

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

28 JUNE 2013

PERFORMANCE OF THE FUND'S PORTFOLIO FOR THE QUARTER AND YEAR ENDING 31 MARCH 2013

Report of the Treasurer

1.0 PURPOSE OF REPORT

- 1.1 To report the investment performance of the overall Fund, and of the individual Fund Managers, for the Quarter to 31 March 2013 and the twelve months ending on that same date.

2.0 PERFORMANCE REPORT

- 2.1 The Fund Analysis & Performance Report (**circulated as a separate document**) produced by BNY Mellon Asset Servicing (MAS) provides a performance analysis of the North Yorkshire Pension Fund for the quarter and year ending 31 March 2013.
- 2.2 The report highlights the performance of the total Fund by asset class against the customised Fund benchmark. It also includes an analysis of the performance of each manager against their specific benchmark and a comparison of performance levels over time.

3.0 PERFORMANCE OF THE FUND

- 3.1 **The absolute overall return for the quarter (+9.7%) was below the customised benchmark for the Fund (+10.6%) by 0.9%.**
- 3.2 **The 12 month absolute rolling return was +16.4%. This was 1.1% above the customised benchmark.**
- 3.3 Absolute and relative returns over the year to each of the last four quarter ends were as follows.

| Year End | Absolute % | Relative % |
|-------------------|------------|------------|
| 31 March 2013 | +9.7 | -0.9 |
| 31 December 2012 | +6.0 | +3.3 |
| 30 September 2012 | +4.3 | +0.7 |
| 30 June 2012 | -4.0 | -0.9 |

- 3.4 The performance of the various managers against their benchmarks for the Quarter ended 31 March 2013 is detailed on **page 8** of the MAS report and in **Section 4** below. This performance is measured on a time-weighted basis and expressed as a +/- variation to their benchmark.
- 3.5 Challenging market conditions have persisted since the worst of the crisis in 2008/09 but volatility in financial markets has gradually receded. In all but three quarters in the last three years the Fund's absolute performance has been positive.
- 3.6 The Appendices used in this report have been designed to present a fuller picture of recent investment performance.

Appendix 1 Fund Manager Performance over the three years to 31 March 2013 in absolute percentage terms from a starting point of "100"

Appendix 2 Performance of NYPF relative to other LGPS Funds over the last ten years

Appendix 3 Solvency position (in % and £ terms) since the 2001 Triennial Valuation; this Appendix also shows in absolute terms the +/- in the value of assets and liabilities of the Fund

Appendix 4 Solvency graph – this shows the key figures from **Appendix 3** in a simple graphical format

Appendix 5 Details of Rebalancing @ 31 March 2013

- 3.7 The separate reports of the Investment Adviser and Investment Consultant explain what has been happening in the financial markets and to NYPF's investments, and look ahead over the short, medium and longer term.

4.0 FUND MANAGER PERFORMANCE

- 4.1 In monetary terms, the positive absolute return of +9.7% in the Quarter increased the invested value of the Fund by £162m. Taking new money into account, the value of the Fund increased by £169m. In absolute terms this movement is primarily attributable to capital gains made by Baillie Gifford (£54m), Fidelity (£45m) and Standard Life (£42m).
- 4.2 Positive absolute performance in the Quarter was achieved by all managers, with mixed relative performance. At the end of the March 2013 quarter the value of the Fund was £276m above the value at the end of March 2012, an increase of 18%.

Performance relative to other LGPS Funds

- 4.3 **Appendix 2** shows the **performance of NYPF relative to other Funds in the LGPS universe**. NYPF outperformed the local authority average by 0.6% for the quarter and 2.6% for the year to 31 March 2013 (ranking: 8th). NYPF has shown a strong and consistent correlation to the performance of other LGPS funds over the last 10 years but has tended to relatively outperform when markets are rising and underperform in falling markets conditions. This reflects to a greater inherent

potential for volatility in the NYPF Investment Strategy relative to many other LGPS funds.

