

Quarterly Investment Report

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Q1 2021



Prepared for: North Yorkshire Pension Fund

Prepared by: Aon

Date: 24 May 2021

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At a glance...

A high level summary of your investments

At a glance...Q1 2021

Assets

£4,516m



Assets decreased by £1.0m over the quarter.

Performance (relative – quarterly)

+0.1%



The Fund outperformed the benchmark returning -0.1% vs -0.2% over the quarter.

Performance (relative - 3 year)

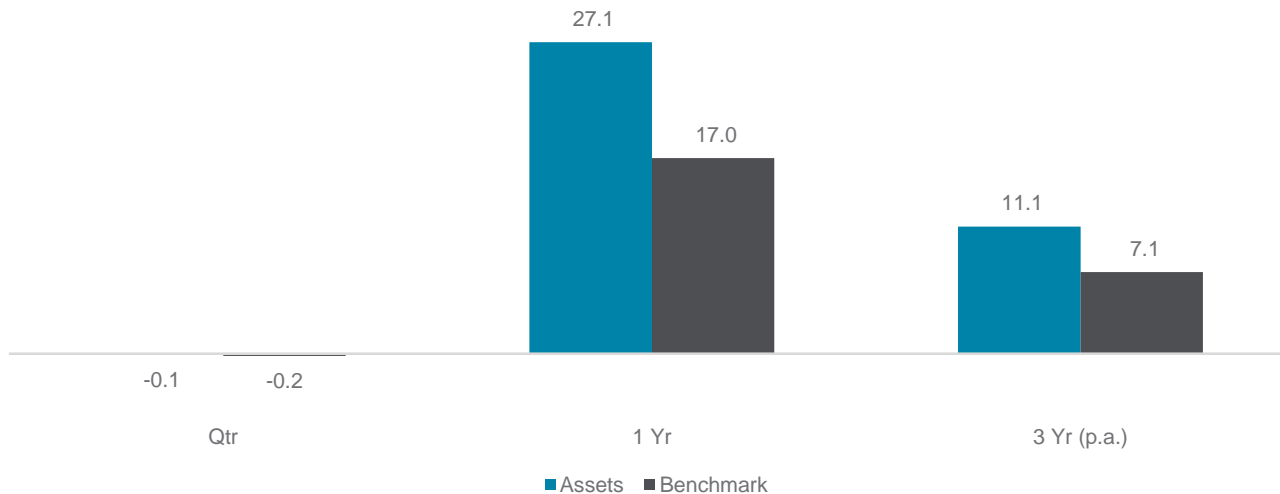
+4.0%



Over 3 years the Fund has outperformed the benchmark returning 11.1% vs 7.1%.

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Performance summary



Comments

Asset Allocation

No rebalancing required, however a number of changes to asset allocations will be considered by the Committee in light of the recently agreed investment strategy.



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Asset allocation

A review of your strategic asset allocation

Asset allocation – Q1 2021

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| | | 31 March 2021 | | |
|------------------------|------------------------|--------------------|--------------------|--------------|
| Asset Group | Manager | Current allocation | Long-term strategy | Difference |
| Equities | | 59.3% | 50.0% | +9.3% |
| | BCPP UK equity | 3.8% | | |
| | BCPP Global Equity | 26.8% | | |
| | Baillie Gifford LTGG | 16.9% | | |
| | Dodge & Cox | 5.8% | | |
| | Veritas | 6.1% | | |
| | Fidelity | 0.1% | | |
| Absolute Return | | 7.4% | 0.0% | +7.4% |
| | Newton Real Return | 3.8% | | |
| | Leadenhall Remote Risk | 1.3% | | |
| | Leadenhall Diversified | 1.2% | | |
| | Leadenhall Nat Cat | 1.1% | | |
| Property | | 6.2% | 7.5% | -1.3% |
| | Hermes | 0.8% | | |
| | L&G | 1.6% | | |
| | Threadneedle | 3.8% | | |

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Asset allocation – Q1 2021 (cont'd)

