CONFIDENTIAL - CONTAINS EXEMPT INFORMATION ITEMS

Nottinghamshire County Council

Nottinghamshire Pension Fund Committee

Thursday, 11 March 2021 at 10:30

Virtual meeting

AGENDA

13 EXCLUSION OF THE PUBLIC

The Committee will be invited to resolve:-

“That the public be excluded for the remainder of the meeting on the grounds that the discussions are likely to disclosure of exempt information described in Schedule 12A of the Local Government Act 1972 and the public in maintaining the exemption outweighs the public interest in disclosing the information.”

Note

If this is agreed, the public will have to leave the meeting during consideration of the following items.

EXEMPT INFORMATION ITEMS

14 Pension Administration System Update EXEMPT Appx

- Information relating to the financial or business affairs of any particular person (including the authority h that information);

15 Fund Valuation and Performance EXEMPT

- Information relating to the financial or business affairs of any particular person (including the authority h that information);

16 Fund Managers' Presentations

16a Aberdeen Standard Investments

16b Schroders Investment Management

Notes

(1) Councillors are advised to contact their Research Officer for details of any Group Meetings which are planned for this meeting.

(2) Members of the public wishing to inspect "Background Papers" referred to in the reports on the agenda or Schedule 12A of the Local Government Act should contact:-

Customer Services Centre 0300 500 80 80

(3) Persons making a declaration of interest should have regard to the Code of Conduct and the Council’s Procedure Rules. Those declaring must indicate the nature of their interest and the reasons for the declaration.

Councillors or Officers requiring clarification on whether to make a declaration of interest are invited to contact Peter Barker (Tel. 0115 977 4416) or a colleague in Democratic Services prior to the meeting.

(4) Councillors are reminded that Committee and Sub-Committee papers, with the exception of those which contain Exempt or Confidential Information, may be recycled.

(5) This agenda and its associated reports are available to view online via an online calendar - http://www.nottinghamshire.gov.uk/dms/Meetings.aspx

Nottinghamshire County Council

minutes

Meeting	NOTTINGHAMSHIRE PENSION FUND COMMITTEE VIRTUAL MEETING
Date	Thursday 10 December 2020 at 10.30 am

membership
Persons absent are marked with `A'

COUNCILLORS

Eric Kerry (Chairman)
Stephen Garner (Vice Chairman)

Reg Adair
Chris Barnfather
Tom Hollis
Sheila Place
Mike Pringle
Francis Purdue-Horan
Parry Tsimbiridis

Non-voting members:

Nottingham City Council

Councillor Graham Chapman
A - Councillor Anne Peach
A - Councillor Sam Webster

Nottinghamshire Local Authorities' Association

Councillor David Lloyd, Newark and Sherwood District Council
Councillor Gordon Moore, Rushcliffe Borough Council

Trades Unions

Mr A Woodward
Mr C King

Scheduled Bodies

Mrs Sue Reader

Pensioners' Representatives

A - Mr T Needham
Vacancy

Independent Adviser

William Bourne

Officers in Attendance

Pete Barker	(Chief Executive's Department)
Jon Clewes	(Chief Executive's Department)
Gill Elder	(Chief Executive's Department)
Tamsin Rabbitts	(Chief Executive's Department)
Nigel Stevenson	(Chief Executive's Department)

1. MINUTES

The minutes of the last meeting held on 8 October 2020, having been circulated to all Members, were taken as read and were confirmed and signed by the Chair.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Peach, Councillor Webster and Mr Terry Needham.

3. DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

There were no declarations of interest.

4. LGPS – REFORM OF LOCAL GOVERNMENT EXIT PAYMENTS

Mr Clewes introduced the report and on a motion by the Chairman, duly seconded it was:

RESOLVED 2020/049

1) That the Fund's proposal for dealing with impacted cases of redundancy/early retirement notified to the fund from scheme employers be approved.

2) That any amendment to the procedures in the report can be determined by the Service Director – Customers, Governance and Employees in consultation with the Chair of Pension Fund Committee if an urgent change in process is required, and a follow up report will then be submitted to committee at the earliest opportunity.

5. TASK FORCE ON CLIMATE RELATED FINANCIAL DISCLOSURES (TCFD) REPORT

Mrs Rabbitts introduced the report and on a motion by the chairman, duly seconded it was:

RESOLVED 2020/050

That no further actions are required as a direct result of the contents of the report.

6. WORK PROGRAMME

Mrs Rabbitts introduced the report and reminded members that the AGM had been moved to 21 January 2021.

On a motion by the Chairman, duly seconded it was:-

RESOLVED 2020/051

That no further actions are required as a direct result of the contents of the report.

7. FUND VALUATION AND PERFORMANCE

Mrs Rabbitts introduced the report and on a motion by the Chairman, duly seconded it was:-

RESOLVED 2020/052

That no further actions are required as a direct result of the contents of the report.

8. INDEPENDENT ADVISER'S REPORT

Mr Bourne introduced the report and on a motion by the Chairman, duly seconded it was:-

RESOLVED 2020/053

That no further actions are required as a direct result of the contents of the report.

9. EXCLUSION OF THE PUBLIC

On a motion by the Chairman, duly seconded it was:-

RESOLVED 2020/054

That the public be excluded for the remainder of the meeting on the grounds that the discussions are likely to involve disclosure of exempt information described in Schedule 12A of the Local Government Act 1972 and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

And that Mr William Bourne, the Independent Adviser, be permitted to stay in the meeting during consideration of the exempt items.

10. FUND VALUATION AND PERFORMANCE

Mrs Rabbitts introduced the report and on a motion by the chairman, duly seconded it was:

RESOLVED 2020/055
That no further actions are required as a direct result of the contents of the report.

11. FUND MANAGERS' PRESENTATIONS

On a motion by the chairman, duly seconded it was:

RESOLVED 2020/056

That no further actions are required as a direct result of the contents of the presentations made by Aberdeen Standard Investments, Legal and General Investment Management and LGPS Central.

The meeting concluded at 1.22pm

CHAIRMAN

Nottinghamshire County Council

Report to Pension Fund Committee

11 March 2021

Agenda Item: 4

REPORT OF SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE, AND EMPLOYEES.

PENSION ADMINISTRATION SYSTEM UPDATE

Purpose of the Report

1. To provide Members with an update on the continued provision of the pension administration system, Universal Pension Manager (UPM) supplied by Civica UK Limited (Civica) to the Nottinghamshire LGPS Pension Fund.

2. Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972. Having regard to the circumstances, on balance the public interest in disclosing the information does not outweigh the reason for exemption because divulging the information would significantly damage the Council's commercial position in relation to the Pension Fund. The exempt information is set out in the exempt appendix.

Information

Background

1. Nottinghamshire County Council is the Administering Authority for the Nottinghamshire Local Government Pension Fund. In its capacity as Administering Authority the Council provides a pension administration services to 142,812 members (active, deferred and pensioners, figures as at 31 March 2020) and 342 active scheme employers.

2. The Administering Authority has a statutory responsibility to ensure proper administration of the Local Government Pension Scheme (LGPS). The provision of a pension administration system is business critical and supports the Pension Office to meet its administration obligations to all scheme employers and members and statutory responsibilities.

3. Recent years have seen a series of legislative changes to LGPS rules, making the service significantly complex as time goes by.

4. In December 2014, following an EU compliant procurement via the Kent Framework, the Council, on behalf of the Pension Fund, awarded a contract to Civica for the provision of their pensions administration system, UPM with a contract end date of May 2019.

5. The initial period of the contract was for five years with the option to extend for a further two years. The option to extend was taken and the existing contractual arrangements are due to

expire in May 2021. Under the Kent Framework the contract cannot be extended or renewed any further meaning that there is not an option to do nothing.

Civica Universal Pension Manager

6. The UPM pensions administration system is used by the Pension Office to produce benefits calculations, generate letters and reports, hold document images, manage tasks through workflow functionality and maintain data relating to individual members benefits and information about scheme employers.

7. The Pension Regulator has stipulated that it expects pension funds to enable scheme employers and members to interact with the Fund via digital platforms.

8. Scheme members and employers increasingly expect to be able to use digital and on-line media to interact with the Fund, and for services to be accessible remotely and outside normal business hours. The Fund also needs to be able to exploit the efficiency and cost benefits of communicating and working digitally, as a contribution to overall cost management and value for money. Introducing new ways of working will improve efficiency, maximise value for money and improve the customer experience for both scheme members and employers.

9. In September 2019 Pension Committee approved the "transforming pension administration through digital development and new ways of working". The pension administration system is a vital component in deliver of this programme.

10. The pandemic and the adjustments made by the Pension Office to working remotely since March 2020 have also highlighted the benefits of the move to digital services, including increased automation and speed enabling UPM to process the more straightforward casework allowing staff more time to concentrate on complex cases and other areas of work, significantly reduce manual inputting and amending of member data, ensuring that employers fulfil their responsibilities as a scheme employer within the Fund and for scheme members to be able to self service and access their pension record 24/7.

Contract Award

11. Working with Procurement colleagues the Pension Office have considered all the available procurement routes and completed an options analysis. The outcome has been to award a contract to Civica via the Crown Commercial Services Data and Application Solutions agreement. This procurement compliant process allows a direct contract to be awarded where a system is already in place and would attract very high cost of change.

12. The contract will be awarded for a period of 5 years with an optional extension of up to 2 years at the Administering Authority's discretion.

13. The costs of the pension administration system are a legitimate charge to the pension fund under governing regulations.

14. The contract will cover the following elements

a. A relicense of the current UPM software installed and licensing of additional modules to be implemented as part of the transforming pension administration programme. The inclusion of the additional modules within the direct award saves time, effort and cost of individual procurement exercises. This option also enables the Council to work closely with our partner, Civica to agree a firm implementation project in advance. The relicensing costs are a one-off fee which includes 40% discount against the individual purchase of the additional modules.

b. A basket of professional services days to be utilised over the initial term at a discounted cost. These days will enable the Pension Office to use these for a variety of matters for example -training, consultancy, additional work on the system, project management to support implementation of the additional modules as part of the transforming pension administration programme.

c. Annual support and maintenance fees. As additional modules are installed the support and maintenance costs for these will be incurred as and when they are installed and not at the time of re-licensing.

15. The details of the costs are contained within the exempt appendix A.

Other Options Considered

16. To undertake a further competition using a framework for pension administration systems. However, by awarding a contract through a compliant procurement process to the existing system provider the Fund will avoid additional, possibly sizeable, costs for activity such as data migration, officer training and reduction in productivity whilst any new system is implemented.