Overseas Equities

- 4.4 **Fidelity** produced a negative relative return in the quarter (-0.5%) against a benchmark return of +16.3%. However, performance over the year to March 2013 was +1.2% relative.

| | Individual Quarters Ending | | | | 12 Months to |
|------------|----------------------------|-----------|-----------|-----------|--------------|
| | 30 Jun 12 | 30 Sep 12 | 31 Dec 12 | 31 Mar 13 | 31 Mar 2013 |
| Portfolio | -4.3 | 4.6 | 4.3 | 12.5 | 17.5 |
| Benchmark | -5.1 | 4.3 | 3.9 | 13.0 | 16.3 |
| Difference | 0.8 | 0.3 | 0.4 | -0.5 | 1.2 |

Allocations to Europe, North America and Asia Pacific demonstrated modest underperformance in the quarter, with Emerging Markets outperforming, against a very strong benchmark return. Combined performance was a very respectable +1.2% relative for the year against the geographically weighted benchmark. Since inception in November 2008 the manager has matched the benchmark (gross of fees).

In April and May 2013 the fund produced +3.1% against a benchmark return of +2.9%.

- 4.5 The Global Alpha fund managed by **Baillie Gifford** produced a positive relative return (+1.9%) continuing an exceptional run of outperformance of fifteen of the last sixteen quarters. The Fund was 2.5% above the benchmark for the year to March 2013.

| | Individual Quarters Ending | | | | 12 Months to |
|------------|----------------------------|-----------|-----------|-----------|--------------|
| | 30 Jun 12 | 30 Sep 12 | 31 Dec 12 | 31 Mar 13 | 31 Mar 2013 |
| Portfolio | -4.9 | 5.3 | 3.0 | 15.9 | 19.6 |
| Benchmark | -3.6 | 4.0 | 2.5 | 14.0 | 17.1 |
| Difference | -1.3 | 1.3 | 0.5 | 1.9 | 2.5 |

In April and May 2013 Global Alpha outperformed the benchmark return of +2.7% by 2.5%.

The LTGG fund, also managed by **Baillie Gifford** produced a negative relative return (-6.7%) for the quarter. The fund was 7.2% below the benchmark for the year to March 2013. However the strategy for this fund is to outperform over three to five year periods and short term under-performance is occasionally to be expected.

| | Individual Quarters Ending | | | | 12 Months to |
|------------|----------------------------|-----------|-----------|-----------|--------------|
| | 30 Jun 12 | 30 Sep 12 | 31 Dec 12 | 31 Mar 13 | 31 Mar 2013 |
| Portfolio | -3.8 | 4.1 | 2.4 | 7.3 | 9.9 |
| Benchmark | -3.6 | 4.0 | 2.5 | 14.0 | 17.1 |
| Difference | -0.2 | 0.1 | -0.1 | -6.7 | -7.2 |

In April and May 2013 LTGG regained 4.5% (+2.7% relative) against a benchmark return of +2.8%. Members will have the opportunity to discuss recent performance at the meeting with the manager on 11 July 2013.

Both funds managed by Baillie Gifford have performed exceptionally well over the long term, since the manager was appointed in 2006. Global Alpha and LTGG are 2% and 1.3% respectively ahead of the FTSE All World benchmark since inception.

UK Equities

- 4.6 **Standard Life** produced a negative relative return (-0.5%) in the quarter against the FTSE 350 equally weighted benchmark return of +10.8%. Relative performance for the year was 3.5% above the benchmark although since inception the fund is below the benchmark by 1.6%.

| | Individual Quarters Ending | | | | 12 Months to 31 Mar 2013 |
|------------|----------------------------|-----------|-----------|-----------|-----------------------------|
| | 30 Jun 12 | 30 Sep 12 | 31 Dec 12 | 31 Mar 13 | |
| Portfolio | -8.8 | 10.3 | 12.2 | 10.3 | 24.6 |
| Benchmark | -5.2 | 8.5 | 6.1 | 10.8 | 21.1 |
| Difference | -3.6 | 1.8 | 6.1 | -0.5 | 3.5 |

Compared to the FTSE All Share which was +10.3% for the quarter, the benchmark of the FTSE 350 Equally Weighted (excluding Investment Trusts), which has a greater focus towards the UK economy, demonstrated slightly stronger performance.

