Nottinghamshire County Council

Nottinghamshire Pension Fund Committee

Thursday, 01 September 2022 at 10:30

County Hall, West Bridgford, Nottingham, NG2 7QP

AGENDA

1	Minutes of the last meeting held on 21 July 2022	5 - 8
2	Apologies for Absence	
3	Declarations of Interests by Members and Officers:- (see note below) (a) Disclosable Pecuniary Interests (b) Private Interests (pecuniary and non-pecuniary)	
4	To note the appointment of Councillor Sally Longford as one of Nottingham City Council's representatives on the Committee	
5	Local Pensions Board Annual Report	9 - 18
6	Pensions and Lifetime Savings Association (PLSA) Pension Fund Committee Sept	19 - 24
7	Local Authority Pension Fund Strategic Investment Forum	25 - 30
8	Working party	31 - 36
9	Derivatives use in Schroders Active Equities and LGPS Central Gilts mandates	37 - 40
10	Independent Adviser's report	41 - 42
11	Work Programme	43 - 48

12 Fund Valuation and Performance 49 - 58

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 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."

Note

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

EXEMPT INFORMATION ITEMS

14 Fund valuation and performance - exempt appendix

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

15 Fund Managers' presentations

a) Schroders

b) Abrdn

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 Jo Toomey (Tel. 0115 977 4506) 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
Date	Thursday 9 June 2022 at 10.30 am

membership

COUNCILLORS

Eric Kerry (Chairman)
Mike Introna (Vice Chairman)

André Camilleri
John Clarke MBE
Eddie Cubley
Bethan Eddy
Stephen Garner
Sheila Place
Francis Purdue-Horan
Tom Smith
Lee Waters

NON-VOTING MEMBERS:

Nottingham City Council

Councillor Graham Chapman **- Apologies**
Councillor Sally Longford **- Apologies**
Councillor Zafran Khan **- Apologies**

District / Borough Council Representatives

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

Trades Unions

Alan Woodward
Chris King

Scheduled Bodies

Sue Reader **- Apologies**

Pensioners' Representatives

Vacancy x 2

Independent Adviser

William Bourne

Officers in Attendance

Nigel Stevenson	(Chief Executive's Department)
Keith Palframan	(Chief Executive's Department)
Sarah Stevenson	(Chief Executive's Department)
Jon Clewes	(Chief Executive's Department)
Ciaran Guilfoyle	(Chief Executive's Department)
Jo Toomey	(Chief Executive's Department)

1. MINUTES OF THE LAST MEETING HELD ON 9 JUNE 2022

The minutes of the last meeting held on 9 June 2022 were confirmed as a correct record for signing by the Chair.

2. APOLOGIES FOR ABSENCE

- Councillor Graham Chapman (Nottingham City Council)
- Councillor Zafran Khan (Nottingham City Council)
- Councillor Sally Longford (Nottingham City Council)
- Sue Reader, Scheduled Bodies Representative

3. DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None were disclosed.

4. UPDATE ON THE APPOINTMENT OF PENSIONER REPRESENTATIVES

Members were updated on recruitment to fill the two pensioner representative vacancies. Following a recruitment campaign, two applications had been received and both interested persons were invited for interview. One person withdrew before the interview, the second attended interview but withdrew the day afterwards.

Work had been undertaken to review membership across other funds; of 8 administering authorities, 3 had pensioner representatives on their committees while the others included broader scheme member representations, which would include active and deferred members as well as pensioners. The suggestion was made that the vacant roles be considered as part of the governance review and consideration being given to adjusting the membership to scheme members to give greater flexibility.

RESOLVED 2022/025

That the work programme be updated to ensure the governance review covering the Committee includes a review of the vacant pensioner posts.

5. LOCAL GOVERNMENT PENSION SCHEME – PENSION ADMINISTRATION PERFORMANCE REPORT

The Pension Manager summarised the report which informed Committee of the work of the Pension Administration Team for the period 1 April 2021 to year ending 31 March 2022.

During discussions, Members:

- Sought reassurance around ongoing work to improve the quality of data, which would be reported to the Pensions Regulator in autumn 2022
- Asked about provision of data by scheme employers and any charges levied for data that was received late
- Queried the increased number of complaints, which was attributed to the volumes of requests for information, recalculations and transfers in the period covered by the report
- Were given a summary of work to improve staffing levels and recruitment into the Pensions Administration Team
- Discussed self-service options and arrangements for scheme members
- Noted that the fund was becoming more cash negative which was an issue for all funds and would mean taking investment income out of investments
- Considered benchmarking and performance arrangements

RESOLVED 2022/026

That the Nottinghamshire Pension Fund Committee notes the performance of the administration of the Pension Fund, and the continued development of systems and processes that will improve the service to members of the Fund.

