



# Quarterly Investment Report Quarter 2 2020

North Yorkshire Pension Fund

Prepared for	The Pension Fund Committee
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# 1. Introduction

This report provides performance and asset allocation information for the North Yorkshire Pension Fund (the 'Fund') along with a background to the investment markets during the second 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 and solvency position.
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## 2. Executive Summary

### **Overall performance**

- The Fund assets increased in value by £559.2m to £4,102.8 over the second quarter of 2020.
- In relative terms, the Fund outperformed the composite benchmark by 4.9% over the quarter, returning 15.7% in absolute terms. Much of the outperformance this quarter was a result of significant relative performance from the Baillie Gifford LTGG (+25.1%) portfolio.

### **Asset Allocation**

- In relation to the Fund's long term strategic target, the Fund's asset allocation as at Q2 2020 was 14.5% overweight equity, 2.2% underweight absolute return, 3.4% underweight property, 7.2% underweight illiquid growth, 7.6% underweight illiquid credit, 7.5% underweight liquid credit, 9.9% overweight in gilts and 3.5% overweight in cash.
- No rebalancing required.

### 3. Investment Summary

Investment returns –  
3 months to  
30 June 2020

The market value of the Fund's assets as at 30 June 2020 (£4,102.8m) was £559.2m higher than the value as at 31 March 2020 (£3,543.6).

The Fund returned 15.7% over the second quarter of 2020, outperforming its composite performance benchmark by 4.9%.

- In relative terms, the performance from the Baillie Gifford LTGG (+25.1%) portfolio was the key driver of the outperformance. Dodge & Cox (+0.8%) also outperformed the benchmark during the quarter. In contrast, Veritas (-6.4%) underperformed over the quarter.
- BCPP Global Equity (+1.8%) and BCPP UK Equity (+4.0%) both outperformed their respective benchmarks during the quarter.
- Hermes (-0.3%) and Threadneedle (-0.1%) underperformed over the quarter whereas Legal and General (+0.2%) outperformed.
- The Leadenhall Nat Cat (-0.2%) and Leadenhall Diversified (-0.1%) underperformed the benchmark whereas the Leadenhall Remote Risk performed in line with the benchmark.
- Newton Real Return (+8.0%) outperformed.
- M&G underperformed the benchmark by 0.6%.
- The LGIM Equity Protection portfolio (including the Gilt collateral holdings) returned -9.8%.
- Arcmont (+0.2%) outperformed, whereas Permira (-4.2%) 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  
30 June 2020

The market value of the Fund's assets as at 30 June 2020 (£4,102.8m) was £392.7m higher than the value as at 30 June 2019 (£3,710.1m).

- In relative terms the Fund was 6.3% ahead (11.4% vs. 5.1%) its composite performance benchmark return over the past 12 months.
  - In relative terms, the outperformance from the Baillie Gifford LTGG (+56.2%) portfolio was the key driver of the outperformance. Veritas (+0.9%) also produce a favourable relative return. In contrast, Dodge & Cox (-12.1%) underperformed over the 12-month period.
  - The Leadenhall Diversified (+1.1%), Nat Cat (+1.5%) and the Remote Risk (+2.8) outperformed the benchmark over the year to 30 June 2020.
  - Newton outperformed its cash benchmark by 0.6% over the year.
  - Hermes and Legal & General outperformed the property benchmark by 1.1% and 0.4% respectively, whereas Threadneedle underperformed the benchmark by 0.1%.
  - M&G returned 16.1%, 0.4% ahead of the benchmark return of 15.7%.
  - Arcmont (+1.1%) outperformed whereas Permira (-4.2%) underperformed their respective benchmarks over the past 12 months.
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## Market Background Q2 2020

