

Quarterly Investment Report Quarter 1 2020

North Yorkshire Pension Fund

Prepared for The Pension Fund Committee

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Date 14 May 2020

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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 first calendar quarter of 2020.

- 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, solvency position and cashflow.
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2. Executive Summary

Overall performance

- The Fund assets decreased in value by £279.8m to £3,543.6 over the first quarter of 2020.
- In relative terms, the Fund outperformed the composite benchmark by 0.3% over the quarter, returning -6.9% in absolute terms. Much of the outperformance this quarter was a result of significant relative performance from the Baillie Gifford LTGG (+19.2%) portfolio.

Asset Allocation

- The Fund's asset allocation at the end of Q1 2020 was 0.9% underweight equity, 2.5% underweight alternatives and 3.4% overweight bonds & cash.
- No rebalancing required.

3. Investment Summary

Investment returns – 3 months to 31 March 2020	<p>The market value of the Fund's assets as at 31 March 2020 (£3,543.6m) was £279.8m lower than the value as at 31 December 2019 (£3,823.4m).</p> <p>The Fund returned -6.9% over the first quarter of 2020, outperforming its composite performance benchmark by 0.3%.</p> <ul style="list-style-type: none">▪ In relative terms, the performance from the Baillie Gifford LTGG (+19.2%) portfolio was the key driver of the outperformance. Veritas (+4.7%) also outperformed the benchmark during the quarter. In contrast, Dodge & Cox (-10.7%) underperformed over the quarter.▪ BCPP Global Equity (-5.7%) and BCPP UK Equity (-4.4%) both underperformed their respective benchmarks during the quarter.▪ Hermes (+1.2%) outperformed over the quarter whereas Legal and General (-0.1%) underperformed. Threadneedle performed in line with its respective benchmark.▪ The Leadenhall Remote Risk (+0.8%) outperformed the benchmark whereas the Nat Cat (-0.6%) underperformed. The Leadenhall Diversified performed in line with the benchmark.▪ Newton Real Return (-9.5%) underperformed.▪ M&G outperformed the benchmark by 1.0%.▪ The LGIM Equity Protection portfolio (including the Gilt collateral holdings) returned +32.4%.▪ Permira (+0.5%) outperformed, whereas BlueBay (-0.1%) underperformed their benchmarks. Please note that both mandates are currently going through the commitment phase and hence performance can be distorted by the timing of cash being received by the investment managers.
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Investment returns – 12 months to 31 March 2020	<p>The market value of the Fund's assets as at 31 March 2020 (£3,543.6m) was £33.5m lower than the value as at 31 March 2019 (£3,577.1m).</p> <ul style="list-style-type: none">▪ In relative terms the Fund was 1.7% ahead (0.2% vs. -1.5%) its composite performance benchmark return over the past 12 months.▪ In relative terms, the outperformance from the Baillie Gifford LTGG (+23.2%) portfolio was the key driver of the outperformance. Veritas (+7.1%) also produced a favourable relative return. In contrast, Dodge & Cox (-12.4%) underperformed over the 12-month period.▪ The Leadenhall Diversified (+1.3%), Nat Cat (+1.6%) and the Remote Risk (+2.8) outperformed the benchmark over the year to 31 March 2020.▪ Newton underperformed its cash benchmark by 2.9% over the year.▪ Hermes and Legal & General outperformed the property benchmark by 1.7% and 0.3% respectively, whereas Threadneedle underperformed the benchmark by 0.3%.▪ M&G returned 4.6%, 0.4% ahead of the benchmark return of 4.2%.▪ Permira (+1.0%) and BlueBay (+1.1%) outperformed their respective benchmarks over the past 12 months.
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Market Background Q1 2020

- A decade-long bull market came to an abrupt halt as the Covid-19 outbreak turned into a global pandemic. After reaching all-time highs in mid-February, global equities sold off sharply as infection numbers grew and governments worldwide ramped up virus containment measures. Equities started to rebound towards the end of the quarter, boosted by unprecedented global fiscal and monetary stimulus measures but the MSCI AC World index still recorded its worst quarter since the 2008 Global Financial Crisis with a -19.9% return in local currency terms. With much of the global economy shuttered going into the second quarter, a deep global recession appears to be inevitable.
- The US Federal Reserve (Fed) announced two emergency rate cuts over the quarter, lowering the Fed Funds Rate target by a total of 150bps to 0.00%-0.25%. Meanwhile, the Bank of England reduced its base rate by a total of 65bps to an all-time low of 0.10% and joined other major central banks in launching new quantitative easing measures in a bid to prevent a severe economic downturn.
- Brent crude oil prices fell by 65.5% in USD terms over the quarter, as demand for fuel fell due to social distancing measures to reduce the spread of Covid-19 whilst Saudi Arabia ramped up production after it failed to agree a plan with Russia to cut oil supply.
- Gilt yields tumbled over the quarter, boosting the returns of the FTSE All Stocks Gilts Index and the FTSE All Stocks Index-Linked Gilts Index to 6.3% and 1.6% respectively.
- UK investment grade credit spreads spiked due to concerns over corporate profitability and market illiquidity. The losses were mitigated by the fall in underlying government bond yields, bringing the overall return to -3.4%.
- Sterling fell sharply over the quarter amidst risk-off investor sentiment and a worsening virus outbreak in the UK. Sterling depreciated by 6.4% and 4.2% against the US dollar and the euro respectively. This reduced global equity losses in sterling terms to 15.9%.
- UK property capital values fell by 2.7% over the quarter. Despite steady income returns, UK property returned -1.4% overall.

