Quarterly Funding & Investment Report

End June 2022

Prepared for:	North Yorkshire Pension Fund
Prepared by:	Aon
Date:	30 August 2022

Signatory of: UK STEWARDSHIP CODE | 2021

For professional clients only

AON

Table of Contents

1. At a glance…

A high level summary of your investments and funding

At a glance…

Funding*

The funding level has fallen over the quarter (down by 10.3% to 113.4%), primarily driven by a reduction in asset values and an allowance for short term inflationary increases (note that we have estimated the funding level to be 118% as at end March 2022 after allowing for short term inflationary increases).

The funding level is c.1% below the funding level at the 2019 valuation.

Asset Allocation and Implementation

A number of short/medium term changes to the asset allocation have been agreed by the Committee in light of the agreed long-term investment strategy. As part of rebalancing activity, the Fund invested £80m in Ballie Gifford funded by an £80m disinvestment from Dodge & Cox.

Performance

The Fund underperformed the composite benchmark over the quarter and 1 year period. Performance is ahead of the composite benchmark over the 3 year period to 30 June 2022.

Market Background and Investment Outlook

Inflation fears continued to unsettle central banks over Q2, leading to significant rate rises across the globe. In June, the US Federal Reserve (Fed) continued to tighten monetary policy by increasing its benchmark interest rate by 0.75% to a range of 1.50-1.75%, the most significant rate increase since 1994. The Bank of England (BoE) increased the base rate to 1.25%, its highest level in 13 years. The BoE now expects inflation to rise above 11.0% by the end of 2022.

The MSCI AC World index posted a -13.5% return in local terms and a -8.4% return in sterling terms as global equity markets fell in response to continued inflationary pressure and fears of corresponding tighter monetary policy leading to recession fears.

This year is shaping up as one most investors would rather forget. Return seeking and liability-matching portfolios have had to cope with large sell-offs, high volatility and sharply rising yields. We see the ratcheting up of global monetary tightening as raising recession odds to uncomfortably high levels on a twelve month view. Some market moves are already implying recessionary trends.

Key actions

1. Committee members to consider the triennial valuation results at the September PFC meeting, with a view to reviewing the investment strategy towards the end of 2022.

*This funding update makes no allowance for updated demographic assumptions or data to be used for the 2022 valuation. However this does make an allowance for a 5% loading for short term inflationary impacts. Therefore this report provides only a broad illustration of the change in funding position at 30 June 2022.

Key Stats – Q2 2022

Assets

£4,109m

Assets increased by £534m since last valuation

£3,575m at 2019 valuation

Funding level

113%

Funding level decreased by 1% since 2019 valuation

114% at 2019 valuation

Return on Assets Since 2019 Valuation

+4.9% pa

Current Assets Expected Return (10 year p.a.)

+6.7%

1.1% increase since 2019 Valuation

5.6 % at 2019 valuation

Long-term Strategy Expected Return (10 year p.a.)

+6.8%

1.2% increase since 2019 Valuation

5.6% at 2019 valuation

Discount rate

4.5%

Discount rate has increased by 0.3% since 2019 Valuation

4.2% at 2019 valuation

Current Assets Value at Risk (1 Year 1 in 20)

£858m

Long-term Strategy Assets Value at Risk (1 Year 1 in 20)

£790m

Note: This funding update makes no allowance for updated demographic assumptions or data to be used for the 2022 valuation. However this does make an allowance for a 5% loading for short term inflationary impacts. Therefore this report provides only a broad illustration of the change in funding position at 30 June 2022.

2. Funding

A review of your funding position and contributions

Funding position

Funding level

113.4%

at end 30 June 2022

Down from 123.7% at end March 2022 and from 114.4% at 31 March 2019

Surplus

£487.1M

at end 30 June 2022

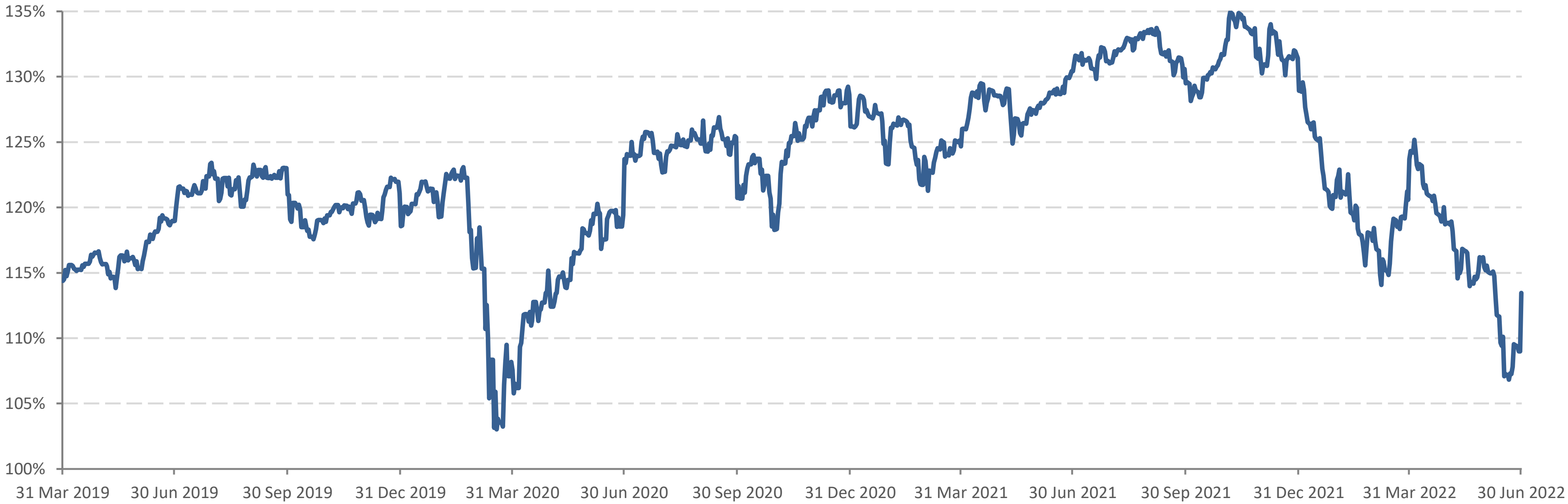
Down from £886.5m at end March 2022 but remains slightly up from £449.8m at 31 March 2019

Comments

Since the last update at 31 March 2022 the Fund's ongoing funding level has deteriorated and the surplus has decreased by £399.4M.

This has been primarily driven by a reduction in asset values and an allowance for short term inflationary increases (note that we have estimated the funding level to be 118% as at end March 2022 after allowing for short term inflationary increases).

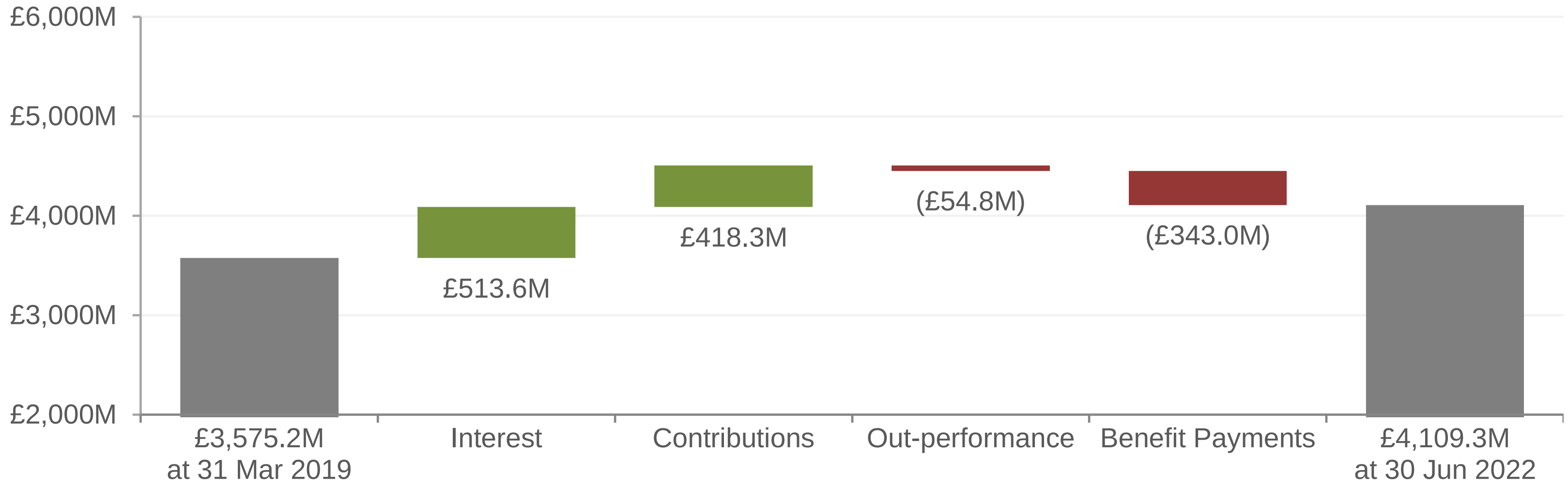
Change to funding level since 31 March 2019



