annum. This is below the Administering Authority's view of the best estimate long-term return assumption of 6.2% as at the valuation date.

Bespoke Investment Strategy

The Investment Strategy adopted by NYPF is determined for the Fund as a whole. This Strategy takes into account the characteristics of NYPF as a whole, and therefore those of the constituent employers as an aggregated entity - it does not seek to distinguish between the individual liability profiles of different employers. The Strategy adopted to date, as reflected in the current ISS, is to invest a significant proportion of the assets in equities. Such investments offer a higher expected return, but also carry a higher level of risk.

NYPF is prepared to offer any employer the opportunity to adopt a Bespoke Investment Strategy (eg 100% bonds). However, to the extent that any Bespoke Investment Strategy will necessitate different investment return assumptions to those used by the Actuary for NYPF overall, there may be a consequential impact on the contribution rate calculated for that employer.

In addition, if an employer opts for a Bespoke Investment Strategy, NYPF reserves the right to determine the most appropriate way of arranging for the investment of the relevant share of the assets according to that Bespoke Strategy.

7. IDENTIFICATION OF RISKS AND COUNTER MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the NYPF is based on both financial and demographic assumptions. These assumptions are specified in the Appendices and the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the NYPF's funding is the investment risk inherent in the predominantly equity (or return seeking) based strategy, so that actual asset performance between successive valuations could diverge significantly from the overall performance assumed in the long term.

The Administering Authority keeps, and regularly reviews, a risk register to identify and monitor the risks to the Fund and will, wherever possible, take appropriate action to limit the impact of these both before and after they emerge.

What are the Risks?

Whilst the activity of managing the Fund exposes the Administering Authority to a wide range of risks, those most likely to impact on the funding strategy are investment risk, liability risk, liquidity/maturity risk, regulatory/compliance risk, employer risk and governance risk.

Investment risk

The risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

– assets not delivering the required return (for whatever reason, including manager underperformance)
– systemic risk with the possibility of interlinked and simultaneous financial market volatility
– insufficient funds to meet liabilities as they fall due
– inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
– counterparty failure

The specific risks associated with assets and asset classes are:

– equities – industry, country, size and stock risks
– fixed income - yield curve, credit risks, duration risks and market risks
– alternative assets – liquidity risks, property risk, alpha risk
– money market – credit risk and liquidity risk
– currency risk
– macroeconomic risks

The Fund mitigates these risks through diversification, permitting investment in a wide variety of markets and assets, and through the use of specialist managers with differing mandates.

The majority of the Fund's investments are in pooled investment vehicles and the Fund is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Committee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the operating environment of the pooled manager.

In addition, the Fund holds assets in the LGPS pooling arrangement with Border to Coast Pension Partnership (‘BCPP’) and will transition further assets to BCPP in the future. Through this arrangement the Fund is exposed to the risk of failing to transition effectively to new pooling arrangements resulting in poorer value for money; lower investment returns; and inability to effectively execute investment strategy.”

Employer risk

Those risks that arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities.

The Administering Authority maintains a knowledge base on its employers, their basis of participation and their legal status (e.g. charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the FSS.

The Administering Authority monitors the active membership of closed employers and considers what action to take when the number of active members falls below 10, such as commissioning a valuation under Regulation 64(4).

The Administering Authority have also commissioned the Fund Actuary to carry out a high level risk analysis of employers in the Fund to assist the Administering Authority in setting the funding strategy for employers at the 2019 valuation of the Fund.

Liquidity/Maturity risk

This is the risk of a reduction in cash flows into the Fund, or an increase in cash flows out of the Fund, or both, which can be linked to changes in the membership and, in particular, a shift in the balance from contributing members to members drawing their pensions. Changes within the public sector and to the LGPS itself may affect the maturity profile of the LGPS and have potential cash flow implications. For example,

– The implications of budget cuts and headcount reductions could reduce the active (contributing) membership and increase the number of pensioners through early retirements;
– An increased emphasis on outsourcing and other alternative models for service delivery may result in falling active membership (e.g. where new admissions are closed),
– Public sector reorganisations may lead to a transfer of responsibility between different public sector bodies, (e.g. to bodies which do not participate in the LGPS),
– Scheme changes and higher member contributions in particular may lead to increased opt-outs;

The Administering Authority seeks to maintain regular contact with employers to mitigate against the risk of unexpected or unforeseen changes in maturity leading to cashflow or liquidity issues.

Liability risk

The main risks include inflation, life expectancy and other demographic changes, and interest rate and pay inflation, which will all impact upon future liabilities.

The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation and reports on developments. The Administering Authority will agree with the Fund Actuary any changes which are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

The Fund Actuary will also provide quarterly funding updates to assist the Administering Authority in its monitoring of the financial liability risks. The Administering Authority will, as far as practical, monitor changes in the age profile of the Fund membership early retirements, redundancies and ill health early retirements and, if any changes are considered to be material, ask the Fund Actuary to report on their effect on the funding position.

If significant liability changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and consider whether to require the review the bonds that are in place for Admission Bodies.

Regulatory and compliance risk

Regulatory risks to the scheme arise from changes to general and LGPS specific regulations, taxation, national changes to pension requirements, or employment law.

The Administering Authority keeps abreast of all the changes to the LGPS and will normally respond to consultations on matters which have an impact on the administration of the Fund.

There are a number of uncertainties associated with the benefit structure at the current time including:

- How Government will address the issues of GMP indexation and equalisation for the LGPS beyond expiry of the current interim solution from 6 April 2021
- The remedy to compensate members for illegal age discrimination following the outcome of the McCloud/Sargeant cases. Whilst the Government's application for leave to appeal has been denied there is currently still uncertainty relating to the remedy and exactly how this will apply to the LGPS
- The outcome of the cost management process and whether the agreement reached in relation to the Scheme Advisory Board (SAB) process for member contributions to be reduced and benefits enhanced to achieve an additional cost of 0.9% of pay will change as a result of the McCloud/Sargeant ruling

In determining how these uncertainties should be allowed for in employer contributions from 1 April 2020 the Administering Authority will have regard to guidance issued by the SAB, taking account of the Fund Actuary's advice.

In addition, a consultation document was issued by MHCLG entitled "Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk" dated May 2019. This included a proposal to change the LGPS local fund valuations to quadrennial cycles. The Administering Authority will have regard to any changes in the Regulations as a result of this consultation and consider any actions required at the 2019 valuation, taking account of the Fund Actuary's advice.

8. MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with employing organisations.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been significant market volatility
- if there have been significant changes to the NYPF membership and/or maturity profile
- if there have been changes to the number, type or individual circumstances of any of the employing authorities to such an extent that they impact on the funding strategy e.g. closure to new entrants
- where employers wish to make additional (voluntary) contributions to the NYPF
- if there has been a material change in the affordability of contributions and/or employer financial covenant strength
- to reflect significant changes to the benefit structure / Regulations

North Yorkshire County Council
as Administering Authority for the North Yorkshire Pension Fund

APPENDIX 1

ACTUARIAL VALUATION AS AT 31 MARCH 2019
Method and assumptions used in calculating the funding target

Risk Based Approach

The Administering Authority adopts a risk based approach to funding strategy. In particular the discount rate (for most employers) has been set on the basis of the assessed likelihood of meeting the funding objectives. The Administering Authority has considered 3 key decisions in setting the discount rate:

- the long-term Solvency Target (i.e. the funding objective - where the Administering Authority wants the Fund to get to);
- the Trajectory Period (how quickly the Administering Authority wants the Fund to get there), and
- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by complex (stochastic) risk modelling carried out by the Fund Actuary, define the discount rate (investment return assumption) to be adopted and, by extension, the appropriate employer contributions payable. Together they measure the riskiness (and hence also the degree of prudence) of the funding strategy. These are considered in more detail below.

Solvency Target

The Administering Authority's primary aim is the long-term solvency of the Fund. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term using appropriate actuarial assumptions.

The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

For most Scheduled Bodies and Admission Bodies where a Scheme Employer of sound covenant has agreed to subsume the Admission Body's assets and liabilities in the NYPF following its exit, the Solvency Target is set:

- at a level advised by the Fund Actuary as a prudent long-term funding objective for the Fund to achieve at the end of the Trajectory Period,
- based on continued investment in a mix of growth and matching assets intended to deliver a return above the rate of increases to pensions and pension accounts (CPI).

As at 31 March 2019 the long-term rate of CPI is assumed to be 2% p.a. and a prudent long-term investment return of 2% above CPI is assumed.

This then defines the Solvency Target. As at 31 March 2019 this equates to a solvency discount rate of 4% p.a.

For Admission Bodies and other bodies whose liabilities are expected to be orphaned following cessation, a more prudent approach will be taken. The Solvency Target will be set by considering the valuation basis which would be adopted should the body leave the Fund. For most such bodies, the Solvency Target will be set commensurate with assumed investment in Government bonds after exit.

Probability of Funding Success

The Administering Authority considers funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on asset-liability modelling carried out by the Fund Actuary.

With effect from 31 March 2019 the discount rate, and hence the overall required level of employer contributions, has been set such that the Fund Actuary estimates there is a 80% chance that the Fund would reach or exceed its Solvency Target after 25 years (the Trajectory Period)

Funding Target

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions and the valuation data. The valuation calculations, including the primary contribution rates and adjustment for the surplus or deficiency, set the level of contributions payable and dictate the chance of achieving the Solvency Target at the end of the Trajectory Period. The key assumptions used for assessing the Funding Target are summarised below.

Consistent with the aim of enabling the primary rate of employers' contribution rates to be kept as nearly constant as possible, contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period. The future service rate will be stable if the profile of the membership (age, gender etc) is stable.

For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire. This approach should lead to more stable employer contribution rates than adoption of the Projected Unit method for closed employers.

Funding Targets and assumptions regarding future investment strategy

For Scheduled Bodies whose participation in the Fund is considered by the Administering Authority to be indefinite and Admission Bodies with a subsumption commitment from such Scheduled Bodies, the Administering Authority assumes indefinite investment in a broad range of assets of higher risk than risk free assets.