Over April and May 2013 the manager added 7% in absolute terms.

- 4.7 The ethical equity portfolio operated by **R C Brown** underperformed the FTSE All Share by 2.8% over the quarter and was negative over the rolling 12 month period (-8.8%).

| | Individual Quarters Ending | | | | 12 Months to 31 Mar 2013 |
|------------|----------------------------|-----------|-----------|-----------|-----------------------------|
| | 30 Jun 12 | 30 Sep 12 | 31 Dec 12 | 31 Mar 13 | |
| Portfolio | -8.2 | 5.6 | 3.6 | 7.5 | 8.0 |
| Benchmark | -2.6 | 4.7 | 3.8 | 10.3 | 16.8 |
| Difference | -5.6 | 0.9 | -0.2 | -2.8 | -8.8 |

This investment was made following the request by one of the employer organisations of the Fund to have its own bespoke investment strategy. The policy allowing this approach is documented in the Funding Strategy Statement.

Following a decision by this employer to terminate the investment, the process of disinvesting from the investment manager is expected to be completed by the end of June 2013. The proceeds will be reallocated to another of the Fund's investment managers in accordance with rebalancing policy.

- 4.8 These results give a combined absolute and relative performance in the quarter in global equities of +11.8% and -0.8% respectively.

Fixed Income

- 4.9 **ECM** produced +0.9% relative against the cash benchmark for the quarter and +4.7% relative for the year to March 2013. The manager also outperformed the most comparable corporate bond index, the Merrill Lynch ER00 index by 0.1% and 1.1% for the quarter to March 2013 and the calendar year 2012 respectively.

| | Individual Quarters Ending | | | | 12 Months to 31 Mar 2013 |
|------------|----------------------------|-----------|-----------|-----------|-----------------------------|
| | 30 Jun 12 | 30 Sep 12 | 31 Dec 12 | 31 Mar 13 | |
| Portfolio | -0.4 | 2.5 | 2.2 | 1.0 | 5.3 |
| Benchmark | 0.2 | 0.1 | 0.1 | 0.1 | 0.6 |
| Difference | -0.6 | 2.4 | 2.1 | 0.9 | 4.7 |

4.10 Between July 2005 and May 2007 NYPF invested £125m with ECM. The valuation reached a peak of £141m in December 2007, dropped to a low point of £58m in February 2009. By the end of March 2013 the value of the investment stood at £120m. ECM's Information Ratio (see **paragraph 5.5**) is the highest of all of the Fund's managers (+0.4), although this will have been influenced by the recovery of asset values from a low base.

Over April and May 2013 the manager added 1.2% (+1.1% relative).

4.11 **Amundi** performed well ahead of the benchmark (+1%) in the quarter and was 3.2% above it for the year to March 2013 which was an exceptional result in a difficult trading environment.

| | Individual Quarters Ending | | | | 12 Months to 31 Mar 2013 |
|------------|----------------------------|-----------|-----------|-----------|-----------------------------|
| | 30 Jun 12 | 30 Sep 12 | 31 Dec 12 | 31 Mar 13 | |
| Portfolio | 2.1 | -4.1 | 7.0 | 9.6 | 14.8 |
| Benchmark | 1.4 | -3.9 | 5.2 | 8.6 | 11.6 |
| Difference | 0.7 | -0.2 | 1.8 | 1.0 | 3.2 |

The investment with this manager has proven to be a helpful contributor to Fund performance, outperforming liabilities since inception (+1.1%, annualised).

The value of the investment fell by 1% over April and May 2013.

4.12 The investment in Gilts with **M&G** produced +6.7% against the benchmark of 8.6%. The manager however reported +8.9%, the difference due to alternative performance calculation methodologies, and on the valuation of one security. For consistency of reporting, the figures quoted here have been provided by MAS.

| | Individual Quarters Ending | | | | 12 Months to 31 Mar 2013 |
|------------|----------------------------|-----------|-----------|-----------|-----------------------------|
| | 30 Jun 12 | 30 Sep 12 | 31 Dec 12 | 31 Mar 13 | |
| Portfolio | 1.4 | -3.6 | 6.7 | 6.7 | 11.4 |
| Benchmark | 1.5 | -3.9 | 5.2 | 8.6 | 11.6 |
| Difference | -0.1 | 0.3 | 1.5 | -1.9 | -0.2 |

The value of the investment fell by 1% over April and May 2013.