- Global equities rebounded sharply over the second quarter, recovering the bulk of the losses sustained in the previous quarter's selloff. Investors appear to be willing to overlook poor economic data, indicating the worst recession in generations, as signs have emerged that the "first wave" of the pandemic has passed in many developed economies and economies have re-opened relatively quickly. Expanded fiscal and monetary stimulus measures provided further support for markets, boosting the local currency returns of the MSCI AC World Index to 18.4% in Q2, the best quarterly return since 1998.
- Gilt yields continued their descent over the quarter as quantitative easing programmes and sustained demand for safe haven assets, amidst an uncertain economic outlook, kept downward pressure on yields. Short-duration gilt yields ended the quarter at negative levels after the Bank of England announced that negative interest rates were under review for the first time. The FTSE All Stocks Gilts Index and the FTSE All Stocks Index-Linked Gilts Index returned 2.5% and 10.3% respectively.
- UK investment grade credit spreads reversed much of last quarter's spike on the back of central bank purchases, government support measures and better than expected economic data. Corporate bond returns were further boosted by a fall in underlying government bond yields, bringing the overall return of the iBoxx Sterling Non-Gilt Index to 7.0%.
- Sterling fell over the quarter as Brexit uncertainty, prospects of negative rates and a poor economic outlook kept sterling weak. Sterling depreciated by 0.4% and 2.6% against the US dollar and the euro respectively. This boosted global equity returns in sterling terms to 19.8%, which meant that the MSCI AC World Index is now up since the start of the year in sterling terms.
- UK property capital values fell by 3.6% over the quarter as property valuations continued to be written down to reflect the economic downturn. Despite steady income returns, the MSCI UK Monthly Property Index returned -2.3% overall.

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## List of rebalancing

The following rebalancing took place over the quarter:

- BCPP made five Infrastructure capital calls in the quarter totalling £4,440k and two Private Credit capital calls totalling £3,004k
- A total of £5,263k was disinvested from the Treasury Management cash fund to cover the capital calls made in the quarter.

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## Solvency position

The solvency position of the Fund as at 30 June 2020 was estimated to be 123.7%. The funding level has increased by 16.7% since 31 March 2020. This is mainly due to the increase in asset values over the quarter.

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## Quarter 2 2020– Performance

Investment	Quarterly (%)			Annual (%)			3 Years (% pa)		
	Portfolio	B'mark	Relative	Portfolio	B'mark	Relative	Portfolio	B'mark	Relative
<b>Equities</b>									
<b>UK Equities</b>									
BCPP UK Equity	14.2	10.2	+4.0	-	-	-	-	-	-
<b>Global Equities</b>									
Baillie Gifford LTGG	44.9	19.8	+25.1	61.9	5.7	+56.2	32.2	8.4	+23.8
BCPP Global Equity	21.6	19.8	+1.8	-	-	-	-	-	-
Dodge & Cox	20.6	19.8	+0.8	-6.4	5.7	-12.1	0.8	8.5	-7.7
Veritas	13.4	19.8	-6.4	6.6	5.7	+0.9	8.0	8.5	-0.5
<b>Absolute Return</b>									
<b>Diversified Growth</b>									
Newton Real Return	8.0	0.0	+8.0	1.2	0.6	+0.6	3.0	0.6	+2.4
<b>Insurance-Linked</b>									
Leadenhall Remote Risk	0.0	0.0	0.0	3.3	0.5	+2.8	-	-	-
Leadenhall Diversified	-0.1	0.0	-0.1	1.6	0.5	+1.1	-	-	-
Leadenhall Nat Cat	-0.2	0.0	-0.2	2.0	0.5	+1.5	-	-	-
<b>Property</b>									
Hermes	-2.3	-2.0	-0.3	-1.4	-2.5	+1.1	4.9	3.8	+1.1
L&G	-1.8	-2.0	+0.2	-2.2	-2.6	+0.4	2.7	3.4	-0.7
Threadneedle	-2.1	-2.0	-0.1	-2.7	-2.6	-0.1	3.3	3.4	-0.1
<b>Illiquid Growth</b>									
BCPP Infrastructure	-16.2	1.1	-17.3	-	-	-	-	-	-
<b>Illiquid Credit</b>									
Arcmont	1.7	1.5	+0.2	7.1	6.0	+1.1	6.3	6.0	+0.3
Permira	-2.7	1.5	-4.2	1.8	6.0	-4.2	7.4	6.0	+1.4
<b>Gilts</b>									
M&G	12.7	13.3	-0.6	16.1	15.7	+0.4	9.2	9.2	0.0
LGIM Equity Protection (Inc. collateral)	-9.8	-9.8	0.0	14.6	14.6	0.0	-	-	-
<b>Overall</b>	<b>15.7</b>	<b>10.8</b>	<b>+4.9</b>	<b>11.4</b>	<b>5.1</b>	<b>+6.3</b>	<b>9.7</b>	<b>6.1</b>	<b>+3.6</b>

