Quarterly Funding & Investment Report

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End March 2023

Prepared for: North Yorkshire Pension Fund
Prepared by: Aon
Date: 16 May 2023

Signatory of: STEWARDSHIP CODE | 2021

For professional clients only

Agenda Item 9

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1. At a glance…

A high level summary of your investments and funding

At a glance…

Funding*

Since the results of the valuation at 31 March 2022 the Fund's ongoing funding level has deteriorated and the surplus has decreased by £251M, falling 6% to 110%.

This has been primarily driven by a reduction in asset values although this has been partially offset by an increase in the net discount rate.

Asset Allocation and Implementation

Following a review of the investment strategy, the Committee agreed that no changes were to be made to the investment strategy of the Fund.

In addition, the Committee agreed to commitments of £70m to Border to Coast's private credit fund and £120m to Border to Coast's infrastructure fund.

Performance

The Fund outperformed the composite benchmark over the quarter but underperformed over the 1 year and 3 year periods.

Market Background and Investment Outlook

Risky asset markets experienced a solid start in 2023 as markets initially felt confident that a recession would be avoided, although were hit by inflation fears in February and then concerns about the global banking system in mid-March.

Expectations of an US interest rate pivot later this year have supported markets, but this view of coming rate cuts looks increasingly premature. The economic follow-through effects from last year's large interest rate rises and recent credit tightening by banks does point to the likelihood of the global slowdown turning into recession over the coming year.

Equities are unlikely to go anywhere fast given multiple headwinds and we continue to prefer other return sources less dependent on rising markets. Credit's worth is in its ability to earn excess returns over equivalent duration government bonds. This could still be a struggle near-term, but credit spreads are fair value for longer-term strategically positioned investors.

Key actions

1. Committee members to consider the contents of this report, noting the Baillie Gifford LTGG update, noting that the Fund's equity portfolio is being reviewed later this year.

*The funding update makes allowance for the results of the 2022 valuation of the Fund. This includes a 10% loading for short term inflationary impacts.

Key Stats – Q1 2023

Assets

£4,210m

Assets decreased by £425m since 2022 valuation

£4,635m at 2022 valuation

Funding level

110%

Funding level decreased by 6% since 2022 valuation

116% at 2022 valuation

Return on Assets Since 2022 Valuation

-9.7% pa

Current Assets Expected Return (10 year p.a.)

+6.8%

0.9% increase since 2022 Valuation

5.9 % at 2022 valuation

Long-term Strategy Expected Return (10 year p.a.)

+6.8%

0.7% increase since 2022 Valuation

6.1% at 2022 valuation

Discount rate

4.7%

Discount rate has increased by 0.5% since 2022 Valuation

4.2% at 2022 valuation

Current Assets Value at Risk (1 Year 1 in 20)

£886m

Long-term Strategy Assets Value at Risk (1 Year 1 in 20)

£810m

Estimated Total Employer cost

17.2%

Estimated Total Employer cost decreased by 0.2% since 2022 valuation

17.4% at 2022 valuation

Note: The funding update makes allowance for the results of the 2022 valuation of the Fund. This includes a 10% loading for short term inflationary impacts.

2. Funding

A review of your funding position and contributions

Funding position

Funding level

110%

at end 31 March 2023

Down from 116% at 31 March 2022

Surplus

£389M

at end 31 December 2022

Down from £640m at 31 March 2022

Comments

Since the results of the valuation at 31 March 2022 the Fund's ongoing funding level has deteriorated and the surplus has decreased by £251M.

This has been primarily driven by a reduction in asset values although this has been partially offset by an increase in the net discount rate.

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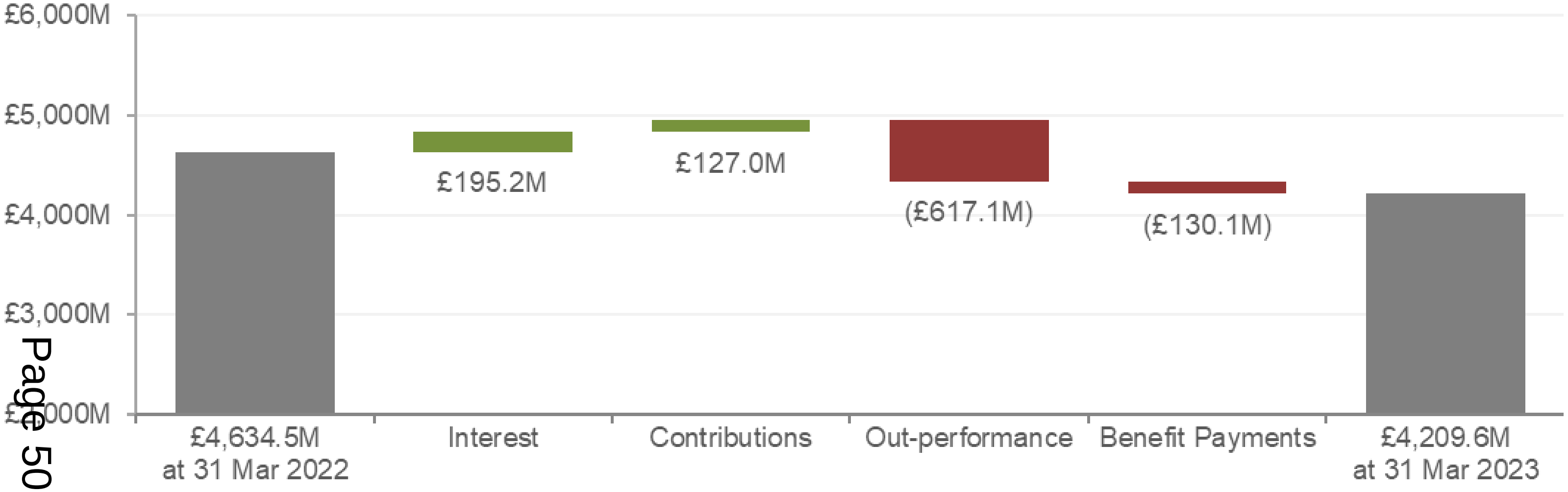
Change to funding level since 31 March 2022