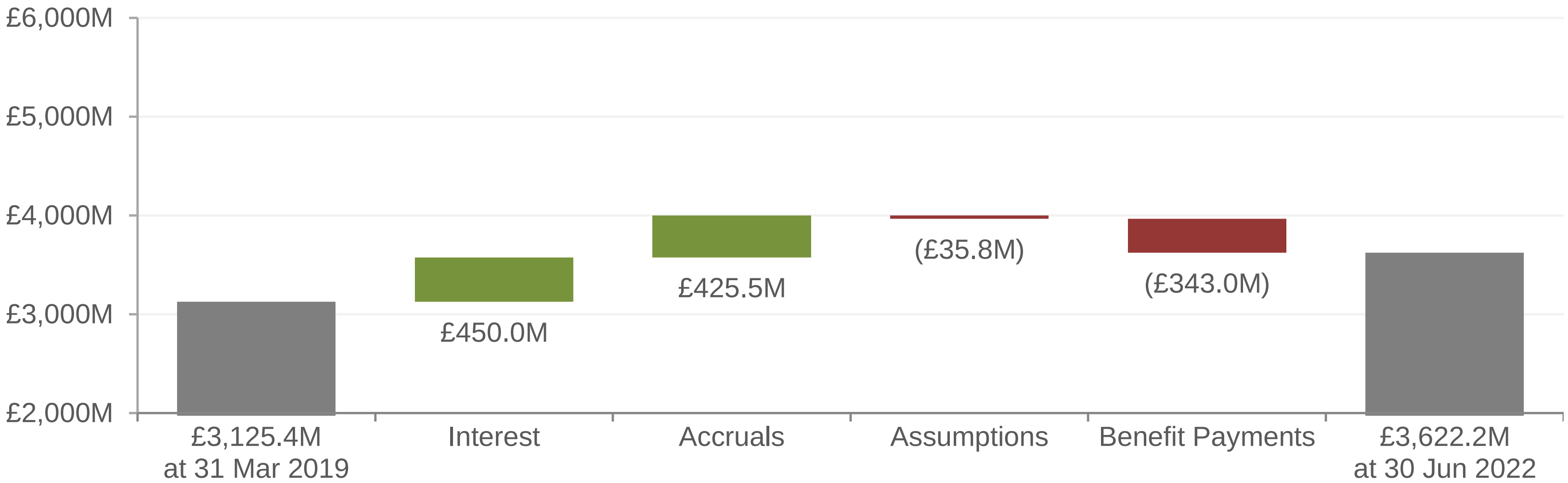
Note: This funding update makes no allowance for updated demographic assumptions or data to be used for the 2022 valuation. However this does make an allowance for a 5% loading for short term inflationary impacts. Therefore this report provides only a broad illustration of the change in funding position at 30 June 2022.

Analysis – ongoing funding target

Reason for change since 31 March 2019 – Asset Attribution



Reason for change since 31 March 2019 – Liability Attribution



Comments

Since the 2019 valuation the surplus has increased by £37.3M.

For the purpose of this analysis we have continued to show the change since the 2019 valuation as the 2022 valuation has yet to be completed.

Note: This funding update makes no allowance for updated demographic assumptions or data to be used for the 2022 valuation. However this does make an allowance for a 5% loading for short term inflationary impacts. Therefore this report provides only a broad illustration of the change in funding position at 30 June 2022.

3. Asset allocation

A review of your strategic asset allocation

Asset allocation – Q2 2022

Asset Group	Manager	Valuation (£m)	Current allocation	Long-term strategy	30 June 2022 Difference	Rebalancing Range	Possible action
Equities		**2,103.5**	**51.2%**	**50.0%**	**+1.2%**		
	BCPP UK equity	159.2	3.9%	4.0%	-0.1%	TBC	
	BCPP Global Equity	1,191.7	29.0%	28.0%	+1.0%	+/- 5%	
	Baillie Gifford LTGG	585.4	14.2%	18.0%	-3.8%	+/- 3%	⚠
	Dodge & Cox	166.5	4.1%	0.0%	+4.1%		
	Fidelity	0.7	0.0%	0.0%	0.0%		
Absolute Return		**10.5**	**0.3%**	**0.0%**	**+0.3%**		⏱
	Leadenhall Remote Risk	3.6	0.1%				
	Leadenhall Diversified	3.8	0.1%				
	Leadenhall Nat Cat	3.1	0.1%				
Property		**359.7**	**8.8%**	**7.5%**	**+1.3%**	**TBC**	⏱
	Hermes	42.1	1.0%				
	L&G	92.6	2.3%				
	Threadneedle	225.1	5.5%				

Source: BNYM, Aon. Note: Numbers may not sum due to rounding.

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Asset allocation – Q2 2022 (cont'd)

Asset Group	Manager	Valuation (£m)	Current allocation	Long-term strategy	Difference	Rebalancing Range	Possible action
		30 June 2022					
Infrastructure		**451.3**	**11.0%**	**10.0%**	**+1.0%**		
	BCPP Infrastructure 1A	35.0	0.9%				
	BCPP Infrastructure 1B	111.1	2.7%				
	BCPP Listed Alts	305.1	7.4%				
Private Credit		**115.2**	**2.8%**	**5.0%**	**-2.2%**		
	BCPP Private Credit	58.1	1.4%				
	Arcmont	29.0	0.7%				
	Pemira	28.0	0.7%				
Non-Investment Grade Credit		**211.0**	**5.1%**	**5.0%**	**+0.1%**	**TBC**	
	PIMCO	1.0	0.0%				
	BCPP Multi Asset Credit	210.0	5.1%				
Investment Grade Credit		**310.4**	**7.6%**	**7.5%**	**+0.1%**	**TBC**	
	BCPP Investment Grade Credit	310.4	7.6%				

Source: BNYM, Aon. Note: Numbers may not sum due to rounding.

Asset allocation – Q2 2022 (cont'd)

Asset Group	Manager	Valuation (£m)	Current allocation	30 June 2022 Long-term strategy	Difference	Rebalancing Range	Possible action
Gilts		**537.5**	**13.1%**	**15.0%**	**-1.9%**	**TBC**	✓
	BCPP Index Linked Bonds	537.5	13.1%				
Cash		**10.3**	**0.2%**	**0.0%**	**+0.2%**	**TBC**	✓
	Internal Cash	10.3	0.2%				
Total		**4,109.3**	**100.0%**	**100.0%**			

Source: BNYM, Aon. Note: Numbers may not sum due to rounding.

Investment strategy update

Decisions taken at the May Pension Fund Committee meeting:

- The decision whether to reinvest with Baillie Gifford, through a disinvestment from Dodge and Cox, up to a maximum of £80m, or to maintain the position with Baillie Gifford, be delegated to the Chairman and Vice-Chairman, in consultation with the Treasurer with guidance from the remaining Members of the Committee, following the meeting with the representatives of Baillie Gifford.
  – Members reconvened and agreed a rebalancing to Baillie Gifford from Dodge and Cox to the sum of £80m.

Decisions taken at the July Pension Fund Committee meeting:

- The Pension Fund Committee agreed to disinvest from Dodge & Cox, and reinvest into Baillie Gifford up to their strategic allocation of 18% of the value of the Fund, in two tranches and as soon as practicable, with any surplus being invested at the discretion of the Treasurer.

Implementation actions over Q2 2022:

- Rebalancing activity;
  – £80m disinvestment from Dodge & Cox
  – £80m investment in Ballie Gifford

Transitions and cashflows

The following rebalancing activities took place over the quarter:

- £80m was invested in the Baillie Gifford's LTGG fund.
- Border to Coast made fourteen Infrastructure capital calls in the quarter totalling £11m and eleven Private Credit capital calls totalling £13m.
- Arcmont made one capital call of £1m.