For other Scheduled Bodies, in particular the Colleges and Universities whose participation is not considered to be indefinite, the Administering Authority may without limitation, take into account the following factors when setting the funding target for such bodies:

- the type/group of the employer
- the business plans of the employer;
- an assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the employer such as a guarantor or bond arrangements, charge over assets, etc.

For Admission Bodies and other bodies whose liabilities are expected to be orphaned on exit (with the exception of the universities where a different approach will be adopted at the 2019 valuation as set out below), the Administering Authority will have regard to the potential for participation to cease (or for the body to have no contributing members), the potential timing of such exit, and any likely change in notional or actual investment strategy as regards the assets held in respect of the body's liabilities at the date of exit (i.e. whether the liabilities will become 'orphaned' or a guarantor exists to subsume the notional assets and liabilities).

Colleges and Universities

Due to concerns about the covenant strength of Colleges and Universities, the Administering Authority will, from the 2019 valuation onwards, adopt a Funding Target for Colleges and Universities which reflects the Administering Authority's views of the sector. This includes the two universities that are Admission Bodies in the Fund where there is no subsumption commitment, but which continue to admit new members to the Fund.

Whilst the Administering Authority will adopt a general approach of assuming indefinite investment in a broad range of assets of higher risk than Government bonds, a reduction will be made to the discount rate used for the long-term secure scheduled bodies to reflect concerns about the covenant strength of Colleges and Universities. This is known as the Intermediate Funding Target.

The Administering Authority may also adopt the Intermediate Funding Target for other employers where there are concerns about the covenant strength of the employer. At the 2019 valuation this decision will be informed by the high-level risk analysis of employers within the Fund carried out by the Fund Actuary.

The Fund is deemed to be fully funded when the assets are equal to or greater than 100% of the Funding Target, where the funding target is assessed based on the sum of the appropriate funding targets across all the employers/groups of employers.

Financial assumptions

Investment return (discount rate)

The discount rate for the 2019 valuation is as follows:

- 4.2% p.a. for employers where the Scheduled body / subsumption funding target applies
- 3.8% p.a. for employers where the Intermediate funding target applies
- 3.3% in service (equivalent to the yield on long-dated fixed interest gilts at a duration appropriate for the Fund's liabilities plus an asset out-performance assumption of 2% p.a.) and 1.6% left service (which is intended to be equivalent to the yield on long-dated fixed interest gilts at the valuation date but which has, in the interests of affordability and stability of employer contributions, been increased by 0.3% p.a. to take account of market expectationsof future increases in gilt yields after the valuation date), for employers where the Ongoing orphan funding target applies.

Inflation (Consumer Prices Index)

The CPI inflation assumption is taken to be the long-term (30 year) Capital Market Assumption at the valuation date as produced by Aon Hewitt Limited. In formulating the Capital Market Assumption, both consensus forecasts and the inflation risk premium are considered.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) in the long term will be determined by an allowance of 1.25% p.a. over the inflation assumption as described above plus an allowance for promotional increases.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Demographic assumptions

Post-retirement Mortality

<u>Base Rates</u>

Normal Health: Standard SAPS S2N tables, year of birth base rates, adjusted by a scaling factor.
Ill-health: Standard SAPS S2 Ill-health tables, year of birth base rates adjusted by a scaling factor.

<u>Scaling Factors</u>

Rates adjusted by scaling factors as dictated by Fund experience

Males (normal health)	105%
Females (normal health)	105%
Males (ill-health)	105%
Females (ill-health)	115%

<u>Future improvement to base rates</u>

An allowance for improvements in line with the CMI 2018, for men or women as appropriate, with a long term rate of improvement of 1.50% p.a., s_k of 7.5 and parameter A of 0.0.

Pre-retirement mortality

Males:	As for normal health retirements but with a 40% scaling factor
Females:	As for normal health retirements but with a 30% scaling factor

Retirement age

The assumed retirement age is dependent on the Group of the member and also the member's Rule of 85 age (Ro85 age).

	Assumed age at retirement
	63
	63
	65
	65
	State Pension Age

Any part of a members' pension payable from a later age than the assumed retirement age will assumed to be reduced using factors issued by GAD / MHCLG in force on the valuation date.

Withdrawals

Allowance is made for withdrawals from service. On withdrawal, members are assumed to leave a deferred pension in the Fund and are not assumed to exercise their option to take a transfer value.

Retirement due to ill health

Allowance is made for retirements due to ill health. Proportions assumed to fall into the different benefit tiers applicable after 1 April 2008 are:

Tier 1 (upper tier)	90%
Tier 2 (middle tier)	5%
Tier 3 (lower tier)	5%

Family details

A man is assumed to be 3 years older than his spouse, civil partner or cohabitee. A woman is assumed to be 3 years younger than her spouse, civil partner or cohabite.

80% of non-pensioners are assumed to be married / cohabitating at retirement or earlier death.
80% of pensioners are assumed to be married / cohabitating at age 65.

Commutation

Each member is assumed to take cash such that the total cash received (including statutory 3N/80 lump sum) is 75% of the permitted maximum amount permitted of their past service pension entitlements.

Take up of 50/50 scheme

All members are assumed to remain in the scheme they are in at the date of the valuation.

Promotional salary increases

Allowance is made for age-related promotional increases.

Expenses

0.5% of Pensionable Pay added to the cost of future benefit accrual.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the "primary contribution rate") for the 2019 actuarial valuation

Investment return / Discount Rate (scheduled bodies and admission bodies with a subsumption commitment from a scheduled body)	4.2% p.a.
Investment return / Discount Rate (intermediate funding target)	3.8% p.a.
Investment Return / Discount Rate for orphan bodies	
In service	3.3% p.a.
Left service	1.6% p.a.
CPI price inflation	2.1% p.a.
Long Term Salary increases	3.35% p.a.
Pension increases/indexation of CARE benefits	2.1% p.a.

North Yorkshire County Council

Pension Fund Committee

21 February 2020

Business Plan and 2020/21 Budget

Report of the Treasurer

1. Purpose of the Report

1.1. To report on the progress made against the key NYPF business plan activities identified for 2019/20.

1.2. To approve the draft NYPF Business Plan for 2020/21 – 2022/23.

1.3. To approve the draft 2020/21 NYPF Budget.

2. Progress Update

2.1. In the NYPF 2019/20 Business Plan eight key actions for the year were identified and approved by Members in the February 2019 Committee meeting. It was agreed that officers would provide a progress report against these key actions, this progress report is attached as **Appendix 1**.

3. Draft 2020/21 Business Plan

3.1. The draft 2020/21 Business Plan, attached at **Appendix 2**, sets out the purpose and strategy of the Fund for the next 3 years to enable the Committee to plan and comply with legal requirements. It sets out the key initiatives of the Fund with delivery dates to enable tracking of progress. The plan has been moved on to cover the period 2020/21 to 2022/23 and any outstanding actions from 2019/20 have been rolled forward to 2020/21 and some new actions identified. A plan on a page, that provides a summary of the business plan has also been attached as **Appendix 3**.

3.2. The key activities for 2020/21, outlined in the draft Business Plan, are as follows:

a) **Pooling** – the transition of assets into the Pool has started to take place in 2019/20 and this will continue until at least 2022. The sub-funds that the Fund is expected to invest in during 2020/21 are the Multi-Asset Credit Fund, Index-linked Gilts Fund and Investment Grade Credit Fund. Work will also continue on the design of new sub-funds and ensuring that they meet the needs of NYPF.

b) **Implementation of long-term Investment Strategy** – the Committee approved a new long-term investment strategy as part of the 2019 Triennial Valuation. The new strategy has an increased allocation to alternatives as the Fund aims to de-risk in light of the improved funding position. Due to the more illiquid nature of alternative investments, it is expected that the implementation of the new long term strategy may take a number of years to complete.

c) **System Re-procurement** – the current administration system is out of contract on 31 December 2021 and the target to award the new contract is Q2 2020. Once this is in place the Fund will be able to progress with the business process re-engineering, online employer portal and integrated payroll. The aim of this project is to increase data quality and improve efficiency within the administration function.

d) **Online Monthly Employer Returns** – will be introduced from Q2 2020 and a phased roll out will follow until all employers are submitting monthly member data via an online portal. This data will be validated at source and will ensure data held for members is accurate and up to date.

e) **Pensioner Reconciliation** – The initial comparison has been undertaken and the rectification stage will now commence with a target completion date of Q2 2020. Pensioner data is held on two separate databases and they do not reconcile to each other. It is critical for liability assessment, funding position assessment and data quality measures that the data is aligned.

4. Draft 2020/21 Budget

4.1. The draft 2020/21 budget for the cost of running the Fund is presented in **Appendix 4** and totals £30.1m. This budget only includes the costs that the Fund has control over and has been developed on an accruals basis.

4.2. The total 2020/21 budget has increased by £7.5m compared with the 2019/20 budget, however it is in line with the 2019/20 forecast outturn of £28.8m, which is described in more detail in the Budget and Statistics Report. The main reason for this increase in the budget is due to the increase in management fees to reflect the additional transaction costs disclosed by Fund Managers since the approval of the 2019/20 budget. In total the investment management fee budget has increased by £7.8m to £27.0m, which is an increase of £1.6m over the expected 2019/20 outturn. The figures reflect known fund movements or rebalancing and anticipated fund growth, informed by the asset return assumptions used for the 2019 Triennial Valuation.

