



Quarterly Investment Report Quarter 3 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 third 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 solvency position, a brief review of the market background for the latest quarter, a summary of the latest market outlook and key manager news.

2. Executive Summary

Overall performance

- The Fund assets increased in value by £91.9m to £4,194.7 over the third quarter of 2020.
- In relative terms, the Fund outperformed the composite benchmark by 1.4% over the quarter, returning 2.2% in absolute terms. Much of the outperformance this quarter was a result of significant relative performance from the Baillie Gifford LTGG (+12.9%) portfolio.

Asset Allocation

- In relation to the Fund's long term strategic target, the Fund's asset allocation as at Q3 2020 was 9.5% overweight equity, 2.3% underweight absolute return, 3.5% underweight property, 7.2% underweight illiquid growth, 7.6% underweight illiquid credit, 0.8% underweight liquid credit, 8.5% overweight in gilts and 3.5% overweight in cash.
- No rebalancing required.

3. Investment Summary

Investment returns –
3 months to
30 September 2020

The market value of the Fund's assets as at 30 September 2020 (£4,194.7m) was £91.9m higher than the value as at 30 June 2020 (£4,102.8m).

The Fund returned 2.2% over the third quarter of 2020, outperforming its composite performance benchmark by 1.4%.

- In relative terms, the performance from the Baillie Gifford LTGG (+12.9%) portfolio was the key driver of the outperformance. In contrast, Dodge & Cox (-4.9%) and Veritas (-1.0%) underperformed over the quarter.
- BCPP UK Equity (+3.4%) outperformed its respective benchmark in contrast to BCPP Global Equity (-2.5%) which underperformed its benchmark during the quarter.
- Hermes (-0.9%) and Legal and General (-0.2%) underperformed over the quarter whereas Threadneedle (+0.1%) outperformed.
- The Leadenhall Nat Cat (-0.2%) underperformed the benchmark whereas the Leadenhall Remote Risk (+2.1%) and Leadenhall Diversified (+0.9%) outperformed their benchmarks over the quarter.
- Newton Real Return (+3.5%) outperformed.
- M&G outperformed the benchmark by 0.1%.
- The LGIM Equity Protection portfolio (including the Gilt collateral holdings) returned -8.7%.
- BCPP Infrastructure (-6.5%) underperformed its benchmark. BCPP Private Credit (+1.3%), Arcmont (+0.1%) and Permira (+0.8%) 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.

**Investment returns –
12 months to
30 September 2020**

The market value of the Fund's assets as at 30 September 2020 (£4,194.7m) was £401.3m higher than the value as at 30 September 2019 (£3,793.4m).

- In relative terms the Fund was 8.8% ahead (11.4% vs. 2.6%) its composite performance benchmark return over the past 12 months.
- In relative terms, the significant outperformance from the Baillie Gifford LTGG (+88.6%) portfolio was the key driver of the outperformance. In contrast, Veritas (-1.1%) and Dodge & Cox (-16.1%) underperformed over the 12-month period.
- The Leadenhall Diversified (+0.1%) and the Remote Risk (+4.1%) outperformed the benchmark over the year to 30 September 2020. In contrast, Nat Cat (-1.5%) underperformed over the year to 30 September 2020.
- Newton outperformed its cash benchmark by 2.6% over the year.
- Hermes and Threadneedle outperformed the property benchmark by 0.2% and 0.1% respectively, whereas Legal & General performed in line with its benchmark.
- M&G returned 2.3%, 0.5% ahead of the benchmark return of 1.8%.
- The LGIM Equity Protection portfolio (including the Gilt collateral holdings) returned -2.7%.
- BCPP Infrastructure (-29.3%) underperformed over the year. Arcmont (+0.6%) outperformed whereas Permira (-2.2%) 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 Q3 2020

- Global equities continued their rebound over the third quarter. Boosted by optimism over progress in Covid-19 vaccine trials and supportive monetary and fiscal policies, MSCI AC World broke its pre-pandemic all-time high in early September. Rising fears of a second wave outbreak reversed equity market momentum later on, bringing the index's local currency return over Q3 to 7.1%.
- UK nominal government bond yields rose over the quarter. Following sharp falls in the first half of 2020, long duration yields recovered some ground as global risk sentiment improved. New fiscal stimulus measures also supported the UK's economic outlook and led to an increased supply of gilts, putting upward pressure on yields. The FTSE All Stocks Gilts Index and the FTSE All Stocks Index-Linked Gilts Index returned -1.2% and -2.2% 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 1.2% over Q3 as credit spread contraction counteracted the rise in underlying government bond yields.
- Sterling rose by 4.6% and 0.2% against the US dollar and the euro respectively over the quarter. This reduced global equity returns in sterling terms to 3.5%. Hopes that a UK-EU trade deal will be reached by the end of the year boosted sterling over July and August, but sterling came under renewed pressure in September as UK-EU clashes over the Internal Markets Bill raised fears of a chaotic departure.
- A steady income return brought the total return of the MSCI UK Monthly Property Index back into positive territory, as the index returned 0.7% overall. However, UK property capital values continued to trend lower, albeit at a slower rate than before.