17. Consideration was also given to any impact on the current “Transforming pension administration through digital development and new ways of working” programme if the outcome of a procurement process was to switch to an alternative system.

Reason/s for Recommendation/s

18. As the Administering Authority, Nottinghamshire County Council must ensure that it has in place a fully functioning and operational pension administration system to enable it to be able to fully meet its administration obligations to all scheme members and employers and its statutory responsibilities.

Statutory and Policy Implications

19. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public-sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Data Protection and Information Governance

20. A Data Privacy Impact Assessment has already been completed and signed off for the Civica UPM system. This will be reviewed and updated as and when new modules are implemented.

Financial Implications

21. The financial implications are set out in the exempt appendix.

Human Resources Implications

22. There are no human resources implications arising from this report as the update set out in the report relates to the existing system utilised in the pension administration office.

RECOMMENDATION/S

It is recommended:

1) That the awarding of the contract to Civica be endosed.
2) That Committee considers whether there are any actions they require in relation to this report.

Marjorie Toward
Service Director – Customers, Governance and Employees

For any enquiries about this report please contact:
Sarah Stevenson, Group Manager Business Services Centre on 0115 9775740 or sarah.stevenson@nottscc.gov.uk

Constitutional Comments (CEH 24.02.2021)
23. The report is for information purposes only to update Pension Fund Committee.

Financial Comments (KRP 02.03.2021)
24. The financial implications are set out in the attached appendix. The costs of the Civica UPM system are a valid charge to the pension fund.

HR Comments (JP 24.02.2021)

25. There are no specific HR comments in respect of this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- 'None' or start list here

Electoral Division(s) and Member(s) Affected

'All'

Nottinghamshire County Council

Report to Pension Fund Committee

11 March 2021

Agenda Item: 5

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

PENSION FUND TREASURY MANAGEMENT MID-YEAR REPORT 2020/21

Purpose of the Report

1. To provide a mid-year review of the Pension Fund's treasury management activities in 2020/21 for the 6 months to 30 September 2020.

Information

2. Treasury management is defined as "the management of the council's investments and cashflows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

3. County Council approves the Treasury Management Policy and Strategy - and also receives mid-year and full year outturn reports – on Council-held cash balances. Since April 2020 this role in relation to Pension Fund cash balances has been delegated to the Pension Fund Committee. In turn, this Committee delegates responsibility for the implementation, scrutiny and monitoring of its Pension Fund treasury management policies and practices to the Treasury Management Group, comprising the Service Director (Finance, Infrastructure & Improvement), the Group Manager (Financial Management), the Senior Accountant (Pensions & Treasury Management), the Senior Accountant (Financial Strategy & Compliance) and the Investments Officer.

4. The Pension Fund's treasury management strategy and associated policies and practices for 2020/21 were approved as part of the Council's overall treasury management strategy in February 2020 by Full Council and in the same report delegated to Pension Fund Committee. The strategy and policies for 2021/22 will be presented to Pension Fund Committee for approval in March 2021.

5. The Fund manages its cash investments in-house and invests only with institutions on its approved lending list. The aim to achieve the optimum return on cash investments commensurate with appropriate levels of security and liquidity.

6. In the first half of 2020/21, cash investment activities have been in accordance with the approved limits as set out in the Council's Treasury Management Policy and Strategy. The main points to note are:

- All treasury management activities were undertaken by authorised officers within the limits agreed by the Council.
- All investments were made to counterparties on the Fund's approved lending list.
- No changes made to the Fund's lending criteria during the first half of the year.
- Over the 6 month period the Fund earned 0.17% on its short-term lending, performing better than the average 7 day London Inter-Bank Bid (LIBID) rate which was effectively zero.

7. The table below provides a monthly analysis of the Council's treasury management activity to the end of September:

	Fixed Term Invested	Fixed Term Redeemed	MMF Invested	MMF Redeemed	Monthly Total
	£	£	£	£	£
Total b/f	0		149,350,000	0	149,350,000
April	0	0	66,150,000	(23,800,000)	42,350,000
May	0	0	16,650,000	(28,850,000)	(12,200,000)
June	0	0	14,400,000	(25,400,000)	(11,000,000)
July	0	0	64,250,000	(28,650,000)	35,600,000
August	0	0	48,450,000	(25,350,000)	23,100,000
September	0	0	11,700,000	(31,650,000)	(19,950,000)
Total c/f	**0**	**0**	**370,950,000**	**(163,700,000)**	**207,250,000**

8. This shows that active use has been made of the instant-access money market funds (MMFs) on the Pension Fund's counterparty list, but no use has been made of fixed-term deposits. This approach stems from needing to keep the Fund's cash liquid, available not only to pay pensions but also for the various external managers who may require cash for long-term investment at short notice.

9. A snapshot of the Fund's short-term and money market fund investments outstanding as at 30 September is shown in the table below. As can be seen, the rate of return on such monies is very low at the moment, reflecting the wider economic environment.

		Balance	Return
		£	%
Bank of Scotland Plc		20,000,000	0.10
Lloyds Bank plc		20,000,000	0.10
Insight		13,650,000	0.01
BlackRock		14,900,000	0.01
LGIM		31,200,000	0.04
JP Morgan		27,500,000	0.01
Aberdeen		40,000,000	0.08
Federated		40,000,000	0.05
Total		**207,250,000**	**0.05**

Reasons for Recommendation/s

10. It is considered good practice for Members to consider treasury management planned and actual performance at least three times per financial year, firstly in the Strategy Report before the start of the year, then in this Mid-Year Report, and also in the Outturn Report, after the close of the financial year.

Statutory and Policy Implications

11. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

12. There are no direct financial implications arising from this report.

RECOMMENDATION/S

13. That Pension Fund Committee members approve the actions taken by the Section 151 Officer to date as set out in the report.

Nigel Stevenson
Service Director – Finance, Infrastructure and Improvement

For any enquiries about this report please contact: Ciaran Guilfoyle

Constitutional Comments (KK 11/02/2021)

14. Pension Fund Committee is the appropriate body to consider the content of the report..

Financial Comments (TMR 28/01/2021)

15. There are no direct financial implications arising from this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All

Nottinghamshire County Council

Report to Pension Fund Committee

11 March 2021

Agenda Item: 6

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

PENSION FUND TREASURY MANAGEMENT STRATEGY STATEMENT 2021/22

Purpose of the Report

1. Responsibility for the Treasury Management Strategy of the Pension Fund was delegated to the Pension Fund Committee at Full Council in February 2020. The purpose of this was to improve the clarity of the governance of the Pension Fund Committee and enable the Strategy, reviewed annually, to be amended more quickly in response to changes to the Fund's Investment Strategy or to any long-term changes in the money markets. This report lays out the Strategy to be approved for 2021/22.

2. In addition to an annual Strategy Report, the Pension Fund Committee will receive a Treasury Management Mid-year report in the autumn and a year-end Treasury Management report after accounts closure.

Information

3. Nottinghamshire County Council, in line with the 2017 CIPFA Code of Practice on Treasury Management, defines treasury management activities as:
   The management of investments and cash flows, banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

4. The Council is an administering authority in the Local Government Pension Scheme and is required, under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, to invest any fund money that is not needed immediately to make payments.

5. Pension Fund cash is separately identified from the Council's cash. With regard to cash investments and cashflows relating to the Pension Fund, the Council has delegated responsibility for identifying, monitoring and controlling such risk to the Pension Fund Committee. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Pension Fund.

6. The Pension Fund Committee acknowledges that effective treasury management will provide support towards achieving its objectives. It is therefore committed to the principles of achieving value for money in treasury management within the context of effective risk management.

7. The Pension Fund Committee delegates responsibility for the implementation, scrutiny and monitoring of its treasury management policies and practices to the *Treasury Management Group*, comprising:
    - Service Director (Finance, Infrastructure & Improvement)
    - Group Manager (Financial Services)
    - Senior Accountant (Financial Strategy & Accounting)
    - Senior Accountant (Pensions & Treasury Management)
    - Investments Officer

8. The Pension Fund Treasury Management Strategy will be implemented through the following Treasury Management Practices (TMPs). The responsible officer for the execution and administration of treasury management decisions is the Senior Accountant (Pensions & Treasury Management), who will act in accordance with the strategy statement and TMPs.

TMP1 - Risk management

9. The Senior Accountant (Pensions & Treasury Management) will design, implement and monitor all arrangements for the identification, management and control of treasury management risk. Reports will be made on these arrangements in accordance with the procedures set out in *TMP6 Reporting requirements and management information arrangements*. The arrangements will seek to cover each of the following risks.

Credit and counterparty risk

10. This is the risk of failure by a counterparty to meet its contractual obligations to the Pension Fund, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the Pension Fund's resources.

11. The Pension Fund regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparties and lending limits reflect a prudent attitude towards organisations with which monies may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in the following paragraphs.

12. The Local Government Act 2003 gives a local authority power to invest for any purpose relevant to its functions or for the purposes of the prudent management of its financial affairs. In exercising this power, the local authority must have regard to guidance issued by the Secretary of State.

13. The guidance classifies investments between "specified" and "non-specified". Specified investments are those offering high security and high liquidity. All such investments should be in sterling and with a maturity of no more than a year. Such short-term investments made with the UK Government or a local authority will automatically count as specified investments. In addition, short-term sterling investments with bodies or investment schemes of "high credit quality" will count as specified investments. The Fund's policy is to invest cash surpluses prudently, giving priority to security and liquidity rather than yield and investing in sterling instruments only. The majority of these will be specified investments.

14. The Pension Fund will operate an approved list of counterparties for lending. The approved lending list will comprise institutions with high credit ratings based on minimum ratings from at least 2 rating agencies together with Fitch support rating for longer term lending. The list reflects a prudent attitude to lending and uses a combination of ratings issued by the 3 main ratings agencies: Fitch, Moody's and Standard & Poor's. Banks will be assessed for inclusion on the basis of long-term, short-term and support ratings; money market funds (MMFs) on the basis of MMF ratings.

15. Short-term ratings assess the capacity of an entity to meet financial obligations with maturity of up to and including 12 months and are based on the short-term vulnerability to default. The long-term ratings cover a period in excess of 12 months. They are useful as a key indicator as they reflect the ability of the financial institution to obtain funds at reasonable cost to maintain their own liquidity.

16. MMFs are mutual funds that invest in cash and short-term money market instruments such as government bonds and commercial paper. They allow investors to participate in a more diverse portfolio than direct investment by spreading capital across a variety of institutions. The highest AAA rating reflects an extremely strong capacity to achieve the 'investment objective of preserving principal and providing shareholder liquidity through limiting credit, market, and liquidity risk'.