Source: BNY Mellon, Managers.

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

LGIM Equity protection - performance return quoted is on physical assets held by LGIM to support protection on £800m equities (including equity options, along with collateral held as gilts and cash).

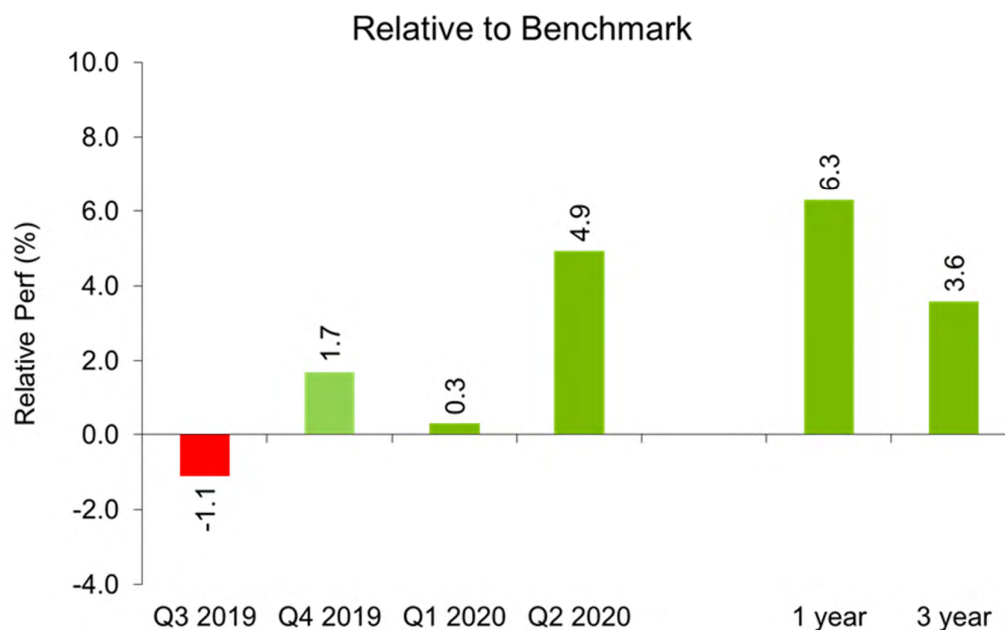
## Quarter 2 2020 – Asset Allocation

	Previous Quarter		Current Quarter				
	Market Value (£m)	Weight (%)	Market Value (£m)	Weight (%)	Current Benchmark (%)*	Long Term Target (%)	Relative (to Long Term Target) (%)
<b>Equities</b>	<b>1,918.4</b>	<b>54.1</b>	<b>2,442.8</b>	<b>59.5</b>	<b>55.0</b>	<b>45.0</b>	<b>+14.5</b>
<b>UK Equities</b>	<b>120.2</b>	<b>3.4</b>	<b>137.2</b>	<b>3.3</b>	<b>5.0</b>		
BCPP – UK Equity Fund	120.2	3.4	137.2	3.3	5.0		
<b>Global Equities</b>	<b>1,795.5</b>	<b>50.7</b>	<b>2,302.8</b>	<b>56.1</b>	<b>50.0</b>		
BCPP – Global Equity Fund	813.5	23.0	989.4	24.1	30.0		
Baillie Gifford LTGG	595.9	16.8	863.3	21.0	10.0		
Dodge & Cox	169.5	4.8	204.4	5.0	5.0		
Veritas	216.5	6.1	245.7	6.0	5.0		
<b>Overseas Equities</b>	<b>2.7</b>	<b>0.1</b>	<b>2.7</b>	<b>0.1</b>	<b>0.0</b>		
Fidelity	2.7	0.1	2.7	0.1			
<b>Absolute Return</b>	<b>591.3</b>	<b>16.6</b>	<b>599.4</b>	<b>7.8</b>	<b>10.0</b>	<b>10.0</b>	<b>-2.2</b>
<b>Diversified Growth</b>	<b>142.9</b>	<b>4.0</b>	<b>154.2</b>	<b>3.8</b>	<b>5.0</b>		<b>-1.2</b>
Newton Real Return	142.9	4.0	154.2	3.8			
<b>Insurance-Linked</b>	<b>163.5</b>	<b>4.6</b>	<b>163.4</b>	<b>4.0</b>	<b>5.0</b>		<b>-1.0</b>
Leadenhall Remote Risk	55.5	1.6	55.5	1.4			
Leadenhall Diversified	54.3	1.5	54.2	1.3			
Leadenhall Nat Cat	53.8	1.5	53.7	1.3			
<b>Property</b>	<b>276.4</b>	<b>7.8</b>	<b>270.9</b>	<b>6.6</b>	<b>10.0</b>	<b>10.0</b>	<b>-3.4</b>
Hermes	35.7	1.0	34.9	0.8			
L&G	70.5	2.0	69.2	1.7			
Threadneedle	170.2	4.8	166.8	4.1			