List of rebalancing

The following rebalancing took place over the quarter:

- An investment was made into the PIMCO Diversified Income Fund of £190m and the BCPP Investment Grade Credit Fund of £90m. A disinvestment was made from Baillie Gifford of £280m to fund these new investments.
- BCPP made five Infrastructure capital calls in the quarter totalling £1,601k and one Private Credit capital call totalling £838k
- Arcmont made one capital call in the quarter totalling £2,341k
- A total of £838k was disinvested from the Treasury Management cash fund to cover the capital calls made in the quarter.

Solvency position

The solvency position of the Fund as at 30 September 2020 was estimated to be 120.7%. The funding level has decreased by 3% since 30 June 2020. This is mainly due to a decrease in the real discount rate, which has put a higher value on the liabilities.

Quarter 3 2020 – Performance

	Quarterly (%)			Annual (%)			3 Years (% pa)		
	Portfolio	B'mark	Relative	Portfolio	B'mark	Relative	Portfolio	B'mark	Relative
Investment									
Equities									
UK Equities									
BCPP UK Equity	0.5	-2.9	+3.4	-12.9	-16.6	+3.7	-	-	-
Global Equities									
BCPP Global Equity	1.0	3.5	-2.5	-	-	-	-	-	-
Baillie Gifford LTGG	16.3	3.4	+12.9	94.3	5.7	+88.6	35.8	8.9	+26.9
Dodge & Cox	-1.4	3.5	-4.9	-10.3	5.8	-16.1	-0.6	9.0	-9.6
Veritas	2.5	3.5	-1.0	4.7	5.8	-1.1	9.1	9.0	0.1
Absolute Return									
Diversified Growth									
Newton Real Return	3.5	0.0	+3.5	3.0	0.4	+2.6	4.5	0.6	+3.9
Insurance-Linked									
Leadenhall Remote Risk	2.1	0.0	+2.1	4.4	0.3	+4.1	-	-	-
Leadenhall Diversified	0.9	0.0	+0.9	0.4	0.3	+0.1	-	-	-
Leadenhall Nat Cat	-0.2	0.0	-0.2	-1.2	0.3	-1.5	-	-	-
Property									
Hermes	-0.7	0.2	-0.9	-2.6	-2.8	+0.2	3.8	3.1	+0.7
L&G	0.0	0.2	-0.2	-2.8	-2.8	0.0	2.0	2.6	-0.6
Threadneedle	0.3	0.2	+0.1	-2.7	-2.8	+0.1	2.6	2.6	0.0
Illiquid Growth									
BCPP Infrastructure	-4.9	1.6	-6.5	-23.9	5.4	-29.3	-	-	-
Illiquid Credit									
BCPP Private Credit	2.3	1.0	+1.3	-	-	-	-	-	-
Arcmont	1.6	1.5	+0.1	6.6	6.0	+0.6	6.9	6.0	+0.9
Permira	2.3	1.5	+0.8	3.8	6.0	-2.2	4.8	6.0	-1.2
Gilts									
M&G	-3.3	-3.4	+0.1	2.3	1.8	+0.5	8.2	8.3	-0.1
LGIM Equity Protection (Inc. collateral)	-8.7	-8.7	0.0	-2.7	-2.7	0.0	-	-	-
Overall	2.2	0.8	+1.4	11.4	2.6	+8.8	9.4	5.9	+3.5

Source: BNY Mellon, Managers.

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

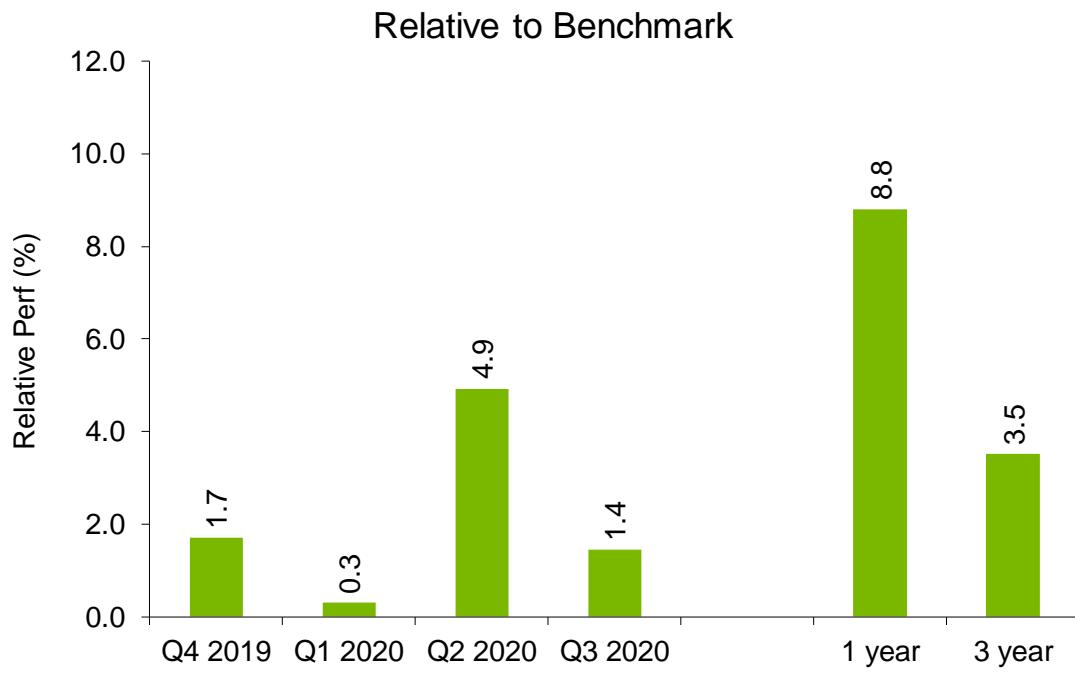
LGIM Equity protection - performance return quoted is on physical assets held by LGIM to support protection on £800m equities (including equity options, along with collateral held as gilts and cash).