Analysis – ongoing funding target

Reason for change since 31 March 2022 – Asset Attribution



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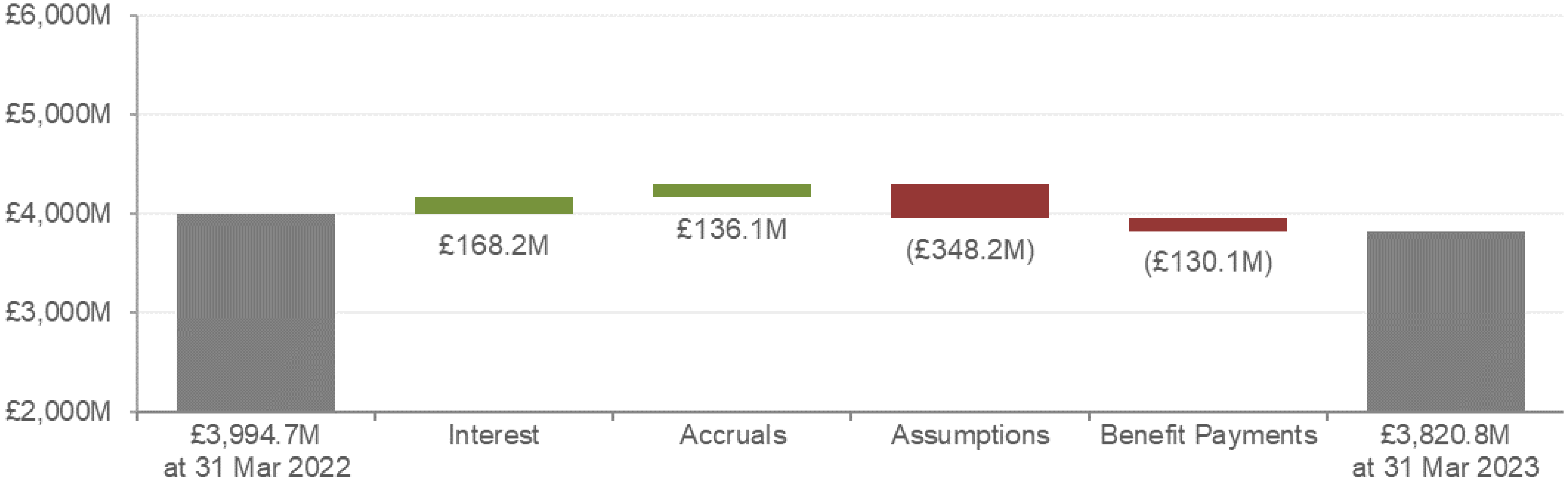
Reason for change since 31 March 2022 – Liability Attribution



Comments

Since the 2022 valuation the surplus has decreased by £251M.

Aggregate Employer contributions – ongoing funding target

Total employer contribution rate

17.2% ▼

at 31 March 2023

Down from 17.4% at 31 March 2022

Employer cost of accrual

17.2% ▼

at 31 March 2023

Down from 20.1% at 31 March 2022

Comments

The cost of accrual has decreased since 31 March 2022 due to the increase in net discount rate. However, the surplus has decreased which has offset this to an extent. Overall there is a small reduction in the total employer contribution rate.

Notes

The total employer contribution rate quoted above is based on the average total employer contribution rates across the Fund. Individual employer contributions can be very different to the average figure across the Fund shown above depending on their own characteristics, membership profile and funding target. The individual employer contributions have been reviewed as part of the triennial valuation at 31 March 2022.

3. Asset allocation

A review of your strategic asset allocation

Asset allocation – Q1 2023

Asset Group	Manager	Valuation (£m)	Current allocation	Long-term strategy	Difference	Rebalancing Range	Possible action
		31 March 2023					
Equities		**2,195.5**	**52.2%**	**50.0%**	**+2.2%**		✓
	BCPP UK equity	178.4	4.2%	4.0%	+0.2%	TBC	
	BCPP Global Equity	1,219.6	29.0%	28.0%	+1.0%	+/- 5%	
	Baillie Gifford LTGG	797.5	18.9%	18.0%	+0.9%	+/- 3%	
Absolute Return		**8.4**	**0.2%**	**0.0%**	**+0.2%**		⏱
	Leadenhall Remote Risk	3.1	0.1%				
	Leadenhall Diversified	3.3	0.1%				
	Leadenhall Nat Cat	2.0	0.0%				
Property		**266.2**	**6.3%**	**7.5%**	**-1.2%**	**TBC**	✓
	Hermes	33.8	0.8%				
	L&G	44.0	1.0%				
	Threadneedle	188.4	4.5%				

Source: Northern Trust, Aon. Note: Numbers may not sum due to rounding.

Asset allocation – Q1 2023 (cont'd)

Asset Group	Manager	31 March 2023					
		Valuation (£m)	Current allocation	Long-term strategy	Difference	Rebalancing Range	Possible action
Infrastructure		**525.5**	**12.5%**	**10.0%**	**+2.5%**		
	BCPP Infrastructure	220.5	5.2%				
	BCPP Listed Alts	288.1	6.8%				
	BCPP Climate Opportunities	17.0	0.4%				
Private Credit		**155.1**	**3.7%**	**5.0%**	**-1.3%**		
	BCPP Private Credit	104.4	2.5%				
	Arcmont	27.7	0.7%				
	Permira	22.9	0.5%				
Non-Investment Grade Credit		**220.4**	**5.2%**	**5.0%**	**+0.2%**	**TBC**	
	BCPP Multi Asset Credit	220.4	5.2%				
Investment Grade Credit		**301.1**	**7.2%**	**7.5%**	**-0.3%**	**TBC**	
	BCPP Investment Grade Credit	301.1	7.2%				

Source: Northern Trust, Aon. Note: Numbers may not sum due to rounding.

Asset allocation – Q1 2023 (cont'd)

Asset Group	Manager	Valuation (£m)	Current allocation	Long-term strategy	Difference	Rebalancing Range	Possible action
		31 March 2023					
Gilts		**496.5**	**11.8%**	**15.0%**	**-3.2%**	**TBC**	✓
	BCPP Index Linked Bonds	496.5	11.8%				
Cash		**40.9**	**1.0%**	**0.0%**	**+1.0%**	**TBC**	✓
	Internal Cash	40.9	1.0%				
Total		**4,209.6**	**100.0%**	**100.0%**			

Source: Northern Trust, Aon. Note: Numbers may not sum due to rounding.

Investment strategy update

Following a review of the investment strategy, the Committee agreed that no changes were to be made to the investment strategy of the Fund.

In addition, the Committee agreed to commitments of:

- £70m to Border to Coast's private credit fund
- £120m to Border to Coast's infrastructure fund.

Transitions and cashflows

The following rebalancing activities took place over the quarter:

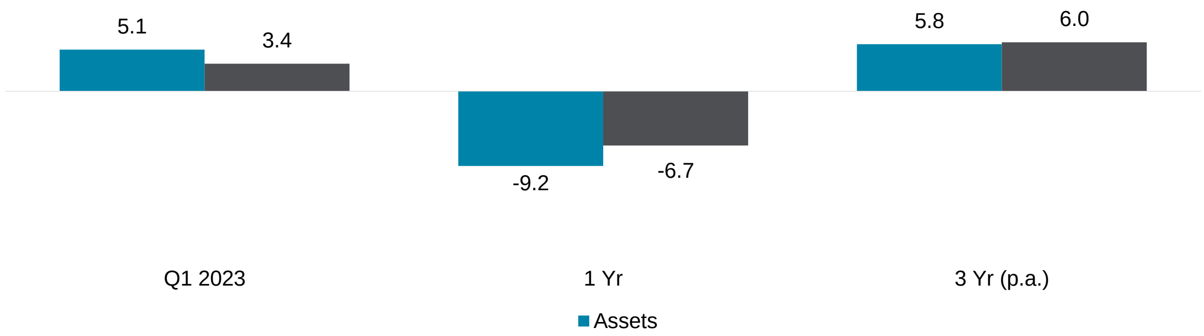
- Border to Coast made 16 capital calls and 10 distributions for Infrastructure over the quarter totalling £13m, 13 capital calls and 15 distributions for Private Credit totalling £9m, 7 capital calls and 1 distribution for Climate Opportunities totalling £16m.
- Arcmont made 1 distribution for Private Credit over the quarter (£0.4m); Permira made 1 distribution for Private Credit over the quarter (£1.0m).
- £16m was disinvested from LGIM Property Fund, which was a deferred redemption from Q4 2022