4.13 These results give a combined relative and absolute performance in global fixed income of +0.5% and +6.5% respectively in the quarter.

Property

4.14 The investments with **Hermes**, **Threadneedle** and **L&G** produced +0%, +0% and -0.2% respectively in relative terms, against the RPI benchmark. The performance figure reported by BNY Mellon for the March 2013 quarter for Hermes includes a correction to reported performance in earlier quarters.

Diversified Growth Funds

- 4.15 Investments were made into the **Standard Life** Global Absolute Return Strategy (GARS) Fund and the **Newton Investments** Real Return Fund during March 2013. Quarterly performance information will be available from the June 2013 quarter.

5.0 RISK INDICATORS

- 5.1 The Report (**pages 10 and 11**) includes three long-term risk indicators.
- 5.2 The Fund's annualised **Standard Deviation** for the rolling three year period to March 2013 (11.4%) is higher than the benchmark average (9.4%) but slightly lower than the average over the three year period to December 2012 (11.9%). This latest figure still reflects the relatively high level of volatility of the Fund's return which is not surprising given the recent market conditions. Before the financial markets crashed in 2008 the figure was around the 6-7% level.
- 5.3 The **Sharpe Ratio** is a measure of the return above the risk free return in the context of the Fund's variability (standard deviation). In other words, this indicates whether returns are due to smart investment decisions or as a result of excessive risk. Higher risk-adjusted returns result in a higher ratio. The ratio for the Fund for the rolling three year period to March 2013 is +0.8.
- 5.4 The **Tracking Error** figure is a consolidation of the difference between each Fund Manager's actual return versus their respective benchmark. As at March 2013 the figure was 3.4 which compares to a pre-financial crisis level of approximately 2%. During the middle of the crisis this figure rose to over 9%.
- 5.5 The **Information Ratio** is a measure of excess returns in relation to the benchmark and the consistency of those returns. A high IR is derived from a high portfolio return, a low benchmark return and a low tracking error. Beating the benchmark by a significant margin inconsistently generates a lower IR than beating the benchmark consistently but modestly. At the end of March 2013 the ratio for the Fund was - 0.2%.
- 5.6 If the measures to reduce volatility (particularly regarding equities) inherent in the Investment Strategy (and the Fund's managers) are successful it will gradually have a positive impact on the four measures referred to above.

6.0 SOLVENCY

- 6.1 The **solvency position** is presented in **Appendices 3 and 4**. As at 31 March 2013 the estimated solvency decreased in the last quarter from 61% to 59%.
- 6.2 The assets of the Fund increased by 9.7% in the Quarter (including new money), whilst liabilities (as modelled by the Actuary) rose by 13.3%, the two combining to produce a 2% decrease in solvency in the Quarter. Yields on long-dated gilts are used as the proxy discount rate to value liabilities, hence lower yields result in higher liability values and vice versa. Although the movement in yields has recently been the main driver in changing liability values, they remained relatively stable in

the quarter. However, expectations of rising inflation increased liability values by almost 12%. The effect of yields and inflation on solvency is referred to further in **paragraph 6.3 (f)** below.

