

**NORTH YORKSHIRE COUNTY COUNCIL****PENSION FUND COMMITTEE****21 FEBRUARY 2020****INVESTMENT STRATEGY REVIEW****Report of the Treasurer****1. PURPOSE OF REPORT**

- 1.1. To consider an allocation to BCPP's Index-linked Gilt Fund.
- 1.2. To consider an additional investment in the BCPP Infrastructure Fund.
- 1.3. To consider an investment in the BCPP Private Equity Fund.

**2. ALLOCATION TO INDEX-LINKED GILTS**

- 2.1. The BCPP Index-linked Gilt sub-fund is due to launch in the second half of 2020. BCPP has therefore asked Committees to consider an initial investment in the sub-fund, subject to further due diligence. The Fund's investment consultants, Aon, have carried out high level due diligence on the proposed design of the sub-fund. This due diligence covers the suitability of the sub-fund for NYPF, where the funds would come from if an investment is made and recommendations on the initial allocation and longer term allocations to the sub-fund. The key recommendations from the due diligence will be presented by Aon at the February Committee meeting.
- 2.2. This sub-fund will be internally managed with a performance objective to outperform the benchmark by 15 to 25bps (net of fees). It is expected to be a low cost sub-fund with minimal internal resource requirements due to the small size of the universe and low expected turnover of the assets. This target return is lower than the performance objective of the Fund's current gilt mandate which is 50bps (net of fees), this is because it is expected that the BCPP portfolio will be less active. The portfolio size is expected to be around £1bn on launch.
- 2.3. In terms of the suitability of the sub-fund for NYPF, Aon have advised that the sub-fund is a suitable replacement for the gilts currently held in the portfolio and have raised no red flags, based on the information available on the design, subject to some necessary conditions being met. These necessary conditions will be discussed in the Committee meeting.
- 2.4. The Fund currently holds around 18% in gilts, c.12% of this is actively managed by M&G (c.£460m) and the remaining c.6% is being held by LGIM

as collateral for the equity protection mandate (c.£237m). To remind Members, the allocation to gilts was reduced to 10% in the new long-term investment strategy. In order to bring the gilt allocation more in line with this new long-term allocation, it was agreed by Members in the November Committee meeting to fund the PIMCO investment from the M&G mandate, which will reduce the M&G allocation to around £270m.

- 2.5. As the Fund currently has c.6% held by LGIM as collateral, it is recommended that an initial investment of £150m (c.4%) be made on launch to the BCPP Index-Linked Gilt Fund from the M&G mandate to bring the total allocation to gilts towards the new long term allocation. It is expected that this transition could be made in-specie. Any remaining allocation to M&G (c.£120m) would then be utilised as required to fund other investments which form part of the long term strategic allocation.
- 2.6. Once the equity protection strategies have ended and the gilts held by LGIM are no longer required as collateral, this allocation can also be transferred to the BCPP Index-linked Gilt Fund at a later date. As there are two equity protection strategies in place with different end dates, this may be a two-stage transition. It is still expected that these transitions could be in-specie. The equity protection strategies held by the Fund will be reviewed at the May Committee meeting.
- 2.7. Members are asked to consider an initial investment of £150m in the BCPP Index-linked Gilt Fund, subject to further due diligence. Members are also asked to consider delegating authority to the Treasurer of the Fund to finalise this due diligence in consultation with the Chair of the Committee. If, in the view of the Treasurer or Chairman, there are any significant issues raised as part of this due diligence it will be brought back to a future PFC meeting prior to a final commitment being made.

### **3. INFRASTRUCTURE INVESTMENT**

- 3.1. To remind Members, in the July 2019 PFC meeting an initial commitment of £70m was made to the BCPP Infrastructure Fund during the first subscription window (series 1a), with the aim of gradually building up a 5% allocation to infrastructure in the long term, as part of the Fund's 7.5% allocation to illiquid growth. Due to the illiquid nature of alternative investments, BCPP have set up triennial funds where commitments are raised in annual subscription windows with the plan to deploy capital over a three-year period. The next opportunity to invest in the Infrastructure Fund is April 2020 (series 1b). The Committee is therefore asked to provide a final commitment in the February PFC Meeting.
- 3.2. On initial launch in July 2019, Aon carried out high level due diligence on the sub-fund which did not identify any issues with making an investment. As this second investment would be in the same sub-fund, due diligence is not required again, however Aon have carried out a high level assessment of the investment activities of the sub-fund so far to inform a recommendation for a second investment. This assessment has not highlighted any major concerns

regarding BCPP's investment approach so far and will be discussed in further detail the February Committee meeting.

- 3.3. It is recommended that a further investment of between £40m - £70m be made in the infrastructure sub-fund by the April 2020 deadline. If the Committee plan to invest in Private Equity (discussed further in section 4 below) or if the Committee want to spread infrastructure investments over a longer time frame, then an investment towards the lower end of the range is recommended. However, if the Committee does not plan to invest in Private Equity then it is recommended that an investment at the higher end of the range be committed.
- 3.4. Members are asked to consider an additional investment of £40m-£70m in the BCPP Infrastructure Fund.

#### **4. PRIVATE EQUITY INVESTMENT**

- 4.1. The second annual subscription window for investments in Private Equity is also April 2020 and Committees are therefore asked to make final commitments in their February PFC meetings. This sub-fund was first launched in April 2019, however as this is not an asset class that the Fund is currently invested in and the new investment strategy had not been determined at the time of launch, it was decided not to invest in the Fund. Now that the new investment strategy has been approved, the Committee may wish to invest the BCPP Private Equity Fund, during this second subscription window, as part of the Fund's 7.5% allocation to illiquid growth.
- 4.2. As the Fund is not currently invested in private equity, BCPP will be attending the informal workshop on 20 February 2020 to provide training on the asset class and their sub-fund offering. Following this training, Members are asked to consider making a commitment to the BCPP Private Equity Fund in April 2020. There will also be a further opportunity to invest in the sub-fund in April 2021.

#### **5. RECOMMENDATIONS**

Members are to:

- 5.1. Consider a commitment of £150m in the BCPP Index-linked Gilt Fund, subject to further due diligence.
- 5.2. Delegate authority to the Treasurer of the Fund, in consultation with the Chair of the Committee, to finalise the due diligence on the BCPP Index-linked Gilt Fund.
- 5.3. Consider an additional investment of between £40m and £70m in the BCPP Infrastructure Fund.
- 5.4. Consider an investment in the BCPP Private Equity Fund.

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10 February 2020