4. Fund performance

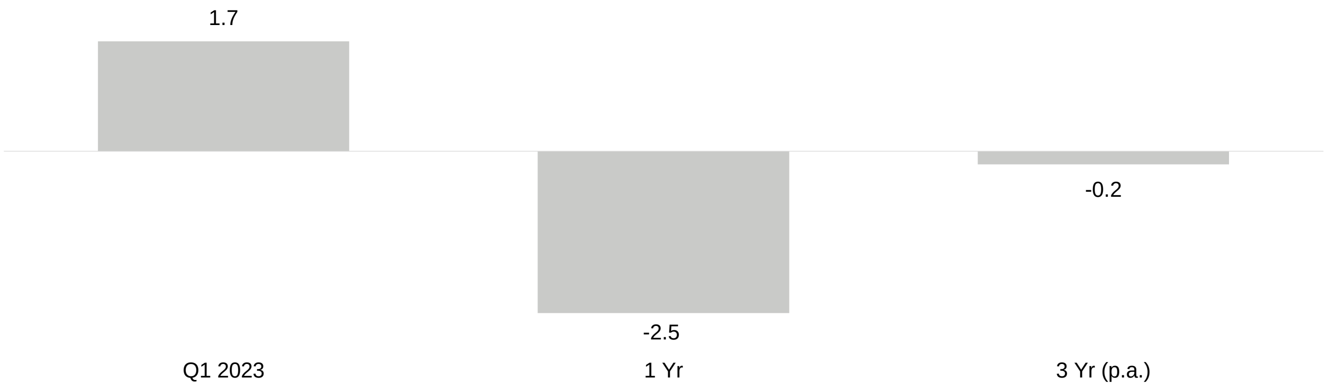
A review of your investment performance

Total Fund performance – Snapshot

Fund performance & benchmark



Relative performance



Source: Northern Trust, Aon

Quarterly (relative)

1.7%

The Fund outperformed the benchmark returning 5.1% vs 3.4% over the quarter.

3 year (relative)

-0.2%

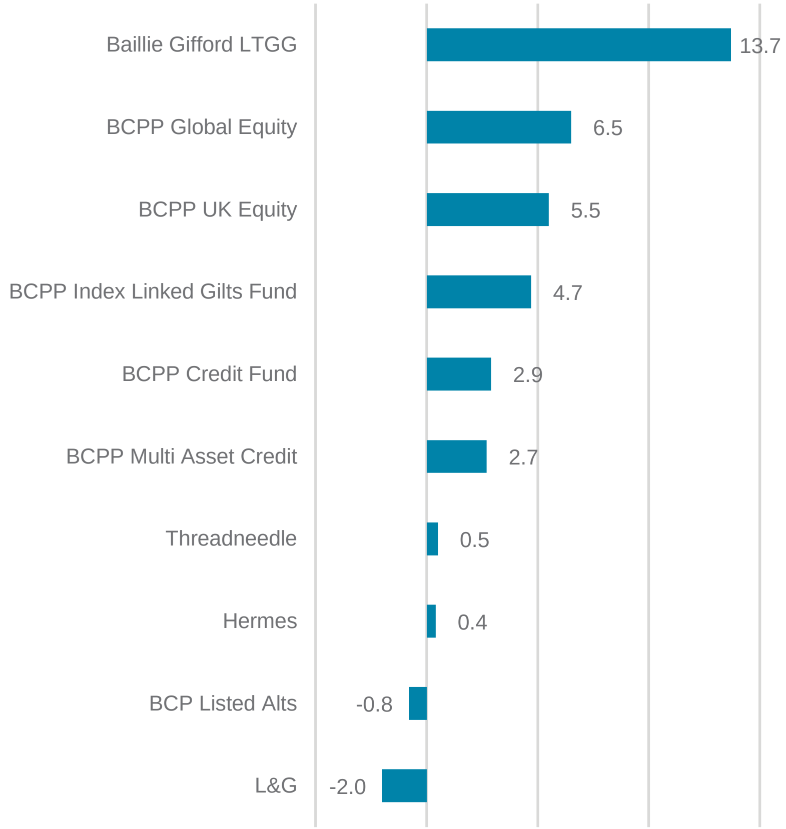
Over 3 years the Fund has underperformed the benchmark returning 5.8% vs 6.0%.

Comments

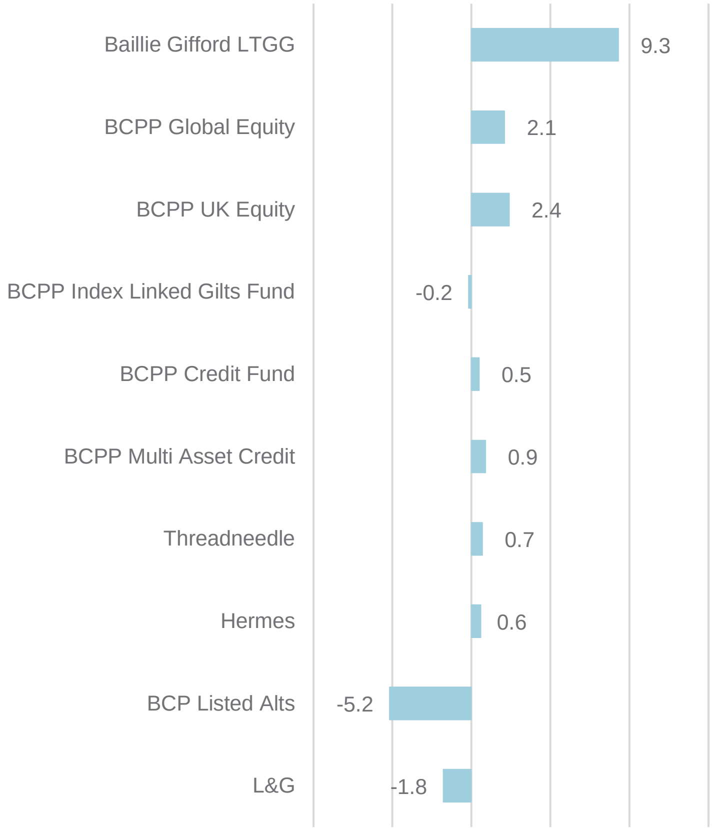
Total Fund performance is behind the composite benchmark over 1 year period and 3 year period but ahead over the quarter to 31 March 2023.

Manager performance – Quarter Snapshot

Absolute performance



Relative performance



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Source: Northern Trust, Managers, Aon.
Note: Infrastructure and Private Credit returns not shown during initial investment drawdown phase. Performance for Leadenhall is not shown as mandates only hold residual assets. Hermes, L&G, Threadneedle; MSCI data was used for fund performance and benchmarking purposes, total fund performance calculated using Northern Trust data.