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| | | 31 March 2021 | | |
|------------------------------------|---|--------------------|--------------------|--------------|
| Asset Group | Manager | Current allocation | Long-term strategy | Difference |
| Infrastructure | | 0.3% | 10.0% | -9.7% |
| | BCPP Infrastructure 1A | 0.2% | | |
| | BCPP Infrastructure 1B | 0.1% | | |
| Private Credit | | 2.2% | 5.0% | -2.8% |
| | BCPP Private Credit | 0.1% | | |
| | Arcmont | 1.0% | | |
| | Pemira | 1.2% | | |
| Non-Investment Grade Credit | | 4.3% | 5.0% | -0.7% |
| | PIMCO | 4.3% | | |
| Investment Grade Credit | | 2.6% | 7.5% | -4.9% |
| | BCPP Investment Grade Credit | 2.6% | | |
| Gilts | | 15.0% | 15.0% | 0.0% |
| | M&G | 7.6% | | |
| | LGIM Equity Protection (inc collateral) | 4.3% | | |
| | BCPP Index Linked Bonds | 3.1% | | |

Source: BNYM, Aon



Asset allocation – Q1 2021 (cont'd)

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| Asset Group | Manager | 31 March 2021 | | |
|--------------|---------------|--------------------|--------------------|--------------|
| | | Current allocation | Long-term strategy | Difference |
| Cash | | 2.7% | 0.0% | +2.7% |
| | Internal Cash | 0.5% | | |
| | Treasury Cash | 2.2% | | |
| Total | | 100.0% | 100.0% | |

Source: BNYM, Aon

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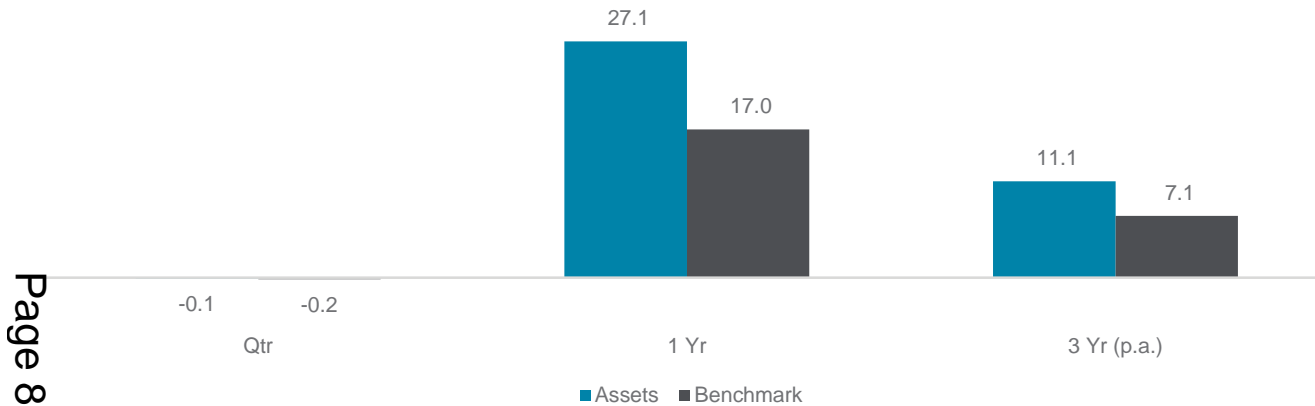
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Fund performance

A review of your investment performance

Total Fund performance – Snapshot

Fund performance & benchmark



Quarterly (relative)

+0.1%



The Fund outperformed benchmark returning -0.1% vs -0.2% over the quarter.