17. The Pension Fund will monitor ratings from the main agencies along with general market data. The Fund will also monitor developments in the financial markets including policy announcements by the Government, Bank of England, regulatory bodies and other international bodies. It will use this information to determine if any changes are required to the above methodology.

18. Bail-in legislation, which aims to ensure that large investors (including local authorities) will rescue failing banks instead of taxpayers, has now been fully implemented in the UK, USA and Germany. This has had an impact on credit ratings, particularly Fitch support ratings. The criteria below take account of these changes.

19. The approved list will include institutions that meet the following criteria from at least 2 rating agencies:

	Long Term	**Short Term**	**Sterling MMFs**
Fitch	A-	F1	AAAmmf
Moodys	A3	P-1	Aaamf
Standard & Poors	A-	A-1	AAAm

Sovereign Rating	AA

Within the approved list the following minimum criteria will apply, dependent on the terms of the deposit, from at least 2 ratings agencies:

	Fitch Long term	Fitch Support	Moodys Long term	S&P Long term
Instant access	A-	-	A3	A-
Up to 3 months	A-	-	A3	A-
Up to 364 days	AA-	-	AA3	AA-
365 days and over	A	1 or 2	A2	A

20. All investments (up to 365 days duration) with the counterparties in the approved list are considered specified investments.

21. Exceptions (to be determined by the *Treasury Management Group*) to rating criteria may be made in respect of the following:
    1) UK government
    2) UK local authorities
    3) The Council's bank (currently Barclays Bank)
    4) the Pension Fund's custodian (currently State Street)

22. The lending list will be approved by the *Treasury Management Group* and monitored by the Senior Accountant (Pensions & Treasury Management) in the light of rating changes and market conditions. Individual institutions or countries may be suspended from the list if felt appropriate. The *Treasury Management Group* may add or remove organisations from the approved list subject to maintaining consistency with the approved criteria.

23. The maximum amount to be lent by the Pension Fund to any organisation on the approved list is subject to individual institution limits of £20m. A separate limit of £40m applies to investments in Money Market Funds and the Fund's custodian bank. Only two institutions within the same group may be used at any one time. The *Treasury Management Group* may increase the limit for specific institutions by £10 million for investments in call accounts and MMFs with same day liquidity.

24. Investments with the UK government will have no upper limit but in practice limits will be dependent on the liquidity of those investments and may fall within the definition of specified or non-specified investments. Amounts invested in non-specified investments will be limited to £20 million or 15% of the total invested at the time of the investment, whichever is the higher.

25. The Pension Fund's current account, through which all treasury management activity operates, is held at Barclays Bank.

26. As a result of the second Markets in Financial Instruments Directive (MiFID II), from January 2018 LGPS pension funds have been treated as 'retail' clients by investment counterparties by default unless they chose to opt up to 'professional' client status. The Pension Fund has chosen to do so with all of its counterparties where required.

Liquidity risk

27. Liquidity risk is the risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional costs, and that the Pension Fund's objectives will be thereby compromised. This is of especial concern regarding the Pension Fund as the majority of its cash is either allocated or committed to individual investment managers and may be called by them at short notice.

28. The Pension Fund will ensure it has adequate though not excessive cash resources to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives and its investment strategy.

29. Summarised cash flow forecasts will be provided on a quarterly basis to the *Treasury Management Group*. Daily cash flow forecasts will be maintained by the Loans Officer. These forecasts will be used as the basis for ensuring adequate cash resources are available in order to support the payment of pensions, the cash allocations and commitments to investment managers, and other such outflows.

30. The Senior Accountant (Pensions & Treasury Management) or Investments Officer may approve fixed term investments up to 365 days. Longer periods require permission from either the Service Director (Finance & Procurement), the Group Manager (Financial Strategy & Compliance) or the Group Manager (Financial Management) and must comply with the relevant treasury management limits.

Exchange rate risk

31. This is the risk that fluctuations in foreign exchange rates create an unexpected burden on the Fund's finances, against which it has failed to protect itself adequately.

32. The Fund will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its income levels. Treasury Management exposure will be minimal as the Fund's cash investments are all in sterling.

Legal and regulatory risk

33. The risk that the Pension Fund, or a counterparty with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Fund suffers losses accordingly.

34. The Pension Fund Committee will ensure that all of the Pension Fund's treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under *TMP1(1) credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the Fund, particularly with regard to duty of care and fees charged.

35. The Pension Fund Committee recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the Fund.

Fraud, error and corruption, and contingency management

36. This is the risk that the Pension Fund fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.

37. The Fund will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

Market risk

38. The risk that, through adverse market fluctuations in the value of the principal sums the Fund invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

39. The Fund will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests, and will accordingly seek to protect itself from the effects of such fluctuations. Decisions on investment in tradeable securities, which risk loss of capital due to market fluctuations, will only be authorised by the *Treasury Management Group*.

TMP2 Performance measurement

40. Cash investment returns will be benchmarked against the average ***7 day LIBID*** rate each year.

TMP3 Decision-making and analysis

41. The Fund will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were considered at the time.

42. Treasury management processes and practices are documented. Full records are maintained of all treasury management decisions. Where appropriate, decisions are reported to the *Treasury Management Group*.

TMP4 Approved instruments, methods and techniques

43. The Fund will undertake its treasury management activities within the limits and parameters defined in *TMP1 Risk management.* For investing purposes, the Fund may use the following financial instruments:
    a) call or notice accounts
    b) fixed term deposits
    c) callable deposits
    d) structured deposits
    e) certificates of deposits

f) money market funds
g) UK Treasury Bills
h) UK government bonds

44. For money market funds the Fund will limit their use to those with minimum total assets of £5 billion. For surplus cash invested in UK Treasury bills and UK government bonds the objective will be to hold until maturity, but their tradeability gives the flexibility to realize these instruments earlier for liquidity purposes or in the event of significant capital gains. The Fund will use forward dealing for investing where market conditions indicate this approach to offer better value for money.

TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements

45. The Pension Fund Committee considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

46. The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

47. If the Committee intends, as a result of lack of resources or other circumstances, to depart from these principles, the Senior Accountant (Pensions & Treasury Management) will ensure that the reasons are properly reported in accordance with *TMP6 Reporting requirements and management information arrangements*, and the implications properly considered and evaluated.

48. The Senior Accountant (Pensions & Treasury Management) will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The Senior Accountant (Pensions & Treasury Management) will also ensure that at all times those engaged in treasury management shall follow the policies and procedures set out.

49. The Senior Accountant (Pensions & Treasury Management) will ensure that there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

50. The current responsibilities are outlined below.
    - Treasury management policies and practices are set by the Pension Fund Committee.
    - Responsibility for the implementation, scrutiny and regular monitoring of the treasury management policies and practices is delegated to the *Treasury Management Group*.
    - The responsible officer for the execution and administration of treasury management decisions is the Senior Accountant (Pensions & Treasury Management), who will act within the parameters set by the Treasury Management Policy Statement and TMPs and decisions of the *Treasury Management Group*. The Investments Officer will act

as deputy to the Senior Accountant (Pensions & Treasury Management) in his or her absence.

51. The current procedures are outlined below.
    1. Daily cash flow forecasts will be maintained by the Loans Officer. Annual cash flow forecasts will be provided to the *Treasury Management Group* on a quarterly basis.
    2. The daily procedures for cash flow monitoring, placing deals, transmission of funds and documentation are set out in the Investments Procedure Manual. These procedures are usually carried out by the Loans Officer with absences covered by another officer under the responsibility of the Senior Accountant (Pensions & Treasury Management).
    3. The officer dealing on the money market each day must prepare a cash flow forecast for that day based on the most up-to-date information available and this must be checked by the Senior Accountant (Pensions & Treasury Management), or another officer under the responsibility of the Senior Accountant (Pensions & Treasury Management), before that day's deals are carried out. Before conducting a deal, the officer will confirm that the credit ratings of the counterparty are in line with the approved policy.
    4. Deals must be within the limits set out in *TMP1 Risk management*. Dealing staff must be aware of the principles set out in UK Money Markets Code 2017 published by the Bank of England. Documentation must be kept in accordance with the Investments Procedure Manual.
    5. The transfer of funds will normally be actioned by CHAPS transfer through the banking system. Separate authorisation is normally required by a senior officer of the Council in order to release such a payment.

52. Individual deal limits specified in *TMP1 Risk management* apply to all staff placing deals. Any lending for periods greater than 365 days may only be actioned on the authority of the Senior Accountant (Pensions & Treasury Management) and either the Service Director (Finance, Infrastructure and Improvement) or the Group Manager (Financial Services). Money may only be lent to institutions or funds on the *Approved List*.

TMP6 Reporting requirements and management information arrangements

53. The Service Director (Finance, Infrastructure and Improvement) will ensure that regular reports are prepared and considered on the implementation of the Pension Fund's treasury management policies.

54. The *Treasury Management Group* will receive regular monitoring reports on treasury management activities and risks and on compliance with and suggested revisions to policy. Members of the *Treasury Management Group* will be informed of any breach of the principles contained in TMP5.

TMP7 Accounting and audit arrangements

55. The Pension Fund accounts for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

56. Systems and procedures are subject to both internal and external audit and all necessary information and documentation shall be provided on request.

TMP8 Cash and cash flow management

57. Unless statutory or regulatory requirements demand otherwise, all monies in the Pension Fund will be under the control of the Service Director (Finance, Infrastructure & Improvement), and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the Service Director (Finance, Infrastructure & Improvement) will ensure that these are adequate for the purposes of monitoring compliance with *TMP1(2) liquidity risk management*.

58. As outlined in TMP5, daily cash flow forecasts are to be prepared in accordance with the Investments Procedure Manual, and summarised weekly and annual forecasts are regularly provided to the *Treasury Management Group*.

TMP9 Money laundering

59. The Pension Fund Committee is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained.

60. All treasury management activity with banks other than the Fund's own bank is actioned through CHAPS transfers to/from nominated accounts. Suspicions that a third party is attempting to involve the Pension Fund in money laundering will be reported to the Service Director (Finance, Infrastructure & Improvement).

TMP10 Training and qualifications

61. The Pension Fund Committee recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

62. The person specifications for the Senior Accountant (Pensions & Treasury Management) and the Investments Officer require a CCAB qualification and other members of the treasury team have the option to be supported to attain professional qualifications from the Association of Accounting Technicians, the Chartered Institute of Public Finance and Accountancy or the Association of Corporate Treasurers. The members of the *Treasury Management Group* are also required to be CCAB or ACT qualified.