- 6.3 The relative position, over time, between liabilities and assets is shown very clearly in **Appendix 4** which is a simple graph using data from **Appendix 3**. It is clear from this graph that
- (a) “liability growth” was matched by “asset growth” for the period March 2004 to March 2007 (hence the steady improvement in solvency from 59% to 67% over that period)
 - (b) from March 2007 to March 2009 “liability value” accelerated and “asset value” fell, which had
 - (c) a significant and consequential impact on solvency – there is a point where the asset and deficit lines cross - this is effectively the 50% funding point (@ June / September 2008)
 - (d) during 2009/10 changes in assumptions on inflation and bond yields resulted in no overall change in the valuation of liabilities throughout the year whilst asset values improved strongly over the same period
 - (e) between March 2010 and December 2012 the overall improvement in asset values was achieved alongside a much more significant increase in liability values (as modelled by the Actuary), resulting in a fall in solvency of 6%
 - (f) the most significant factors affecting liability values over the period since the 2010 Triennial Valuation have been the fall in the discount rate and the rise in market expectations for inflation. In isolation, had these two factors remained the same since that date solvency would be around 75% as at March 2013, 16% above the reported level. The “ex yield/inflation change” lines on **Appendix 4** illustrate the point in terms of liabilities and deficit in monetary terms.
- 6.4 What this analysis illustrates very clearly is that the Fund has no effective control over “liability value” because it is generated by market conditions, actuarial assumptions and political decisions regarding the macro economy. The Fund must therefore concentrate on the performance of its invested assets over the longer term.

7.0 REBALANCING

- 7.1 The rebalancing schedule is attached as **Appendix 5**. During the quarter £80m was transferred into the GARS Fund managed by Standard Life and £80m into the Real Return Fund managed by Newton Investments. The cash was taken from the equity investments with Standard Life (£75m) and Fidelity (£80m) and £5m from cash reserves.
- 7.2 A further £5m was transferred from cash reserves after the quarter end, into the equity investment with Standard Life.

8.0 PROXY VOTING

- 8.1 The report from PIRC is available on request summarising the proxy voting activity in the period January to March 2013. This report covers the votes cast on behalf of NYPF at all relevant company AGMs in the period and includes an analysis of voting recommendations at selected meetings and responses to company engagement.

9.0 RECOMMENDATION

- 9.1 Members are asked to note the investment performance of the Fund for the Quarter and 12 months ending 31 March 2013.

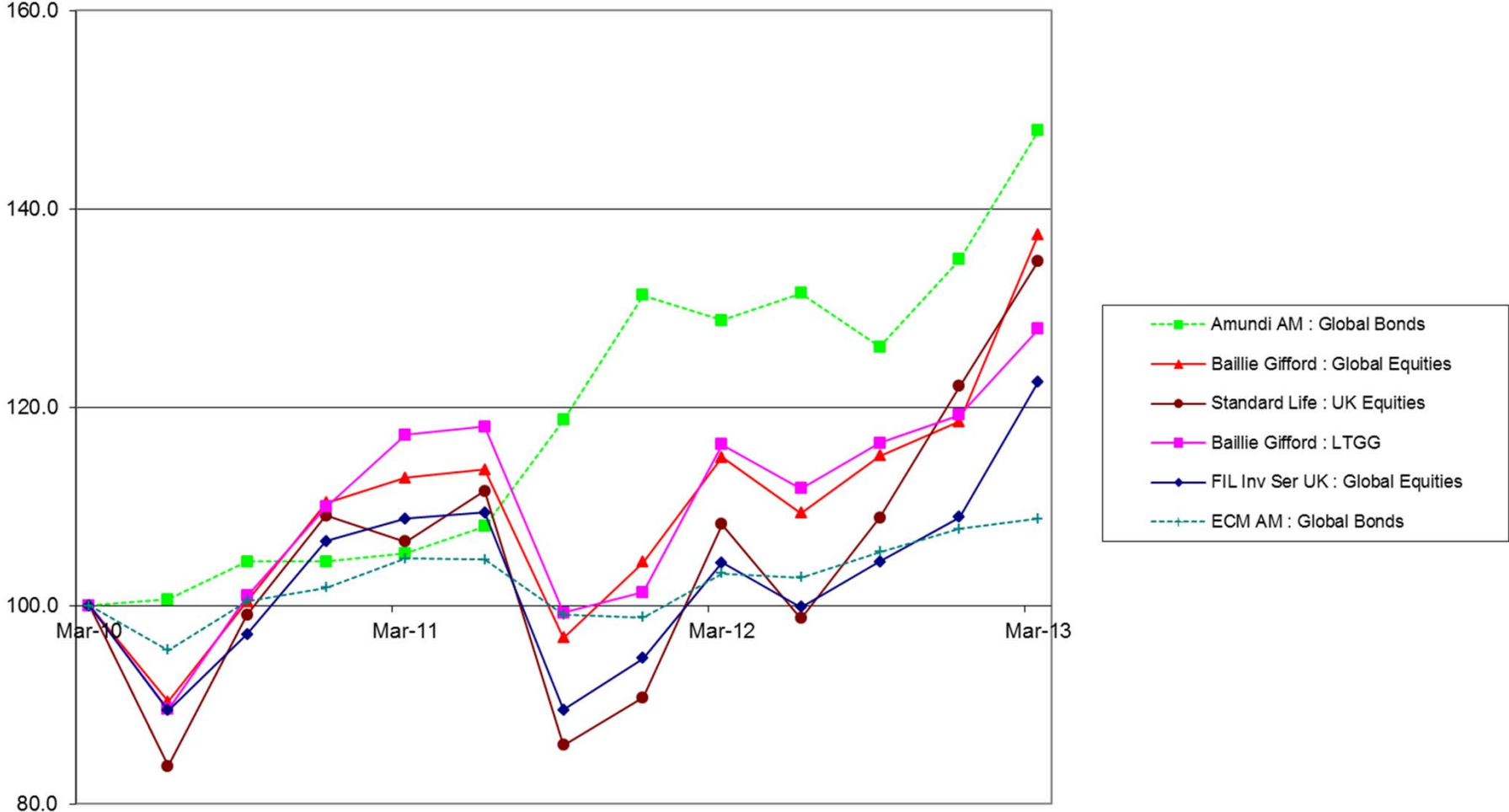
GARY FIELDING
Treasurer
Corporate Director – Strategic Resources