List of rebalancing

The following rebalancing took place over the quarter:

- BCPP made five Infrastructure capital calls in the quarter totalling £5,741k
- Arcmont (formerly Bluebay) made their 12th capital call of £1,033k
- The final balance of £59k was transferred out of the LGIM UK Equity transition account
- A total of £11,167k was disinvested from the Treasury Management cash fund to cover the capital calls made in the quarter and a bulk transfer out of £4m to the West Yorkshire Pension Fund

Solvency position

The solvency position of the Fund as at 31 March 2020 was estimated to be 107%. The funding level has dropped by 8% since 31 December 2019.

This is mainly due to the asset return experienced over the quarter being worse than expected, while the real discount rate is largely unchanged.

Cashflow

A cashflow policy will be brought to a future Pension Fund Committee meeting. Given the Fund's current cash investment of c.£130m, there are no immediate cashflow issues.

Quarter 1 2020– Performance

Investment	Quarterly (%)			Annual (%)			3 Years (% pa)		
	Portfolio	B'mark	Relative	Portfolio	B'mark	Relative	Portfolio	B'mark	Relative
Equities									
UK Equities									
BCPP UK Equity	-29.5	-25.1	-4.4	-	-	-	-	-	-
Global Equities									
Baillie Gifford LTGG	3.2	-16.0	+19.2	17.0	-6.2	+23.2	20.1	2.2	+17.9
BCPP Global Equity	-21.6	-15.9	-5.7	-	-	-	-	-	-
Dodge & Cox	-26.6	-15.9	-10.7	-18.6	-6.2	-12.4	-5.6	2.3	-7.9
Veritas	-11.2	-15.9	+4.7	0.9	-6.2	+7.1	5.3	2.3	+3.0
Diversified Growth									
Newton Real Return	-9.3	0.2	-9.5	-2.2	0.7	-2.9	0.8	0.6	+0.2
Property									
Hermes	-0.1	-1.3	+1.2	1.8	0.1	+1.7	6.7	5.3	+1.4
L&G	-1.4	-1.3	-0.1	0.3	0.0	+0.3	3.8	4.8	-1.0
Threadneedle	-1.3	-1.3	0.0	-0.3	0.0	-0.3	4.5	4.8	-0.3
Insurance-Linked									
Leadenhall Remote Risk	0.9	0.1	+0.8	3.5	0.7	+2.8	-	-	-
Leadenhall Diversified	0.1	0.1	0.0	2.0	0.7	+1.3	-	-	-
Leadenhall Nat Cat	-0.5	0.1	-0.6	2.3	0.7	+1.6	-	-	-
Infrastructure									
BCPP Infrastructure	-5.9	1.3	-7.2	-	-	-	-	-	-
Global Bonds									
Fixed Income – UK Bonds									
M&G	4.3	3.3	+1.0	4.6	4.2	+0.4	3.8	3.8	0.0
LGIM Equity Protection (Inc. collateral)	32.4	32.4	0.0	-	-	-	-	-	-
Fixed Income – Private Debt									
BlueBay	1.4	1.5	-0.1	7.1	6.0	+1.1	7.5	6.0	+1.5
Permira	2.0	1.5	+0.5	7.0	6.0	+1.0	9.3	6.0	+3.3
Overall	-6.9	-7.2	+0.3	0.2	-1.5	+1.7	5.3	2.8	+2.5

