

North Yorkshire County Council

Pension Fund Committee

Investments Sub-Committee

Notes of Skype Consultation meeting undertaken at 2pm on Friday 1st May 2020

Present via Skype:-

County Councillors John Weighell OBE (Chairman), Patrick Mulligan and Helen Swiers.

Councillor Ian Cuthbertson – City of York Council

Gary Fielding (NYPF Treasurer)

Amanda Alderson – NYPF

Steve Loach – NYCC

AON – NYPF Investment Consultants (Louis, Lucy and Andrew)

Independent Investment Adviser – Leslie Robb

1. Equity Protection Strategy

The representatives of AON gave a presentation outlining their recommendations in relation to the continuation of the Fund's Equity Protection Strategy in view of the Fund's 12 month equity protection strategy coming to an end on July 1st 2020, and the current extraordinary position of world markets due to the COVID 19 pandemic.

The presentation outlined the following:-

Implementation Principles – Structure and framework

Instruction to LGIM regarding £400m strategy that expires in July 2020

Equity Protection – next steps

Appendices outlining current position, market valuations, 'Time Value', terms and risks

A full copy of the presentation is attached at **Appendix 1**.

The following issues and points were raised during a discussion of the proposals with Members, Officers and Advisers:-

- The current position of markets and how that could affect returns from Equity Protection. It was noted that although there had been a recent dramatic upturn in markets since the unprecedented falls, due to the COVID 19 issues, they remained highly volatile, which warranted the recommended continuation of the protection.
- It was explained that the equity protection had been put in place in two tranches, with the first contract expiring on 1st July 2020, which was why a decision on how that would proceed was required now. The second tranche expired on 1st January 2021 and would be considered in due course. Each had involved investments of £400m.

- Details of the proposed incremental levels of equity protection, dependent upon market conditions, managed by LGIM, were explained. These ensured that maximum benefit could be gained from the continued protection.
- The Independent Financial Adviser stated that he was comfortable with the proposal particularly when considering the current volatility in the markets. He considered that it was sensible to continue with the equity protection and the proposal provided an appropriate solution.

Members agreed, unanimously, that the proposals for the continuation of equity protection for the contract ending on 1st July 2020, as set out in the presentation detailed in Appendix 1, and outlined below, should be implemented:-

The level of the new protection and its structure (i.e. between paying a premium for protection and giving up upside), is to be dependent on market levels, based on the principles set out by Aon on page 4 of their report. LGIM will therefore be instructed to implement a new 12 month strategy, expiring in July 2021, of between £100k and £400k, depending on market conditions at the point of expiry,

In addition, LGIM will be instructed to monitor protection expiring in January 2021 and alert AON and PFC when:

- Within 5% of protection ending (i.e. -20% to -25%)
 - At level when upside will be given up
- Further consideration would be given to the contract ending on 1st January 2021 in due course.
 - Members to be updated in further detail at forthcoming informal Skype meeting of Pension Fund Committee on 22nd May 2020.

2. PIMCO MAC Fund Investment

Further to the agreement to undertake a short-term investment in the PIMCO Diversified Income Fund from the partial sale of the excess M & G gilt allocation, as approved at the Pension Fund Committee held on 22nd November 2020, representatives of PIMCO provided a presentation, detailed in **Appendix 2**.

Members were reminded that the decision to invest in PIMCO was based on the decision to invest 5% of the Fund's investments in BCPPs MAC portfolio (subject to due diligence) in which the core element would be managed by PIMCO, allowing the majority of the funding to be transitioned "in specie" and thereby reducing transition costs. The transfer to MAC would also accord with the Fund's Investment Strategy in relation to reducing the risk in investments.

Members were invited to confirm their continued interest in the investment given the substantial changes to the context for investment since November 2019.

The representatives of PIMCO left the meeting at the conclusion of the presentation.

The following issues and points were raised during a discussion of the presentation with Members, Officers and Advisers:-

- It was noted that approximately 30% of the investment would not be transitioned to the BCPP portfolio as aspects of the PIMCO investment did not accord with the BCPP mandate,

- It was emphasised that MAC overall should be seen as a long term investment, including the transition to BCPP, to adhere to the reduction of risk through the revised investment strategy.
- It was noted that PIMCO were offering an excellent rate of fees to the NYPF in respect of the proposed investment.
- AON and the Independent Investment Adviser confirmed that they continued to support the investment in PIMCO.
- It was stated that the timetable for the transition to the BCPP MAC portfolio was likely to have slipped. Originally this expected to take place until January 2021 and confirmation would be sought in respect of this.
- **Members agreed that the investment in the PIMCO DIF from the partial sale of the excess M & G gilt allocation should be undertaken, as previously agreed with a view to allocating an investment of up to 5% of the Fund's assets into the BCPP MAC portfolio, when the opportunity arose.**

3. BCPP Index Linked Gilt Fund

At its Meeting held on 21st February 2020 the Pension Fund Committee agreed that a commitment of £150m to the BCPP index-linked gilt fund be approved, subject to further due diligence, and that authority be delegated 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.

Since the decision of the Committee, Officers of the NYPF, and the Independent Investments Advisor, had carried out further checks with BCPP around the development of the portfolio, particularly around the recruitment of a level of staff that could effectively manage this, as the portfolio was to be managed internally. It was suggested that there was sufficient feedback given to alleviate concerns although the position could not be comprehensively tested until the portfolio was operating. There had been some delay in recruiting managers in view of the lockdown situation.

It was emphasised that the investment was relatively low risk and would provide a similar return to the actively managed investment with M&G from where the funding would be sourced, but further de-risked the investments of the Fund, in line with the strategy.

Members agreed that they were happy to proceed with the commitment to BCPPs Index- linked Gilt Fund, with the portfolio due to launch in September 2020, in line with the decision made at the February 2020 PFC Meeting.

The details would be discussed at forthcoming informal Skype meeting of Pension Fund Committee on 22nd May 2020.

4. Other Issues

The following additional issues of note were raised:

- There would be an informal Skype Meeting of the Pension Fund Committee on Friday 22nd May 2020 at 10am. Papers for the meeting would be circulated in due course and would mirror the usual format for ordinary meetings of the Committee.
- There would be a Skype Pension Fund Workshop to precede the Committee on Thursday 21st May 2020 at 10am, and details of invitees and issues to consider would be circulated in due course.

- Details were provided in relation to the recruitment to the position of Head of Investments to be shared with the East Yorkshire Pension Fund.
- AON set out the parameters for the Committee to further consider Currency Hedging and it was agreed that full consideration would be given to this matter at a forthcoming Workshop/Meeting.