63. Professional qualifications will be supplemented by relevant training courses, attendance at seminars and conferences and access to CIPFA's Treasury Management Network and Technical Information Service for all team members. The Senior Accountant (Pensions & Treasury Management) will recommend and implement the necessary arrangements. Requests and suggestions for training may be discussed at any time with the Senior Accountant (Pensions & Treasury Management) and also feature as part of the EPDR process.

64. The *Treasury Management Group* will ensure that Committee members tasked with treasury management responsibilities have access to training relevant to their needs and those responsibilities. Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to undertake their role effectively.

TMP11 Use of external service providers

65. The Pension Fund Committee recognises that ultimate responsibility for treasury management decisions cannot be outsourced. It also recognises that there may occasionally be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. However, it does not currently employ the services of any specialist treasury management advisers.

66. In the employment of such service providers, the Committee will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review. It will also ensure, where feasible and necessary, that a spread of service providers is used, to avoid over-reliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will be observed. The monitoring of such arrangements rests with the responsible officer.

67. The Fund makes use of broking companies to act as intermediaries in lending activity although it will also carry out this activity directly with counterparties when opportunities arise and when settlement details can be adequately verified.

TMP12 Corporate governance

68. The Pension Fund Committee is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

69. As part of the Council, the Committee has adopted and implemented the key provisions of the CIPFA Treasury Management in the Public Services Code (2011 edition) and reports are made in accordance with the approved policy. The Council's constitution includes schemes of delegation covering treasury management activities.

70. These measures are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if necessary, report upon the effectiveness of these arrangements.

Statutory and Policy Implications

71. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

That Pension Fund Committee approves the Strategy Statement as set out in the report.

Nigel Stevenson
Service Director for Finance, Infrastructure & Improvement and Section 151 Officer

For any enquiries about this report please contact: Ciaran Guilfoyle

Constitutional Comments (KK 11/02/2021)

72. The proposal in this report is within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (TMR 08/02/2021)

73. There are no financial implications arising directly from this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- 2017 CIPFA Code of Practice on Treasury Management

Nottinghamshire County Council

Report to Nottinghamshire Pension Fund Committee

11 March 2021

Agenda Item: 7

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

CONFERENCES AND TRAINING

Purpose of the Report

1. To seek approval for attendance at conferences and training in 2021/22.

Information and Advice

2. The Fund is committed to ensuring those charged with decision-making and financial management have effective knowledge and skills and this is achieved through attendance at key conferences and the provision of specific training and information for Members.

3. Assets are continuing to be transferred to LGPS Central, however this will take place on a phased basis over a number of years. After transition asset allocation decisions will remain with the fund so it will be essential that Committee Members continue to receive appropriate up to date information on investment opportunities to enable them to hold LGPS Central to account and to ensure the funds allocation decisions represent the best option for the fund.

4. It is proposed to continue to attend key pension conferences and to ensure training is available. Over the last year, many conferences have moved to online events and have become free to attend. Where this is the case there is no internal limitation on Members attending. For 21/22 this trend may continue which may enable additional Members to access these events. However some other conferences did not take place last year and have not published plans for 2021. Members are encouraged to inform the Senior Accountant – Pensions when they attend training sessions so the training record can be updated.

5. The LGA's LGPS Fundamentals course is well regarded by those who have attended and it is proposed to continue to offer this course to new members of the Committees or those wishing to refresh existing knowledge. This course did not run in 2020, but it is hoped that it will be available in physical or virtual format in autumn 2021.

6. In addition to the specific events listed below members are encouraged to attend the free trainings and briefings offered by industry bodies at no charge, and any other internal training provided during the year covering both general pensions matters and any changes in legislation which impact on the work of the Committee. Approval is sought for attendance at the following conferences and training in 2021/22 if these are available.

Conference	**Location**	**Date**	**Attendance**
External training/events			
PLSA Local Authority Conference	Online	18-19 May 21	Unlimited (previously 2 Members 1 Officer)
LAPF Strategic Investment Forum	Hertfordshire	5-6 July 21	2 Members 1 Officer
LAPFF Annual Conference	Unknown	Unknown (previously Dec)	(previously 1 Member 1 Officer)
LAPFF Business Meetings	Online/London	Quarterly	2 Members 1 Officer
LGA LGPS Fundamentals Course	Various	October to December	New Members and Members requiring refresher training
LGPS Governance Conference	Unknown	Unknown (previously spring)	(previously 2 Members 1 Officer)
PLSA Investment conference	*Online*	*March 22*	*New If online this is available to all Members at zero cost*
Internal training/events			
Climate Risk training from LGPS Central	Working Party	January 22	Available to all members of Pension Committee
Responsible investment training from LGPS Central	Working Party	Summer 21	Available to all members of Pension Committee
Property Training/visits	Various	October 2021	Available to all members of Pension Committee
Investment portfolio training	After PFC	March 22	Available to all members of Pension Committee
LGPS Central trainings such as the Responsible Investment Day	Online/ Birmingham	Various	Available to all members of Pension Committee

7. In addition to the above, the Committee has historically held additional training alongside the March committee meeting, which where appropriate may be at the offices of one of our main Fund Managers on a rotating basis, to allow for more in depth discussions on the relevant portfolio and incorporates some training provided by the Fund Manager. It is planned that these annual focussed meetings will continue as previously, extended to reflect our internally managed Specialist Portfolio and our passive equity investments but will be adapted as required to reflect requirements as investments transfer to the Pool.

8. Officers attend training courses where these are required to ensure they are properly skilled and qualified to fulfil their responsibilities.

Other Options Considered

9. Members and Officers could attend other conferences in addition to or instead of those suggested. The conferences suggested have proved useful and interesting in previous years. Not attending any such events was not considered due to the importance of ensuring that those charged with decision-making and financial management have effective knowledge and skills.

Reason/s for Recommendation/s

10. Under the terms of the Council's constitution, the Nottinghamshire Pension Fund Committee is responsible for the administration of the Nottinghamshire Pension Fund and it is best practice to ensure that those charged with decision-making and financial management have effective knowledge and skills.

Statutory and Policy Implications

11. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

1) That attendance at conferences and training as set out in the report be approved.

Nigel Stevenson
Service Director – Finance, Infrastructure and Improvement

For any enquiries about this report please contact:
Tamsin Rabbitts, Senior Accountant – Pensions and Treasury Management

Constitutional Comments (KK 15/02/2021)

12. The Nottinghamshire Pension Fund Committee is responsible for approving all Councillor attendance at conferences, seminars and training events within the UK within the remit of this Committee. The proposals insofar as they relate to Councillors are within the remit of this Committee. Approval for officer attendance is a departmental matter.

Financial Comments (TMR 02/02/2021)

13. Costs associated with attending conferences and other training events are a legitimate charge to the Fund in accordance with governing regulations.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Nottinghamshire County Council

Report to Pension Fund Committee

11 March 2021

Agenda Item: 8

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

WORKING PARTY

Purpose of the Report

1. The Pension Fund Working Party meets twice a year or additionally where circumstances require and is open to all Pension Committee Members to attend. The purpose of the Working Party is to discuss key issues in more detail and to make recommendations to Pension Fund Committee. This report sets out details of the items discussed at the most recent meeting on 26 January 2021 and makes recommendations as follows.

    1) Move to the long term Strategic Asset Allocation (SAA)
    2) Make a 5% allocation to sustainable mandate when available
    3) Set a standard agenda item at the annual SAA review to monitor climate change science developments
    4) Add consideration of a reduction in the UK listed equity allocations to 35% to the Work Plan for the July Committee meeting
    5) Add 4% small cap allocation to Schroders benchmark and consolidate small cap under this mandate
    6) Formalise a 65/35 active/passive principle for listed equities
    7) Increase SAA Private Equity allocation to 6.5%
    8) Change the liabilities benchmark to the actuarial return target

Information and Advice

2. The Working Party met on 26 January 2021. The agenda and attendees are listed in Appendix A, and details of the discussions and recommendations for each item are set out below.

Strategic Asset Allocation

3. The Working Party considered a report from William Bourne, independent adviser to the fund.

4. The Fund reviews its strategic asset allocation ("SAA") annually to ensure it is appropriate. In the last 12 months there has been a significant change in market dynamics following COVID-19. The Fund has also accepted the recommendations made by the Climate Risk Analysis presented by LGPS Central ("CRA") which reviewed how to mitigate risks posed by climate

change. The report reviewed the Fund's SAA in the light of both these and made the following recommendations.

Recommendation 1 - Move to long term SAA

5. The long term SAA was set two years ago with the expectation that movement towards it would take a number of years. This long term strategic asset allocation is still considered appropriate and the target allocation for 2021 will be the long term SAA.

Recommendation 2. Consider an allocation to a sustainable mandate when available within LGPS Central, funded from passive equities amounting to 5% of AUM.

6. In this context sustainable is defined more broadly than just climate change to include investments which are actively looking to find solutions to the planet's environmental and social problems. This will reduce overall fossil fuel exposure.

Recommendation 3. Create a standing agenda item at the annual Working Party reviewing the SAA to consider developments in climate change science and carbon scoring.

7. If climate change accelerates, more actions may be necessary to mitigate the financial risk. If carbon scoring becomes more robust, it may be possible to place more reliance on it when allocating. LGPS Central should be asked to present a report on climate change science developments as part of their annual training on climate change.

8. This recommendation implements part of the Climate Risk Action Plan.

Recommendation 4. Consider a reduction to UK equity allocation of 35% of listed equity holdings – decision deferred to the July meeting.

9. The Independent Adviser recommended reducing the UK equity allocation to 35% of listed equity holdings. This would result in the Schroders benchmark changing to 40% UK and the Core Index reducing to about 35% UK. Although the allocation within Schroders and the Core Index portfolios is each 50% currently, the equity investments held through LGPS Central and in the Specialist portfolio mean the UK holdings at the time of discussion actually amounted to 43% in the UK so the proposed allocation is a lower change than it might at first appear.

10. This recommendation generated much discussion during the meeting. Members were concerned that the UK equity market was particularly depressed and the impact of Covid, Brexit and a new US president remained to be seen. It was felt that this this was not the right time to be considering a significant change to our UK weighting and requested that this decision is considered at the July meeting.

Recommendation 5. Introduce 4% Small Cap weighting into Schroders benchmark (£70m) and consolidate small cap under this mandate.

