

**NORTH YORKSHIRE COUNTY COUNCIL****PENSION FUND COMMITTEE****3 JULY 2020****INVESTMENT STRATEGY REVIEW****Report of the Treasurer****1. PURPOSE OF REPORT**

- 1.1. To consider an allocation to BCPP's Sterling Investment Grade Credit Fund.
- 1.2. To approve additional expenditure for the development of the BCPP Property Funds.

**2. ALLOCATION TO INVESTMENT GRADE CREDIT**

- 2.1. To remind Members, as part of the latest Investment Strategy Review, the Fund took the decision to allocate 7.5% to liquid credit investments. It is intended that this investment be allocated across both investment grade and sub-investment grade credit strategies. Subsequently, in the November 2019 Pension Fund Committee (PFC) meeting, Members approved an investment of up to 5% in the BCPP Multi-Asset Credit (MAC) Fund, in principle, subject to further due diligence. This sub-fund is due to be launched in 2021 and is to be made up of sub-investment grade credit investments across several asset classes. As there is to be no allocation to investment grade credit within this sub-fund, it was recommended by the Fund's advisers that the allocation to liquid credit be blended across the BCPP MAC and the BCPP Sterling Investment Grade Credit (IGC) sub-funds in order to achieve the requirements and risk appetite of the Fund.
- 2.2. The IGC sub-fund was launched in February 2020. However, it was decided in the September 2019 PFC meeting that the Fund would not invest on initial launch, instead it would await further details on the MAC sub-fund and then determine the best blend of investment across the sub-funds. It was acknowledged that an investment in either of these sub-funds would be a change in asset class, and the Fund would therefore not benefit from cost sharing by investing on the initial launch, as the cost of liquidating to cash is outside of the cost sharing.
- 2.3. In the May 2020 PFC workshop, the long term Investment Strategy and progress on implementation were recapped and implementation options were explored in light of the changing market conditions, as a result of the COVID-19 pandemic. In this workshop, the Fund's advisers suggested that now was

a good entry point into the IGC asset class in terms of Global IG Credit spreads.

- 2.4. Following this meeting the investment advisor and consultants, in conjunction with Fund officers, have undertaken a high level due diligence review on the BCPP IGC sub-fund. This is a long-term, low turnover strategy that is externally managed with a performance objective to outperform the benchmark by 60bps (net of fees) over a rolling five-year period. BCPP have appointed three external managers, Royal London Asset Management (RLAM), M&G and Insight, with differentiated strategies to provide diversification through a blend of complementary investment styles. All managers have an equal allocation of the overall investment. The portfolio size was around £2.6bn on launch.
- 2.5. This high level due diligence has included a review of the documentation available, asking supplementary questions where necessary, and a review of the external managers appointed. This review has not raised any red flags. The managers appointed are considered experienced and are buy-rated and the cost of investing in this sub-fund is competitive. This review will be covered in further detail in the July PFC meeting.
- 2.6. Members are asked to consider an investment of 2.5% (c.£90m) in the BCPP Investment Grade Credit Fund to take its allocation in liquid credit up to the 7.5% strategic allocation. It is recommended that this investment is funded from the M&G fund. This is where the PIMCO MAC investment is to be funded from and will reduce the overweight allocation to index linked gilts, to bring the allocation more in line with the 10% strategic allocation.

### **3. BCPP PROPERTY SUB-FUNDS**

- 3.1. BCPP is currently working on the design and business case for the property sub-funds in conjunction with Partner Funds. It is expected that there will be two Funds, a UK Property Fund and a Global Property Fund. There will be a webinar presented to the Committee in the informal workshop on 2 July 2020 that provides an introduction to these sub-funds, including further detail on the anticipated sub-fund characteristics and an initial analysis of costs, payback periods and potential savings for Partner Funds.
- 3.2. These sub-funds are still at the early stages of the design phase and further work is required on the operating model and other design elements. BCPP will continue to work in collaboration with Partner Funds and their advisers to agree the final design. Property is a particularly difficult area to pool given the high transaction costs involved and the illiquidity of the assets. Partner Funds also have a range of different property investments currently, with some investing directly, some investing in pooled property funds and some holding global property investments, whilst others hold UK only investments. It is therefore anticipated that it will take some time to get to the position where initial commitments can be made by Partner Fund Committees, subject to due

diligence. It is likely that Committees' initial investment approvals will be required in the Q1 2021 PFC meetings.

3.3. The budget to further develop these property sub-funds was not included in the original 2020-21 Strategic Plan and Budget as it was intended that any additional resource requirements would be considered as part of the business case phase for sub-funds, once anticipated costs could be estimated more accurately. BCPP have now asked that Partner Funds approve additional funding of up to £800k, £75k per Partner Fund, to be brought forward to allow them to be in a position to proceed with the build of these sub-funds following Partner Fund initial commitments to invest. This additional funding will cover the following:

- Designing the target operating model for both funds,
- Preparing the RFP design for key service providers,
- Regulatory tax and legal assistance, and
- Project management support.

3.4. Members are asked to approve additional expenditure of up to £75k to fund the above elements of the build phase of the BCPP Property Funds.

#### **4. RECOMMENDATIONS**

Members are to:

- 4.1. Consider an investment of 2.5% (c.£90m) in the BCPP Investment Grade Credit Fund.
- 4.2. Approve additional funding of up to £75k for the development of the BCPP Property Funds.

GARY FIELDING  
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22 June 2020