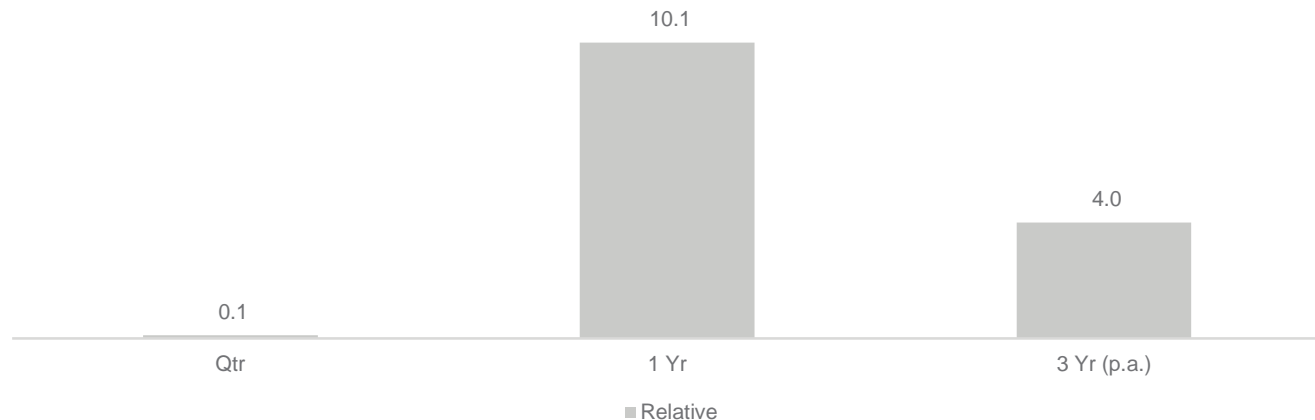
3 year (relative)

+4.0%



Over 3 years the Fund has outperformed the benchmark returning 11.1% vs 7.1%.

Relative performance



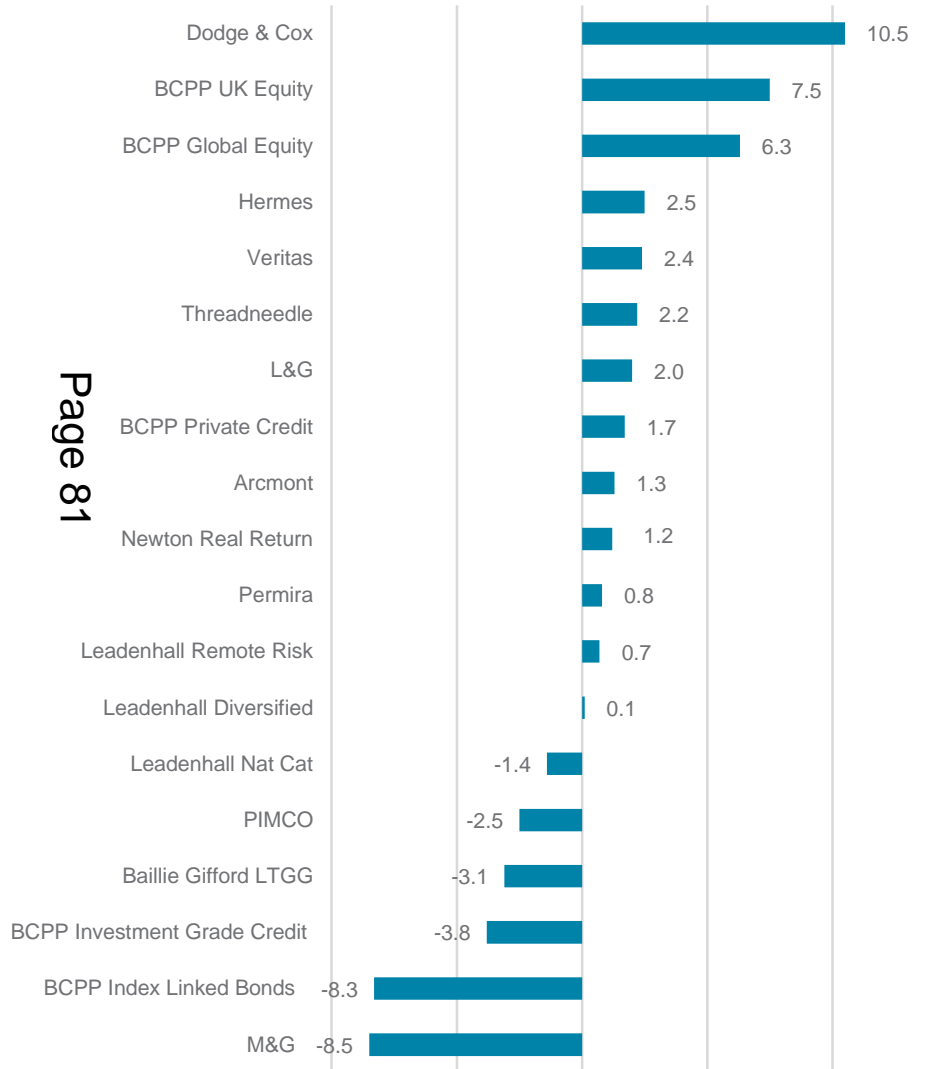
Comments

Total Fund performance was broadly in-line with the composite benchmark over the quarter.