<b>Illiquid Growth</b>	<b>8.5</b>	<b>0.2</b>	<b>10.9</b>	<b>0.3</b>	<b>0.0</b>	<b>7.5</b>	<b>-7.2</b>
BCPP - Infrastructure	8.5	0.2	10.9	0.3			
<b>Illiquid Credit</b>	<b>98.4</b>	<b>2.8</b>	<b>99.4</b>	<b>2.4</b>	<b>3.0</b>	<b>10.0</b>	<b>-7.6</b>
BCPP - Private Credit	-	-	2.9	0.1			
Arcmont	39.3	1.1	40.0	1.0			
Permira	59.1	1.7	56.5	1.4			
<b>Liquid Credit</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7.5</b>	<b>-7.5</b>
<b>Gilts</b>	<b>787.0</b>	<b>22.2</b>	<b>816.4</b>	<b>19.9</b>	<b>19.0</b>	<b>10.0</b>	<b>+9.9</b>
M&G	473.1	13.3	533.3	13.0			
LGIM Equity Protection (Inc. collateral)	313.9	8.9	283.1	6.9			
<b>Cash</b>	<b>148.4</b>	<b>4.2</b>	<b>114.7</b>	<b>3.5</b>	<b>3.0</b>	<b>0.0</b>	<b>+3.5</b>
Internal Cash	14.5	0.4	15.9	0.4			
Treasury Cash	133.9	3.8	128.8	3.1			
<b>Total Assets</b>	<b>3,543.6</b>	<b>100.0</b>	<b>4,102.8</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	

Source: BNY Mellon. Please note that the current benchmark sets out the underlying performance benchmark structure in place with BNY Mellon which will adjust as the Fund moves closer towards its long term strategic targets.



<b>Total Assets</b>	<b>£4,102.8m</b>
<b>Performance Target</b>	Target an expected return of approximately 2.5% ahead of the composite benchmark



Fund (%)	2.2	0.7	-6.9	15.7	11.4	9.7
Benchmark (%)	3.3	-1.0	-7.2	10.8	5.1	6.1

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

The overall absolute performance of the Fund's assets was 15.7% over the second quarter of 2020, compared to the benchmark return of 10.8%.

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

The Fund outperformed its composite performance benchmark by 6.3% over the past 12-month period and by 3.6% per annum over the 3-year period to 30 June 2020.

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