Manager performance – Longer term

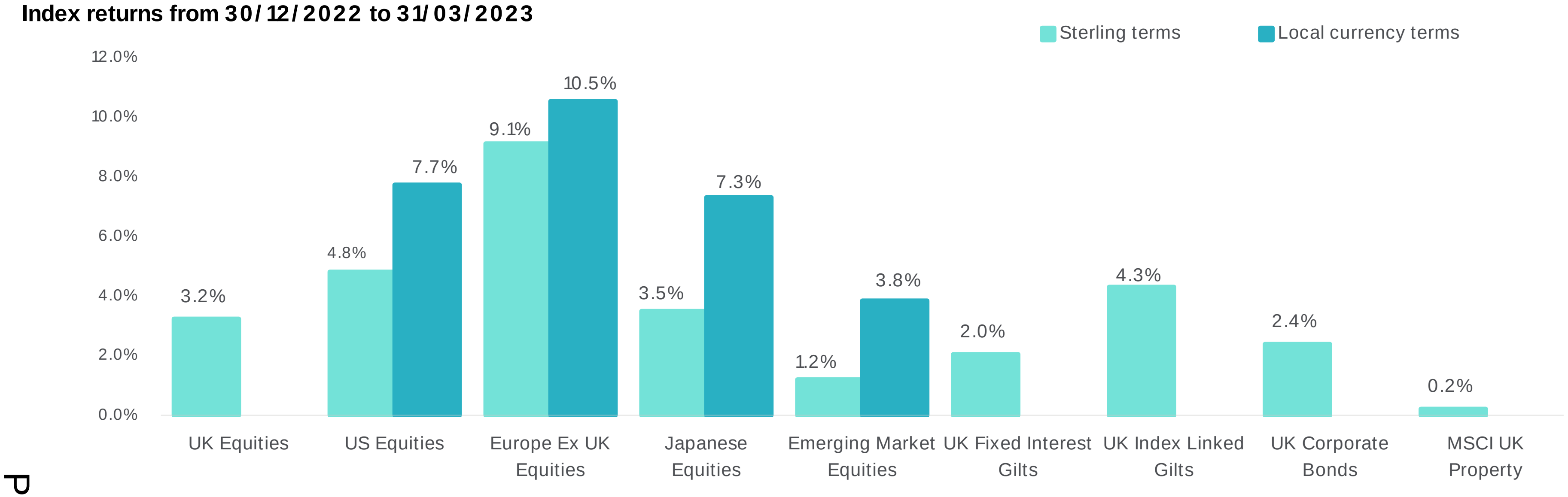
	1 Year (%)			3 Years (% p.a.)			Since inception			
	Perf	B'mark	Rel	Perf	B'mark	Rel	Perf	B'mark	Rel	Inception date
Equity										
UK Equity										
BCPP UK Equity	-0.1	2.9	-3.0	14.1	13.8	+0.3	3.0	4.1	-1.1	Jun-19
Global Equity										
BCPP Global Equity	3.6	-1.4	+5.0	18.3	15.8	+2.5	9.3	9.2	+0.1	Oct-19
Baillie Gifford LTGG	-14.3	-0.9	-13.4	11.0	16.0	-5.0	14.2	9.3	+4.9	Sep-06
Property										
Hermes	-13.2	-14.1	+0.9	2.1	2.5	-0.4	-	-	-	Mar-12
L&G	-13.7	-14.5	+0.8	2.6	2.6	0.0	-	-	-	Dec-12
Threadneedle	-13.8	-14.5	+0.7	2.7	2.6	+0.1	-	-	-	Jun-12
Infrastructure										
BCPP Listed Alts	-11.5	-1.4	-10.1	-	-	-	-6.8	0.0	-6.8	Feb-22
Investment grade credit										
BCPP Investment Grade Credit	-9.8	-10.2	+0.4	-	-	-	-5.2	-6.4	+1.2	Aug-20
Non-investment grade credit										
BCPP Multi-Asset Credit	-3.4	5.8	-9.2	-	-	-	-5.9	-	-	Nov-21
Gilts										
BCPP Index Linked Bonds	-39.0	-39.1	+0.1	-	-	-	-18.0	-18.9	+0.9	Oct-20
Total	**-9.2**	**-6.7**	**-2.5**	**5.8**	**6.0**	**-0.2**	**6.9**	**7.3**	**-0.4**	**Jan-02**

Source: Northern Trust, Managers, Aon. Numbers may not sum due to rounding.
Note: Hermes, L&G, Threadneedle; MSCI data was used fund performance and benchmarking purposes. BCPP Infrastructure returns and BCPP Private Credit returns not shown during initial investment drawdown phase. Performance for Leadenhall is not shown as mandates only hold residual assets.

5. Market background and investment outlook

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

Market – Background Q1 2023



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Sources: FactSet, MSCI (Equities, Property), FTSE (Gilts), iBoxx (Credit).

Equities

The MSCI AC World index posted a 7.2% return in local currency terms as major central banks slowed the pace of monetary policy tightening. However, the material appreciation of the sterling against the US dollar pushed down the returns in sterling terms down to 4.5%.

UK equities returned 3.2% in the first quarter of 2023 but underperformed its developed market peers and was the worst-performing major equity region.

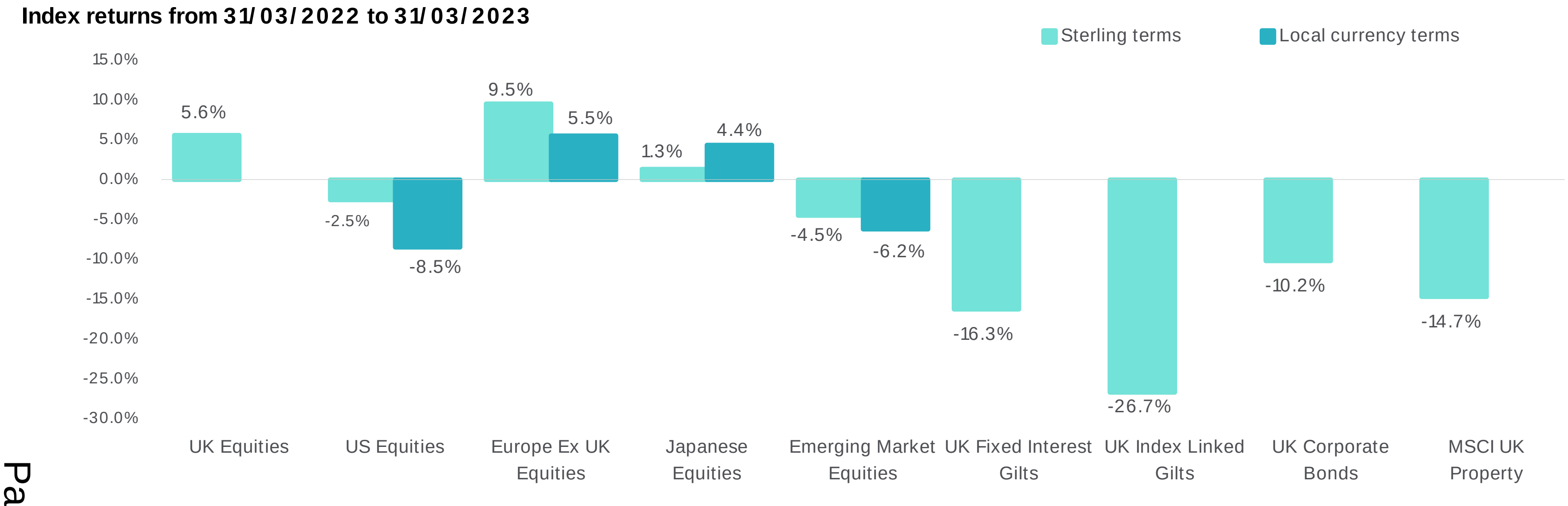
Bonds

UK investment grade credit spreads fell marginally by 0.01%to 1.67%, based on IBoxx Sterling Non-Gilts data. Higher quality bond credit spreads contracted more than their lower-quality counterparts, with AAA-rated non gilt spreads falling by 0.06% to 0.63% whilst BBB-rated non-gilt narrowed by 0.01% to 2.37%. The fall in UK government bond yields and the narrowing of spreads led the Sterling Non-Gilts Index to post a return of 2.4%

Gilts

The UK nominal gilt curve fell across all maturities except for the shortest end of the curve, as markets priced in additional rate increases in the immediate future but a lower terminal rate thereafter.