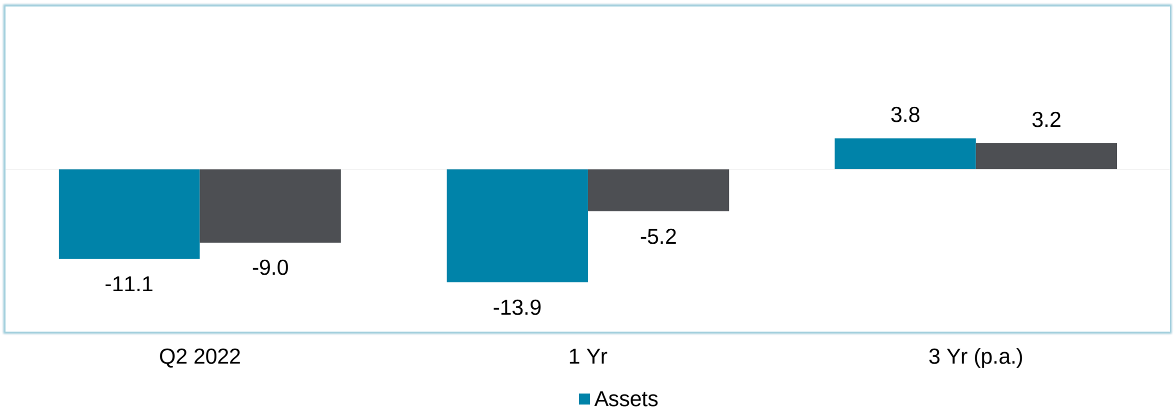
- £80m was disinvested from Dodge & Cox.

4. Fund performance

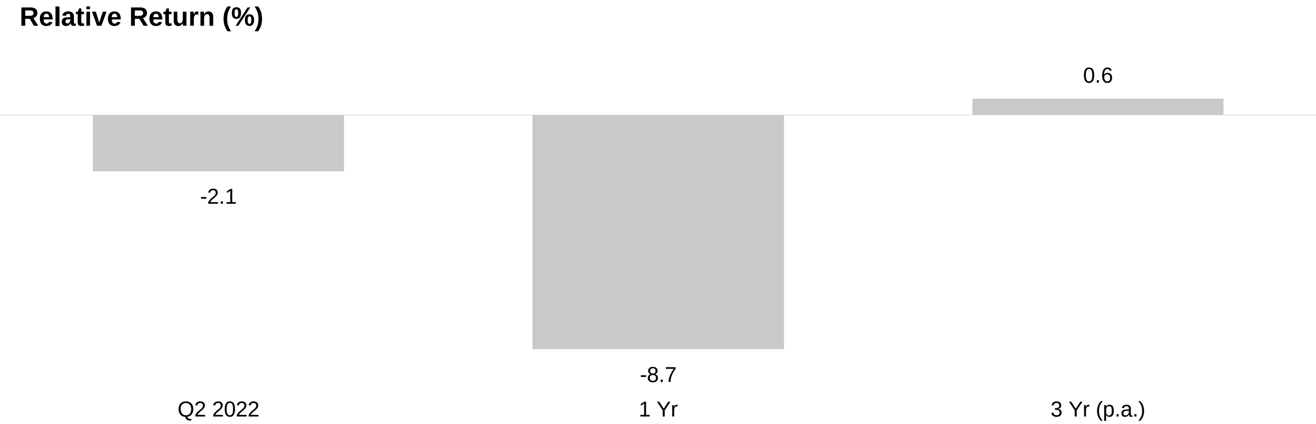
A review of your investment performance

Total Fund performance – Snapshot

Fund performance & benchmark



Relative performance



Quarterly (relative)

-2.1%

The Fund underperformed the benchmark returning -11.1% vs -9.0% over the quarter.

3 year (relative)

+0.6%

Over 3 years the Fund has outperformed the benchmark returning 3.8% vs 3.2%.

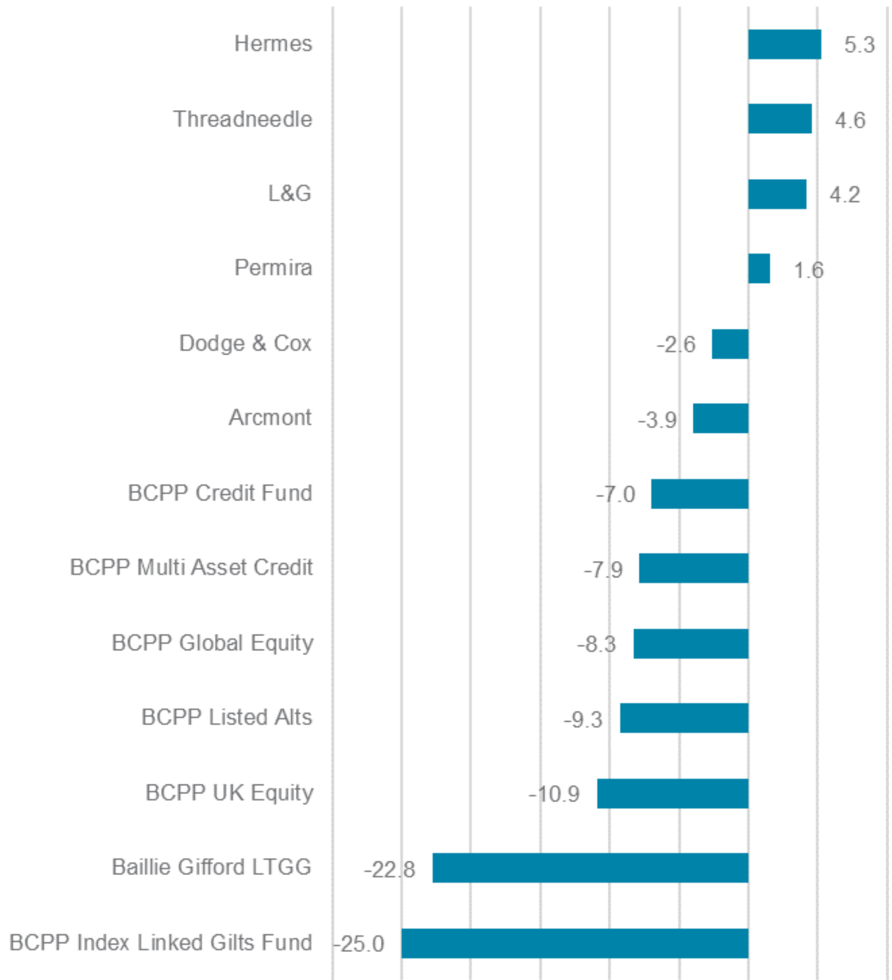
Comments

Total Fund performance is behind the composite benchmark over the quarter and 1 year period but ahead of the compositive benchmark over 3 year period to 30 June 2022.