4.3. Other key changes to the budget figures from the 2019/20 budget are as follows:

- The Pensions Administration Budget has been increased by £110k. This is made up of posting and printing costs of £12k and increased pay costs of £98k The increase of £98k is nearly all accounted for by the costs of pay awards, pay assimilation and successful career advancement

- Recruitment is under way jointly with East Riding Pension Fund in order to appoint a joint Head of Investments post. The workload as a consequence of simultaneous investment strategy review and pooling has increased significantly and an increased dependency upon consultants has resulted. The recruitment market in this area is massively challenging and a joint post with a similarly minded organisation is seen as a unique selling point which may attract the right candidate to work alongside and complement the existing Finance team and resources. This will also help with resilience and given much of the interaction of the postholder is with BCPP there should be some efficiencies with representing both Funds in a single setting. A further sum of £50k has been provided in the Budget for 2020/21.

- The Pooling Annual Operating Charge has been updated to reflect the new 2020/21 charge from BCPP. In 2020/21 the Annual Operating Charge will be £600k. This is made up of a governance element which is split on a one twelfth basis and an AUM charge based on the Fund's strategic asset split at 31 March 2019.

- The 2020/21 BCPP project budget is expected to be around £70k which is to support the design and setup of the sub-funds due to launch in 2020/21.

- The budget for Consultants fees has increased by £140k to £290k. However, this is less than the forecast outturn for 2019/20 of £404k. This increase in budget reflects the increased level of work required from the consultants on the due diligence of the BCPP sub-funds prior to investment by the Fund.

- The budget for Custodian Fees has been reduced by £80k to reflect the movement of funds currently under custody to the Pool in 2020/21.

- The Pensioner Data Reconciliation exercise has been included as a one off budget of £50k for 2020/21. This is the second phase of the project which includes the rectification of the data.

- The other Administration budget line includes £30k on a one-off basis to include the NYPF Website development planned for 2020/21 as this did not take place in 2019/20.

- The budget for Actuarial Fees has been reduced by £30k in 2020/21 following the completion of the Triennial Valuation.

4.4. The draft 2020/21 budget reflects the activities outlined in the draft 2020/21 Business Plan where the costs are known. The budget does not yet reflect the estimated costs of c.£615k on a one-off basis for the re-procurement of the pension administration system and additional employer portal functionality. This amount is an estimate based on an average of the costs provided by the main suppliers and will be subject to change when the final supplier is known. Detailed costs will be presented to the Committee at a future meeting and will be included in the budget after approval is obtained.

4.5. It is proposed that the NYPF budget is revised twice a year going forward to reflect any material known changes during the year. The 2020/21 budget will therefore be brought back to the September 2020 PFC meeting for the approval of any necessary amendments, in line with the business plan progress update. This update will include any known costs of the new pension administration system following approval, as discussed above. Any changes in investment management fees disclosed at year-end will also be reflected in these bi-annual budget refinements.

5. Recommendations

Members are to:

5.1. Note the progress made against the 2019/20 NYPF Business Plan.

5.2. Approve the draft 2020/21 NYPF Business Plan.

5.3. Approve the draft 2020/21 NYPF Budget.

Gary Fielding
Treasurer of North Yorkshire Pension Fund
NYCC
County Hall
Northallerton

13 February 2020

NYPF 2019/2022 Business Plan Update January 2020 **Appendix 1**

RAG rating:

Green – completed or not yet due

Orange – ongoing, carried forward to 2020/21

Red – outstanding, overdue

Key Activity			Resource
Effective and efficient member administration			**Head of Pensions Administration**
Action	**Timescale**	**Progress Update**	
Website review	Q4 2019/20	In progress – being picked up as part of administration software review. Carried forward to 2020/21.	Orange
Administration software review	Q1 2020/21	Completed – Next stage is to procure new system.	Green
Business process re-engineering	Q4 2019/20	In progress – 'As is' process mapping completed. Processes will be re-engineered when the new administration system is in place. Carried forward to 2020/21.	Orange
Key Activity			**Resource**
Improve Data Quality			**Head of Pensions Administration**
Action	**Timescale**	**Progress Update**	
GMP Reconciliation	Q1 2019/20	In progress - Final GMP reconciliation delayed due to final file from HMRC still outstanding. Rectification stage progressing ready to correct when final HMRC file received. Carried forward to 2020/21.	Orange
Pensioner Reconciliation	Q4 2019/20	In progress - Pensioner reconciliation being progressed with the GMP project in mind. Initial data comparison and corrections made. Carried forward to 2020/21.	Orange
Employer interaction	Q2 2019/20	Completed - Employer relationship team in place with visits and training provided. This is now an ongoing activity as part of BAU.	Green
Create Data Improvement Plan	Q1 2019/20	Completed - Draft data improvement plan will be submitted to the Committee in the July meeting for approval.	Green
Key Activity			**Resource**
People			**Head of Pensions Administration**
Action	**Timescale**	**Progress Update**	
Review of team structure	Q1 2019/20	Completed - New structure went live June 2019. Being monitored and adapted as required.	Green
Training	Q4 2019/20	Completed – A training structure for new staff has been created. Work continues on formalising training plans across the wider team. On target for completion in Q4 2019/20. This is now an ongoing activity as part of BAU.	Green
Cross skilling	Q4 2019/20	Completed – The new structure requires staff to rotate between administration sections to receive development on new work types. This is now an ongoing activity as part of BAU.	Green
Resilience	Q4 2019/20	Completed – The new structure requires staff to rotate between administration sections to increase cross skilling which in turn increases resilience within the team. This is now an ongoing activity as part of BAU.	Green
Succession planning	Q4 2019/20	Completed – The new structure, cross skilling & increased resilience enable succession planning to be put in place.	Green

NYPF 2019/2022 Business Plan Update January 2020
Continued 1

Key Activity			Resource
Excellent Customer Service			**Head of Pensions Administration/Senior Accountant**
Action	**Timescale**	**Progress Update**	
Improved employer engagement	Q4 2021/22	Completed. The new team structure introduced an employer relationship team specifically to proactively engage with employers on all pensions issues. Improvements already being seen in timeliness and accuracy of information being provided. This is now an ongoing activity as part of BAU.	
Partnership working with employers	Q4 2021/22	Completed. As above. This is now an ongoing activity as part of BAU.	
Pension Fund rebrand	Q4 2019/20	In progress – A new brand and logo has been selected which will be rolled out as part of the member portal upgrade. This will be rolled out throughout 2020.	
Key Activity			**Resource**
Effective Investment Strategy			**Pension Fund Committee**
Action	**Timescale**	**Progress Update**	
Review of Investment Strategy	Q4 2019/20	Completed. As part of the 2019 Triennial Valuation the Committee approved a new long-term investment strategy.	
Key Activity			**Resource**
Pooling			**Pension Fund Committee/ Treasurer/ Senior Accountant**
Action	**Timescale**	**Progress Update**	
Effective management of transition	Q4 2021/22	The Fund is now invested in the BCPP UK Equity Alpha and Global Equity Alpha Funds and has made commitments to the Infrastructure and Private Debt sub-funds. Due diligence on new sub-funds due to be launched in the current year is currently being undertaken by the Fund's investment consultants and advisor and will continue into 2020/21 and 2021/22.	
NYPF representation	Q4 2021/22	Work is ongoing on setting up the new sub-funds. Workshops are being held to allow each partner fund and their advisors to input into the design of the sub-funds.	
Key Activity			**Resource**
Monitor Income			**Senior Accountant**
Action	**Timescale**	**Progress Update**	
Introduce monthly monitoring of employer and member pension contributions	Q1 2019/20	This is an ongoing target of the Fund. Work is in progress on addressing any late payments and paperwork and enforcing the charging policy that came into effect from April 2019. A review of the current monitoring arrangements will take place in 2020/21.	
Effective financial management	Q4 2021/22	This is an ongoing target of the Fund. The 2018/19 financial accounts for the Pension Fund were unqualified and ongoing regular monitoring of investments and other income and expenditure of the Fund takes place.	

NYPF 2019/2022 Business Plan Update January 2020
Continued 2

Key Activity		Resource
Effective Fund Governance		**Pension Fund Committee**
Action	**Timescale**	**Progress Update**
Committee and Board skills evaluation	Q1 2019/20	Completed – Skills evaluations completed and responses being collated.
Committee and Board training plan	Q2 2019/20	In progress - Following data gathering on skills a training plan will be developed to address any gaps.

Key Activity		Resource
Triennial Valuation		**Head of Pensions Administration/ Senior Accountant**
Action	**Timescale**	**Progress Update**
Agree assumptions	Q1 2019/20	Completed – Valuation now in consultation stage.
Review of scheme factors	Q1 2019/20	Completed – Valuation now in consultation stage.
Data cleansing	Q1 2019/20	Completed – Valuation now in consultation stage.
Employer engagement	Q2 2019/20	Completed – Valuation now in consultation stage.
Review of strength of covenant	Q2 2019/20	Completed – Valuation now in consultation stage.

North Yorkshire Pension Fund

Business Plan

2020/21 – 2022/23

If you require this information in an alternative language or another format such as large type, audio cassette or Braille, please contact the Pensions Help & Information Line on 01609 536335

Contents

1. Background

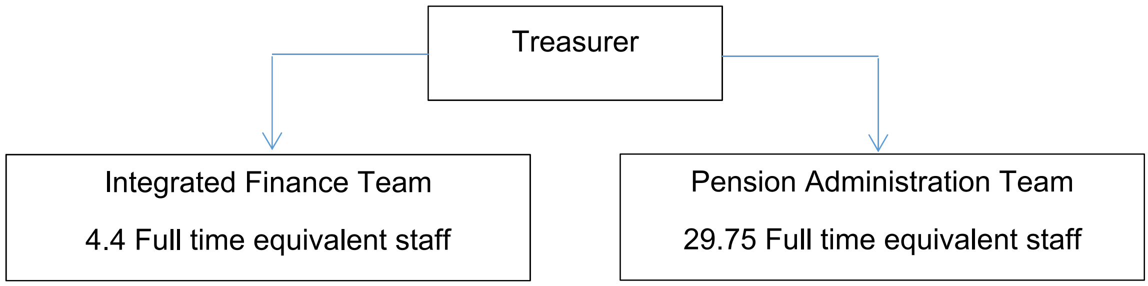
North Yorkshire County Council (NYCC) is the statutory administering authority for the North Yorkshire Pension Fund (the Fund), which is part of the Local Government Pension Scheme (LGPS). All aspects of the Fund's management and administration, including investment matters, are overseen by the Pension Fund Committee (PFC), which is a committee of the NYCC.