6. LGPS CENTRAL PRESENTATION

Members were given a presentation by Joanne Segars, Chair of LGPS Central and Mike Weston, the CEO of LGPS Central, which covered a pooling and company update, investment funds information, and staffing and recruitment.

During discussions, Members:

- Asked for an overview about how pooling worked and brought together assets of different funds, including the impact pooling made on negotiating power and about the other pools that were currently operating
- Sought clarification that individual Pension Funds would not be liable for any poor performance of other Funds
- Referred to targets for achieving net zero and any intention to bring that forward to an earlier date
- Probed the reason for challenges around recruitment
- Asked about the £250m budgeted savings, ascertaining that they were cumulative rather than annual
- Considered the future of pooling and the potential future merging of different pools

RESOLVED 2022/027

That no further actions are required in relation to the information contained within the presentation.

7. PROXY VOTING

The Investments Officer presented the proxy voting report, which informed members of the voting of equity holdings in the first quarter of 2022 (calendar year).

RESOLVED 2022/028

That no further actions were required in relation to the issues contained within the report.

8. LOCAL AUTHORITY PENSION FUND FORUM BUSINESS MEETING

The Investments Officer presented the report which provided an over of the Local Authority Pension Fund Forum business meeting held on 13 April 2022.

RESOLVED 2022/029

That no further actions are required in relation to the issues contained within the report.

9. WORK PROGRAMME

Members were advised of the addition of the Local Pensions Board Annual report and a recommendation it had made regarding a review of resources, specifically staffing, which had been highlighted as the main risk faced by the fund during its last meeting.

RESOLVED 2022/030

That the work programme be agreed.

The meeting concluded at 12.30pm

CHAIR

Nottinghamshire County Council

Report to Nottinghamshire Pension Fund Committee

1 September 2022

Agenda Item: 5

REPORT OF THE SERVICE DIRECTOR – CUSTOMERS, GOVERNANCE AND EMPLOYEES

LOCAL PENSIONS BOARD ANNUAL REPORT

Purpose of the Report

1. The report presents the Annual Report of the Local Pensions Board to members of the Nottinghamshire Pension Fund Committee.

Information

2. At its meeting on 23 June 2022, the Local Pensions Board considered its annual report, which had been prepared by the Advisor to the Board, John Raisin.

3. The report summarised the Board's activity during 2021/22 and following discussion, members of the Board agreed to note its contents and refer it to the Pension Fund Committee. The Local Pensions Board Annual Report 2021/22 is attached as **Appendix A** to this report.

4. The Annual Report highlighted that throughout the year the resourcing of the Pension Fund remained the highest current risk on the risk register, with a score of 12 and rating of high. The Pensions Board agreed to make a recommendation in response to this, which asked the Pension Fund Committee to consider commissioning a review into the resourcing of the Pension Fund on the staff side.

Reason/s for Recommendation/s

5. To ensure the Committee is kept informed of the work that has been undertaken by the Local Pensions Board.

Statutory and Policy Implications

6. 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

7. While there are no direct financial implications arising from this report, any subsequent review that is undertaken of the resourcing of the fund may incur expenditure. If the recommendation is agreed by Committee, options, including the scope would be considered as part of the development of the terms of reference. The financial implications of options would be considered at this time.

RECOMMENDATION/S

1) That the Committee notes the contents of the Local Pensions Board Annual Report 2021/22 **(Appendix A)**.

2) That the Committee approves a review of staffing resources to support Pension Fund activity and the terms of the review be agreed by the Chair of the Nottinghamshire Pension Fund Committee and the Chair of the Local Pensions Board.