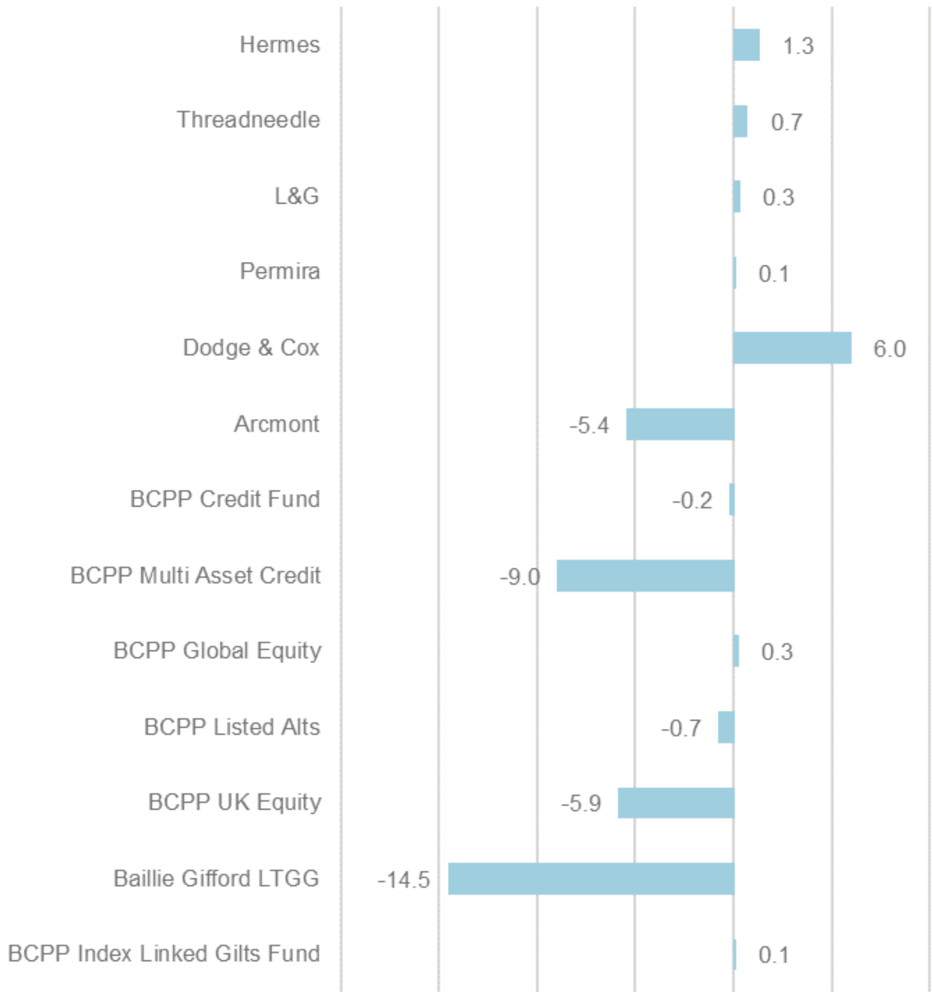
Source: BNYM, Aon

Manager performance – Quarter Snapshot

Absolute performance



Relative performance



Source: BNYM, Managers, Aon.
Note: BCPP Infrastructure returns and BCPP Private Credit returns not shown during initial investment drawdown phase. Performance for Fidelity, Leadenhall and PIMCO is not shown as mandates only hold residual assets. Hermes, L&G, Threadneedle; MSCI data was used for benchmarking purposes, total fund performance was calculated using BNYM data.

Manager performance – Longer term

	1 Year (%)			3 Years (% p.a.)			Since inception			
	Perf	B'mark	Rel	Perf	B'mark	Rel	Perf	B'mark	Rel	Inception date
Equity										
UK Equity										
BCPP UK Equity	-11.4	1.6	-13.0	-0.1	2.4	-2.5	0.5	3.6	-3.1	Jun-19
Global Equity										
BCPP Global Equity	-7.9	-4.0	-3.9	-	-	-	7.0	8.9	-1.9	Oct-19
Baillie Gifford LTGG	-41.5	-3.6	-37.9	11.3	8.4	+2.9	14.2	9.2	+5.0	Sep-06
Dodge & Cox	4.3	-4.0	+8.3	10.3	8.3	+2.0	9.2	9.9	-0.7	Apr-15
Property										
Hermes	22.7	22.7	0.0	9.2	9.1	+0.1	8.7	7.1	+1.6	Mar-12
L&G	23.9	23.3	+0.6	9.2	9.2	0.0	8.3	7.3	+1.0	Dec-12
Threadneedle	24.1	23.3	+0.8	9.3	9.2	+0.1	9.2	7.0	+2.2	Jun-12
Infrastructure										
BCPP Listed Alts	-	-	-	-	-	-	-5.6	-7.3	+1.7	Feb-22
Illiquid credit										
Arcmont	2.9	6.0	-3.1	5.6	6.0	-0.4	6.1	6.0	+0.1	Dec-16
Permira	3.2	6.0	-2.8	5.5	6.0	-0.5	7.4	6.0	+1.4	Mar-17

Source: BNYM, Managers, Aon. Numbers may not sum due to rounding.
Hermes, L&G, Threadneedle; MSCI data was used for benchmarking purposes, total fund performance was calculated using BNYM data.
Note: BCPP Infrastructure returns and BCPP Private Credit returns not shown during initial investment drawdown phase. Performance for Fidelity, Leadenhall and PIMCO is not shown as mandates only hold residual assets.

Manager performance – Longer term (cont'd)

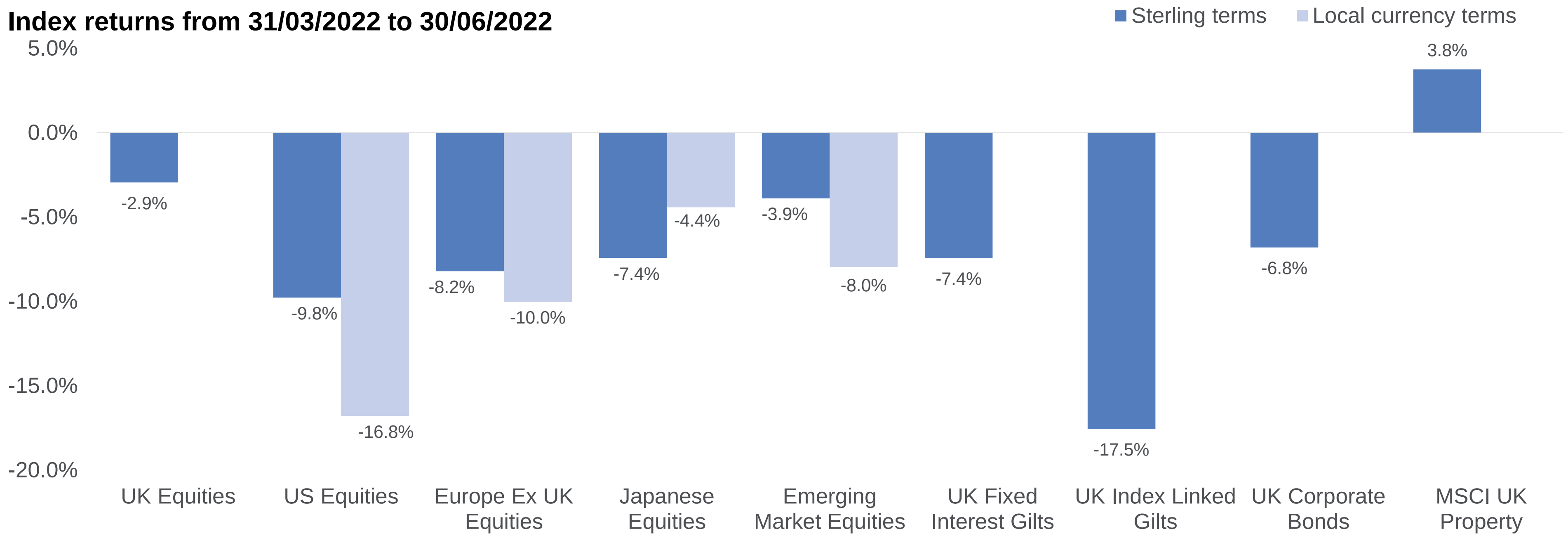
	1 Year (%)			3 Years (% p.a.)			Since inception			
	Perf	B'mark	Rel	Perf	B'mark	Rel	Perf	B'mark	Rel	Inception date
Investment grade credit										
BCPP Investment Grade Credit	-12.6	-13.1	+0.5	-	-	-	-5.7	-7.0	+1.3	Aug-20
Non-investment grade credit										
BCPP Multi-Asset Credit	-	-	-	-	-	-	-12.5	2.5	-15.0	Nov-21
Gilts										
BCPP Index Linked Bonds	-25.6	-25.7	+0.1	-	-	-	-15.3	-16.6	+1.3	Oct-20
Total	**-13.9**	**-5.2**	**-8.7**	**3.8**	**3.2**	**+0.6**	**7.2**	**7.4**	**-0.2**	**Jan-02**

Source: BNYM, Managers, Aon. Numbers may not sum due to rounding.
Note: BCPP Infrastructure returns and BCPP Private Credit returns not shown during initial investment drawdown phase. Performance for Fidelity, Leadenhall and PIMCO is not shown as mandates only hold residual assets.

5. Market background and investment outlook

Aon’s views on the market outlook and snapshot of investment markets and key economic data

Market – Background Q2 2022



Source: FactSet, MSCI (Equities, Property), FTSE (Gilts), iBoxx (Credit)

Equities

The MSCI AC World index posted a -13.5% return in local terms and a -8.4% return in sterling terms as global equity markets fell in response to continued inflationary pressure and fears of corresponding tighter monetary policy leading to recession fears.

UK equities fell by 2.9% in sterling terms and were the best performing equity market region.

US equities performed the worst amongst major equity regions, returning -16.8% over the quarter in local currency terms and -9.8% in sterling terms.