11. Previously we had an allocation of 3% of AUM, which would be around £160m. Only £56m of this has been invested and conversations with LGPS Central indicate that a fund through them is not viable. Schroders could manage a small cap allocation for us as part of their mandate. Bearing in mind that a sustainable mandate as per Recommendation 2 is likely to have a small cap bias and RWC's portfolios will have some small cap exposure, an allocation of £70m is recommended. This amounts to 1.3% of AUM, 2.9% of total listed equities.

Recommendation 6. Formalise a 65%/35% active/passive allocation principle for listed equities.

12. This will balance the need to invest sustainably and to keep the Fund's costs low.

Recommendation 7 – increase Private Equity SAA target allocation to 6.5% and reduce the developed markets listed equity target allocation to 45.5%. Conduct a review of the Private Equity portfolio.

13. This is a minimal change to the Private Equity allocation, but will enable continued commitment in the next year to Private Equity which is currently fully committed but awaiting drawdown. It is sensible to continue to commit to new vintages, as one of the important principles of investing in private equity is to invest across a wide spread of vintages.

Recommendation 8 - Use the actuarial return target as the liabilities benchmark.

14. The liabilities benchmark is intended to monitor the portfolio's overall asset return compared to the change in liabilities. It currently consists of the UK Gilts IL > 5 Yrs index. The reason for this is that long ago the discount rate used to derive a present value for future liabilities was based on gilts. Today gilts and corporate bonds only form 11% of the portfolio, and the actuary calculates the discount rate from the yield differently. In setting the asset target return, the actuary then makes an allowance, currently 1%, for prudence. At present, as per the 2019 Actuarial Valuation and the 2020 Investment Strategy Statement, the discount rate is 4.8% and the return target 5.8%. It is proposed that this target return figure (which will change on 1 April a year after each triennial valuation) is set as the liabilities benchmark.

Summary

15. The following table shows the current and proposed high level strategic asset allocations

Table 1

Outcome	Asset Classes	30/09/2020 portfolio %	Long term SAA %	Proposed 2021 target %	Range %
Growth	Listed and Private equity	62.4	60.0	60.0	57.5-67.5
Income and inflation protection	Property, Infrastructure	18.3	23.0	23.0	15-30
Income only	Fixed Income	9.1	10.0	10.0	5-15
Inflation protection only	Index Linked, Kames DGF	3.8	5.0	5.0	3-15
Liquidity	Cash, Kames short term	6.4	2.0	2.0	0-10

Climate Risk training

10. Climate risk training was provided by LGPS Central.

Statutory and Policy Implications

16. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and

where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATIONS

It is recommended that Committee

1) Move to the long term Strategic Asset Allocation (SAA)
2) Make a 5% allocation to sustainable mandate when available
3) Set a standard agenda item at the annual SAA review to monitor climate change science developments
4) Add consideration of a reduction in the UK listed equity allocations to 35% to the Work Plan for the July Committee meeting.
5) Add 4% small cap allocation to Schroders benchmark and consolidate small cap under this mandate
6) Formalise a 65/35 active/passive principle for listed equities
7) Increase SAA Private Equity allocation to 6.5%
8) Change the liabilities benchmark to the actuarial return target

Nigel Stevenson
Service Director for Finance, Infrastructure & Improvement and Section 151 Officer

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (KK 15/02/2021)

The proposals in this report are within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (TMR 11/02/2021)

The financial implications are noted in the report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

MEETING AGENDA

Nottinghamshire County Council

Meeting title:	PENSION FUND WORKING PARTY MEETING
Date and time:	Tuesday 26th January 2021, **10.30 a.m.**
Location:	Teams meeting

1. Strategic Asset Allocation – William Bourne
2. Climate Risk training – LGPS Central

NOTTINGHAMSHIRE PENSION FUND COMMITTEE
WORKING PARTY ATTENDANCE SHEET

VIRTUAL MEETING

MEETING HELD ON: TUESDAY 26 JANUARY 2021

MEETING CLOSED AT:

COUNTY COUNCILLORS

Name	Signature	Name	Signature
Eric Kerry (Chairman)	Present	Stephen Garner (Vice-Chairman)	Present
Reg Adair	Present	Chris Barnfather	Present
Sheila Place	Present	Mike Pringle	Present
Francis Purdue-Horan	Present	Tom Hollis	Attended for second part of the meeting
Parry Tsimbiridis	Apologies		

CITY COUNCILLORS

Name	Signature	Name	Signature
Sam Webster	Apologies	Anne Peach	Present
Graham Chapman	Present		

DISTRICT COUNCIL REPRESENTATIVESATIVES

Name	Signature	Name	Signature
Councillor David Lloyd – Newark & Sherwood District Council		Councillor Gordon Moore – Rushcliffe Borough Council	Apologies

TRADE UNIONS

Name	Signature	Name	Signature
Mr A Woodward	Present	Mr C King	Present

SCHEDULED BODIES

Name	Signature	Name	Signature
Sue Reader	Apologies		

PENSIONERS REPS

Name	Signature	Name	Signature
Terry Needham	Present		

OTHER COUNCILLORS

Name (Block Caps)	Signature	Name (Block Caps)	Signature

OFFICERS

Name (Block Caps)	Signature	Name (Block Caps)	Signature
Pete Barker		Nigel Stevenson	Apologies
Keith Palframan	Present	Tamsin Rabbitts	Present
Ciaran Guilfoyle		Sarah Stevenson	
Jon Clewes		Marj Toward	

OTHER ATTENDEES

Name (Block Caps)	Signature	Name (Block Caps)	Signature
William Bourne	Present		

Nottinghamshire County Council

Report to Pension Fund Committee

11 March 2021

Agenda Item: 9

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

CLIMATE STRATEGY REPORT

Purpose of the Report

1. To present the Climate Strategy.

Information

2. As described in February, in order to enable the Pension Fund to identify its exposure and understand its financial risk arising from climate change, LGPS Central was commissioned to produce some climate risk analysis. This Climate Risk Report was issued to the Nottinghamshire Pension Fund with a number of recommendations which have become the Fund's Climate Action Plan. As part of this plan the Pension Fund agreed to develop a Climate Strategy.

3. The document's objective is to explain the Fund's approach to addressing the risks and opportunities related to climate change. This document is consistent with the Final Recommendations of the Taskforce on Climate-related Financial Disclosures ("TCFD"). The document is a component of the Fund's Investment Strategy and will be incorporated into the Investment Strategy Statement at the next review.

4. In light of the dynamic characteristics of climate change and the uncertainty regarding the level and speed of policy makers' response to the climate change risk spectrum, this Climate Strategy will be reviewed on an annual basis.

5. The strategy includes a high level Climate Stewardship Plan. The annual stewardship plan for 21/22 will be presented to Committee in April.

6. Appendix A presents the Climate Strategy.

Ongoing work

7. The creation of a Climate Strategy is just one part of the work the Pension Fund is doing to mitigate the financial risk of climate change. While this work is ongoing the Pension Fund will continue to implement its long term Strategic Asset allocation. This includes an increasing allocation to infrastructure investments, a significant proportion of which are in clean energy, and a gradual reduction in equity investments. Within our equity investments we are looking

at a number of low carbon and sustainable funds. Over time our exposure to fossil fuels is likely to reduce as a result of these asset allocation and diversification decisions.

8. The Pension Fund will continue to monitor and manage all financially material risks to which it is exposed.

Other Options Considered

9. The Pension Fund is not required to publish a Climate Strategy. However the fund committed to publish one as part of the Climate Action Plan.

Reason/s for Recommendation/s

10. The Climate Strategy communicates the Fund's approach to addressing the risks and opportunities related to climate change.

Statutory and Policy Implications

11. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

12. There are no direct financial implications arising as a result of publishing this report.

RECOMMENDATION/S

That members approve the Nottinghamshire County Council Pension Fund Climate Strategy.

Nigel Stevenson
Service Director for Finance, Infrastructure & Improvement and Section 151 Officer

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (KK 15/02/2021)

13. The proposal in this report is within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (TMR 10/02/2021)

14. The financial implications are set out in paragraph 12.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All

Nottinghamshire County Council Pension Fund Climate Strategy

1. Introduction

Climate action failure is the stand-out, long-term risk the world faces in likelihood and impact according to the 2020 Global Risks Report from the World Economic Forum. If ‘business as usual’ continues, the world could heat up by about 5 degrees by 2100 which would cause profound societal damages and significant human harm. According to the Intergovernmental Panel on Climate Change (IPCC), GHG emissions need to fall by 45% vs 2010 levels by 2030 in order to avoid the worst effects of climate change.

As a long-term asset owner, the Fund would like to see stable, well-functioning and sustainable markets which will foster long-term value creation and sustainable returns. Climate change cuts across industries, markets and economies and is a risk that cannot be fully diversified. How companies manage climate-related transition and physical risks and opportunities is highly likely to affect long-term profits and company returns. Policy makers response equally so. The Fund endeavours to take a holistic approach to managing climate change risk and to act in a manner that will enable broader transition towards a low-carbon economy through a combination of portfolio construction, engagement and policy advocacy.

2. Governance of Climate Change Risk

The Pension Fund Committee is responsible for approving the Fund’s policies and procedures including the Fund’s Climate Strategy. Responsibility for the implementation of the Strategy is held by the Service Director for Finance, Infrastructure and Improvement, the Group Manager Financial Services, and the Senior Accountant Pensions and Treasury Management. The Pension Fund Committee will review the strategy on an annual basis. This will be scheduled to coincide with the annual update of carbon risk metrics. Committee members receive training on climate change annually to help them discharge their responsibilities.

As a primarily externally managed Fund, the implementation of much of the management of climate-related risk is delegated onwards to portfolio managers, with oversight from the Fund Officers. Where appropriate, LGPS Central assists the Fund in assessing and managing climate-related risks.