The purpose of the Fund is to provide retirement benefits specified by the LGPS regulations for staff working for local authority employers, and other employers admitted by agreement, in the North Yorkshire area.

The day to day running of the Fund is delegated to the Treasurer who is the Corporate Director – Strategic Resources of the NYCC and is responsible for implementing the decisions made by the PFC.

Supporting him is a team of staff split into two sections. The Pension Administration team administers all aspects of member records, pension benefits etc. and the Integrated Finance team looks after the accounting and management information requirements of the Fund. All aspects of the day to day management of investment funds are undertaken by external fund managers.

Current structure:



The Scheme is governed by the Public Service Pensions Act 2013 and is administered in accordance with the following secondary legislation:

- the LGPS Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2016
- the LGPS (Amendment) Regulations 2018

The main systems utilised in the running of the Fund are Oracle, a third party finance and accounting system provided by the Oracle Corporation, and Altair a third party pensions administration system provided by Aquila Heywood.

This business plan should be read in conjunction with the administration strategy and the investment strategy statement, these being the key documents that set out the principles of the running of the Fund.

These can be found on our website at https://www.nypf.org.uk/nypf/policiesandstrategies.shtml

2. Introduction

As part of its programme of improving the standards of governance across all pension schemes the Pensions Regulator has recommended that each scheme should have a business plan in place which sets out a clear purpose and strategy. This plan should be used to manage the scheme effectively and enable members to get good outcomes. Having a business plan will enable the PFC to plan ahead and improve their ability to comply with legal requirements.

This Plan will be reviewed annually and objectives and key actions revised accordingly. Progress reviews will be undertaken every six months and progress reported to the PFC.

3. Vision

To ensure sufficient assets are available to pay the right pension benefits at the right time.

4. Objectives

The objectives set out below will enable the Fund to achieve its long term vision to ensure sufficient assets are available to pay the right pension benefits at the right time.

We will:

1. Maximise investment returns
2. Manage Scheme funding
3. Provide excellent customer service
4. Ensure effective Fund governance

5. Key Actions

The following key actions have been identified:

Action	Resource	Timescale
Effective and efficient member administration Administration software re-procurement Business process re-engineering Integrated Payroll	Head of Pensions Administration	 Q2 2020/21 Q4 2020/21 Q2 2021/22
Improve Data Quality GMP Reconciliation Pensioner Reconciliation Roll out online monthly employer returns	Head of Pensions Administration	 Q1 2020/21 Q2 2020/21 Q4 2020/21
Excellent Customer Service Pension Fund rebrand Improve self-service functionality Complete website re-development	Head of Pensions Administration	 Q1 2020/21 Q2 2020/21 Q4 2022/23
Effective Investment Strategy Implementation of long-term Investment Strategy	Pension Fund Committee	 Q4 2021/22
Pooling Effective management of transition of assets into the Pool NYPF involvement in development of sub-funds	Pension Fund Committee/Treasurer/Senior Accountant	 Q4 2021/22 Q4 2021/22
Effective Financial Management Review of monitoring of employer and member pension contributions Review of cashflow monitoring	Senior Accountant	 Q2 2020/21 Q2 2020/21
Effective Fund Governance Committee and Board training plan Delivery of identified training	Pension Fund Committee/Treasurer	 Q2 2020/21 Q4 2020/21

The following resources have been identified as key to ensuring delivery of the objectives identified:

a. Systems and technology which are fit for purpose
b. People
    i. Focussed on customers' needs
    ii. Highly skilled and knowledgeable
c. The right information and data
    i. Financial
    ii. Performance
    iii. Benchmarking
    iv. Membership data
d. Third party service providers
    i. Actuary
    ii. Legal Advisers
    iii. Custodian
    iv. Fund Managers
    v. Investment Consultants
    vi. Software provider
    vii. Borders to Coast Pensions Partnership (BCPP)

These actions are recorded and scheduled in more detail in the NYPF scheduler which is used by officers to ensure the appropriate actions are taken to deliver the business plan.

North Yorkshire Pension Fund Business Plan

Vision	To ensure sufficient assets are available to pay the right pension benefits at the right time		
Objectives	Maximising investment returns, management of Scheme funding, provide excellent customer service, effective Fund governance		
Key actions	**Effective and efficient member administration** Administration software re-procurement Business process re-engineering Integrated Payroll	**Improve Data Quality** GMP Reconciliation Pensioner Reconciliation Roll out monthly employer returns	**Excellent Customer Service** Pension Fund rebrand Improve self-service functionality Complete website re-development
	Effective Investment Strategy Implementation of Investment Strategy	**Pooling** Effective management of transition of assets into the Pool NYPF involvement in development of sub-funds	**Effective financial Management** Review of employer and member pension contributions monitoring Review of cashflow monitoring
	Effective Fund Governance Committee and Board training plan Delivery of identified training		
Resources	**Systems and technology which are fit for purpose**	**People** Focussed on customers' needs Highly skilled and knowledgeable	**The right information and data** Financial Performance Benchmarking Membership data
	Third party service providers Actuary Legal Advisers Custodian Fund Managers Investment Consultants Software provider Borders to Coast Pensions Partnership (BCPP)		

North Yorkshire Pension Fund - 2019/2020 Budget - Cost of Running the Pension Fund

	Budget 2019/2020 £k	Budget 2020/2021 £k	Variance £k	Forecast 2019/2020 £k
EXPENDITURE				
Admin Expenses				
Finance and Central Services	380	430	50	380
Provision of Pensioner Payroll (ESS)	140	140	0	140
Pensions Administration Team	980	1,090	110	980
GMP Reconciliation Programme	0	0	0	40
Pension Data Reconciliation	100	50	-50	18
Other Admin Expenses	260	270	10	268
	1,860	**1,980**	**120**	**1,826**
Oversight and Governance				
Actuarial Fees	70	40	-30	100
Custodian Fees	130	50	-80	90
Consultants Fees	150	290	140	404
Pooling Project Costs	140	70	-70	146
Pooling Operational Charge	980	600	-380	711
Other O & G Expenses	110	100	-10	128
	1,580	**1,150**	**-430**	**1,579**
Investment Fees				
Investment Management Base Fee invoiced	4,000	2,200	-1,800	3,000
Performance Fees Base Fee invoiced	3,500	2,000	-1,500	2,200
Investment Base Fees deducted from Fund	11,700	22,760	11,060	20,200
	19,200	**26,960**	**7,760**	**25,400**
TOTAL	**22,640**	**30,090**	**7,450**	**28,805**

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

21 FEBRUARY 2020

BUDGET / STATISTICS

Report of the Treasurer

1.0 PURPOSE OF THE REPORT

1.1 To report on the following:

(a) 2019/20 budget - cost of running the Fund (see section **2**)

(b) the 3 year cashflow projection for the Fund (see section **3**)

2.0 2019/20 BUDGET- COST OF RUNNING THE FUND

2.1 The latest forecast outturn position against the 2019/20 budget is attached as **Appendix 1**. An overspend of £6.2m is forecast which is due to expenditure on Investment Fees exceeding the original budget, as previously reported to the Committee.

2.2 Oversight and Governance costs are forecast to be in line with the budget of £1.6m, an improvement from the overspend of £236k reported in the previous quarter. This reduction in expenditure is mainly due to the reported costs of the Pooling Operational Charge being less than expected due to a review of the assets under management for some sub-funds which has resulted in a reduced charge of £150k. In addition, pooling costs of around £115k for the Alternative funds will now be deducted directly from the fund value rather than being invoiced, so whilst this is not a true reduction in costs, it is a reduction in the costs reported here.

2.3 The reduced costs are partially offset by a small increase in Consultants Fees of £24k in the quarter, as a result of further due diligence work undertaken on new sub-funds.

2.4 The forecast expenditure on Administration Expenses has reduced by £87k since the previous quarter due mainly to work on the Pension Data Reconciliation being delayed. Work will continue in 2020/21 and anticipated expenditure has been reflected in the 2020/21 draft budget.

3.0 3 YEAR CASHFLOW PROJECTION

3.1 The cash position of the Fund is presented in **Appendix 2**. The table shows the projected cashflows of the Fund for the current and following three years. This cashflow includes the contribution income and benefits payable, the main inflow and outflow of the Fund, which will determine when the Fund will turn cashflow negative (deficit). In addition to this it also includes all other items that go through the bank account, for example, any costs of administering the scheme; this provides a more accurate prediction of the cash position of the Fund.

3.2 The estimated cashflow for the Fund in 2019/20 is a £7.1m deficit. The deficit has increased since that of £4.7m reported to the Committee in the November meeting as expenditure has been increased to reflect two large bulk transfers out of the pension scheme.

3.3 The cashflow projection for the three years 2020/21 to 2022/23 has now been produced which reflects the following:

- Now that the 2019 Triennial Valuation is nearing conclusion, the employer contributions have been calculated based on these latest contribution rates
- Pensions expenditure has been increased to account for rising numbers of pensioners (7% per annum) and for annual payment increases (2.1%)
- Within the cost of administering the pension fund, pay increases of 2% per annum have been included for pension administration staff and investment fees have been adjusted to allow for annual fund growth (3.1%)

3.4 The cashflow of the Fund is expected to stay in a deficit position over the next three years, increasing from £7.1m in 2019/20 to £34.8m in 2022/23. The increase is due to total income staying fairly static at around £140m while expenditure grows from £138.3m in 2019/20 to £165.8m in 2022/23. The increased funding position at the current valuation has also accelerated this position for the Fund as there are lower deficit amounts due to the Fund.