Market – Background 12 month



Sources: FactSet, MSCI (Equities, Property), FTSE (Gilts), iBoxx (Credit).

Equities

Global equities generated negative returns over the last twelve months, suffering a sharp sell-off over the first six months, as geopolitical risk continued to take centre stage with Russia's ongoing invasion of Ukraine and central banks sharply tightening monetary policy in response to elevated inflationary pressures. However, equity markets recouped more than half of the losses over the last six months of the year as markets felt confident that a deep recession would be avoided, and investor concerns on tighter monetary policy abated.

Bonds

Credit markets declined over the past twelve months. UK investment-grade credit spreads (the difference between corporate and government bond yields), based on the iBoxx Sterling Non-Gilt Index, widened by 0.37% to 1.67%. The index declined 10.2% as rising gilt yields and widening spreads outweighed the income yield.

Gilts

The UK gilt curve rose across all maturities over the year as inflationary concerns drove yields higher. In September 2022, the BoE temporarily announced an emergency £65bn bond-buying programme to stabilise the government debt market after an unexpected expansionary fiscal package was announced. The package increased investor concern over the sustainability of public finances, resulting in a considerable spike in yields. The sharpness of the sell-off was exacerbated by the forced unwinding of LDI positions, as UK pension schemes worked to provide collateral to LDI managers following sharp yield increases. However, in the fourth quarter, yields fell back across the curve following a government U-turn on fiscal policy and Liz Truss' resignation as prime minister.

AON

Quarterly Investment Outlook - April 2023

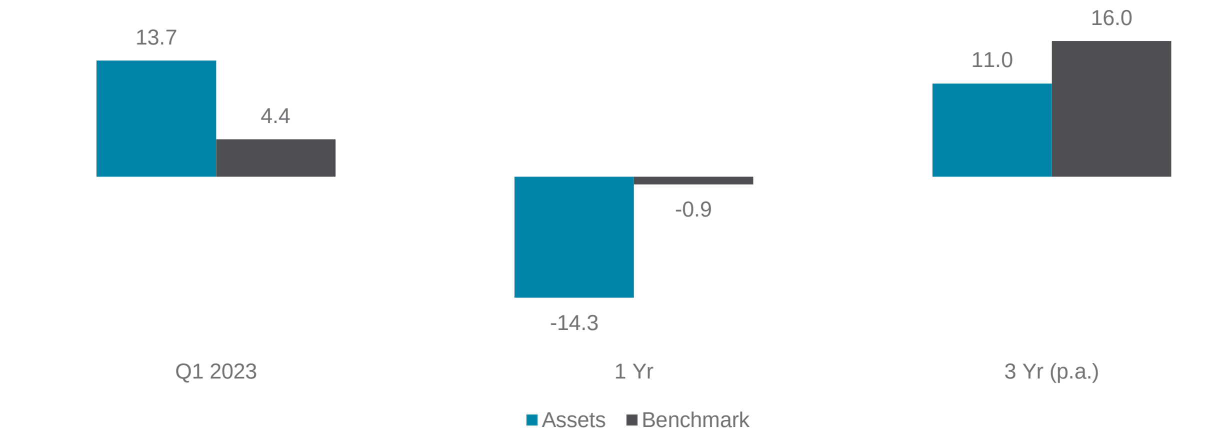
- Expectations of a US interest rate pivot later this year have supported markets, but this view of coming rate cuts looks increasingly premature.
- The economic follow-through effects from last year's large interest rate rises and recent credit tightening by banks does point to the likelihood of the global slowdown turning into recession over the coming year.
- Persistently high underlying UK inflation keeps upward pressure on interest rates. Even taking a longer-term (five-year) view, a return to the ultra-low UK interest rate environment of earlier years looks unlikely.
- Gilt yields continue to be in a range with relatively high trading volatility, common to global fixed income, as interest rate uncertainties continue. Limited reversion prospects mean that index-linked gilt yields could now remain positive over time.
- Credit's worth is in its ability to earn excess returns over equivalent duration government bonds. This could still be a struggle near-term, but credit spreads are fair value for longer-term strategically positioned investors.
- Equities are unlikely to go anywhere fast given multiple headwinds and we continue to prefer other return sources less dependent on rising markets. Insurance-linked securities and macro strategies are two places to look.
- It should be obvious that last year's big market upheavals have raised the reward and preference for liquidity for many. For those less liquidity-constrained, this could in time start to present opportunities.

6. Manager review

Aon ratings and understanding manager performance

Baillie Gifford - LTGG

Fund performance & benchmark



Performance comments

The strategy posted strong outperformance versus the index over Q1 2023.

Strong outperformance was generated by NVIDIA, Tesla and ASML. Some of these gains were modestly offset by Meituan, Moderna and BioNTech.

NVIDIA's share price had previously been weak due to concerns over restricted sales to China, though rallied strongly over the market's enthusiasm for OpenAI.

Tesla performed well early in 2023, with record-breaking car deliveries in 2022, impressive top-line growth of over 50%, and also, unlike other auto manufacturers, improving its margin.

Chinese restaurant delivery firm Meituan was weak in the period over competition and ongoing regulatory concerns, whilst Moderna and BioNTech have struggled as the market weighed concerns over their prospects in a world post COVID-19.

Buy

Reviewed: April 2023

Ratings detail

ODD:	A1 pass	**Risk:**	●●○○
Business:	●●●●	**Perf:**	●●●○
Staff:	●●●○	**Terms:**	●●●○
Process:	●●●○	**ESG:**	Integrated

Key info

Appointed: 29 September 2006

Vehicle: Baillie Gifford Long Term Global Growth (+3% over 5-10yrs)

Mandate: Global Unconstrained Equities

Benchmark: FTSE All World Index from 31 March 2008

Target: To outperform the benchmark by 3% p.a. over rolling three-year periods.

Baillie Gifford – LTGG (cont.)

Positioning and Transactions

Salesforce was sold during the period, where the team's conviction was relatively reducing in multiple areas including competition and management execution.

Samsara and Advanced Micro Devices were purchased in the period. Samsara is an internet-oriented software company with key market segments including vehicle safety. The team is attracted by the company operating in market segments that have previously not used significant computer software, so there is limited competition from the likes of Microsoft.

Advanced Micro Devices (AMD), an established US semi-conductor company has been purchased as the team has grown conviction that AMD will take increased market share from competitors and see its relevant market segments become increasingly monopolistic in nature.

Major developments

Buy Rating Maintained

Aon's Investment Manager Research team ('IMR') has recently concluded the review of the Baillie Gifford Long Term Global Growth (LTGG) strategy.

As had been discussed previously, the review was partly due to the passage of time since our last on-site review, and in acknowledgment of a very steep drawdown in relative performance through the last 24 months.

The result of our review has been to maintain the Buy rating at an overall level, whilst the investment team subcomponent grade was revised downwards from a 4 rating to a 3 rating, which is discussed in the following section.

All other subcomponent grades remain the same. Overall, many of the aspects which helped the strategy achieve a Buy rating remain in place. For example, Baillie Gifford is a supportive firm, where there is strong and visible alignment of interests between investors to the strategy and investment professionals, has an above average investment team and a highly differentiated philosophy and end portfolio, that has generally served clients well.