Marjorie Toward
Service Director – Customers, Governance and Employees

For any enquiries about this report please contact:

Jonathan Clewes, Pension Manager on 0115 977 3434 or jon.clewes@nottscc.gov.uk

Constitutional Comments (KK 16/08/2022)

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

Financial Comments (RK 15/08/2022)

9. The financial implications are set out in paragraph 7 of the report.

10. While there are no direct financial implications arising from this report, any subsequent review that is undertaken of the resourcing of the fund may incur expenditure. If the recommendation is agreed by Committee, options, including the scope would be considered as part of the development of the terms of reference. The financial implications of options would be considered at this time

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

The Nottinghamshire Local Pension Board

Pension Board Review 1 April 2021 to 31 March 2022

A report by the Advisor the Board

Executive Summary

This report reviews the activity of the Nottinghamshire Local Pension Board during the period 1 April 2021 to 31 March 2022.

Purpose of the Nottinghamshire Local Pension Board

Under its Terms of Reference, approved by the Nottinghamshire County Council on 26 March 2015, the purpose of the Nottinghamshire Local Pension Board is to assist the Nottinghamshire Pension Fund Committee. The Pension Fund Committee exercises the role of Scheme Manager for the Nottinghamshire Fund under the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations 2013.

Regulation 106(1) of the LGPS Regulations 2013 (as amended) requires that each Administering Authority, which in the case of the Nottinghamshire Local Government Pension Fund is Nottinghamshire County Council, establish a Local Pension Board by 1 April 2015 responsible for *"assisting it"* to secure compliance with pension legislation, regulations and guidance; and "*to ensure the effective and efficient governance and administration"* of the Local Government Pension Scheme. The Nottinghamshire Local Pension Board is constituted, in accordance with Regulation 107(2) of the LGPS Regulations 2013 (as amended) of equal numbers of Employer and Employee representatives. The LGPS Regulations stipulate a minimum of 4 members for a Local Pension Board. Nottinghamshire County Council, however, determined that the Nottinghamshire Board should consist of 8 members. This provides additional opportunity for Employer and Employee participation in the governance of the Fund and may therefore be considered good practice.

Under its Terms of Reference (and in accordance with the LGPS Regulations 2013 (As amended)), the Board does not replace the Pension Fund Committee or make any decisions or perform other duties which are the responsibility of that Committee. Rather, its first core function is to assist the Pension Fund Committee in securing compliance with the relevant legislation relating to the governance and administration of the LGPS in Nottinghamshire. The second core function is to ensure the effective and efficient governance and administration of the Fund. In accordance with its Terms of Reference the Board may, however, determine which areas it wishes to consider, and the Board has authority to make a request for information with regard to any aspect of the operation of the Pension Fund. It may also make recommendations to the County Council or any relevant committees which must be considered, and a response made to the Board.

Board Meetings 1 April 2021 to 31 March 2022

In March 2015, the County Council established the Local Pension Board and authorised the Monitoring Officer to finalise a Code of Practice for the Board. The Code approved by the Pension Board on 16 December 2015 states (Section 24) *"The Board shall as a minimum meet two times each year."* The Board Members (supported by Officers and the Advisor) expressed the view, at an informal Board Workshop in February 2021, that the Board should meet more regularly than the two occasions per (financial) year that had been the practice since 2015. There was a clear consensus that four meetings a year would be appropriate. The year 1 April 2021 to 31 March 2022 saw progress towards this with three meetings taking place for the first time in a year.

The three Board meetings during the financial year 2021-2022 were held on 30 September 2021, 16 December 2021, and 17 March 2022. On 30 September 2021, the role of **Board Chair** was filled when Thulani Molife, a Scheme Member (Employee) representative since 2016, was elected unanimously. Thulani Molife who has actively contributed to the proceedings of the Board since 2016 is the first Employee representative to be elected as Chair since the creation of the Board in 2015. The Chair and other Members present at Board meetings actively contributed through both constructive questioning and constructive observations on the reports, papers, and presentations.

The Agenda Items considered at each Board meeting held during the financial year 2021-2022 are shown in the Table below:

	30/9/21	**16/12/21**	**17/3/22**
Election of Chair	/		
Minutes of Previous Meeting	/	/	/
Declarations of Interest	/	/	/
Pension Fund Risk Register	/	/	/
Pensions Administration Performance Report	/		
Pension Scams	/		
Transforming Pensions Administration		/	
Breaches Log Report		/	
Revision of Fund Strategy Documents		/	
Presentation & Training by Fund Actuary		/	
LGPS Pooling Update by LGPS Central Pool			/
LGPS Update by Advisor to the Board	/		/
LGPS Governance Conference report			/
Pension Fund Annual Report & Accounts 2020-2021			/
Pension Board Review 2020-2021	/		
Work Programme	/	/	/
Training Plan Update	/		

Principal Issues Considered at Board Meetings in 2021-2022

Risk Management is fundamental to effective Pension Fund governance and operations. Both CIPFA and the Pensions Regulator have made absolutely clear the critical role and importance of effective risk management in the context of the LGPS.