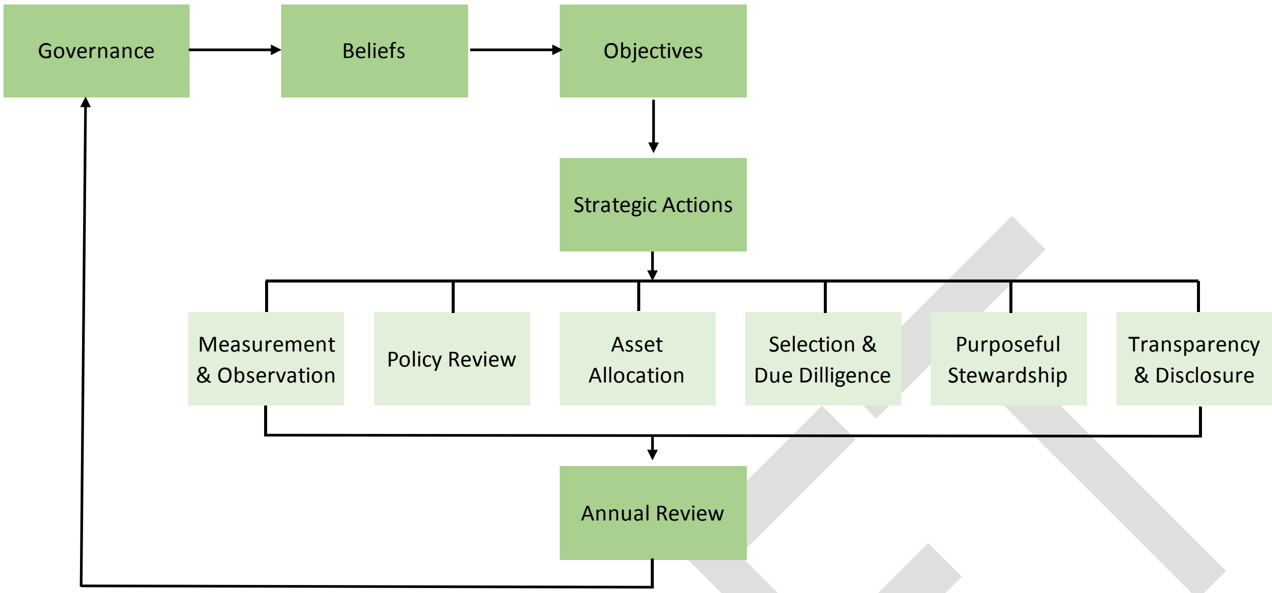


Figure 1: Depiction of the Climate Strategy

3. Evidence-based beliefs related to climate change

1. As a result of anthropogenic activities, the world is warming at an unsustainable rate. Already the world is approximately 1°C warmer than pre-industrial levels. Unabated, such change would be devasting for our way of life.

2. There is overwhelming evidence that climate change is impacting the environment. This will have long-term consequences for our financial system. We hold that the economic damages of climate change will outweigh the costs of precautionary mitigation.

3. Climate change is a financially material risk for the Fund. It has the potential to impact our members, employers and all our holdings across asset classes. Due consideration of climate risk falls within the scope of the Fund's fiduciary duty.

4. Climate change has the potential to impact the funding level of the Fund through impacts on employer covenant, asset pricing, and longer-term inflation, interest rates and life expectancy.

5. The Fund strongly supports the Paris Agreement on climate change.

6. A transition to a low-carbon economy is essential. This requires greenhouse gas emissions to decline to net-zero by 2050. This will happen not only by focussing on the suppliers of energy but the demand for energy must also undergo a major transformation.

7. All companies should align their business activities with the Paris Agreement on climate change. It is possible for a high-emitting company to undergo this transformation and thrive in the transition to a low-carbon future.

8. Investors have an important role to play in the transition to a low-carbon economy. We would be less likely to realise a Paris-aligned energy transition were investors to cease influencing company behaviours.

9. A global co-ordinated response is needed to limit the rise in temperatures. No individual investor is influential enough to act alone. Governments, policy-makers, consumers, companies and investors all have a role to play. Acting in collaboration will increase the likelihood of an orderly transition to a low-carbon economy.

10. Climate-aware decisions are most effectively made with accurate, relevant, complete, and comparable data.

4. Climate-Related Objectives

Identify, understand and assess risks and opportunities

The Fund aims to utilise the best available information and tools to identify, understand and assess climate change risks and opportunities across regions and sectors that are material to the Fund. This includes both relevant climate-related transition and physical risks and opportunities likely to impact Investment Strategy and Funding Strategy.

Fund Resilience

The Fund aims to ensure the investment portfolio, Funding Strategy and employer covenant are resilient to climate change impacts.

To achieve climate change resilience, the Fund aims to ensure that material short, medium- and long-term climate change considerations play an integral part in the stewardship of the investment portfolio. This includes climate change integration in the selection and due diligence, and continuous monitoring of assets.

The Fund intends to influence investee companies and fund managers through routine engagement and voting on climate change issues.

Policy advocacy and transparency

The Fund works alongside like-minded organisations to support the ambitions of the Paris Agreement. This includes advocating for Paris-aligned regulations and policies with governments, policy makers, the investment industry and other stakeholders.

The Fund aims to be fully transparent with its stakeholders through regular public disclosure, aligned with best practice.

5. Strategic Actions

5.1 Measurement & Observation

The Fund will make regular measurements and observations on the climate-related risks and opportunities relating to our Fund. This includes:

- An annual carbon risk metrics assessment of the Fund's listed equities and fixed income assets.
- A triennial economic assessment of the Fund's asset allocation against plausible climate-related scenarios
- Monitoring the likelihood of different climate scenarios, drawing on the Fund's suppliers and advisers
- Identification of the greatest climate-related risks to the Fund.

The Fund aims to use the best available tools and techniques to analyse climate-related risks and opportunities the Fund is exposed to. It is recognised that certain methodologies are in the early stages of development, including measuring Fund alignment with the Paris Agreement. As such, efforts to develop credible methodologies will be supported.

5.2 Policy Review

The Fund will conduct a governance review to ensure the management of climate risk is fully embedded in the Fund's processes, committees, and reporting cycles. Specifically, the following will be considered:

- Integrating communications on climate risk into the communications strategy
- Clarifying the roles of key governance committees, especially the Pension Fund Committee, in approving and monitoring the Fund's approach to responsible investment and climate change in the Investment Strategy Statement
- Updating the Governance Policy Statement to explain how climate risks are governed
- Reviewing as part of the Funding Strategy Statement the extent to which climate risks could affect other risks noted in the FSS
- Updating the Fund's "Approach to Responsible Investment" in the Investment Strategy Statement to include the six responsible investment beliefs.
- Exploring options to incorporate the 'Approach to Environmental Risks' disclosures into the Investment Strategy Statement.

5.3 Asset Allocation

Where permitted by a credible evidence base, climate change factors will be integrated into reviews of our asset allocation, subject to the requirements of the Investment Strategy Statement and Funding Strategy Statement. This includes exploring potential investments in sustainable private equity, green bonds and low-carbon passive equities. The Fund will also consider additional allocations to Global Sustainable Equities and Infrastructure.

The Fund will move towards its Long Term Target Strategic Asset Allocation weightings, as per the recommendations of its 2020 Climate Risk Report.

5.4 Selection and Due Diligence

In the selection and due diligence of new funds material climate-related risks and opportunities will be considered, alongside the manager's approach to managing climate risks.

The Fund's expectations on climate risk management will be specified in investment mandates, investment management agreements and other relevant documentation.

5.5 Purposeful Stewardship

The Fund will monitor engagement with its investee companies and portfolio managers through its Climate Stewardship Plan (Appendix 1). The Fund will report progress against its Climate Stewardship Plan on an annual basis. (It should be noted that although the Climate Stewardship Plan is new, some of the activity within it already takes place as part of the ongoing risk management of the Pension Fund.)

Appointed investment managers will be regularly monitored to ensure climate-related risk is fully integrated into the investment process. The Fund will make use of the IIGCC's "addressing climate risks and opportunities in the investment process" as an aid. In addition, the Fund will:

- Discuss with equity managers the influence of climate factors on their sector positioning
- Discuss with real asset managers their physical risk resilience and GRESB participation
- Engage corporate bond managers on their approach to assessing climate risk within their portfolios in the absence of reported GHG emissions data

Through LGPS Central, the Fund will join collaborations of like-minded institutional investors to collectively lobby for Paris-aligned climate policies.

The Fund will make will use of voting rights and will co-file or support climate-related shareholder resolutions where appropriate.

5.6 Transparency & Disclosure

The Fund will prepare and disclose a TCFD report annually, which will include carbon risk metrics.

The Fund will report progress on the annual Climate Stewardship Plan to the Nottinghamshire Pension Fund Committee on an annual basis.

A summary of voting and engagement activities will be published in the Annual Report, along with a summary of the Fund's Climate Risk Report in a manner consistent with the TCFD Recommendations.

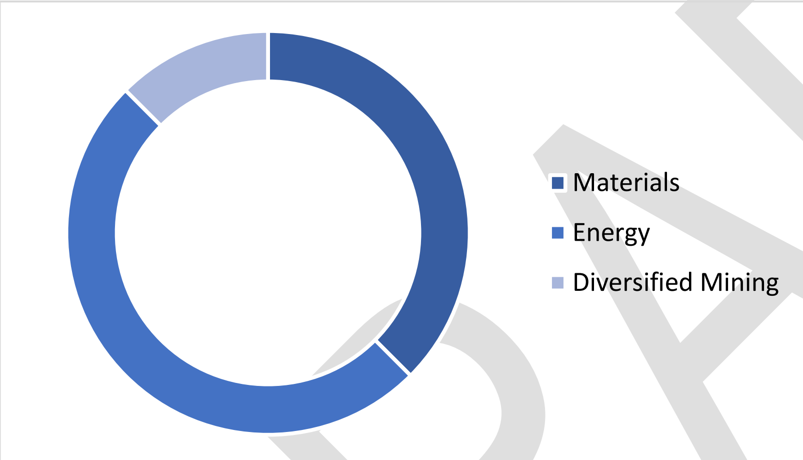
Appendix 1: Climate Stewardship Plan

The Climate Stewardship Plan identifies the areas in which stewardship techniques can be leveraged to further understand and manage climate-related risks within the Fund. The Climate Stewardship Plan is based on the findings of the Fund's Climate Risk Report.

Part 1: Company Engagement

The Fund will monitor engagement with a focussed list of investee companies of particular significance to the Fund's portfolio. The plan sets stewardship objectives over several years, with annual updates following refreshes to the Fund's carbon risk metrics.

Figure 2 Sectors included in the Fund's Climate Stewardship Plan



Part 2: Manager Monitoring

The Fund will monitor major appointed investment managers to ensure climate-related risk is fully integrated into the investment process. The Fund will engage these managers on the following issues:

Asset Class	Topic
Equities	• The influence of climate factors on sector positioning • Stewardship activities with companies identified in the Climate Risk Report
Fixed Income	• Approach to assessing climate risk in the absence of reported GHG emissions data • Engagement with the most intensive carbon issuers • Extent of investment in green bonds
Real Assets	• Physical risk resilience • GRESB participation

Nottinghamshire County Council

Report to Pension Fund Committee

11 March 2021

Agenda Item: 10

REPORT OF THE SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE AND EMPLOYEES

WORK PROGRAMME

Purpose of the Report

1. To consider the Committee's work programme.

Information

2. The County Council requires each committee to maintain a work programme. The work programme will assist the management of the committee's agenda, the scheduling of the committee's business and forward planning. The work programme will be updated and reviewed at each pre-agenda meeting and committee meeting. Any member of the committee is able to suggest items for possible inclusion.