However, the sharpness of the performance on the upside in 2020 and downside in 2021/2022 readily brings into focus how stylized the investment strategy is towards the growth investment style. This, in our view, in the post zero-interest-rate policy world, introduces new considerations for investors and allocators. Such strategies are likely to face a more uncertain period relative to the last decade and the most successful are likely to be the more adaptive to different types of market regime. As such, we will prospectively be assessing particularly stylized managers on our Buy list, such as LTGG, with a preference for those that can demonstrate adaption and be less explained by a narrow set of factors. This is discussed in more detail in the second part of this note.

Suggested actions:

- Evaluate the style balance of multi-manager global equity portfolios.
- Note the degree of stylization embedded within the LTGG portfolio and consider the comfort level with the exposure, and recognize Aon's ongoing assessment of growth strategies.
- Consider whether LTGG is appropriately sized in equity portfolios in light of the long-term outperformance and the complex market outlook.

Investment Staff Downgrade

IMR have revised the staff subcomponent grade down from a "4" to a "3" rating. This revision largely reflects changes in the team which are described below, which provides an element of uncertainty, whilst the change in market regime described in the subsequent paragraphs, in our view raises the bar for what a best-in-class growth team must be.

Team Changes:

- The retirement of James Anderson in 2022, having previously gradually stepped back to an analyst role prior to retirement.

Baillie Gifford – LTGG (cont.)

Major developments (cont.)

- John MacDougall's appointment as a decision-maker in 2022. John MacDougall has been involved with the strategy since 2015, previously a decision-maker, but relinquishing that title when moving to Shanghai in 2019. In Shanghai, MacDougall remained involved with LTGG from a research perspective. On returning to Edinburgh in 2022, MacDougall has returned to a decision-making role on the LTGG team.

- Longstanding team member Tom Slater departing as a decision-maker in 2022. Slater has long been involved in LTGG. Five years ago, Slater took on the Head of US role at Baillie Gifford. With MacDougall returning to Edinburgh, Slater can focus more on the US role, which still provides input to BG global strategies. Slater is also Lead PM on Scottish Mortgage, which is a closed-end investment trust running a very similar book to LTGG.

- The appointment of three less experienced decision makers in Michael Pye, Robert Wilson and Gemma Barkhuizen.

In general, these changes have been well sign-posted, and except for Anderson's retirement, are largely cosmetic, with input from the likes of Tom Slater seemingly still evident. However, some monitoring is required on this, with the younger cohort not yet nearly as proven as the more experienced individuals.

There are however also some positives we can see from these changes, where we have evidenced some interesting ideas initiated from the younger group – for example exploring quantitative risk tools on the investment process and providing different views on some of well-known positions in the portfolio. This encourages us that challenge is being provided to the senior investors, and provides a better backdrop for continual process introspection and development. This latter point is particularly important in the context of the considerations on the strategy looking forward, as described in the following section.

Looking ahead, stylized strategies in an uncertain World, and future milestones

LTGG is a highly stylized growth equity strategy, but conducting a long enough assessment of its history has shown the strategy to have evolved. We have seen very different types of businesses come in and out of the portfolio. Similarly, some promising seeds of evolution were identified in our research; as such, we believe the strategy deserves an opportunity to evolve beyond the events of 2020-2022.

In the intervening period until the next review, for LTGG, we will look for signs of evolution in ideas generated and the end portfolio, better sensitivity to valuation, and further exploration of portfolio construction techniques and risk assessment. These assessments will be undertaken somewhat irrespective of relative performance, which over the short term will likely continue to be influenced by drivers such as global interest rate expectations, inflation and the growth/value factor.

Hermes – Property Unit Trust

Q1 Fund performance & benchmark

Buy

Reviewed: February 2023

Q4 2022 Monitoring comments

The performance of the Fund and the property market has been impacted by rapidly rising interest rates, increased borrowing costs, economic uncertainty and UK pension funds looking to exit real estate as they de-risk and look for liquidity.

Industrial assets continued to see large value write downs over Q4, impacted by further outward yield expansion. The Fund's Industrial Portfolio has seen a 29% correction since Q2 2022, contributing -13.7% to the Fund's weighted portfolio return, over 12 months to December 31st, 2022.

The largest detractors to performance over the 12-month period was the Fairway Trading Estate (-28.1%) and the M2 City Link in Rochester (-22.7%). Overall, the Fund maintains an underweight holding to industrial vs the benchmark at 34.3% vs 38.2%, accretive to relative performance over the quarter.

Despite the sharp correction in industrial valuations, given their low yields, the industrial sector is still expected to provide strong rental growth over the medium term.

In contrast to the above, West End Offices returned 6.3% over the 12-month period to weighted portfolio performance, with Great George Street London office the main contributor, returning 17.6%.

The Fund remains focused on rental collection. As at 90 days post quarter end, the Fund has collected 97% of outstanding rent for Q4 and 87% of rent demanded for Q1 after 21 days. This is in line with the previous quarter. Portfolio Vacancy currently stands at 12.9%, with 6.8% being strategic void under refurbishment.

The Fund remains a committed seller to address the outstanding redemption queue and has a clear sales strategy to address the redemption queue.

Key info

Appointed: 27 February 2012

Vehicle: Property Unit Trust

Mandate: UK Property Pooled Fund

Benchmark: IPD Other Balanced Property Fund Index

Target: To Outperform the benchmark by 0.5% over three year rolling periods.

Source: MSCI data was used for fund performance and benchmarking purposes

Hermes – Property Unit Trust (cont.)

Q4 2022 Monitoring comments (cont.)

Great George Street has been earmarked for sale with a valuation of c. £75 million, which has remained stable on the back of its likely alternative use as a hotel. The sale of this asset will reduce the Fund's vacancy rate by 4.3% to 8.6%. Additionally, the Weybridge & Cobham pub portfolio has terms agreed with a buy for £6.4m, expected to complete in early Q1, reflecting a 36% premium to the most recent valuation.

The Manager also completed a significant number of asset management initiatives over the quarter across the office and industrial portfolio. Most notably, the Manager completed refurbishment works across 3 vacant floors of the Soho square office asset. One unit is now under offer (to a data tech company) for a 5-year term, at a rent of £87.5 ps ft (approx. £425,000 of rental income per annum), with completion expected in February 2023. The Manager also let the last two vacant units at M2 City Link in Rochester, to Vetee Rice Ltd on a 10 -year lease at £12.75 ps ft, which equates to £212,000 of annual rental income.

Q4 2022 Major Developments

As highlighted in the previous quarterly update, the Manager took the decision to defer redemptions from Q2, totalling £112 million, as well as Q3 redemptions totalling £114 million, C. 17% of NAV (assuming October pricing). £45.7 million of Q2 redemptions have been paid, with terms agreed on four further asset sales for £140 million. The magnitude of the level of redemptions is in line with other UK balanced open-ended funds.

LGIM – Managed Property Fund

Q1 Fund performance & benchmark

Qualified

Reviewed: March 2023

Q4 2022 Monitoring comments

The Manager continues to have a largely negative view on the retail sector, particularly shopping centres and high street retail, despite forecasting that the relative performance gap will continue to narrow vs All Property. The Fund will therefore continue to underweight to retail assets, currently at 16.7% vs the benchmark weighting of 18.8%.

Despite this negative outlook the Manager remains relatively upbeat on retail warehousing, and has a positive view on leisure assets, especially those located in core locations. These assets are forecast to outperform vs All Property up to 2026 and offer an attractive yield profile, presenting targets for asset management initiatives. Leisure assets remain the largest holding, c.40% of the alternatives weighting, with the Manager highlighting the compelling relative value case. The Fund is also materially underweight office vs the benchmark (20.9% vs 24.8%).

