

Investment strategy review

Overview of aims, considerations
and proposed timescales

Prepared for: North Yorkshire Pension Fund

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Investment strategy review – key considerations and aims

What are overall objectives?

- Stabilise Primary Employer contribution rate by maintaining the investment strategy on assets supporting accrued and future liabilities? This would be expected to grow surplus faster if same strategy applied to surplus assets.
- Or, reduce investment risk (and return) to give higher Primary contribution rate but with more certainty at future actuarial valuations?
- Consider if investment objectives for surplus assets should differ from assets supporting liabilities.

Actuarial position and risks

- Required, best estimate and assumed investment returns based on the completed 2022 actuarial valuation, rolled forward to a current date, and any changes the Fund actuary envisages for the 2025 actuarial valuation.
- Impacts on the strategic asset mix in longer term strategic asset allocation.

Key risks

- Identify key risks that could worsen funding position in the future.
- Consider ways those risks can be managed

Medium term assets outlook

- Incorporate views on current attractiveness of different asset classes.

Fund's cashflow requirements

- Asset income should be aligned to meet net shortfall between benefit outgo and contributions.

The investment strategy review analyses current and alternative strategies against these aims, taking account of the basis and rolled forward results of the completed 2022 actuarial valuation.

Initially we propose using the actuarial position, and market outlook, as at 30 September 2024 as the base point for our strategy review work.

We are seeing increased focus on employer specific investment strategies as some employers look to 'lock in' improved actuarial funding positions.

Stages and timescales - overview

Deliver initial strategies

Aon undertake modelling of expected returns, expected financial risks of current and alternative investment strategies for initial discussion with Officers and Committee. This stage will include **Climate risk modelling** and **implementation considerations** to ensure all strategy changes considered are implementable e.g. via Border to Coast.

Q4 2024

Deliver final strategy

Following the Q4 discussions, Aon make any required refinements to strategies modelled to reflect Officers' and Committee views for further discussion with, and approval by, Officers and Committee.

Q1 2025

Discover and Develop

Recap on Committee's and Officers' investment beliefs, constraints, Fund specifics and investment objectives to be factored into the strategy review.

Q3 and Q4 2024



Implement strategy

Agreed strategy including Border to Coast and asset class specific considerations

Q2 2025 onwards

Stages and timescales – more detailed

Item	Scope
Stage 1 Discover and Develop	<ul style="list-style-type: none"> ▪ Initial training and discussions on aims of review at 12/13 September 2024 Workshop and Committee meeting ▪ RI-Viewpoints and Wider Beliefs Officers and Committee survey to follow after this meeting ▪ Results of the survey discussed at 21/22 November 2024 Workshop and Committee meeting look at differences, compare with current strategy and agree objectives and beliefs. ▪ The aim at this stage is to achieve clarity on the funding and investment objective. At this stage our focus is on the total Fund. If you wished to consider different objectives/strategies for different employers that would be a separate project.
Stage 2 Deliver initial strategy, including climate risk modelling and strategy implementation considerations	<p>At 22 November 2024 Committee meeting, discuss initial strategy work and modelling, covering:</p> <ul style="list-style-type: none"> ▪ Recap on link between investment, funding and contributions ▪ Recap of previous investment strategy review, beliefs and principles and changes to asset allocation agreed. ▪ What has happened since March 2022 valuation including capital market assumptions, funding (discount rate, funding level and estimated contributions) and market outlook ▪ Show current strategic asset allocation, relevant funding statistics (funding level, discount rate, contributions) and risk, including attribution of VaR and economic scenario risk ▪ Given considerably higher bond yields and the surplus funding position, the Fund may have the opportunity to de-risk. Therefore, a decision is required regarding funding strategy and what return/risk is required from the investment strategy. For example, we can consider lower risk strategies, with higher allocations to bonds, that aim to lock into current funding and contributions but with lower growth potential ▪ Compared with higher risk strategies, aiming to increase the surplus in order to reduce future contributions by a greater amount if successful (with the risk of increasing contributions if not). ▪ Show same information for alternative strategic asset allocations taking account of beliefs, objectives, market outlook, etc. ▪ Using stochastic modelling to compare the risk and return of different portfolios. ▪ Output from meeting is to agree in principle favoured investment strategies for further work in Q1 2025 to refine these for final approvals. ▪ Include qualitative consideration of any ESG / climate objectives. ▪ Compare how different portfolios would perform using climate scenario modelling. ▪ Explore implementation options available, including Borders to Coast funds and ESG fund considerations
Stage 3 Deliver final strategy	<p>At 28 February 2025 Committee meeting:</p> <ul style="list-style-type: none"> ▪ Make proposals, for approval, for the future strategic asset allocation based on outcomes of discussions with Committee at Stage 2.
Stage 4 Implement strategy	<p>The final stage would be to agree an implementation plan for the asset allocation over March 2025, and to potentially commence implementation in Q2 2025.</p>

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