Quarter 3 2020 – Asset Allocation

	Previous Quarter		Current Quarter					Relative (to Long Term Target) (%)
	Market Value (£m)	Weight (%)	Market Value (£m)	Weight (%)	Current Benchmark (%) [*]	Long Term Target (%)		
Equities	2,442.8	59.5	2,287.5	54.5	55.0	45.0	+9.5	
UK Equities	137.2	3.3	137.9	3.3	5.0			
BCPP – UK Equity Fund	137.2	3.3	137.9	3.3	5.0			
Global Equities	2,302.8	56.1	2,146.9	51.2	50.0			
BCPP – Global Equity Fund	989.4	24.1	998.9	23.8	25.0			
Baillie Gifford LTGG	863.3	21.0	694.3	16.6	15.0			
Dodge & Cox	204.4	5.0	201.6	4.8	5.0			
Veritas	245.7	6.0	252.1	6.0	5.0			
Overseas Equities	2.7	0.1	2.7	0.1	0.0			
Fidelity	2.7	0.1	2.7	0.1				
Absolute Return	317.6	7.8	324.6	7.7	10.0	10.0	-2.3	
Diversified Growth	154.2	3.8	159.7	3.8	5.0			-1.2
Newton Real Return	154.2	3.8	159.7	3.8				
Insurance-Linked	163.4	4.0	164.9	3.9	5.0			-1.0
Leadenhall Remote Risk	55.5	1.4	56.7	1.4				
Leadenhall Diversified	54.2	1.3	54.7	1.3				
Leadenhall Nat Cat	53.7	1.3	53.5	1.3				
Property	270.9	6.6	270.9	6.5	7.0	10.0	-3.5	
Hermes	34.9	0.8	34.4	0.8				
L&G	69.2	1.7	69.3	1.7				
Threadneedle	166.8	4.1	167.2	4.0				
Illiquid Growth	10.9	0.3	11.5	0.3	0.0	7.5	-7.2	
BCPP Infrastructure	10.9	0.3	11.5	0.3				
Illiquid Credit	99.4	2.4	99.3	2.4	3.0	10.0	-7.6	
BCPP – Private Credit	2.9	0.1	3.7	0.1				
Arcmont	40.0	1.0	42.5	1.0				
Permira	56.5	1.4	53.1	1.3				
Liquid Credit	-	-	279.3	6.7	7.5	7.5	-0.8	
BCPP Credit Fund	-	-	90.3	2.2				
PIMCO	-	-	189.0	4.5				
Gilts	816.4	19.9	774.4	18.5	17.5	10.0	+8.5	
M&G	533.3	13.0	515.9	12.3				
LGIM Equity Protection (Inc. collateral)	283.1	6.9	258.5	6.2				
Cash	114.7	3.5	147.2	3.5	0.0	0.0	+3.5	
Internal Cash	15.9	0.4	14.3	0.3				
Treasury Cash	128.8	3.1	132.9	3.2				
Total Assets	4,102.8	100.0	4,194.7	100.0	100.0	100.0		

Source: BNY Mellon. Please note that the benchmark allocations displayed above represent the Fund's long-term strategic target (for illustrative purposes only). The underlying performance benchmark structure with BNYM will adjust as the Fund moves closer towards its long term strategic targets.

Total Assets	£4,194.7m
Performance Target	Target an expected return of approximately 2.5% ahead of the composite benchmark



Fund (%)	0.7	-6.9	15.7	2.2	11.4	9.4
Benchmark (%)	-1.0	-7.2	10.8	0.8	2.6	5.9

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

The overall absolute performance of the Fund's assets was 2.2% over the third quarter of 2020, compared to the benchmark return of 0.8%.

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

The Fund outperformed its composite performance benchmark by 8.8% over the past 12-month period and by 3.5% per annum over the 3-year period to 30 September 2020.

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