The Manager continues to favour other areas of the alternative's sector, forecasting outperformance in the near-term vs traditional sectors. Most notably, the Manager has a desire to increase the Fund's exposure to student accommodation and urban residential, the latter through its allocation to LGIM's Build to Rent Fund. Alternatives currently make up 13.9% of the total portfolio, marginally higher than last quarter. As previously mentioned, the Manager has previously looked to increase the portfolio's industrial exposure in the past. However, pricing expectations of sellers remains a concern. The Manager also believes the current industrial holdings are of good quality in the Southeast and have room for rental growth.

Key info

Appointed: 1 November 2012

Vehicle: Property Fund

Mandate: UK Property Pooled Fund

Benchmark: IPD All Balanced Property Fund Index

Target: To outperform the benchmark by over three year rolling periods.

Source: MSCI data was used for fund performance and benchmarking purposes

LGIM – Managed Property Fund (cont.)

Q4 2022 Monitoring comments (cont.)

The underweight position to industrials now stands at (35.8% versus 38.2%) reflected in the Fund's outperformance over Q4. The Fund remains focused on rent collection, particularly from sectors that have legacy challenges following COVID-19, predominantly retail and leisure. The Fund's most recent rent collection stats show continued levels of rent stabilisation while the Fund is achieving collection rates very close to pre COVID levels. Rent collection for the current quarter (to date) is currently 95% and similar levels are expected in Q1.

The Fund's void as a percentage of income remains marginally higher than the benchmark (10.1% vs 8%). However, the largest relative void is in the more challenging office sector and industrial portfolio, where there is strong occupational demand at rents ahead of estimated rental values. The Fund's cash level of 12.8% is also higher than the benchmark level of 6.4%

Q4 2022 Transactions

There were three transactions over the quarter, totalling £105.5 million with sales of the holding at Cambridge Science Park, Tesco at Melton Mowbray and Castlemore Retail Park in Warminster. The Cambridge Science Park sale achieved a price of £85 million, reflecting a net initial yield of 3.84% and capital value of £763 per sq. ft. The Fund had undertaken significant asset management initiatives during ownership, regearing the leases with NAPP pharmaceuticals in 2014 and 2019. Additionally, a lease for £38 ps ft was also agreed with Microsoft in 2021 for a 10-year term. The Manager had concerns over the future demand and supply dynamics for life science investments along with the need for further capex.

Q4 2022 Transactions (cont.)

Over the hold period, the asset delivered a 13.5% total return per annum. Tesco, Melton Mowbray achieved a sale of £13.75 million reflecting a net initial yield of 5.38% and capital value ps ft of £297. Lastly, the Manager achieved a price of £6.3 million at Castlemore Retail Park, reflecting a net initial yield of 7.48% and capital value ps ft of £128.

Threadneedle – TPEN

Q1 Fund performance & benchmark

Buy

Reviewed: March 2023

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Q4 2022 Monitoring comments

The Fund was an active seller during Q4 2022 and made 63 sales, totalling £172m. These assets were sold at an aggregated c.£20m discount to their book values (a 10% weighted average discount); this reflects the situation that in a rapidly falling market transaction prices are likely to be lower than the most recent valuations because of the inherent lag associated with real estate valuations.

The sales mostly constituted of retail and industrial holdings with some offices sold as well. The sale prices ranged from c. £500k to £15 million and the relatively small size of the assets helped liquidity while the industrial sector continued to attract buyers at rebased prices.

The large number of sales reflected the need to meet redemption payments, increase cash in the fund to manage future redemptions and also continued the Manager's goal to dispose of weaker assets, especially weaker retail and office assets. The industrial sales looked to target smaller lots and / or assets which had completed their business plans. Over the year £364 million of asset sales were completed while the Fund made acquisitions totalling £95.8 million.

Key info

Appointed: 21 June 2012

Vehicle: Property Fund

Mandate: UK Property Pooled Fund

Benchmark: IPD All Balanced Property Fund Index

Target: To outperform the benchmark by 1 to 1.5%.

Source: MSCI data was used for fund performance and benchmarking purposes

Threadneedle – TPEN (cont.)

Q4 2022 Transactions

One asset was acquired during the quarter, a former railway yard in Cambridge which is land adjacent to an existing asset that will allow for further development at the site.

Major Developments

During September the Manager took the decision to defer redemptions given the elevated level of redemption requests received and the uncertainty and lack of liquidity in the property market. Individual DC members trading within their historical levels were not captured by this action. At the end of the quarter TPEN had c. £60 million of outstanding redemption requests to pay.

Since the end of June 2022, the U.K. experienced the largest and swiftest valuation decline since the Global Financial Crisis. This has been driven by rapidly rising interest rates and borrowing costs and lack of liquidity as a period of price discovery began. TPEN was not the only open-ended balanced fund to defer redemption requestions and the magnitude of the Fund’s valuation declines were in line with the wider property market.

Source: MSCI data was used for fund performance and benchmarking purposes

BCPP – Quarterly high level monitoring (Q1 2023)

Changes to Senior Management at BCPP

- Kevin Palmer, Portfolio Manager (Fixed Income) has retired. A replacement Portfolio Manager is expected to join in the next couple of months.
- James McLellan, Senior Portfolio Manager (Equities) has left to pursue opportunities closer to home in Switzerland. This role has been incorporated into the Head of Equities role (Will Ballard).

Changes to views of External Managers

- BCPP Global Equity Alpha
  - Loomis Sayles: The manager was placed on the Watchlist due to resignations and departures from their dedicated analyst team. BCPP have engaged with the CEO, CIO and investment team at Loomis and have further calls scheduled to discuss this matter further and will keep Partner Funds abreast of any pertinent developments.
  - Ninety One Franchise: Simon Brazier (co-Head of the Quality Team) has departed Ninety One. Simon was focused on the UK funds and although shared leadership responsibilities with Clyde Rossouw (PM on Global Quality), he had no material input on the BCPP strategy and his responsibilities are being picked up by senior UK focused individuals.

- BCPP UK Equity Alpha
  - Baillie Gifford: Following Baillie Gifford's removal from the Watchlist in Q4 2022, BCPP continue to be encouraged by the structure Milena Mileva is building and the counsel being provided by other senior members of Baillie Gifford's UK Equity team in the process. With the portfolio now settled and aligned with Milena's own convictions.

Source: Aon, BCPP External and Internal Management Quarterly Updates (Equity and Fixed Income Q1 2023), BCPP Quarterly investment Report (NYPF) Q1 2023
Note: BCPP quarterly assurance data will now be released annually and has not been included above.

7. Further information

Key reference information about your scheme

Explanation of Ratings – Overall ratings

Overall ratings

An overall rating is then derived taking into account both the above outcomes for the product. The table lists how the overall rating can be interpreted.

The comments and assertions reflect our views of the specific investment product and our opinion of its quality. Differences between the qualitative and Aon InForm outcome can occur and if meaningful these will be explained within the Key Monitoring Points section. Although the Aon InForm Assessment forms a valuable part of our manager research process, it does not automatically alter the overall rating where we already have a qualitative assessment. Overall rating changes must go through our qualitative manager vetting process. Similarly, we will not issue a Buy recommendation before fully vetting the manager on a qualitative basis.