County Hall
Northallerton

14 June 2013

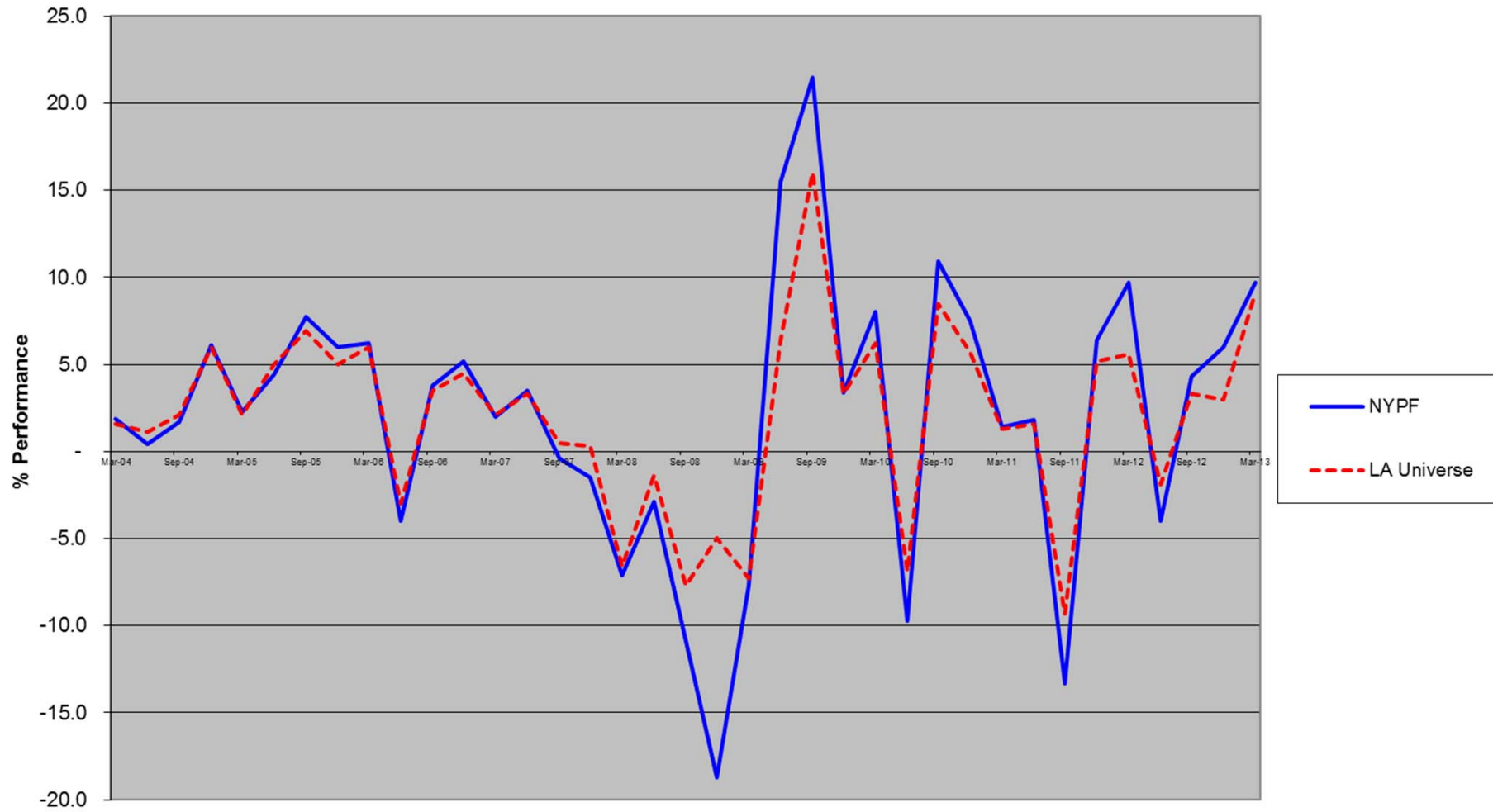
Background documents: None

Investment Manager Performance - cumulative absolute performance since March 2010