3.5 As pension funds mature it is expected that there will be an increase in the cost of benefits that will eventually overtake the income received in employer contributions. Many LGPS Funds are already in this cashflow negative position. Now that the cashflow position of the Fund has been assessed confirming a negative position going forward, further consideration will be given to how we derive income from existing assets and new income generating assets will be factored into future investment strategy considerations to ensure that disinvestments purely for cashflow purposes are kept to a minimum.

4.0 **RECOMMENDATIONS**

4.1 Members to note the contents of the report.

GARY FIELDING
Treasurer to North Yorkshire Pension Fund
NYCC
County Hall
Northallerton
11 February 2020

Appendix 1

North Yorkshire Pension Fund - 2019/2020 Budget - Cost of Running the Pension Fund

	Expenditure to 31/12/19 £k	Original Budget 2019/2020 £k	Forecast 2019/2020 £k	Variance £k
EXPENDITURE				
Admin Expenses				
Finance and Central Services	0	380	380	0
Provision of Pensioner Payroll (ESS)	0	140	140	0
Pensions Administration Team	0	980	980	0
GMP Reconciliation Programme	40	0	40	40
Pension Data Reconciliation	18	100	18	(82)
Other Admin Expenses	350	260	268	8
	408	**1,860**	**1,826**	**(34)**
Oversight and Governance				
Actuarial Fees	175	70	100	30
Custodian Fees	56	130	90	(40)
Consultants Fees	286	150	404	254
Pooling Project Costs	146	140	146	6
Pooling Operational Charge	586	980	711	(269)
Other O & G Expenses	77	110	128	18
	1,326	**1,580**	**1,579**	**(1)**
Investment Fees				
Investment Management Base Fee invoiced	2,011	4,000	3,000	(1,000)
Performance Fees Base Fee invoiced	(1,581)	3,500	2,200	(1,300)
Investment Base Fees deducted from Fund	0	11,700	20,200	8,500
	430	**19,200**	**25,400**	**6,200**
TOTAL	**2,164**	**22,640**	**28,805**	**6,165**

The negative values in the "Expenditure to 31/12/19" column are due to costs in respect of 2018/19 that are yet to be paid.

Appendix 2

North Yorkshire Pension Fund Cashflow Forecast

	Cashflow 2019/2020 £k	Cashflow 2020/2021 £k	Cashflow 2021/2022 £k	Cashflow 2022/2023 £k
EXPENDITURE				
Benefits				
Pensions	92,000	100,370	109,500	119,460
Lump Sums	27,950	27,950	27,950	27,950
	119,950	**128,320**	**137,450**	**147,410**
Payments to and on account of leavers				
Transfers out	17,750	17,750	17,750	17,750
Refunds to leavers	600	600	600	600
	18,350	**18,350**	**18,350**	**18,350**
TOTAL EXPENDITURE	**138,300**	**146,670**	**155,800**	**165,760**
INCOME				
Employer and Employee Contributions	117,000	116,420	114,680	113,080
Transfers in (from other schemes)	16,840	16,840	16,840	16,840
Investment Income	6,010	6,810	8,570	8,570
TOTAL INCOME	**139,850**	**140,070**	**140,090**	**138,490**
SURPLUS/ (DEFICIT)	**1,550**	**(6,600)**	**(15,710)**	**(27,270)**
Add cost of administering the pension fund	**28,805**	**30,090**	**31,560**	**32,390**
Less Management Fees charged direct to the fund	**(20,200)**	**(22,760)**	**(24,160)**	**(24,910)**
NET SURPLUS/ (DEFICIT)	**(7,055)**	**(13,930)**	**(23,110)**	**(34,750)**

North Yorkshire County Council

ITEM 8

Pension Fund Committee

21 February 2020

Administration Report

Report of the Treasurer

1. Purpose of the Report

1.1. To provide Members with information relating to the administration of the Fund in the quarter and to provide an update on key issues and initiatives which impact the administration team.

2. Admission Agreements & New Academies

2.1. The latest position relating to admission agreements and academy conversions is shown in **Appendix 1**.

3. Administration

3.1. **Membership Statistics**

Membership Category	At 30/09/2019	+/- Change (%)	At 31/12/2019
Active	33,462	+0.9%	33,777
Deferred	37,842	+1.7%	38,496
Pensioner (incl spouse & dependant members)	23,563	+1.2%	23,850
Total	**94,867**		**96,123**

3.2. **Throughput Statistics**

- Period from 1 October 2019 to 31 December 2019

Casetype	Cases Outstanding at Start	New Cases	Cases Closed	Cases Outstanding at End
Transfer In quotes	6	37	42	1
Transfer Out quotes	17	119	120	16
Employer estimates	9	86	77	18
Employee estimates	48	176	194	30
Retirement quotes	137	613	635	115
Preserved benefits	230	961	719	472
Death in payment or in service	30	68	79	19
Refunds	53	655	595	113
Actual retirement procedure	104	1140	853	391
Interfund transfers	50	191	162	79
Aggregate member records	50	301	223	128
Process GMP	123	4	123	4
Others	205	535	378	362
Total Cases	**1062**	**4886**	**4200**	**1748**

- Alongside the above cases the Pensions team also handled 5,236 phone calls (average 107 per day) and 1,656 emails received via the Pensions Inbox (average 27 per day) in the quarter to 31 December 2019.

3.3. **Performance Statistics**

- The performance figures for the period 1 October 2019 to 31 December 2019 are as follows:

Performance Indicator	Target in period	Achieved
Measured work achieved within target	98%	92%
Customers surveyed ranking service good or excellent	94%	89%
Increase numbers of registered self-service users by 700 per quarter (total registered users 26,019)	700	767

- Our performance against the measures above has deteriorated in the quarter due to high work volumes, high demand, staff holidays and being temporarily understaffed. The staffing situation has now been addressed and more formalised training is being provided. This will enable staff to get up to speed and become more effective much quicker.

  We continue to focus on ensuring current work is processed as priority whilst also working on clearing the oldest dated cases.

3.4. **Commendations and Complaints**

- This quarter the following commendations and complaints were received:

Commendations

Date	Number	Summary
Oct	1	Grateful for help
Nov	4	Very efficient, supportive, great experience and great staff
Dec	2	Helpful staff, great quick service

Complaints

Date	Number	Summary
Oct	2	2 Admin - misleading info provided at retirement - transfer in taking too long
Nov	2	2 Admin - benefits reduced on benefit statements between 2015 & 2019 - pension suspended since May
Dec	1	1 Admin - benefits automatically aggregated due to no response from member

- The complaint categories are:

  1. Admin - these can relate to errors in calculations, delays in processing and making payment of benefits.
  2. Regs - these relate to a complaint where regulations prevent the member being able to do what they want to.
  3. IHER - these are where members have been declined for early retirement on the grounds of ill health and are appealing the decision through the Internal Disputes Resolution Procedure.

Lessons Learned

Having reviewed the complaints received in the period it was identified our communications aren't always as clear as they could be. This is being addressed as part of the ongoing letters project.

3.5. **Annual Benefit Statements 2020**

Preparatory work has begun on the 2020 annual benefit statement process with templates reviewed and amended. The year-end template and guide has also been reviewed and updated and has been issued to employers in the week commencing 13 January. Further reminders will be issued in February, March and early April.

4. Issues and Initiatives

4.1. **GMP Reconciliation**

- ITM are awaiting the final data cut from HMRC to undertake a closing data reconciliation exercise to ensure we have an agreed final position before we undertake the actual rectification of records.
- Due to the delay in receiving the HMRC final data cut we will not be able to correct records before the April increases are due to be applied but hope to do so shortly afterwards.

4.2. **Breaches Policy & Log**

- The North Yorkshire Pension Fund's Breaches Log is included at **Appendix 2** for review. There are no new entries.

4.3. **Efficiency Initiatives**

- The major retirement options letter is now live although staff have to input figures manually. This is being reviewed shortly to see if full automation can be achieved. The retirement estimate letter has been aligned with the options letter to ensure consistency of information and style and this is in testing. The transfer out letters are being worked on to combine multiple letters into one to handle every scenario.

4.4. **Administration System Review**

- The licence for the current system, Altair, has been extended to 31 December 2021 to allow time to complete the review and re-procurement project.
- Allowance for the procurement of the additional employer online portal has been included in the 2020/21 budget. The integrated payroll module won't be purchased until the 2021/22 financial year and so will be included in that year's budget.
- The employer portal enables us to move to monthly online returns enabling us to regularly capture validated data along with leavers and joiners instead of catching up at year end.
- It removes the need for the large year-end process enabling more time for the production of annual benefit statements.
- Work continues with Technology and Change to capture requirements from all relevant parties, produce the relevant documentation and ensure effective procurement happens.
- Procurement will be undertaken via the LGPS Pensions Administration Software Framework

5. Member Training

5.1. The Member Training Record showing the recent training undertaken up to November 2019 is attached as **Appendix 3.**

5.2. Responses to the CIPFA Skills Matrix are being collated and it is anticipated the results of the assessment will be brought to the next meeting. The outcome of this will be considered alongside the Fund's business plan and budget which will also be brought to the February meeting.

5.3. Upcoming courses, seminars and conferences available to Members are set out in the schedule attached as **Appendix 4**. Please contact Ashleigh Burdess (01609 536053 or email Ashleigh.burdess@northyorks.gov.uk) for further information or to reserve a place on an event.

6. Meeting Timetable

6.1 The latest timetable for forthcoming meetings of the Committee and Investment Manager meetings is attached as **Appendix 5**. Due to the closure of the Brierley Building, there will be a change of venue for future meetings, Members will be updated once the new venue has been confirmed.