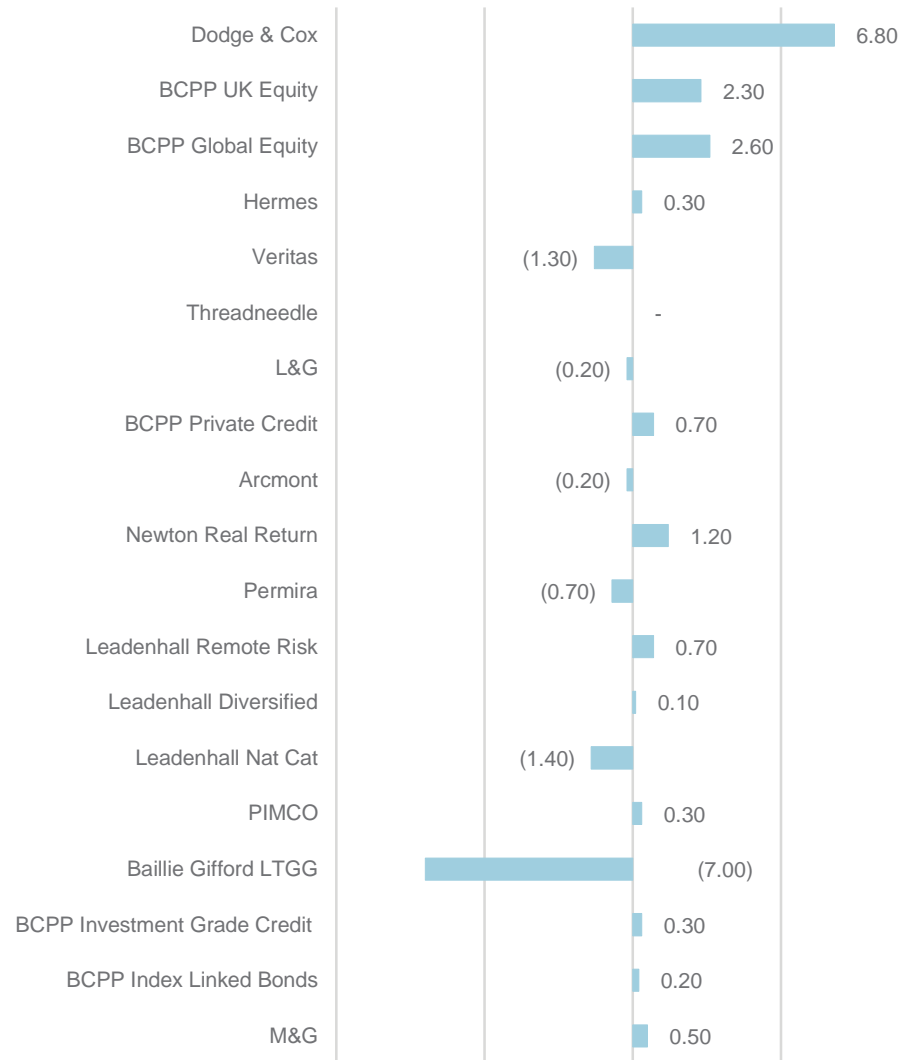
Total Fund performance is ahead of the composite benchmark over the 1 and 3 year periods to 31 March 2021.