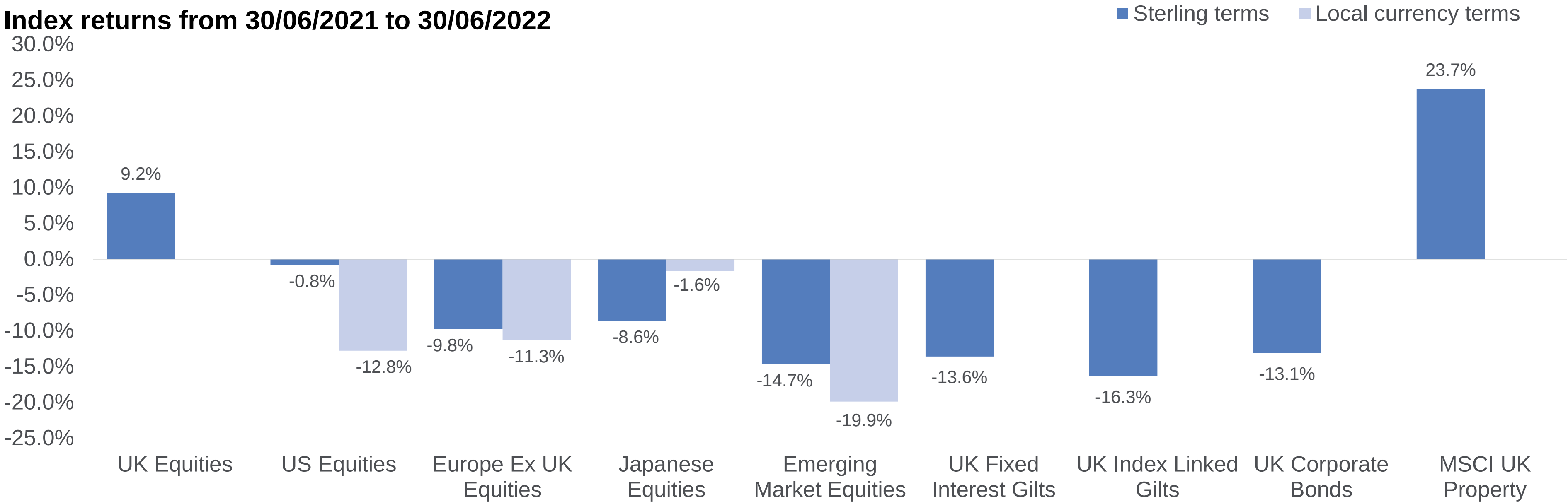
Bonds

Credit spreads widened over the quarter. UK investment grade credit spreads rose by 0.44%s to 1.75%, based on IBoxx Sterling Non-Gilts data. Lower quality bond credit spreads widened more than their higher quality counterparts, with BBB-rated non-gilt spreads rising by 0.70% to 2.54%. The increase in spreads and the significant rise in government bond yields led the Sterling Non-Gilts Index to post a return of -6.8%.

Gilts

The UK gilt curve rose across all maturities over the second quarter on expectations of higher policy rates, driving the negative performance of UK fixed-interest government bonds. Yields rose strongly over the quarter as inflationary concerns around food and energy prices remained and the BoE reiterated its commitment to maintaining tighter monetary policy.

Market – Background 12 month



Source: FactSet, MSCI (Equities, Property), FTSE (Gilts), iBoxx (Credit)

Equities

Global equities generated negative returns over the last twelve months. Equities delivered solid returns in 2021, boosted by optimism over Covid-19 vaccine roll-outs, supportive monetary and fiscal policies, and improving economic data. However, markets erased all their gains by Q2 2022 as geopolitical risk took centre stage with Russia invading Ukraine. Furthermore, inflation fears appeared and began to unsettle central banks over late Q4 and much of 2022, leading to significant rate rises across the globe.

Bonds

Credit markets declined over the past twelve months. UK investment-grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, widened by 0.74% to 1.75%.

Gilts

In Q3 2021, yields rose on the back of brought-forward interest rate hike expectations against the background of rising inflation and central bank indications of policy rate increases. However, longer-dated yields briefly fell back in Q4 2021 due to heightened uncertainty surrounding the discovery of the Omicron variant of Covid-19. Short-dated yields later began to factor in potential monetary policy changes and saw notable increases. In the first two quarters of 2022, yields rose strongly as inflationary concerns around food and energy prices remained and the BoE reiterated its commitment to maintaining a tighter monetary policy. Overall, according to FTSE All-Stocks indices, UK fixed-interest gilts fell by 13.6% and index-linked gilts fell by 16.3% over the last twelve months.

Quarterly Investment Outlook – July 2022

Q2 performance

Return-seeking and liability-matching portfolios have had to cope with large sell-offs, high volatility and sharply rising yields. However, UK commercial property and commodities delivered positive returns and some categories of hedge fund strategies benefitted from high volatility.

US interest rates moving up faster

A poor US inflation release and some re-thinking in Fed policy circles led to a change of course in mid-June, with markets being guided to expect a higher policy rate reset of 0.75% moves instead of 0.5%. The Fed now appears more prepared to risk recession in an attempt to bring inflation down to its 2% target and keep it there.

Rising rates bring inflation down

Monetary tightening is already also squeezing commodity prices, which helps the inflation outlook. Labour markets, currently strong, will also eventually weaken as economies slow and unemployment rises, so helping to quell inflation.

Recession looks more likely in 2023

We see global recession more likely next year than this year given the lags between tightening monetary/financial conditions (which began early this year) and the economic response. Likely UK recession-type conditions have already been flagged by the Bank of England.

Recession forces keep a cap on yields

It is a fair bet that global bond yields are peaking. There is still some risk that higher than expected interest rates will be needed to achieve the desired falls in inflation. We are therefore staying duration neutral.

Bond market volatility will likely stay high and liquidity be sometimes weak.

Credit spread moves quite mild

This year's more than double-digit return declines in credit markets have been the largest for more than two decades. The key culprit has been the large rise in interest rates given that most credit segments have significant interest duration, rather than credit spread moves.

When does credit become attractive?

We think that credit conditions will likely deteriorate and drive spreads higher.

Investment grade and high yield bonds become more attractive if spreads rise another 100bps and 150-200bps respectively.

Equities still face daunting hurdles

Valuations are lower, but not enough to entice, given the earnings outlook. We prefer to stay away given too many hurdles to clear.

Are commodities a good diversifier?

Stand-alone investments in commodities remain hard to defend and we prefer commodity exposure to be accessed actively as part of a broader return-seeking strategy.

6. Aon’s latest thinking

Our latest investment ideas for you

Recession on the horizon?

…we think it's likely

Increasing step size in US policy interest rates was seen as unlikely until recently. The recent move to 0.75% increments has raised the odds of global recession in the next 12 months to over 50% in our view.

The depth and length of any recession remains to be seen, but relatively healthy corporate balance sheets indicate that the contraction may not be as severe as in 2020, 2008 or 2001.

This increased risk would normally signal a move from equity into the safety of government bonds. However, lingering inflation risks keep our view on duration at neutral.

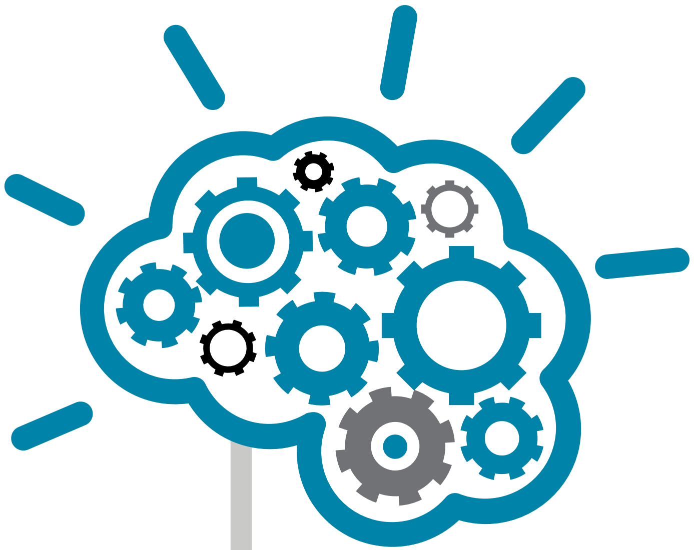
Fixed income

Rising (and peaking?) yields

Fixed income yields have risen sharply year to date. Recessionary risks, potentially eased energy price pressures and easing supply chain issues might be enough to keep yields from rising further. On the other hand, there is still some risk that higher than expected policy interest rates will be needed to achieve the desired falls in inflation.