7. Recommendations

7.1. Members to note the contents of the report.
7.2. Members to note the contents of the Breaches Log

Gary Fielding
Treasurer of North Yorkshire Pension Fund
NYCC
County Hall
Northallerton

12 February 2020

Academy Conversions – 25 ‘in progress’

Name of School	Local Education Authority	Multi Academy Trust (MAT) Name	Conversion Date	Current Position
Cambrai Primary School, Catterick	A new Free School	Lingfield Education Trust	1.9.2019	Complete
Sherburn High School	NYCC	STAR Multi Academy Trust	1.10.2019	Complete
St John’s CoE VC Primary School Knaresborough	NYCC	Elevate Multi Academy Trust	1.10.2019	Complete
Marton cum Grafton VA Primary School	NYCC	Elevate Multi Academy Trust	1.10.2019	Complete
Brayton CoE Primary School	NYCC	STAR Multi Academy Trust	1.11.2019	Complete
Skipton Parish CoE School	NYCC	Yorkshire Causeway Schools Trust	1.2.2020	Will be progressed nearer the time
Rillington CP School	NYCC	Elevate Multi Academy Trust	1.3.2020	Will be progressed nearer the time
Thornton Dale CofE Primary School	NYCC	Elevate Multi Academy Trust	1.3.2020 (tentative)	Will be progressed nearer the time
Carnagill Community Primary School	NYCC	Dales Academies Trust	1.3.2020	Will be progressed nearer the time. Delayed from 1.11.2019
The Forest School Knaresborough	NYCC	Wellspring Academy Trust	1.4.2020	Will be progressed nearer the time
St Hedda’s Roman Catholic Primary School	NYCC	St Margaret Clitherow Academy Trust	1.4.2020	Will be progressed nearer the time. Delayed from 1.10.2019
Escrick CoE VC Primary School	NYCC	South York Multi Academy Trust	Expected late spring/summer 2020	Will be progressed nearer the time
Danesgate Community School	COYC	South York Multi Academy Trust	Expected late spring/summer 2020	Will be progressed nearer the time
Ryedale School Helmesley Community Primary School Sinnington Primary School Kirkbymoorside Primary School	NYCC	The Ryedale Learning MAT	Date to be confirmed	

Name of School	Local Education Authority	Multi Academy Trust (MAT) Name	Conversion Date	Current Position
St Robert's Catholic Primary School, Harrogate	NYCC	Possibly with Bishop Wheeler Catholic Academy Trust	On hold – date to be confirmed	Delayed from 1.2.2020
Barkston Ash RC Primary School	NYCC	Possibly with Bishop Wheeler Catholic Academy Trust	On hold – date to be confirmed	Delayed from 1.9.2020
St Joseph's Catholic Primary School, Tadcaster	NYCC	Possibly with Bishop Wheeler Catholic Academy Trust	On hold – date to be confirmed	Delayed from 1.9.2020
St John Fisher Catholic High School, Ripon	NYCC	Possibly with Bishop Wheeler Catholic Academy Trust	On hold – date to be confirmed	Delayed from 1.9.2020
All Saints, York	COYC	St Margaret Clitherow Academy Trust	Not known	Delayed from 1.9.2019
St Hilda's Roman Catholic Primary School	NYCC	St Margaret Clitherow Academy Trust	On hold – date to be confirmed	Delayed from 1.10.2019
St Mary's Catholic Primary, Selby	NYCC	Possibly with Bishop Konstant Catholic Academy Trust	On hold – date to be confirmed	Delayed from 1.2.2020
Holy Family Catholic High, Carlton	NYCC	Possibly with Bishop Konstant Catholic Academy Trust	On hold – date to be confirmed	Delayed from 1.2.2020
Naburn CoE Primary School	COYC	South York Multi Academy Trust	Not known	Delayed from 1.10.2018
Lord Deramore's Primary School	COYC	South York Multi Academy Trust	Not known	Delayed from 1.11.2018
Fishergate Primary School	COYC	South York Multi Academy Trust	Not known	Delayed from 1.12.2018
Elvington CoE Primary School	COYC	South York Multi Academy Trust	Not known	Actuarial calculations provided based on conversion date of 1.7.18. Conversion delayed, new date not yet known
Langton Primary School	NYCC	Evolution Schools Learning Trust	Not known	Original conversion date was 1.10.2016 but MAT advised it has been delayed.
Thirsk School & Sixth Form College	NYCC	Arete Learning Trust	Not known	Original conversion date was 1.2.2018. MAT has advised no definite agreement in place at present
Stillington Primary School	NYCC	Not yet known	Not known	Proposed conversion date was 1.2.2019 with Hope Learning Trust. Project now on hold. School no longer converting with Hope Learning Trust and new sponsor being sought

Admission Bodies –15 'in progress'

Name of Employer	Name of Contractor	Staff Transfer Date	Current Position
Askham Bryan College (catering contract)	Aramark	1.9.2019	Complete
STAR MAT	RCCN Ltd	1.7.2019	Complete
Hope Learning Trust George Pindar School Graham School	Hutchison Catering Limited	1.9.2019	Complete
NYCC Holy Trinity (Ripon) Infants School	Mellors Catering Services Limited	1.9.2019	In progress
NYCC Grove Road Primary School	Compass Contract Services (U.K) Limited	1.9.2019	In progress
School Yorkshire Causeway Schools Trust Pannal Primary School	Compass Contract Services (U.K) Limited	1.9.2019	In progress
Northern Star Academies Trust Hookstone Chase Primary New Park Primary School Starbeck Primary School	Compass Contract Services (U.K) Limited	1.9.2019	In progress
Yorkshire Collaborative Academy Trust Hawes CP School Leyburn Primary School Lothersdale Primary School	P&A Food Management	1.9.2019	In progress
NYCC Boroughbridge Primary School	P&A Food Management	1.9.2019	In progress
NYCC Grewelthorpe Primary School	P&A Food Management	1.9.2019	In progress
NYCC Fountains Grantley CE Primary School	P&A Food Management	1.9.2019	In progress

Name of Employer	Name of Contractor	Staff Transfer Date	Current Position
Ebor Academy Trust Camblesforth CP School Braeburn Primary & Nursery Academy Ebor Academy Filey Filey Nursery & Infants School Lakeside Primary Academy Park Grove Primary Academy Tadcaster Primary Academy Tockwith CE Primary Academy	Hutchison Catering Limited	1.9.2019	In progress
Yorkshire Collaborative Academy Trust Askwith Primary School	P&A Food Management	December 2019	In progress
Ebor Academy Trust Osbaldwick Primary Academy Staynor Hall Community Primary Academy	Hutchison Catering Limited	1.1.2020	In progress
Selby College – Approx. 7 catering staff	Contractor not yet appointed	Tentative 6.1.2020 or 24.2.2020	In progress
City of York Council (Haxby Hall Care Home)	Yorkare Homes Ltd	March 2020	Future service rate provided, admission agreement will be progressed nearer the time. The transfer is now on hold (service was due to transfer January 2019)
Harrogate Borough Council – Security Contract at Harrogate Convention Centre	Contractor not yet appointed	June 2020	In progress
Hope Learning Trust Baldersby St James CoE Primary Academy Burton Green Primary School Forest of Galtres Anglican Methodist Primary School Poppleton Ousebank Primary Academy Skelton Primary School	Contractor not yet appointed	20 July 2020	Will be progressed nearer the time

Exiting Employers – 13

Name of Employer	**Date exited the Fund**
OCS Group UK Limited	31.3.2017
Superclean Services Limited	16.7.2017
Joseph Rowntree Charitable Trust	31.12.2017
York Arts Education (Community Interest Company)	31.3.2018
Hutchison Catering Limited (contract at Canon Lee School)	19.7.2018
Be Independent	31.7.2018
Housing & Care 21	31.8.2018
Consultant Cleaners	31.10.2018 (voluntary liquidation) – in progress
Absolutely Catering Limited	Two contracts ceased 4.1.2019
ISS Mediclean (Tang Hall contract)	6.1.2019 (in progress)
The Wilberforce Trust	22.3.2019
Dolce Limited	14.4.2019
Schools Plus	30.4.2019

Date	Category	Description of Breach	Cause of Breach	Regulation being breached	Effect of Breach & Wider Implications	Response to Breach	Referred to PFC	Referred to PB	Outcome of Referral to PFC & PB	Reported to Regulator	Progress Review 1	Progress Review 2	Progress Review 3
31/08/2017	Administration	Statutory deadline for issuing of Annual Benefit Statements not met for all eligible members	Large backlog meant we were unable to establish which category members should fall into at statement date. Year End queries still outstanding at issue date.		85.88% of Active members received a statement = 14.12% did not 94.51% of Deferred members received a statement = 5.49% did not	Large backlog means we do not yet know actual total eligible for a statement. Continue to reduce the backlog with targetted initiatives. Target is to have a controlled work throughput by end 2018. Continue to work through errors & queries & issue ABS' when able to. Introduce monthly returns for our 2 largest employers by end of 2018 so that errors can be identifed in real time rather than at year end.	14/09/2017	19/01/2018	Noted the position, no requirement to report. Creation of Breaches Log to record position.	N	30/11/2017	28/02/2018	30/05/2018
08/11/2017	Administration	Statutory deadline for issuing Personal Savings Statements not met for all members	Human error		2 members received statements after the 6/10/2017 deadline. 192 manual calculations undertaken and 56 statements issued. 3.5% of members affected	Statements issued immediately. Process under review by team leader. Checklist created and process will be audited in 2018 to ensure checklist being used and process being robustly followed	22/02/2018	19/01/2018	PB - Noted the position, no requirement to report. PFC - Noted the position, no requirement to report.	N	30/04/2018	31/08/2018	30/09/2018
18/12/2017	Administration	Incorrectly paid trivial commutation to a member who has benefits with another fund and had not commuted those benefits	Human error		Member received benefits he wasn't entitled to. No other member affected. Payment is an unauthorised payment & must be reported to HMRC, resulting in tax liability at 55% for the member & additional tax for the scheme.	As soon as realised payment was unauthorised, informed member and reported to HMRC. Awaiting confirmation of scheme tax liability.	22/02/2018	19/01/2018	PB - Noted the position, no requirement to report. PFC - Noted the position, no requirement to report.	N - Reported to HMRC			
31/08/2018	Administration	Statutory deadline for issuing of Annual Benefit Statements not met for all eligible members	Year End queries still outstanding at issue date.		86.52% of Active members received a statement = 13.48% did not 99.76% of Deferred members received a statement = 0.24% did not	Backlog has been reduced so in a better position regarding correct eligibility for statements. Significant year end queries (2,399) have impacted statement production. Ers being chased for response. Continue to work through errors & queries & issue ABS' when able to. Viability of monthly returns being investigated	22/11/2018	11/10/2018	PB - noted the position, agreed not to report this time but will in 2019. PFC - noted position, agreed not to report this time.	N	N/A	N/A	N/A
31/08/2019	Administration	Statutory deadline for issuing of Annual Benefit Statements not met for all eligible members	Year End queries still outstanding at issue date. Clarification on members not worked in year still outstanding at issue date. Manual calculation of Annual Allowance figures still outstanding at issue date.	Reg 89 of LGPS Regs 2013	100% of Deferred members received a statement. 95.69% of Active members received a statement. (1,342 members did not)	Analysis of the 1,342 unissued statements undertaken to identify and isolate reasons. Each group being worked through to identify what is required to enable statement to be produced. Number reduced to 329 as at 9 October, work will continue until end of year to further reduce number unissued. Final position: 329 unissued	22/11/2019	03/10/2019	PB - discussed position, noted improvement from 2018, requested furher analysis by employer to identify whether an issue exists at individual employer level.	N	31/10/2019	30/11/2019	24/12/2019