Manager performance – Quarter Snapshot

Absolute performance



Relative performance



Source: BNYM, Managers, Aon

Manager performance – Longer term

| | 1 Year (%) | | | 3 Years (% p.a.) | | | Since inception | | |
|---------------------------|------------|--------|-------|------------------|--------|-------|-----------------|--------|------|
| | Perf | B'mark | Rel | Perf | B'mark | Rel | Perf | B'mark | Rel |
| Equity | | | | | | | | | |
| UK Equity | | | | | | | | | |
| BCPP UK Equity | 43.9 | 26.7 | +17.2 | - | - | - | 5.5 | 2.0 | +3.5 |
| Global Equity | | | | | | | | | |
| BCPP Global Equity | 48.5 | 39.6 | +8.9 | - | - | - | 14.3 | 14.5 | -0.2 |
| Baillie Gifford LTGG | 84.7 | 39.6 | +45.1 | 36.4 | 13.2 | +23.2 | 18.8 | 9.8 | +9.0 |
| Dodge & Cox | 53.8 | 39.6 | +14.2 | 9.7 | 13.3 | -3.6 | 9.1 | 11.5 | -2.4 |
| Peritas | 26.1 | 39.6 | -13.5 | 14.6 | 13.3 | +1.3 | 11.7 | 11.5 | +0.2 |
| Absolute Return | | | | | | | | | |
| Diversified Growth | | | | | | | | | |
| Newton Real Return | 19.3 | 0.1 | +19.2 | 7.7 | 0.5 | +7.2 | 3.9 | 0.5 | +3.4 |
| Insurance-Linked | | | | | | | | | |
| Leadenhall Remote Risk | 4.3 | 0.0 | +4.3 | - | - | - | 3.1 | 0.4 | +2.7 |
| Leadenhall Diversified | 1.7 | 0.0 | +1.7 | - | - | - | 1.0 | 0.4 | +0.6 |
| Leadenhall Nat Cat | -4.7 | 0.0 | -4.7 | - | - | - | -2.4 | 0.4 | -2.8 |
| Property | | | | | | | | | |
| Hermes | 1.1 | 2.5 | -1.4 | 3.3 | 2.7 | +0.6 | 7.3 | 5.3 | +2.0 |
| L&G | 2.2 | 2.5 | -0.3 | 1.9 | 2.4 | -0.5 | 6.4 | 5.2 | +1.2 |
| Threadneedle | 1.6 | 2.5 | -0.9 | 1.9 | 2.4 | -0.5 | 7.4 | 5.1 | +2.3 |

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 |
| Illiquid credit | | | | | | | | | |
| BCPP Private Credit | - | - | - | -- | - | - | -6.3 | 3.8 | -10.1 |
| Arcmont | 6.7 | 6.0 | +0.7 | 7.3 | 6.0 | +1.3 | 6.8 | 6.0 | +0.8 |
| Permira | 4.0 | 6.0 | -2.0 | 6.3 | 6.0 | +0.3 | 7.8 | 6.0 | +1.8 |
| Investment grade credit | | | | | | | | | |
| BCPP Investment Grade Credit | - | - | - | - | - | - | 0.2 | -1.5 | +1.7 |
| Non-investment grade credit | | | | | | | | | |
| PIMCO | - | - | - | - | - | - | 1.4 | 0.4 | +1.0 |
| Gilts | | | | | | | | | |
| M&G | 1.9 | 1.5 | +0.4 | 3.9 | 3.8 | +0.1 | 8.2 | 7.7 | +0.5 |
| BCPP Index Linked Bonds | - | - | - | - | - | - | -4.0 | -6.5 | +2.5 |
| Total | 27.1 | 17.0 | +10.1 | 11.1 | 7.1 | +4.0 | 8.2 | 7.9 | +0.3 |