Investors with liability-matching assets have been tested by recent recapitalisation events, we encourage reassessments of portfolio liquidity. We expect yield volatility to continue, but upside and downside risks appear fairly balanced.

Commodities



Will they continue to burn bright?

Energy prices have seen significant increases and we expect them to remain elevated even in the face of recession, with potential supply-side disruption from the impending green transition.

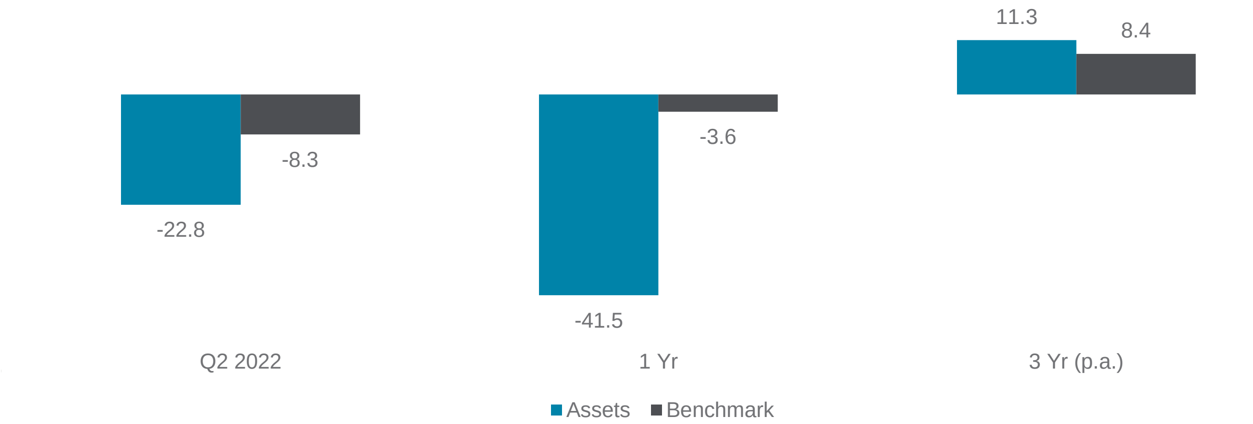
Claims for commodities as an inflation hedge and equity diversifier are once again being heard. However, stand-alone investments in commodities can be volatile and we prefer commodity exposure to be accessed actively as part of a broad return-seeking strategy.

7. Manager review

Aon ratings and understanding manager performance

Baillie Gifford - LTGG

Fund performance & benchmark



Performance comments

The manager underperformed in the second quarter of 2022. The same themes as Q1; high inflation, higher interest rates and concerns over global growth continued to create difficult market conditions for the strategy.

Long Term Global Growth performance remains within reasonable expectations; the strategy is one of the most growth-orientated strategies in the industry, and delivered some of the strongest performance in periods when its investment style was in favor, so should be expected to be vulnerable in periods where the growth investment style is out of favor.

Of growth strategies we follow, performance is aligned to its closest competitor (performance is generally more favorable with the exception of the one-year number), which gives a degree of comfort that recent performance is largely due to external factors, and a reversal in these trends is likely needed for the strategy to generate outperformance.

Negative contributions to performance again came from higher growth and valuation stocks that have borne the brunt of market selloffs; such names included Tesla, Illumina and NVIDIA. On the positive side of the ledger, Chinese technology stocks such as Meituan, NIO and Pinduoduo bounced back from low valuations due, in part to supportive government stimulus.

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

Buy

Reviewed: August 2022

Ratings detail

ODD:	A1 pass	**Risk:**	●●○○
Business:	●●●●	**Perf:**	●●●○
Staff:	●●●●	**Terms:**	●●●○
Process:	●●●○	**ESG:**	Integrated

Key info

Appointed: 29 September 2006

Vehicle: Baillie Gifford Long Term Global Growth (+3% over 5-10yrs)

Mandate: Global Unconstrained Equities

Benchmark: FTSE All World Index from 31 March 2008

Target: To outperform the benchmark by 3% p.a. over rolling three-year periods.

Baillie Gifford – LTGG (cont.)

Positioning and Transactions

A number of positions in the portfolio continue to be assessed closely as the manager reassesses positions in light of company fundamentals and the current market environment. Around 20% of the portfolio could be considered in this category and would include positions such as Beyond Meat, Netflix and Peloton, and some of the Chinese technology companies, which the team questions whether they may find high growth harder to come by in the future. The manager has expressed a preference not to rush these types of investment decisions, which will form part of our review described above, though we note this is consistent with historic portfolio turnover.

The manager has fully exited Delivery Hero, where the team believes that the unit cost economics to be increasingly unattractive, and KE Holdings where the team's perspective view on the Chinese property market continues to worsen.

Whilst acknowledging scrutiny on a section of the portfolio, the manager is of the view that the portfolio is generally well positioned in the current climate; overwhelmingly net cash, and the whole portfolio provides an attractive free cash flow yield. Post quarter end around half of the portfolio reported company results, which the manager was pleased with and points to the bulk of the portfolio delivering well operationally.

No new purchases were made over the period.

Major developments

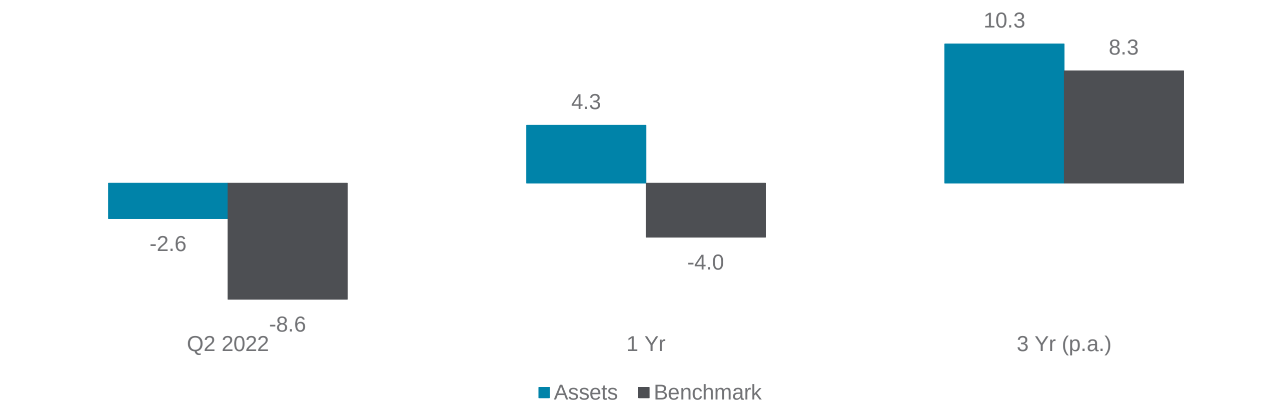
Research Visit

In part due to the passing of time, and in part due to weak performance, we would like to signal our intent to perform a deep dive review of the strategy in Q4 2022.

On the surface Baillie Gifford's relative performance appears in-line with expectations, given the market environment, the strategy construct and cross-checked with peer performance, though we would like to test conviction against our other preferred growth strategies. Areas of interest will include the manager's sell discipline and an assessment of continual process evolution. We will update Trustees if there are any changes to our views following this due diligence.

Dodge & Cox – Global equity

Fund performance & benchmark



Performance comments

The Fund meaningfully outperformed during the second quarter and is well ahead of the benchmark over the 1 year period to 30 June 2022.

From both a regional and sector perspective, stock selection was the main driver of outperformance over the quarter, notably within the U.S. and within the Consumer Discretionary and Information Technology sectors.

Sector allocation also added value, driven by the under-weight to I.T. and over-weight to the Health Care.

Occidental, and Suncor Energy were the large positive contributors given the continued strength of oil and the news a large notable investor and an activist fund had purchased shares. Prosus benefited from an improvement in the government's rhetoric.

Detractors during the quarter included XP, Jackson Financial, and Itau Unibanco. XP and Itau Unibanco, both Brazilian financials lagged as macroeconomic concerns around the Brazilian economy weighed on the stock price. Jackson Financial lagged given the perceived link between its considerable Variable Annuity business and equity markets.

Positioning and Transactions

Stellantis, an automotive manufacturer, was purchased over the quarter.

Juniper and Lyondell Basel were sold over the quarter, both on valuation grounds and higher conviction in other positions. Lyondell Basel was topped up during covid and has rallied markedly since. The Fund also added to existing Financials positions given weakness over the quarter.