3. The attached work programme has been drafted in consultation with the Chair and Vice-Chairs, and includes items which can be anticipated at the present time. Other items will be added to the programme as they are identified.

4. As part of the transparency introduced by the revised committee arrangements from 2012, committees are expected to review day to day operational decisions made by officers using their delegated powers. It is anticipated that the committee will wish to commission periodic reports on such decisions. The committee is therefore requested to identify activities on which it would like to receive reports for inclusion in the work programme.

Other Options Considered

5. None.

Reason/s for Recommendation/s

6. To assist the committee in preparing its work programme.

Statutory and Policy Implications

7. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required

RECOMMENDATION/S

That the Committee considers whether any amendments are required to the Work Programme.

Marjorie Toward
Customers, Governance and Employees

For any enquiries about this report please contact: Pete Barker, x74416

Constitutional Comments (HD)

8. The Committee has authority to consider the matters set out in this report by virtue of its terms of reference.

Financial Comments (NS)

9. There are no direct financial implications arising from the contents of this report. Any future reports to Committee on operational activities and officer working groups, will contain relevant financial information and comments.

Background Papers

None

Electoral Division(s) and Member(s) Affected

All

PENSION FUND COMMITTEE – WORK PROGRAMME

Report Title	Brief summary of agenda item	Report Author
22 April 2021		
Progress report on the Climate Risk Action plan	Six monthly report summarising progress in the first six months of the plan.	Tamsin Rabbitts
Stewardship plan	A report presenting the stewardship plan for 21/22 created as a result of the Climate Risk report	Tamsin Rabbitts
Proxy Voting	Summary of voting activity during quarter 1 of 2020	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
17 June 2021		
Fund Valuation & Performance – Qtr 4	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance	Independent Adviser
Managers Presentations	Presentations by Fund Managers (exempt)	LGPS Central and LGIM

15 July 2021		
Fund Strategies	Review of Fund Strategies including considering changes suggested in the Climate Risk Report.	Tamsin Rabbitts
Proxy Voting	Summary of voting activity during quarter 1 of 2020	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
TO BE PLACED		
Pensions Effect on Higher Education		Jon Clewes
Monitoring of the Member Death Process	Update Report	Jon Clewes
Review of Work of the Pension Fund Committee and Pension Board		Marje Toward
Annual review of Climate Risk metrics	Timing of next review to be informed by LGPS Central timetable.	Tamsin Rabbitts

Nottinghamshire County Council

Report to Pension Fund Committee

11 March 2021

Agenda Item: 8

REPORT OF THE SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE & IMPROVEMENT

FUND VALUATION AND PERFORMANCE

Purpose of the Report

1. To report on the total value and performance of the Pension Fund to 31 December 2020.

Information and Advice

2. This report is to inform the Nottinghamshire Pension Fund Committee of the value of the Pension Fund at the end of the latest quarter and give information on the performance of the Fund. Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972. Having regard to the circumstances, on balance the public interest in disclosing the information does not outweigh the reason for exemption because divulging the information would significantly damage the Council's commercial position in relation to the Pension Fund. The exempt information is set out in the exempt appendices.

3. The table below shows a summary of the total value of the investment assets of the Fund as at 31 December 2020 in comparison with the benchmark, together with the comparative position 3 and 12 months previously. The benchmark was reviewed and changed early in 2019. This is a long-term target and it will take some years to achieve it.

	Latest Quarter		**Long term**	**Previous Quarter**		**Previous Year**	
	31 December 2020		**Benchmark**	**30 September 2020**		**31 December 2019**	
	£m	%		£m	%	£m	%
Equities							
Quoted	3,566	59.8%	56%	3,169	57.1%	3,485	60.4%
Private	559	9.4%	12%	552	9.9%	510	8.8%
Property	633	10.6%	15%	683	12.3%	733	12.7%
Bonds							
Gilts	211	3.5%	2%	210	3.8%	190	3.3%
Other Bonds	680	11.4%	10%	677	12.2%	712	12.3%
Credit	56	0.9%	3%	47	0.8%		
Cash	263	4.4%	2%	213	3.8%	141	2.4%
	5,968	**100%**	**100%**	**5,551**	**100%**	**5,770**	**100%**

4. Within Equities (both quoted and private) and Other Bonds are investments in Infrastructure assets amounting to £323.5m or 5.4% of the fund. Including infrastructure commitments made but not drawn down gives a total amount of 5.9% of the fund. There is a long term target for investments in infrastructure to be 8% of the fund.

5. The table below shows the detailed breakdown by portfolio of the Fund as at 31 December 2020 together with the total value of each portfolio at the previous quarter end.

	Core Index		**Schroders**		**LGPS Central**		**Kames S**		**Aberdeen**		**Specialist**		**Total**	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
UK Bonds														
Gilts					211.2	30%	0.0	0%					211.2	4%
Corporate Bonds							117.3	100%					117.3	2%
					211.2	30%	**117.3**	100%					**328.5**	**6%**
Overseas Bonds														
Corporate Bonds					328.7	46%	0.0	0%					328.7	6%
					328.7	46%	**0.0**	0%					**328.7**	**6%**
Inflation Linked											232.6	15%	232.6	**4%**
UK Equities	532.2	38%	866.6	50%	9.1	1%					55.7	4%	1,463.6	**25%**
Overseas Equities														
North America	317.3	23%	489.6	28%							1.2	0%	808.1	14%
Europe	205.8	15%	128.2	7%							141.6	9%	475.6	8%
Japan	122.8	9%	81.0	5%							125.1	8%	328.9	6%
Pacific	122.8	9%	56.4	3%									179.2	3%
Emerging Markets	84.6	6%	85.3	5%	104.9	15%					0.0	0%	274.8	5%
Global	0.0	0%			36.0	5%					0.0	0%	36.0	1%
	853.3	61%	**840.5**	49%	**140.9**	20%					**267.9**	18%	**2,102.6**	**35%**
Private Equity					9.8	1%					226.5	15%	236.3	**4%**
Infrastructure											323.5	21%	323.5	**5%**
Credit					10.0	1%					45.6	3%	55.6	**1%**
Property														
UK Commercial									332.9	67%			332.9	6%
UK Commercial - Local									21.4	4%			21.4	0%
UK Strategic Land									3.9	1%			3.9	0%
Pooled - UK									28.2	6%	133.5	9%	161.7	3%
Pooled - Overseas									112.2	23%	0.9	0%	113.1	2%
									498.6		**134.4**	9%	**633.0**	**11%**
Cash/Currency	4.8	0%	18.7	1%	0.3	0%	0.0	0%	0.0		239.6	16%	263.4	**4%**
Total	**1,390.3**	23%	**1,725.8**	29%	**710.0**	12%	**117.3**	2%	**498.6**	8%	**1,525.8**	26%	**5,967.8**	
Previous Qtr	1,253.1	23%	1,543.7	28%	667.8	12%	145.6	3%	549.5	10%	1,391.3	25%	5,551.0	

6. The Fund investments have increased by £416.8 million (7.5%) since the previous quarter as the market has continued to recover. Fund investments have increased by £197.5 million (3.4%) over the last 12 months.

7. The table below shows the Fund Account for 2020/21 to date along with the full year figures for 2019/20.

Summary Fund Account	**Q2 2020/21 £000**	**Full Year 2019/20 £000**
Employer contributions	(127,666)	(137,261)
Member contributions	(33,865)	(47,906)
Transfers in from other pension funds	(4,722)	(9,655)
Pensions	134,173	171,375
Commutation of pensions and lump sums	23,632	35,699
Lump sum death benefits	3,794	5,050
Payments to and on account of leavers	8,536	13,657
Net (additions)/withdrawals from dealings with members	**3,882**	**30,959**
Administration Expenses	**136**	**2,176**
Oversight & governance expenses	**253**	**1,460**
Investment Income	(46,633)	(130,410)
Profits & losses on disposals & changes in value	(494,735)	483,224
Taxes on income	144	247
Investment management expenses	2,229	4,995
Net Returns on Investments	**(538,995)**	**358,056**
Net (increase)/decrease in net assets	**(534,724)**	**392,651**

Core Index Portfolio

8. Below are detailed reports showing the valuation of the Core Index portfolio at the quarter end and the transactions during the quarter. The table below summarises the valuation and compares it to the portfolio benchmark (and a comparison with the previous quarter). The benchmark changed in the second quarter of 18/19 as part of a long term aim to bring our overseas developed market passive investments to be consistent with the regional allocation of the LGPS Central Overseas passive fund as agreed at the June 18 Pension Fund Committee. This will be a gradual change over time.

	31 December 2020			**30 September 2020**	
	Portfolio		**B/Mark**	**Portfolio**	
	£000	**%**	**%**	**£000**	**%**
UK Equities	532,241	38.3%	40.0%	471,935	37.7%
Overseas Equities:	853,316	61.4%	59.5%	776,392	61.9%
North America	317,277	22.8%	18.0%	296,614	23.7%
Europe	205,820	14.8%	18.0%	188,730	15.0%
Japan	122,762	8.8%	9.0%	113,025	9.0%
Pacific Basin	122,840	8.8%	9.0%	102,895	8.2%
Emerging Markets	84,617	6.1%	5.5%	75,128	6.0%
	4,815	0.3%			
Cash			0.5%	4,757	0.4%
Total	**1,390,372**			**1,253,084**	

9. The table below summarises transactions during the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	0	0	0
Overseas Equities			
North America	0	0	0
Europe	0	0	0
Japan			0
Pacific Basin			0
Emerging Markets			0
Totals	**0**	**0**	**0**

There were no purchases or sales this quarter.

Schroder Investment Management Portfolio

10. The table below summarises the valuation and compares it to Schroders' benchmark. The position at the end of the previous quarter is also shown.

