

Quarterly Investment Report Quarter 4 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 fourth calendar quarter of 2020 and our economic and investment outlook.

- 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 (with comments for any rebalancing activity) for the Fund, summary of the Fund's funding position, a brief review of the market background for the latest quarter and a summary of the latest market outlook.

2. Executive Summary

Overall performance

- The Fund assets increased in value by £322.3m to £4,517.0 over the fourth quarter of 2020.
- In relative terms, the Fund outperformed the composite benchmark by 2.6% over the quarter, returning 7.6% in absolute terms.

Asset Allocation

- No rebalancing is required.

3. Investment Summary

Investment returns – 3 months to 31 December 2020	<p>The market value of the Fund's assets as at 31 December 2020 (£4,517.0m) was £322.3m higher than the value as at 30 September 2020 (£4,194.7m).</p> <p>The Fund returned 7.6% over the fourth quarter of 2020, outperforming its composite performance benchmark by 2.6%.</p> <ul style="list-style-type: none"> ▪ In relative terms, the performance from the Dodge & Cox (+8.5%) and Baillie Gifford LTGG (+4.6%) portfolios were among the key driver of the outperformance. In contrast, Veritas (-2.7%) underperformed over the quarter ▪ BCPP UK Equity (+4.1%) and BCPP Global Equity (+5.2%) also outperformed their respective benchmark during the quarter. ▪ Threadneedle (-0.9%) and Hermes (-0.4%) underperformed over the quarter whereas LGIM performed in line with its benchmark. ▪ The Leadenhall Nat Cat (-3.0%) underperformed the benchmark whereas the Leadenhall Remote Risk (+1.5%) and Leadenhall Diversified (+0.8%) outperformed their benchmarks over the quarter. ▪ Newton Real Return (+5.5%) outperformed. ▪ M&G outperformed the benchmark by 0.2%. ▪ The LGIM Equity Protection portfolio (including the Gilt collateral holdings) returned -8.9%. ▪ BCPP Private Credit underperformed its benchmark (-6.2%). BCPP Infrastructure 1A (+7.3%), Arcmont (+0.5%) and Permira (+2.2%) outperformed their benchmarks. Please note that these 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 31 December 2020	<p>The market value of the Fund's assets as at 31 December 2020 (£4,517.0m) was £693.6m higher than the value as at 31 December 2019 (£3,823.4m).</p> <ul style="list-style-type: none"> ▪ In relative terms the Fund was 9.7% ahead (18.5% vs. 8.8%) its composite performance benchmark return over the past 12 months. ▪ In relative terms, the significant outperformance from the Baillie Gifford LTGG (+83.7%) portfolio was the key driver of the outperformance. In contrast, Veritas (-3.8%) and Dodge & Cox (-11.0%) underperformed over the 12-month period. ▪ BCPP UK Equity (+4.1%) outperformed the benchmark whereas BCPP Global Equity (-3.6%) underperformed over the 12-month period. ▪ The Leadenhall Remote Risk (+4.5%) and Leadenhall Diversified (+1.6%) outperformed the benchmark over the year to 31 December 2020, whereas the Leadenhall Nat Cat (-4.0%) underperformed over the same period. ▪ Newton outperformed its cash benchmark by 6.8% over the year. ▪ LGIM, Hermes and Threadneedle underperformed the property benchmark by 0.2%, 0.4%, and 0.9% respectively.
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- M&G returned 16.2%, 0.9% ahead of the benchmark return of 15.3%.
- The LGIM Equity Protection portfolio (including the Gilt collateral holdings) returned -0.6%.
- BCPP Infrastructure 1A (-24.1%) underperformed over the year. Arcmont (+0.8%) outperformed whereas Permira (-0.7%) underperformed their respective benchmarks over the past 12 months. Please note that these 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.

**Market Background
Q4 2020**

- Global equities continued to perform well over the fourth quarter, boosted by optimism over Covid-19 vaccine roll-outs and supportive monetary and fiscal policies. After breaking its pre-pandemic all-time high in Q3, the MSCI AC World continued its strong run despite uncertainties around the US elections and surging Covid-19 cases and deaths. The index's sterling and local currency returns over Q4 were 8.6% and 12.9% respectively.
- UK nominal government bond yields inched down over the quarter amidst increased expectations of negative rates and Brexit uncertainty. The discovery of a new variant of Covid-19 in the UK and record infection levels led to the imposition of a new national lockdown, raising concerns about a "double dip" recession. The FTSE All Stocks Gilts Index and the FTSE All Stocks Index-Linked Gilts Index returned 0.6% and 1.2% respectively.
- UK investment grade credit spreads fell back further as government support and central bank purchases continued to shore up the corporate bond market. The iBoxx Sterling Non-Gilt Index rose by 3.1% over Q4 as credit spreads contracted and government bond yields fell.
- After years of negotiations, the UK and the EU reached a historic Brexit trade deal at the last minute before the new year deadline. The deal, which allows most goods to be traded between the UK and the EU without tariffs or quotas, was reached after issues including EU fishing rights in UK waters and fair competition rules were agreed. Sterling rose by 5.7% and 1.3% against the US dollar and the euro respectively over the quarter.
- A steady income return ensured that the total return of the MSCI UK Monthly Property Index remained in positive territory, as the index returned 2.0% overall. The index was boosted by a rise in UK property capital values - the first rise since Q3 2018.