Buy

Reviewed: August 2022

Ratings detail

ODD:	A1 pass	**Risk:**	●●●○
Business:	●●●●	**Perf:**	●●●○
Staff:	●●●●	**Terms:**	●●●○
Process:	●●●○	**ESG:**	Integrated

Key info

Appointed: 1 April 2015

Vehicle: Dodge & Cox Global Stock Fund

Mandate: Global Equities

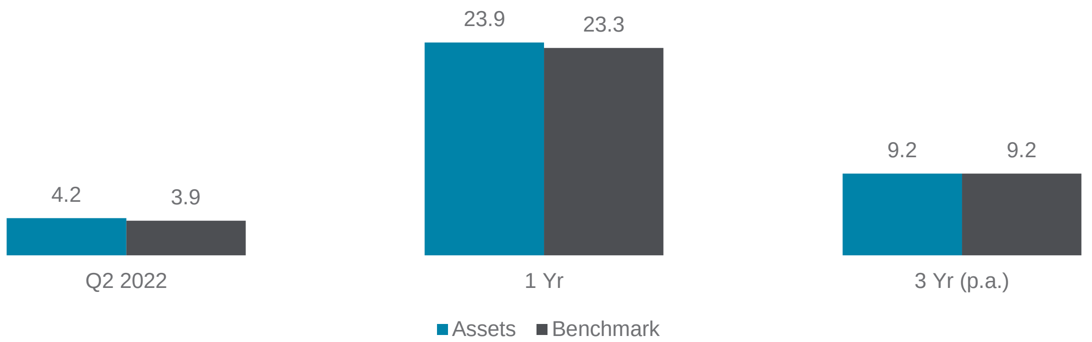
Benchmark: MSCI All Country World Index

Target: To outperform over a full market cycle.

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

LGIM – Managed Property Fund

Fund performance & benchmark



Qualified

Reviewed: August 2022

Performance comments

Over the quarter, the Fund returned 4.2% against a benchmark return of 3.9%, delivering relative outperformance of 0.3%.

The Manager continues to have a largely negative view on the retail sector, particularly shopping centres and high street retail. The Fund will therefore continue to underweight retail assets, currently at 16.5% vs the benchmark weighting of 17.5%.

Despite this negative outlook the Manager remains relatively upbeat on retail warehousing, and has a positive view on leisure assets, especially those located in core locations.

Leisure assets remain the largest holding, c.40% of the alternatives weighting, with the Manager highlighting the compelling relative value case.

The Manager continues to favour other areas of the alternative's sector, forecasting out-performance vs Industrial, Office and Retail up to 2026. Most notably, the Manager has a desire to increase the Fund's exposure to student accommodation and urban residential through increasing the allocation to LGIM's BTR Fund. Alternatives currently make up 12.1% of the total portfolio, marginally higher than last quarter.

The Fund remains focused on rent collection, particularly from sectors that have ongoing challenges following COVID-19, predominantly retail and leisure. The Fund's most recent rent collection stats (day 28 post quarter end) show improved levels of rent stabilisation while the Fund is achieving collection rates very close to pre-COVID levels.

Key info

Appointed: 1 November 2012

Vehicle: Property Fund

Mandate: UK Property Pooled Fund

Benchmark: IPD All Balanced Property Fund Index

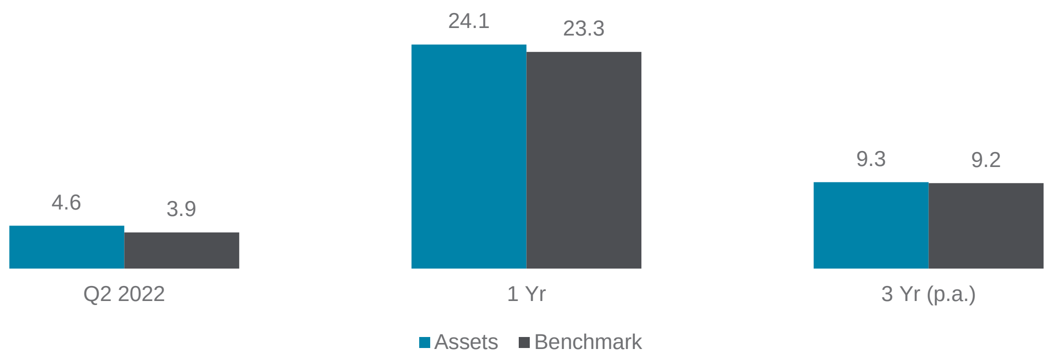
Target: To outperform the benchmark by over three year rolling periods.

ESG Rating: Not rated

Source: MSCI data was used for benchmarking purposes, total fund performance was calculated using BNYM data.

Threadneedle – TPEN

Fund performance & benchmark



Buy

Reviewed: August 2022

Performance comments

Over the quarter the Fund generated a total return of 4.6%, outperforming the benchmark by 0.70%.

The outperformance over Q2 2022 was attributed to the underweight position to Central London office assets and the Fund being overweight to the industrial sector.

The Fund is generally well positioned given the current market environment and outlook. The Fund has an overweight position to industrials, with 47.5% of its portfolio invested in the sector versus the benchmark's 43.0%. The sector, although vulnerable to interest rate rises, is still expected to produce strong rental growth. The Manager has however been a recent net seller of industrial, disposing of weaker assets where significant capital expenditure is required (or no further rental growth expected) to crystalise profits.

The Fund holds an underweight position to the office sector compared to the benchmark following several strategic disposals over the quarter and the Manager is looking to further reduce the holdings either through sales or repositioning them, such as conversion to residential or industrial. The office exposure currently stands at 23.9% versus 24% for the benchmark.

The Fund did not make any new purchases over the quarter, but there were 11 strategic disposals covering retail, office and industrial assets. The sales totalled £92.87 million, £6.99million above the previous independent valuation.

There is currently no redemption queue (as of August), but the Manager expects a redemption request of £50 million to be received in the next few months.

Key info

Appointed: 21 June 2012

Vehicle: Property Fund

Mandate: UK Property Pooled Fund

Benchmark: IPD All Balanced Property Fund Index

Target: To outperform the benchmark by 1 to 5%.

ESG Rating: Integrated

Source: MSCI data was used for benchmarking purposes, total fund performance was calculated using BNYM data.

BCPP – Quarterly high level monitoring

Changes to Senior Management at BCPP

- Milo Kerr joined as Head of CRM in July 2022. Milo was previously a client director within Mercer's Investment Team.
- Alistair Smith joined as the new Head of Real Estate in May 2022.
- Post quarter end, BCPP confirmed they have not yet been successful in recruiting a new CIO and will be continuing their search. John Harrison has confirmed he will remain as CIO with BCPP until the end of 2022.

Changes to views of External Managers

- BCPP UK Equity Alpha
  - There has been no change in the watchlist, with Baillie Gifford remaining on it until a review has been conducted. The six-month watchlist period was to conclude with a review commencing in August 2022.

Breaches to risk controls and ranges

- The new risk system (Barra) uses a different model to calculate ex-ante tracking errors – there were also differences between the Bloomberg and FactSet models. Some funds (particularly UK Alpha) have increased tracking errors under the new model.
- A review of all equity fund tracking error ranges has been undertaken – highlighting inconsistent information ratios across the fund range. There will be no changes to how each portfolio is managed, nor to the risk budgets of the underlying managers.
- No breaches reported in BCPP reporting this quarter.

Changes in structure, investment processes or risk management

- BCPP UK Equity Alpha restructured over Q2, terminating the UBS mandate and appointing both Redwheel and Lindsell Train.

Source: Aon, BCPP – External Management Quarterly Updates Q2 2022, Internal Management Quarterly Update Q2 2022, BCPP Quality Assurance Information quarterly spreadsheet Q2 2022

Border to Coast Pensions Partnership – RI Quarterly Report Snapshot

UK Equity Alpha Fund

Fund	Q2 2022 Position	
	Weighted Average Carbon Intensity	Weighted ESG Score
UK Equity Alpha	**53.9**	**7.6**
Benchmark (FTSE All Share)	**121.9**	**7.7**

Global Equity Alpha Fund

Fund	Q2 2022 Position	
	Weighted Average Carbon Intensity	Weighted ESG Score
Global Equity Alpha	**88.1**	**6.5**
Benchmark (MSCI ACWI)	**163.8**	**6.5**

Sterling Investment Grade Credit Fund

Fund	Q2 2022 Position	
	Weighted Average Carbon Intensity	Weighted ESG Score
Sterling Investment Grade Credit	**78.1**	**7.0**
Benchmark (iBoxxSterling Non Gilt Index)	**82.8**	**7.4**

Source: BCPP/MSCI[1]

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8. Further information

Key reference information about your scheme

Explanation of Ratings – Overall ratings

Overall ratings

An overall rating is then derived taking into account both the above outcomes for the product. The table lists how the overall rating can be interpreted.