Source: BNY Mellon, Managers

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

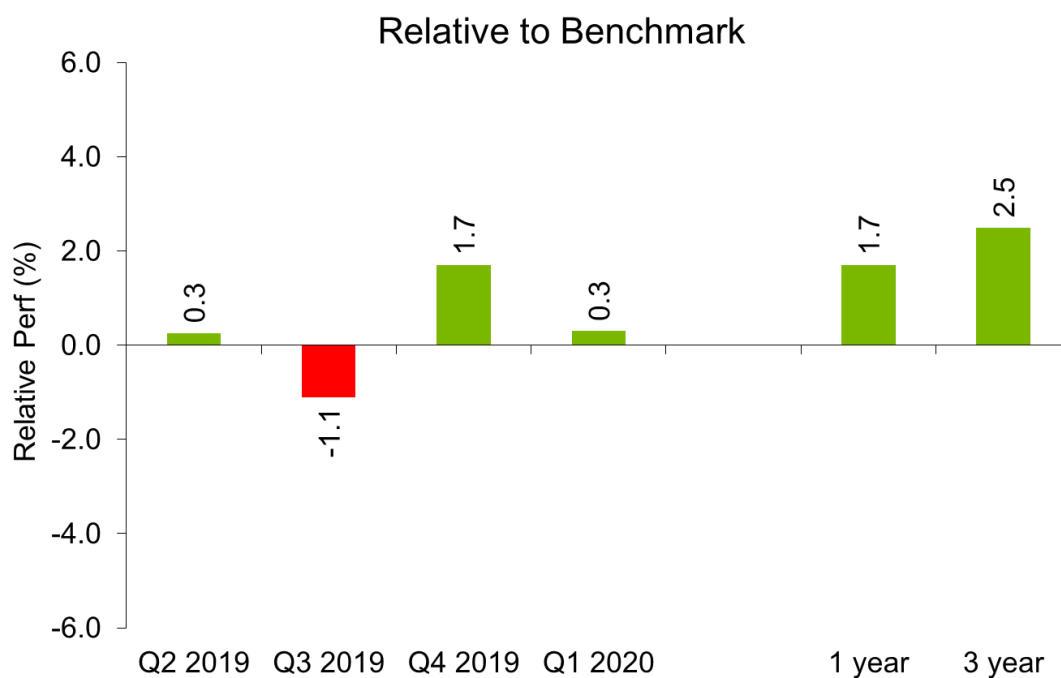
Quarter 1 2020 – Asset Allocation

	Previous Quarter		Current Quarter			
	Market Value (£m)	Weight (%)	Market Value (£m)	Weight (%)	Benchmark (%)	Relative (%)
Equities	2,262.1	59.2	1,918.4	54.1	55.0	-0.9
UK Equities	170.5	4.5	120.2	3.4		
BCPP – UK Equity Fund	170.5	4.5	120.2	3.4		
Global Equities	2,089.0	54.6	1,795.5	50.7		
BCPP – Global Equity Fund	1,037.0	27.1	813.5	23.0		
Baillie Gifford LTGG	577.6	15.1	595.9	16.8		
Dodge & Cox	230.9	6.0	169.5	4.8		
Veritas	243.5	6.4	216.5	6.1		
Overseas Equities	2.6	0.1	2.7	0.1		
Fidelity	2.6	0.1	2.7	0.1		
Alternatives	748.7	19.6	725.3	20.5	23.0	-2.5
Diversified Growth	157.5	4.1	142.9	4.0	5.0	-1.0
Newton Real Return	157.5	4.1	142.9	4.0	5.0	-1.0
Property	280.1	7.3	276.4	7.8	10.0	-2.2
Hermes	36.4	1.0	35.7	1.0		
L&G	71.4	1.9	70.5	2.0		
Threadneedle	172.3	4.5	170.2	4.8		
Insurance-Linked	163.3	4.3	163.5	4.6	5.0	-0.4
Leadenhall Remote Risk	55.0	1.4	55.5	1.6		
Leadenhall Diversified	54.2	1.4	54.3	1.5		
Leadenhall Nat Cat	54.0	1.4	53.8	1.5		
Property Debt	144.8	3.8	133.9	3.8	3.0	+0.8
Treasury Cash	144.8	3.8	133.9	3.8	3.0	+0.8
Infrastructure	3.1	0.1	8.5	0.2	0.0	+0.2
BCPP Infrastructure	3.1	0.0	8.5	0.2	0.0	+0.2
Global Bonds	788.0	20.6	885.4	25.0	22.0	+3.0
Fixed Income – UK Bonds	691.0	18.1	787.0	22.2	19.0	+3.2
M&G	454.0	11.9	473.1	13.3		
LGIM Equity Protection (Inc. collateral)	237.0	6.2	313.9	8.9		
Fixed Income – Private Debt	97.0	2.5	98.4	2.8	3.0	-0.2
BlueBay	38.7	1.0	39.3	1.1	1.5	-0.4
Permira	58.3	1.5	59.1	1.7	1.5	+0.2
Cash	24.5	0.6	14.5	0.4	0.0	+0.4
Internal Cash	24.5	0.6	14.5	0.4	0.0	+0.4
Total Assets	3,823.4	100.0	3,543.6	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	£3,543.6m
Performance Target	Target an expected return of approximately 2.5% ahead of the composite benchmark



Fund (%)	4.1	2.2	0.7	-6.9	0.2	5.3
Benchmark (%)	3.8	3.3	-1.0	-7.2	-1.5	2.8

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

The overall absolute performance of the Fund's assets was -6.9% over the first quarter of 2020, compared to the benchmark return of -7.2%.

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

The Fund outperformed its composite performance benchmark by 1.7% over the past 12-month period and by 2.5% per annum over the 3-year period to 31 March 2020.

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