Pension Fund Performance - NYPF vs Other Local Authorities

APPENDIX 2

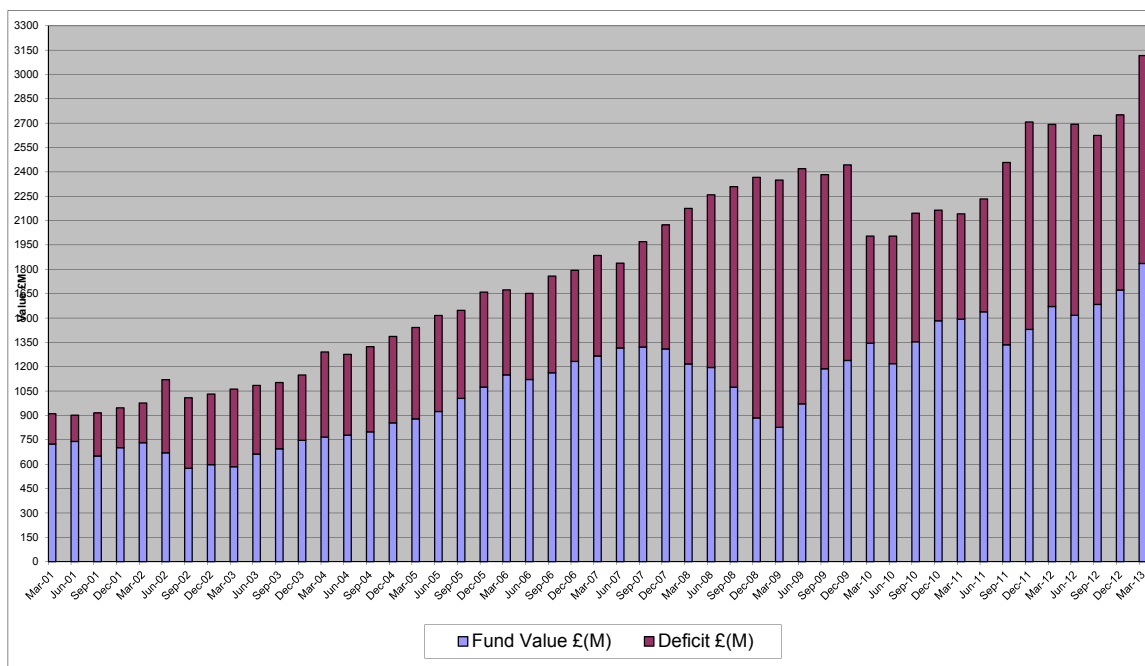


Actuarial Model of Quarterly Solvency Position

| Date | Solvency | Deficit £(M) | Fund Value £(M) | FTSE 100 |
|--------------------|----------|--------------|-----------------|----------|
| March 31, 2001 | 79% | 187 | 724 | 5,634 |
| June 30, 2001 | 82% | 162 | 740 | 5,643 |
| September 30, 2001 | 71% | 265 | 650 | 4,903 |
| December 31, 2001 | 74% | 245 | 702 | 5,217 |
| March 31, 2002 | 75% | 245 | 732 | 5,272 |
| June 30, 2002 | 60% | 450 | 670 | 4,656 |
| September 30, 2002 | 56% | 435 | 574 | 3,722 |
| December 31, 2002 | 58% | 435 | 597 | 3,940 |
| March 31, 2003 | 55% | 478 | 584 | 3,613 |
| June 30, 2003 | 61% | 423 | 662 | 4,031 |
| September 30, 2003 | 63% | 408 | 695 | 4,091 |
| December 31, 2003 | 65% | 402 | 747 | 4,477 |
| March 31, 2004 | 59% | 524 | 767 | 4,386 |
| June 30, 2004 | 61% | 498 | 778 | 4,464 |
| September 30, 2004 | 60% | 524 | 799 | 4,571 |
| December 31, 2004 | 62% | 533 | 854 | 4,814 |
| March 31, 2005 | 61% | 563 | 879 | 4,894 |
| June 30, 2005 | 61% | 592 | 924 | 5,113 |
| September 30, 2005 | 65% | 542 | 1005 | 5,478 |
| December 31, 2005 | 65% | 585 | 1075 | 5,619 |
| March 31, 2006 | 69% | 523 | 1150 | 5,965 |
| June 30, 2006 | 68% | 531 | 1121 | 5,833 |
| September 30, 2006 | 66% | 595 | 1163 | 5,961 |