Overall Rating	What does this mean?
Buy	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products
Buy (Closed)	We recommend clients invest with or maintain their existing allocation to our Buy rated high conviction products, however it is closed to new investors
Qualified	A number of criteria have been met and we consider the investment manager to be qualified to manage client assets
Not Recommended	A quantitative assessment of this strategy indicates it does not meet our desired criteria for investment. This strategy is not recommended.
Sell	We recommend termination of client investments in this product
In Review	The rating is under review as we evaluate factors that may cause us to change the current rating

Explanation of Ratings – Overall ratings

ESG Factor

The ESG factor is assigned a rating and can be interpreted as follows:

	Key
Advanced	The fund management team demonstrates an advanced awareness of potential ESG risks in the investment strategy. The fund management team can demonstrate advanced processes to identify, evaluate and potentially mitigate these risks across the entire portfolio.
Integrated	The fund management team has taken appropriate steps to identify, evaluate and mitigate potential financially material ESG risks within the portfolio.
Limited	The fund management team has taken limited steps to address ESG considerations in the portfolio.

Method

The funding update has been prepared in accordance with the framework below.

- This funding update is consistent with the calculations for the results of the actuarial valuation as at 31 March 2022. The assumptions used have been modified only insofar as is necessary to maintain consistency with the approach set out in the latest Funding Strategy Statement, reflecting the change in the effective date and in relevant market conditions.
- The funding update is projected from the results of the actuarial valuation as at 31 March 2022 valuation and is therefore approximate. Since the update is not based on up-to-date membership data, it becomes more approximate the longer the period of time that has elapsed since the last actuarial valuation.
- The funding update takes account of the following over the period since the last formal actuarial valuation:
  - Cashflows into and out of the Fund estimated based on the 2022 valuation results;
  - Actual price inflation and its impact on benefit increases.
- Demographic experience since the last formal actuarial valuation has been assumed to be in line with the assumptions set out in the 2022 Valuation report.
- This update is designed to give a broad picture of the direction of funding changes since the actuarial valuation but does not have the same level of reliability as, and therefore does not replace the need for, formal actuarial valuations.
- It does not reflect any changes to assumptions which would be made if a full actuarial valuation were to be carried out to reflect, for example, changes to the investment strategy or economic outlook.
- For the purpose of this funding update, we have used an un-audited value of the assets as at 31 March 2023 provided by the Administering Authority.
- The whole of fund total employer contribution rates shown in this funding update allow for a recovery period ending 31 March 2041 and allow for any surplus in excess of 110% to be recovered as set out in the Funding Strategy Statement
- The assumptions used in this funding update are as follows:

	Discount rate	Pay growth	Pension increases *
31 March 2022	4.20%	3.55%	2.30%
31 December 2022	4.80%	3.55%	2.30%
31 March 2023	4.70%	3.55%	2.30%

* Plus an allowance for short term inflationary increases

Risk/Return Assumptions

- The table below sets out the asset and liability return assumptions over 10 years, together with the asset allocation and exposures used. These are based on Aon's Capital Market assumptions as at 31 March 2023.

High level asset class	Expected Return	Expected Volatility
Equities	7.0%	18.9%
Property	5.9%	12.6%
Infrastructure	7.6%	15.8%
Listed alternatives	6.9%	19.2%
Illiquid credit	7.9%	5.7%
Investment grade credit	5.2%	9.4%
Non-investment grade credit	6.4%	9.4%
Absolute Return	6.0%	5.2%
Gilts	2.9%	9.6%
Cash	3.3%	1.3%

Note: all statistics are 10 year median expected returns/volatility of returns.

Correlation Table

High level asset class	Equities	Property	Infrastructure	Listed Alternatives	Illiquid credit	IG Credit	Non-IG Credit	Absolute Return	Gilts	Cash
Equities	100%	38%	61%	100%	29%	4%	54%	20%	-8%	-2%
Property		100%	19%	36%	29%	5%	28%	8%	-1%	7%
Infrastructure			100%	63%	15%	3%	22%	20%	-3%	1%
Listed Alternatives				100%	28%	3%	53%	21%	-8%	-2%
Illiquid credit					100%	56%	67%	16%	7%	25%
IG Credit						100%	27%	17%	51%	40%
Non-IG Credit							100%	16%	1%	8%
Absolute Return								100%	10%	33%
Gilts									100%	31%
Cash										100%

Data and assumptions

Date of calculation	31 March 2023
Number of simulations	5000
Time horizon	10 years
Asset value	£ 4,209,617,137

- Infrastructure is modelled as a blend of 37.5% EU and 62.5% US Infrastructure in line with BCPP's mandate.
- Listed Alternatives are modelled as passive global equities (including emerging markets).
- Private Credit modelled as combination of 2/3 Senior Direct Lending (for Arcmont and Permira) and 1/3 Whole Property Debt (for BCPP).
- Gilts are modelled as a 62.9% 15 year index-linked gilts and 37.1% 20 year index-linked gilts.
- Property is modelled as UK Property.
- Liquid IG Credit modelled as UK corporate bonds (A-rated with average duration of 10 years)
- Liquid Non-IG Credit modelled as high yield multi-asset credit.
- Absolute Return is modelled as Leadenhall Insurance Linked Securities modelled as an equal blend of Aggressive, Conservative and Moderate ILS.
- The Fund has an allocation to Equities which make up 50% of the long term allocation.
- For modelling purposes (and for consistency with the approach taken by the Actuary) we do not allow for any outperformance from active management (alpha).
- We have not allowed for the impact of equity protection on the risk and return of the portfolio
- Equities have been modelled using region splits in line with the long term allocation:

Passive UK Equity	10%
Passive Global Equity (including Emerging Markets)	90%

Key assumptions of the model (1)

- The purpose of the model is to consider and monitor the return and risk characteristics of the current and long term investment strategy of the Scheme.
  - The analysis considers the expected return of the Scheme's investment strategy and the 1-in-20 downside 5th percentile Value at Risk implied by the strategy.
  - These metrics are considered as at the stated quarter-end.

- Investment risk is included in the model outputs but this is not the only risk that the Scheme faces; other risks include covenant risk, longevity risk, timing of member options, basis risks and operational risks.
- Investment risk has been calculated on an asset only basis.

Key assumptions of the model (2)

- The calculation of portfolio risk is approximate;
  - The calculation considers (5000 stochastic) simulations of returns over a single year of the Scheme's investment strategy.
  - The simulations are constructed using Aon Solution's Asset Model – the details and assumptions of which are outlined in this appendix.
  - The calculation does not take into account any cashflows payable over the year; if cashflows are expected to be material the result is likely to be different.
  - Risks are attributed into the categories outlined in the chart only; the investment strategy may be exposed to further risk categories not shown.
  - The calculation does not take into account longevity risk (i.e. liability values increasing due to members living longer than assumed).
  - Owing to these approximations, a more detailed ALM study is likely to result in a different result to the VaR calculation.
  - Other portfolios with different risk and return characteristics may be available to the Scheme along the journey to full funding.

TAS compliance

This document has been prepared in accordance with the framework below.

This document has been requested by the Administering Authority. It has been prepared under the terms of the Agreement between the North Yorkshire Council and Aon Investments Limited on the understanding that it is solely for the benefit of the addressee.

This document, and the work relating to it, complies with 'Technical Actuarial Standard 100: Principles for Technical Actuarial Work' ('TAS 100').

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This report should be read in conjunction with:

- The Report on the actuarial valuation of the North Yorkshire Pension Fund as at 31 March 2022 dated 29 March 2023.
- The latest Funding Strategy Statement.

If you require further copies of any of these documents, please let me know.

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