	31 December 2020 Portfolio £000	%	B/Mark %	30 September 2020 Portfolio £000	%
UK Equities	866,564	50.2%	50.0%	750,105	48.6%
Overseas Equities	840,427	48.7%	49.5%	764,631	49.5%
North America	489,608	28.4%	28.9%	454,235	29.4%
Europe	128,177	7.4%	8.3%	121,852	7.9%
Japan	80,957	4.7%	4.7%	73,409	4.8%
Pacific Basin	56,378	3.3%	3.0%	43,521	2.8%
Emerging Markets	85,307	4.9%	4.6%	71,614	4.6%
Cash	18,726	1.1%	0.5%	28,917	1.9%
Total	**1,725,717**			**1,543,653**	

11. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	64,341	56,318	8,023
Overseas Equities			
North America	63,160	62,873	287
Europe	23,642	28,360	-4,718
Japan	3,432	3,271	161
Pacific Basin	1,152	128	1,024
Emerging Markets	0	0	0
Totals	**155,727**	**150,950**	**4,777**

LGPS Central

12. The table below summarises the valuation by asset class of investments managed by LGPS Central. The proportional holdings are also shown. However allocation to each LGPS Central fund is at the discretion of the Pension Fund in line with the overall Pension Fund approved asset allocation and as such there is no benchmark for this portfolio.

	31 December 2020 Portfolio £000	%	30 September 2020 Portfolio £000	%
UK Passive	9,117	1%	8,115	1%
Global equity	35,970	5%	32,530	5%
EM equity active	104,888	15%	93,113	14%
Corporate bonds	328,730	46%	316,824	47%
Gilts	211,206	30%	209,996	31%
Private Equity	9,753	1%	6,905	1%
Credit	9,998	1%		
Cash	287	0%	279	0%
Total	**709,949**		**667,762**	

13. The table below summarises transactions within the quarter.

Sector	**Purchases £000**	**Sales £000**	**Net Purchases £000**
Bonds			
Gilts	1,852	1,107	745
Corporate Bonds	0		0
Equities			
UK	0	0	0
Emerging Markets	0		0
Global	0		0
Private Equity	797		797
Credit	10,000		10,000
Totals	**12,649**	**1,107**	**11,542**

Aberdeen Standard Investments (ASI)

14. The Committee is asked to note that approval was given in the last quarter to the following, after consultation with Members where appropriate, as operational matters falling under the responsibility of the Service Director, Finance, Infrastructure & Improvement exercised by the Senior Accountant (Pensions & Treasury Management):

Date	Property	Transaction
01/10/2020	Oast House, Spinningfield, Manchester	Rent concession
08/10/2020	Units 2a and 2c Bagshot Retail Park	Rent concession
13/10/2020	20-24 Kirby Street, London	Sale of property
15/10/2020	Queen Street, Cardiff	Temporary licence
18/11/2020	92-100 High Street, West Wickham	Temporary licence
26/11/2020	Unit B1, Brooke Park, Handforth, Cheshire	Rent concession
27/11/2020	Unit 2, Brooke Park, Handforth, Cheshire	Rent Review
15/12/2020	The Ivy Restaurant and Outdoor Seating Area, Spinningfields, Manchester	Lease re-gearing
18/12/2020	12 Maiden Lane, London	Deed of variation
18/12/2020	Sprucefield Centre, Lisburn, Northern Ireland	Sale of property
18/12/2020	Unit 2a, Retail Park, London Road, Bagshot	Rent concession
22/12/2020	Waitrose, Unit 1 Bagshot Retail Park	Rent concession

Specialist Portfolio

15. Below are tables showing the composition and the valuation of the Specialist portfolio at the quarter end and the transactions during the quarter. The table below summarises the valuation at quarter end. The position at the end of the previous quarter is also shown.

	31 December 2020		30 September 2020	
	£000	%	£000	%
Private Equity	226,500	17.6%	219,800	18.1%
Infrastructure	323,500	25.2%	325,900	26.9%
Credit	45,600	3.5%	46,500	3.8%
Property Funds	134,400	10.4%	133,900	11.0%
Kames DGF	232,600	18.1%	213,500	17.6%
Equity Funds	323,600	25.2%	272,700	22.5%
Total	**1,286,200**		**1,212,300**	

16. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	-849	954	-1,803
Infrastructure	-2,916		-2,916
Credit			0
Property Funds	687	0	687
Kames DGF	0		0
Equity Funds			0
Totals	**-3,078**	**954**	**-4,032**

Responsible Investment Activity

17. The Pension Fund believes that Responsible investment is supportive of risk-adjusted returns over the long term. As a long-term investor, the Fund seeks to invest in assets with sustainable business models across all asset classes.

18. During the quarter the Fund's investment managers have continued with their usual stewardship activities through considered voting of shares and engaging with investee company management as part of the investment process. Quarterly reports on Responsible Investment issues have been received from Legal and General, Schroders and LGPS Central. Full reports and other responsible investment information can be found on the Pension Fund website here https://www.nottspf.org.uk/about-the-fund/responsible-investment .

19. Hermes EOS has exercised the Fund's voting responsibilities as our Proxy voting service. A quarterly report on voting activity can be found on our website here https://www.nottspf.org.uk/about-the-fund/investments .

20. LAPFF have engaged with a number of companies during the quarter (principally BHP, AngloAmerican, Glencore, Vale, Standard Chartered and HSBC). More information can be found in their quarterly engagement report which can be accessed on the Fund's (or on LAPFF's) website. LAPFF have also responded to consultations on forest risk commodities and the DWP consultation on taking action on climate risk. The detailed responses can be found on the LAPFF website. In addition a Climate Change Investment Policy Framework has been published. An officer attended the LAPFF business meeting on 7th October. This will be reported to committee in the April meeting.

21. Responsible investment considerations run through everything done by the Fund and there have been many specific actions taken during the quarter. Officers attended the PLSA Annual conference which featured a number of sessions on responsible investment and climate risk. A number of officer meetings have been held to develop the LGPS Central Infrastructure Fund which will include some investment in renewable energy generation. Other meetings and a workshop discussed the development of a Sustainable Equities Fund. Officers attended an update on the Capital Dynamics Clean Energy Infrastructure Fund VIII. The Taskforce for Climate-Related Financial Disclosures (TCFD) report went to Committee in December.

Statutory and Policy Implications

22. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

1) That members consider whether there are any actions they require in relation to the issues contained within the report.

Name of Report Author: Tamsin Rabbitts
Title of Report Author: Senior Accountant – Pensions & Treasury Management

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments

23. This is an updating information report and the Nottinghamshire Pension Fund Committee is the correct body for considering that information and any further action which members may wish to take in light of that information.

Financial Comments (TMR 17/02/2021)

24. There are no direct financial implications arising from this report.

Independent Adviser's Report for Nottinghamshire Pension Fund Committee

William Bourne **11 March 2021**

Market commentary

1. When I last wrote in December, I was cautious about bond markets but generally expected equities for the time being to carry on gently upwards. Since the COVID crisis broke in March 2020 I have consistently argued that the scale of monetary and fiscal support makes economic recovery inevitable, providing substantial underpinning to equities.

2. Bond yields have risen further in recent months and the UK 10 year government gilt is now trading at a yield of 0.6% compared to 0.4% in early December and 0.1% in August. By comparison the equivalent maturity US bond trades at a yield of 1.3% (0.9% in December, 0.5% at the low). **It is normal bond yields to rise at this stage in the cycle, and is fully consistent with economic recovery**.

3. Inflation expectations have gone up, with industrial commodities such as tin and copper particularly strong. However, there are few signs of inflation on the high street and I do not believe this is the harbinger of a major surge in either inflation or bond yields.

4. The major theme of the quarter has been harsher lockdown in many western countries to try and prevent health systems being overwhelmed. This contrasts with the steady return to normality in many Asian countries. The authorities have once again done their best to provide ample fiscal and monetary support, but industries such as airlines, hotels and retail remain under the cosh.

5. **In aggregate US companies have reported 2020 Q4 revenue 1% higher than one year earlier**, which is a reflection both of the support provided but also the scale of the economic recovery. 2020 earnings per share were 12% lower than 2019, but analysts expect a rise of 23% in 2021. There is less hard data from China but most companies seem to be reporting earnings growth despite COVID.

6. On the political front, President Biden's new administration is showing signs of reversing a number of Trump policies and working more collaboratively with other countries. However, it is too early to be confident what direction it will take and there are early signs of friction with China.

7. The UK BREXIT transition period ended on 31st December. While the worst case scenarios have been avoided, trade volumes have diminished dramatically. Financial services remain in

limbo, without any agreement. The combination of this and COVID resulted in 2020 economic growth at -10%, the worst for 300 years. We can expect some bounce-back as the pandemic recedes and new arrangements settle down, but despite the vaccination success UK growth is likely to lag the rest of the world.

8. China was first affected by the pandemic and looks to be first out. The authorities used markedly less stimulus in 2020 than other countries and remain roughly neutrally positioned. The economy grew by 2.3% in 2020, the only major economy to expand. As the engine of the region, I would expect Asian economies broadly to follow the same path over the next few months and western economies to recover after them. Already there are plenty of signs of a healthy increase in trade, such as container rates and the increase in industrial commodity prices.

9. Against this background equity markets, except for the UK, have reached new highs. There has been some change in leadership away from the US and tech, but it is not yet a major shift. Central banks are still pumping money into the economy, not daring to take away the punchbowl from the party. The UK is still being dragged down by the heavy 'old world' weightings in the FTSE 100 index.

10. **As the economy recovers, it is normal for investors to sell financial assets and invest in the real economy**. Financial markets are good at anticipating recovery but rarely do so well during it. I expect the same to happen this time and equity markets to peak at some point in 2021. If bond yields carry on rising to a level where they offer a positive real yield, investors may choose to allocate back to them. This may result in further selling of equities.

11. I commented last quarter that real estate remains the asset class with most uncertainty hanging over it. Core quality assets, outside retail and travel, have not been too affected and landlords have been able to collect 80 to 90% of their rent. Valuations and transaction volumes seem to have crept up in the last quarter as a degree of certainty returns. However, the renewed lockdown has intensified stress in the most affected areas and, as I said last time, at some point there will be substantial write downs. This will present both opportunities and risks for investors.

12. In the short term I would expect the current market environment broadly to continue but we are, in my view, approaching a turning point. I expect to see bond yield curves steepen and equity markets to peak in 2021 as investors shift from the growth stocks which have done so well to a broader market. My central expectation is that the steepening happens by long bond yields rising, but a possible alternative is that short rates move negative if super easy monetary policy continues.

13. Market returns from listed equities over the next few years may therefore underperform the actuarial target (6.7% including Private Equity). The Fund should gain some protection through the diversification into other assets such as infrastructure undertaken over the last few years. The actuary has built a level of prudence into his modelling, and in my view the Fund remains well positioned against a somewhat uncertain future.

RECOMMENDATION

That members consider whether there are any actions they require in relation to the issues contained within the report.