Date	Title or Nature of Course	Mulligan P	Swiers H	Weighell J	Clark J	Portlock D	M Chambers	A Solloway	A Thompson	C Lunn	*I Gillies	*C Steward	*I Cuthbertson	Unison (Vacancy)	Unison (Vacancy)
17- 19 October 2018	PLSA Annual Conference, Liverpool		✓	✓											
31 October 2018	Additional PFC meeting-Investment Strategy	✓	✓	✓	✓		✓		✓			✓			
8-9 November 2018	BCPP Annual Conference	✓	✓	✓	✓	✓			✓						
22 November 2018	Investment Strategy Workshop	✓	✓	✓	✓	✓	✓			✓	✓				
5-7 December 2018	LAPFF Conference - Bournemouth														
14 February 2019	Investment Strategy Workshop	✓	✓	✓	✓	✓	✓		✓						
21 February 2019	Investment Strategy Workshop	✓	✓	✓		✓	✓	✓	✓	✓					
25 February 2019	LGPS Members Spring Seminar - Leeds					✓									
25 April 2019	Investment Strategy Workshop- Leeds	✓	✓	✓	✓	✓	✓	✓		✓					
13-15 May 2019	PLSA Local Authority Conference, Cotswolds				✓										
24 May 2019	Manager workshop	✓	✓	✓	✓	✓	✓								
20 June 2019	Global Equity workshop	✓	✓	✓	✓	✓	✓	✓	✓	✓					
4 July 2019	MAC Workshop	✓	✓	✓	✓	✓	✓			✓			✓		
9 –10 October 2019	Baillie Gifford Conference	✓	✓	✓					✓						
10-11 October 2019	BCPP Conference	✓	✓	✓	✓	✓	✓			✓					
21 November 2019	Investment Strategy Workshop	✓	✓	✓	✓	✓	✓			✓					

***City Of York Council Members – Ian Gillies/Chris Steward (Sub) - May 2017 to May 2019**
Ian Cuthbertson – May 2019 - Present

APPENDIX 4

UPCOMING TRAINING AVAILABLE TO MEMBERS

Provider	***Course / Conference Title***	***Date(s)***	***Location***	***Themes / Subjects Covered***
LGC	Investment Seminar	27 – 28 February 2020	Carden Park Hotel, Cheshire	“Converting 2020 vision into a successful investment strategy.” Educational workshop sessions where delegates can get to the core of some of the more complex investment issues Dedicated time to network with your peers and investment experts A comprehensive programme covering the most topical issues for your fund with high calibre speakers An informative debate pitched at the right level for the audience.
PLSA	Investment Conference	11- 13 March 2020	EICC, Edinburgh	This event brings together 1000 pension professionals including CIOs, pension managers, trustees, consultants and finance professionals and their advisers for the UK's largest conference of its kind. The programme offers a mix of plenary keynotes, focused stream sessions and events dedicated to learning, discussion and networking, as well as an exclusive exhibition with over 45 stands.

PLSA	Local Authority Conference	18-20 May 2020	De Vere Cotswold Water Park Hotel, Gloucestershire	A residential conference that includes keynote speeches, stream sessions, a Learning Zone, a specialist session, an exclusive exhibition, networking lunch for Local Pension Boards, Welcome Drinks Reception and a Conference Dinner. The event is the largest of its kind dedicated to the LGPS, attended by over 400 local authority officers, councillors, members of Local Pension Boards, admitted bodies and their advisers.
PLSA	Annual Conference & Exhibition 2020	14-16 October 2020	ACC Liverpool	Attracting 1,500 top industry professionals and with over 80 exhibition stands, the PLSA Annual Conference is the most important annual event for anyone involved in pensions. From trustees, pension managers and finance directors who control assets worth billions of pounds to HR specialists responsible for workforces of thousands of people, the delegates are made up of the most important pension decision makers in the country. The conference includes keynote speeches, streamed focus sessions, specialist sessions, a Trustee Learning Zone, exhibition and a conference drinks reception.

APPENDIX 5

PENSION FUND COMMITTEE TIMETABLE FOR MEETINGS IN 2020/21

Meeting Date	Time & Venue	Event	Fund Managers
21 May 2020	10am, TBC	Pension Fund Workshop	Representative of BCPP and/or Fund Manager TBC
22 May 2020	10am, TBC	Pension Fund Committee	
2 July 2020	10am, TBC	Pension Fund Workshop	Representative of BCPP and/or Fund Manager TBC
3 July 2020	10am, TBC	Pension Fund Committee	
10 September 2020	10am, TBC	Pension Fund Workshop	Representative of BCPP and/or Fund Manager TBC
11 September 2020	10am, TBC	Pension Fund Committee	
26 November 2020	10am, TBC	Pension Fund Workshop	Representative of BCPP and/or Fund Manager TBC
27 November 2020	10am, TBC	Pension Fund Committee	
18 February 2021	10am, TBC	Pension Fund Workshop	Representative of BCPP Fund Manager TBC
19 February 2021	10am, TBC	Pension Fund Committee	

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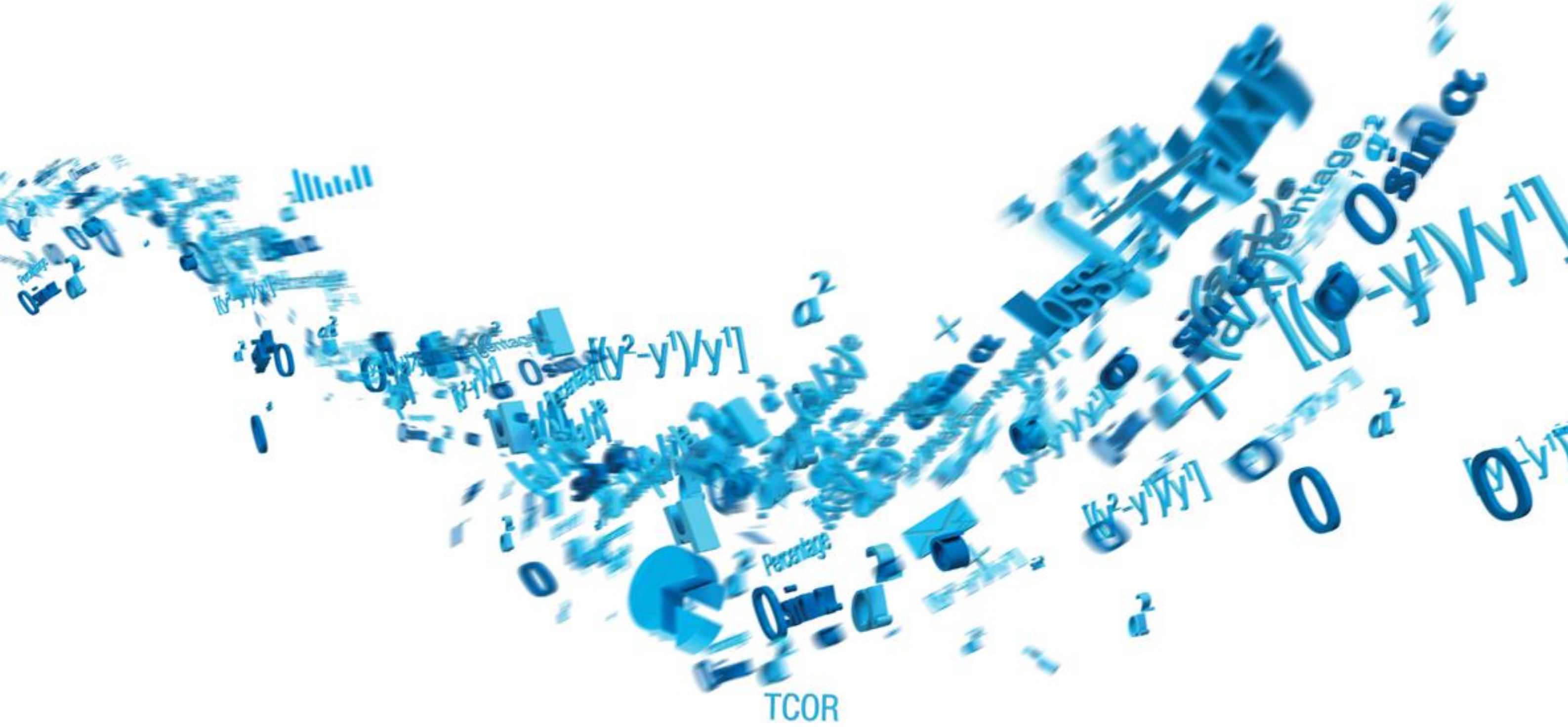

Quarterly Investment Report Quarter 4 2019

North Yorkshire Pension Fund

Prepared for	The Pension Fund Committee
Prepared by	Lucy Barron Louis-Paul Hill Daniel Clarke Aon Global Investment Research
Date	13 February 2020

QAS Institute and Faculty of Actuaries ® Quality Assurance Scheme

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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.