List of rebalancing

The following rebalancing took place over the quarter:

- £150m was invested in the BCPP Index Linked Bond Fund. This was funded from assets held in the M&G gilt portfolio.
- BCPP made eleven Infrastructure capital calls in the quarter totalling £6.6m and two Private Credit capital calls totalling £0.9m.
- A total of £5.3m was disinvested from the Treasury Management cash fund to cover the capital calls made in the quarter.

Funding level

The funding position as at 31 December 2020 was estimated to be 126.2%. The funding level has increased by 5.5% since 30 September 2020. This is mainly due to higher returns on assets relative to the expectation.

Quarter 4 2020 – Performance

Investment	Quarterly (%)			Annual (%)			3 Years (% pa)		
	Portfolio	B'mark	Relative	Portfolio	B'mark	Relative	Portfolio	B'mark	Relative
Equities									
UK Equities									
BCPP UK Equity	16.7	12.6	+4.1	-5.7	-9.8	+4.1	-	-	-
Global Equities									
BCPP Global Equity	13.8	8.6	+5.2	9.6	13.2	-3.6	-	-	-
Baillie Gifford LTGG	13.1	8.5	+4.6	96.7	13.0	+83.7	38.9	10.1	+28.8
Dodge & Cox	17.1	8.6	+8.5	2.2	13.2	-11.0	3.8	10.3	-6.5
Veritas	5.9	8.6	-2.7	9.4	13.2	-3.8	10.7	10.3	+0.4
Absolute Return									
Diversified Growth									
Newton Real Return	5.5	0.0	+5.5	7.0	0.2	+6.8	6.3	0.5	+5.8
Insurance-Linked									
Leadenhall Remote Risk	1.5	0.0	+1.5	4.6	0.1	+4.5	-	-	-
Leadenhall Diversified	0.8	0.0	+0.8	1.7	0.1	+1.6	-	-	-
Leadenhall Nat Cat	-3.0	0.0	-3.0	-3.9	0.1	-4.0	-	-	-
Property									
Hermes	1.7	2.1	-0.4	-1.4	-1.0	-0.4	3.1	2.7	+0.4
L&G	2.1	2.1	0.0	-1.2	-1.0	-0.2	1.7	2.3	-0.6
Threadneedle	1.2	2.1	-0.9	-1.9	-1.0	-0.9	1.8	2.3	-0.5
Illiquid Growth									
BCPP Infrastructure 1A	8.7	1.4	+7.3	-18.5	5.6	-24.1	-	-	-
BCPP Infrastructure 1B	-	-	-	-	-	-	-	-	-
Illiquid Credit									
BCPP Private Credit	-5.2	1.0	-6.2	-	-	-	-	-	-
Arcmont	2.0	1.5	+0.5	6.8	6.0	+0.8	6.7	6.0	+0.7
Permira	3.7	1.5	+2.2	5.3	6.0	-0.7	6.8	6.0	+0.8
Liquid Credit									
BCPP Inv Grade Credit Fund	3.9	3.1	+0.8	-	-	-	-	-	-
PIMCO	4.6	4.3	+0.3	-	-	-	-	-	-
Gilts									
M&G	2.2	2.0	+0.2	16.2	15.3	+0.9	7.4	7.3	+0.1
LGIM Equity Protection (Inc. collateral)	-8.9	-8.9	0.0	-0.6	-0.6	0.0	-	-	-
BCPP Index Linked Bond Fund	-	-	-	-	-	-	-	-	-
Overall	7.6	5.0	+2.6	18.5	8.8	+9.7	10.6	6.3	+4.3