The comments and assertions reflect our views of the specific investment product and our opinion of its quality. Differences between the qualitative and Aon InForm outcome can occur and if meaningful these will be explained within the Key Monitoring Points section. Although the Aon InForm Assessment forms a valuable part of our manager research process, it does not automatically alter the overall rating where we already have a qualitative assessment. Overall rating changes must go through our qualitative manager vetting process. Similarly, we will not issue a Buy recommendation before fully vetting the manager on a qualitative basis.

Overall Rating	What does this mean?
Buy	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products
Buy (Closed)	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products, however it is closed to new investors
Qualified	A number of criteria have been met and we consider the investment manager to be qualified to manage client assets
Not Recommended	A quantitative assessment of this strategy indicates it does not meet our desired criteria for investment. This strategy is not recommended.
Sell	We recommend termination of client investments in this product
In Review	The rating is under review as we evaluate factors that may cause us to change the current rating

Explanation of Ratings – Overall ratings

ESG Factor

The ESG factor is assigned a rating and can be interpreted as follows:

	Key
Advanced	The fund management team demonstrates an advanced awareness of potential ESG risks in the investment strategy. The fund management team can demonstrate advanced processes to identify, evaluate and potentially mitigate these risks across the entire portfolio.
Integrated	The fund management team has taken appropriate steps to identify, evaluate and mitigate potential financially material ESG risks within the portfolio.
Limited	The fund management team has taken limited steps to address ESG considerations in the portfolio.

Method

The funding update has been prepared in accordance with the framework below.

- This funding update is consistent with the calculations for the formal actuarial valuation as at 31 March 2019. The assumptions used have been modified only insofar as is necessary to maintain consistency with the approach set out in the latest Funding Strategy Statement, reflecting the change in the effective date and in relevant market conditions. However, we have allowed for an allowance for short term inflation increases in line with that proposed for the 2022 valuation of the Fund.
- The funding update is projected from the results of the formal actuarial valuation as at 31 March 2019 (as the 2022 valuation has not yet been completed) and is therefore approximate. Since the update is not based on up-to-date membership data, it becomes more approximate the longer the period of time that has elapsed since the last actuarial valuation.
- The funding update takes account of the following over the period since the last formal actuarial valuation:
  - Cashflows into and out of the Fund estimated based on the 2019 valuation results;
  - Actual price inflation and its impact on benefit increases.
- Demographic experience since the last formal actuarial valuation has been assumed to be in line with the assumptions set out in the 2019 Valuation Report.
- This update is designed to give a broad picture of the direction of funding changes since the actuarial valuation but does not have the same level of reliability as, and therefore does not replace the need for, formal actuarial valuations.
- It does not reflect any changes to assumptions which would be made if a full actuarial valuation were to be carried out to reflect, for example, changes to the investment strategy or economic outlook.
- For the purpose of this funding update, we have used an un-audited value of the assets as at 30 June 2022 provided by the Administering Authority
- The whole of fund total employer contribution rates shown in this funding update allow for a recovery period ending 31 March 2041 and allow for any surplus in excess of 110% to be recovered as set out in the Funding Strategy Statement
- The assumptions used in this funding update are as follows:

	Discount rate	Pay growth	Pension increases
31 March 2019	4.20%	3.35%	2.10%
31 March 2022	4.20%	3.55%	2.30%
30 June 2022	4.50%	3.45%	2.20%*

* Plus an allowance for short term inflationary increases

Risk/Return Assumptions

- The table below sets out the asset and liability return assumptions over 10 years, together with the asset allocation and exposures used. These are based on Aon's Capital Market assumptions as at 30 June 2022.

High level asset class	Expected Return	Expected Volatility
Equities	7.5%	18.9%
Property	5.1%	12.6%
Infrastructure	8.0%	15.8%
Listed alternatives	7.4%	19.2%
Illiquid credit	7.2%	5.9%
Investment grade credit	4.1%	8.1%
Non-investment grade credit	6.1%	9.3%
Absolute Return	5.2%	5.1%
Gilts	2.1%	7.4%
Cash	2.2%	1.0%

Note: all statistics are 10 year median expected returns/volatility of returns.

Correlation Table

High level asset class	Equities	Property	Infrastructure	Listed Alternatives	Illiquid credit	IG Credit	Non-IG Credit	Absolute Return	Gilts	Cash
Equities	100%	38%	61%	100%	29%	7%	56%	21%	-8%	-3%
Property		100%	19%	36%	28%	6%	27%	8%	-2%	4%
Infrastructure			100%	63%	14%	4%	23%	19%	-3%	0%
Listed Alternatives				100%	28%	7%	55%	21%	-8%	-4%
Illiquid credit					100%	64%	67%	11%	4%	14%
IG Credit						100%	34%	14%	52%	36%
Non-IG Credit							100%	14%	-2%	5%
Absolute Return								100%	8%	28%
Gilts									100%	31%
Cash										100%

Data and assumptions

Date of calculation	30 June 2022
Number of simulations	5000
Time horizon	10 years
Asset value	£ 4,109,333,045

- Infrastructure is modelled as a blend of 37.5% EU and 62.5% US Infrastructure in line with BCPP's mandate.
- Listed Alternatives are modelled as passive global equities (including emerging markets).
- Private Credit modelled as combination of 2/3 Senior Direct Lending (for Arcmont and Permira) and 1/3 Whole Property Debt (for BCPP).
- Gilts are modelled as a 90% long-duration index-linked gilts and 10% long-duration fixed-interest gilts.
- Property is modelled as UK Property.
- Liquid IG Credit modelled as UK corporate bonds (A-rated with average duration of 10 years)
- Liquid Non-IG Credit modelled as high yield multi-asset credit.
- Absolute Return is modelled as Leadenhall Insurance Linked Securities modelled as an equal blend of Aggressive, Conservative and Moderate ILS.
- The Fund has an allocation to Equities which make up 50% of the long term allocation.
- For modelling purposes (and for consistency with the approach taken by the Actuary) we do not allow for any outperformance from active management (alpha).
- We have not allowed for the impact of equity protection on the risk and return of the portfolio
- Equities have been modelled using region splits in line with the long term allocation:

Passive UK Equity	10%
Passive Global Equity (including Emerging Markets)	90%

Key assumptions of the model (1)

- The purpose of the model is to consider and monitor the return and risk characteristics of the current and long term investment strategy of the Fund.
  - The analysis considers the expected return of the Fund's investment strategy and the 1-in-20 downside 5th percentile Value at Risk implied by the strategy.
  - These metrics are considered as at the stated quarter-end.

- Investment risk is included in the model outputs but this is not the only risk that the Fund faces; other risks include covenant risk, longevity risk, timing of member options, basis risks and operational risks.
- Investment risk has been calculated on an asset only basis.

Key assumptions of the model (2)

- The calculation of portfolio risk is approximate;
  - The calculation considers (5000 stochastic) simulations of returns over a single year of the Fund's investment strategy.
  - The simulations are constructed using Aon Solution's Asset Model – the details and assumptions of which are outlined in this appendix.
  - The calculation does not take into account any cashflows payable over the year; if cashflows are expected to be material the result is likely to be different.
  - Risks are attributed into the categories outlined in the chart only; the investment strategy may be exposed to further risk categories not shown.
  - The calculation does not take into account longevity risk (i.e. liability values increasing due to members living longer than assumed).
  - Owing to these approximations, a more detailed ALM study is likely to result in a different result to the VaR calculation.
  - Other portfolios with different risk and return characteristics may be available to the Fund along the journey to full funding.

TAS compliance

This document has been prepared in accordance with the framework below.

This document has been requested by the Administering Authority. It has been prepared under the terms of the Agreement between the North Yorkshire County Council and Aon Solutions UK Limited on the understanding that it is solely for the benefit of the addressee.

This document, and the work relating to it, complies with 'Technical Actuarial Standard 100: Principles for Technical Actuarial Work' ('TAS 100').

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This report should be read in conjunction with:

- The report on the most recent actuarial valuation of the Fund dated 30 March 2020.
- Our paper entitled 'Financial assumptions – Actuarial valuation as at 31 March 2022'
- The latest Funding Strategy Statement.

If you require further copies of any of these documents, please let me know.

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