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

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.

The Fund returned 0.7% over the fourth quarter of 2019, outperforming its composite performance benchmark by 1.7%.

- 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.

Investment returns – 12 months to 31 December 2019

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).

- 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.

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 (%) Portfolio	Quarterly (%) B'mark	Quarterly (%) Relative	Annual (%) Portfolio	Annual (%) B'mark	Annual (%) Relative	3 Years (% pa) Portfolio	3 Years (% pa) B'mark	3 Years (% pa) Relative	3 Years (% pa) 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.*

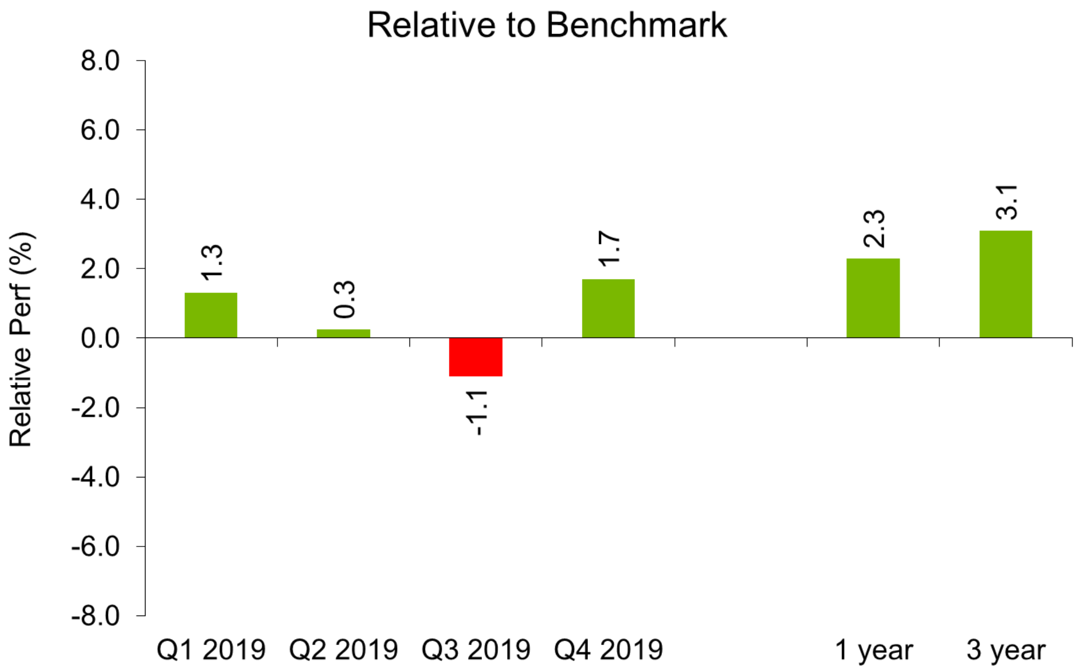
**The BCPP Global Equity and total fund performance and benchmark figures reported by BNY Mellon are currently under review and subject to change.*

Quarter 4 2019 – Asset Allocation

	Previous Quarter		Current Quarter			
	Market Value (£m)	Weight (%)	Market Value (£m)	Weigt (%)	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



	Q1 2019	Q2 2019	Q3 2019	Q4 2019	1 year	3 year
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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ITEM 10

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

21 FEBRUARY 2020

INVESTMENT STRATEGY REVIEW

Report of the Treasurer

1. PURPOSE OF REPORT

1.1. To consider an allocation to BCPP's Index-linked Gilt Fund.

1.2. To consider an additional investment in the BCPP Infrastructure Fund.

1.3. To consider an investment in the BCPP Private Equity Fund.

2. ALLOCATION TO INDEX-LINKED GILTS

2.1. The BCPP Index-linked Gilt sub-fund is due to launch in the second half of 2020. BCPP has therefore asked Committees to consider an initial investment in the sub-fund, subject to further due diligence. The Fund's investment consultants, Aon, have carried out high level due diligence on the proposed design of the sub-fund. This due diligence covers the suitability of the sub-fund for NYPF, where the funds would come from if an investment is made and recommendations on the initial allocation and longer term allocations to the sub-fund. The key recommendations from the due diligence will be presented by Aon at the February Committee meeting.

2.2. This sub-fund will be internally managed with a performance objective to outperform the benchmark by 15 to 25bps (net of fees). It is expected to be a low cost sub-fund with minimal internal resource requirements due to the small size of the universe and low expected turnover of the assets. This target return is lower than the performance objective of the Fund's current gilt mandate which is 50bps (net of fees), this is because it is expected that the BCPP portfolio will be less active. The portfolio size is expected to be around £1bn on launch.

2.3. In terms of the suitability of the sub-fund for NYPF, Aon have advised that the sub-fund is a suitable replacement for the gilts currently held in the portfolio and have raised no red flags, based on the information available on the design, subject to some necessary conditions being met. These necessary conditions will be discussed in the Committee meeting.

2.4. The Fund currently holds around 18% in gilts, c.12% of this is actively managed by M&G (c.£460m) and the remaining c.6% is being held by LGIM as collateral for the equity protection mandate (c.£237m). To remind Members, the allocation to gilts was reduced to 10% in the new long-term investment strategy. In order to bring the gilt allocation more in line with this new long-term allocation, it was agreed by Members in the November Committee meeting to fund the PIMCO investment from the M&G mandate, which will reduce the M&G allocation to around £270m.

2.5. As the Fund currently has c.6% held by LGIM as collateral, it is recommended that an initial investment of £150m (c.4%) be made on launch to the BCPP Index-Linked Gilt Fund from the M&G mandate to bring the total allocation to gilts towards the new long term allocation. It is expected that this transition could be made in-specie. Any remaining allocation to M&G (c.£120m) would then be utilised as required to fund other investments which form part of the long term strategic allocation.

2.6. Once the equity protection strategies have ended and the gilts held by LGIM are no longer required as collateral, this allocation can also be transferred to the BCPP Index-linked Gilt Fund at a later date. As there are two equity protection strategies in place with different end dates, this may be a two-stage transition. It is still expected that these transitions could be in-specie. The equity protection strategies held by the Fund will be reviewed at the May Committee meeting.

2.7. Members are asked to consider an initial investment of £150m in the BCPP Index-linked Gilt Fund, subject to further due diligence. Members are also asked to consider delegating authority to the Treasurer of the Fund to finalise this due diligence in consultation with the Chair of the Committee. If, in the view of the Treasurer or Chairman, there are any significant issued raised as part of this due diligence it will be brought back to a future PFC meeting prior to a final commitment being made.

3. INFRASTRUCTURE INVESTMENT

3.1. To remind Members, in the July 2019 PFC meeting an initial commitment of £70m was made to the BCPP Infrastructure Fund during the first subscription window (series 1a), with the aim of gradually building up a 5% allocation to infrastructure in the long term, as part of the Fund's 7.5% allocation to illiquid growth. Due to the illiquid nature of alternative investments, BCPP have set up triennial funds where commitments are raised in annual subscription windows with the plan to deploy capital over a three-year period. The next opportunity to invest in the Infrastructure Fund is April 2020 (series 1b). The Committee is therefore asked to provide a final commitment in the February PFC Meeting.

3.2. On initial launch in July 2019, Aon carried out high level due diligence on the sub-fund which did not identify any issues with making an investment. As this second investment would be in the same sub-fund, due diligence is not required again, however Aon have carried out a high level assessment of the investment activities of the sub-fund so far to inform a recommendation for a second investment. This assessment has not highlighted any major concerns regarding BCPP's investment approach so far and will be discussed in further detail the February Committee meeting.

3.3. It is recommended that a further investment of between £40m - £70m be made in the infrastructure sub-fund by the April 2020 deadline. If the Committee plan to invest in Private Equity (discussed further in section 4 below) or if the Committee want to spread infrastructure investments over a longer time frame, then an investment towards the lower end of the range is recommended. However, if the Committee does not plan to invest in Private Equity then it is recommended that an investment at the higher end of the range be committed.

3.4. Members are asked to consider an additional investment of £40m-£70m in the BCPP Infrastructure Fund.

4. PRIVATE EQUITY INVESTMENT

4.1. The second annual subscription window for investments in Private Equity is also April 2020 and Committees are therefore asked to make final commitments in their February PFC meetings. This sub-fund was first launched in April 2019, however as this is not an asset class that the Fund is currently invested in and the new investment strategy had not been determined at the time of launch, it was decided not to invest in the Fund. Now that the new investment strategy has been approved, the Committee may wish to invest the BCPP Private Equity Fund, during this second subscription window, as part of the Fund's 7.5% allocation to illiquid growth.

4.2. As the Fund is not currently invested in private equity, BCPP will be attending the informal workshop on 20 February 2020 to provide training on the asset class and their sub-fund offering. Following this training, Members are asked to consider making a commitment to the BCPP Private Equity Fund in April 2020. There will also be a further opportunity to invest in the sub-fund in April 2021.

5. RECOMMENDATIONS

Members are to:

5.1. Consider a commitment of £150m in the BCPP Index-linked Gilt Fund, subject to further due diligence.

5.2. Delegate authority to the Treasurer of the Fund, in consultation with the Chair of the Committee, to finalise the due diligence on the BCPP Index-linked Gilt Fund.

5.3. Consider an additional investment of between £40m and £70m in the BCPP Infrastructure Fund.

5.4. Consider an investment in the BCPP Private Equity Fund.

GARY FIELDING
Treasurer to North Yorkshire Pension Fund
NYCC
County Hall
10 February 2020