| December 31, 2006 | 69% | 561 | 1233 | 6,221 |
| March 31, 2007 | 67% | 619 | 1266 | 6,308 |
| June 30, 2007 | 72% | 522 | 1316 | 6,608 |
| September 30, 2007 | 67% | 648 | 1322 | 6,467 |
| December 31, 2007 | 63% | 763 | 1310 | 6,457 |
| March 31, 2008 | 56% | 958 | 1217 | 5,702 |
| June 30, 2008 | 53% | 1064 | 1195 | 5,625 |
| September 30, 2008 | 47% | 1235 | 1074 | 4,902 |
| December 31, 2008 | 37% | 1481 | 885 | 4,434 |
| March 31, 2009 | 35% | 1522 | 827 | 3,926 |
| June 30, 2009 | 40% | 1447 | 972 | 4,249 |
| September 30, 2009 | 50% | 1196 | 1187 | 5,134 |
| December 31, 2009 | 51% | 1204 | 1239 | 5,413 |
| March 31, 2010 | 67% | 659 | 1345 | 5,680 |
| June 30, 2010 | 61% | 785 | 1219 | 4,917 |
| September 30, 2010 | 63% | 791 | 1354 | 5,549 |
| December 31, 2010 | 69% | 681 | 1483 | 5,900 |
| March 31, 2011 | 70% | 648 | 1493 | 5,909 |
| June 30, 2011 | 69% | 695 | 1538 | 5,946 |
| September 30, 2011 | 54% | 1123 | 1335 | 5,129 |
| December 31, 2011 | 53% | 1277 | 1430 | 5,572 |
| March 31, 2012 | 58% | 1121 | 1571 | 5,768 |
| June 30, 2012 | 56% | 1176 | 1517 | 5,571 |
| September 30, 2012 | 60% | 1040 | 1584 | 5,742 |
| December 31, 2012 | 61% | 1079 | 1672 | 5,898 |
| March 31, 2013 | 59% | 1280 | 1836 | 6,412 |

Triennial valuation results highlighted in grey

Movement in Assets and Liabilities



North Yorkshire Pension Fund Funding, Liabilities and Solvency

APPENDIX 4