Source: BNYM, Managers, Aon

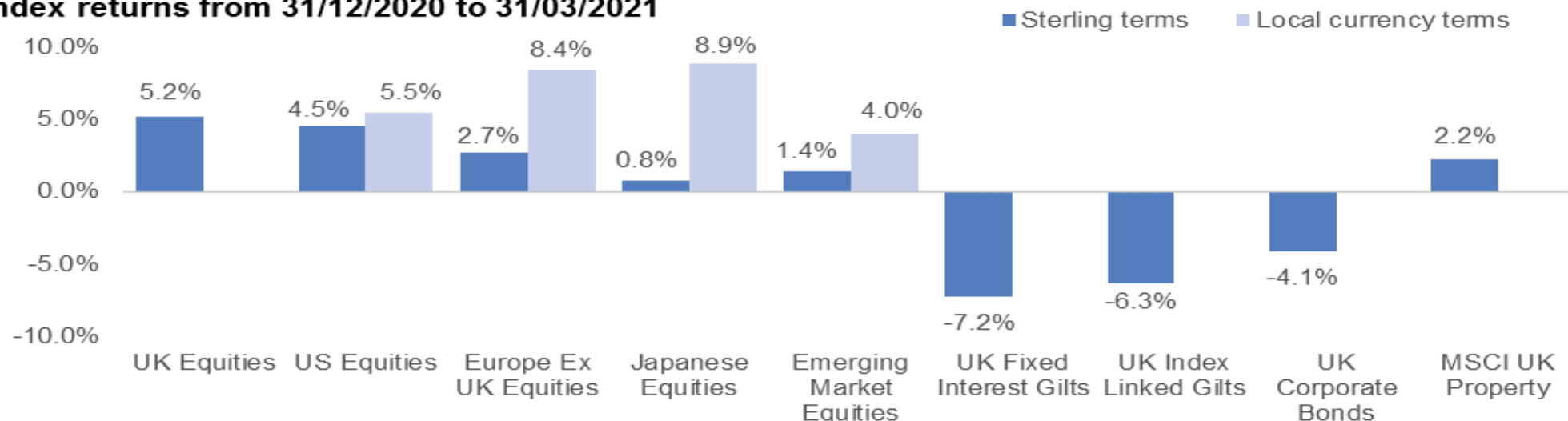


Market outlook and background

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

Market – Background Q1 2021

Index returns from 31/12/2020 to 31/03/2021



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Equities

Global equities continued to perform well over the quarter. The MSCI AC World posted a 6% return in local terms and a 3.7% return in sterling terms as sterling appreciated in a relief rally after a Brexit agreement was finally reached with the European Union at the end of 2020.

Bonds

UK investment grade credit spreads continued to contract as credit markets performed well. However, the return on the iBoxx Sterling Non-Gilt Index fell by 4.1% over Q1, driven by rising government bond yields.

Gilts

Bond yields rose over the quarter, most markedly in the US on the back of economic recovery and inflation expectations fuelled by the new stimulus package. Meanwhile, the US Federal Reserve (Fed) continued to indicate that it would keep interest rates near zero until at least 2024 while upgrading its 2021 growth forecast to 6.5% from 4.2%. The European Central Bank (ECB) pledged to speed up its bond-buying program under its €1.9tn pandemic emergency purchase program (PEPP).

- Vaccine success and large US fiscal expansion have led to a rare event. Bond yields and rates views have moved up for a change.
- The pandemic's drag on economic activity now looks to be of shorter duration than many would have expected a year ago. But its disruption and key 'new normal' effects will still leave a lasting legacy.
- The gilt yield jump in Q1 has erased the extreme pessimism in the UK rates market. Large yield moves higher from here look unlikely.
- Index-linked gilts look expensive versus fixed, however. The current scarcity of index-linked gilts should ease as issuance rises. However, any inflation underhedging to take advantage of this needs to be done with care.
- Pension scheme de-risking demand for UK corporate bonds is now an important factor in sustaining low credit spreads in the sterling market. Low reward for credit risk could remain the status quo on these trends. Global approaches to credit selection will provide some alleviation.
- The past half year's comeback in equity market laggards represents a conventional rotation to value, which has been in line with our views. There should be some more of it later this year.
- The earnings recovery under way is supportive for equities but recovery and reopening is already priced in. More good news to excite markets is getting harder to find. Equities look reasonable as a 'hold' but it is harder to make the case for putting new money to work.
- UK commercial property appears to have had a pandemic 'soft landing' to date but there are some caveats. A global approach to real estate exposures remains the preferred option.
- Bitcoin is a long way away from being a new digital gold. Its scary volatility, speculative immaturity and competition from central banks are formidable hurdles to its wider adoption.

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