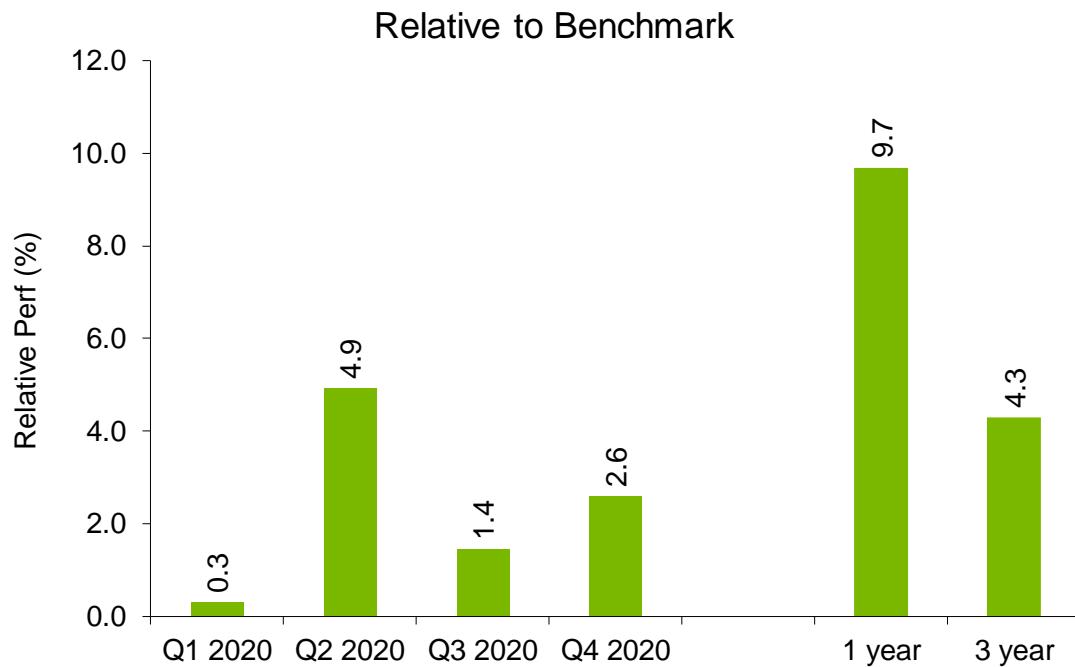
Source: BNY Mellon, Managers. Notes: Hermes, Threadneedle, and L&G performance & benchmark numbers provided by the investment managers. LGIM Equity protection - performance return quoted is on physical assets held by LGIM to support protection on £800m equities (including equity options, along with collateral held as gilts and cash).

Quarter 4 2020 – Asset Allocation

	Previous Quarter		Current Quarter		
	Market Value (£m)	Weight (%)	Market Value (£m)	Weight (%)	Current B'mark (%)*
Equities	2,287.5	54.5	2,588.4	57.3	55.0
UK Equities	137.9	3.3	160.9	3.6	5.0
BCPP – UK Equity Fund	137.9	3.3	160.9	3.6	5.0
Global Equities	2,146.9	51.2	2,425.0	53.7	50.0
BCPP – Global Equity Fund	998.9	23.8	1,136.5	25.2	25.0
Baillie Gifford LTGG	694.3	16.6	785.4	17.4	15.0
Dodge & Cox	201.6	4.8	236.0	5.2	5.0
Veritas	252.1	6.0	267.1	5.9	5.0
Overseas Equities	2.7	0.1	2.6	0.1	0.0
Fidelity	2.7	0.1	2.6	0.1	
Absolute Return	324.6	7.7	333.1	7.4	10.0
Diversified Growth	159.7	3.8	168.5	3.7	5.0
Newton Real Return	159.7	3.8	168.5	3.7	
Insurance-Linked	164.9	3.9	164.6	3.6	5.0
Leadenhall Remote Risk	56.7	1.4	57.5	1.3	
Leadenhall Diversified	54.7	1.3	55.1	1.2	
Leadenhall Nat Cat	53.5	1.3	51.9	1.1	
Property	270.9	6.5	274.7	6.1	7.0
Hermes	34.4	0.8	34.6	0.8	
L&G	69.3	1.7	70.8	1.6	
Threadneedle	167.2	4.0	169.3	3.7	
Illiquid Growth	11.5	0.3	18.6	0.4	0.0
BCPP Infrastructure 1A	11.5	0.3	15.1	0.3	
BCPP Infrastructure 1B	-	-	3.4	0.1	
Illiquid Credit	99.3	2.4	101.8	2.3	3.0
BCPP – Private Credit	3.7	0.1	4.3	0.1	
Arcmont	42.5	1.0	43.4	1.0	
Permira	53.1	1.3	54.1	1.2	
Liquid Credit	279.3	6.7	291.4	6.5	7.5
BCPP Inv Grade Credit Fund	90.3	2.2	93.8	2.1	
PIMCO	189.0	4.5	197.6	4.4	
Gilts	774.4	18.5	763.7	16.9	17.5
M&G	515.9	12.3	373.8	8.3	
LGIM Equity Protection (Inc. collateral)	258.5	6.2	235.6	5.2	
BCPP Index Linked Bond Fund	-	-	154.3	3.4	
Cash	147.2	3.5	145.3	3.2	0.0
Internal Cash	14.3	0.3	17.5	0.4	
Treasury Cash	132.9	3.2	127.8	2.8	
Total Assets	4,194.7	100.0	4,517.0	100.0	100.0

Source: BNY Mellon. The underlying performance benchmark structure with BNYM will adjust as the Fund moves closer towards its long term strategic targets.

Total Assets	£4,517.0m
Performance Target	Target an expected return of approximately 2.5% ahead of the composite benchmark



Fund (%)	-6.9	15.7	2.2	7.6	18.5	10.6
Benchmark (%)	-7.2	10.8	0.8	5.0	8.8	6.3

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

The overall absolute performance of the Fund's assets was 7.6% over the fourth quarter of 2020, compared to the benchmark return of 5.0%.

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

The Fund outperformed its composite performance benchmark by 9.7% over the past 12-month period and by 4.3% per annum over the 3-year period to 31 December 2020.

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