Therefore, it was appropriate and indeed necessary that the **Pension Fund Risk Register**, together with an informative covering report explaining the Purpose and Objectives of the Fund, the Risk Management Strategy of the Fund, the Key Parties involved in the Fund and their responsibilities, was presented to, and actively considered by the Board at each of its three meetings during 2021-2022. Throughout the year the resourcing of the Pension Fund remained the highest Current Risk on the Risk Register with a score of “12” and rating of “HIGH.”

As in previous years, the Board maintained a clear focus on Pensions Administration an area which is not only wide ranging, complex and continuously evolving but which is of particular direct relevance to Employer and Employee Members of the Board. During the year, the Board received four reports focussed on different aspects of Pensions Administration.

On 30 September 2021 the Board received a **Pension Administration Performance Report** detailing the work and performance of the Pension Administration Team for the Year 1 April 2020 to 31 March 2021.The report detailed the extensive range of the Team’s responsibilities and activities; resourcing; cost (absolute and comparative against the CIPFA Benchmarking Club); Data Quality; Fund Membership statistics; Complaints (including in relation to the Fund’s Additional Voluntary Contribution Provider Prudential) and Internal Disputes Resolution Procedure Appeals; Pensions Administration System update including progress/plans relating to the Employer (on line) portal rollout; Performance Data. The Pensions Manager provided the Board with an in-depth presentation further explaining the report. This resulted in a number of questions from Board Members including in respect of the implications of the transfer of Employers into the Nottinghamshire Fund; Additional Voluntary Contribution Providers; costs and benchmarking; the adequacy of the resourcing of the Pensions Administration Team.

A report on **Pension Scams** was presented to the meeting held on 30 September 2021. This report explained the seriousness and extent of pension scamming in the UK; the Pension Schemes Act 2021 and the Pension Regulators response to pension scamming; the Nottinghamshire Pension Fund’s obligations in respect of and response to pension scamming including the County Council decision to approve the establishment of an additional post in the Pensions Administration Team to focus specifically at protecting scheme members from pension scams. In response to a question from a Board Member Officers stated that work was been undertaken, in liaison with a law firm, to ensure that due diligence on requests to transfer out from individual Scheme Members is robust.

As in previous years the Board was updated (at its December 2021 meeting) on the progress of the ***“Transforming pension administration through digital development and new ways of working programme.”*** The report and Officer briefing to the Board emphasised the progress in the Data Audit and Improvement phase including the allocation of additional funding by the Pension Fund Committee to meet data quality requirements. The report also provided an update in relation to the Employer portal rollout. Board Members made observations/raised questions with the Pensions Manager regarding online data security and also the nature of the proposed Scheme Members self-service portal.

The Board received, on 16 December 2021, an important report on the Nottinghamshire Pension Fund's approach to identifying, recording, and reporting breaches of the law as covered in the Pension Regulator's Code of Practice No 14 "Governance and Administration of Public Service Pension Schemes." This report entitled **Breaches Log Report** included the Fund's formal policy and procedure for monitoring and reporting breaches of the law. In response to a question from a Board Member it was confirmed that information from the Breaches Log would be included in future Pension Administration Performance Reports.

The Local Government Pension Scheme (LGPS) Regulations require the Fund to prepare, maintain and publish a number of strategy statements (including for example the Funding Strategy Statement and Communications Policy) which must then be kept under review and as necessary revised. In addition, the Fund produces other strategies as best practice (for example the Climate Strategy). These strategies and policies are essential to the good governance and operation of the Fund. Therefore, the Board received a report entitled **Revision of Fund Strategy Documents** at its December 2021 meeting advising the Board of the recent review (by the Pension Fund Committee in September 2021) of a number of major Fund strategies/policies which provided a summary of these and a link to them.

In accordance with the LGPS Regulations 2013 the Nottinghamshire Pension Fund along with all other LGPS Funds in England and Wales is required to undergo a full Actuarial Valuation every three years. The next such Valuation will determine Fund assets and liabilities as at 31 March 2022. Therefore at the Board meeting on 16 December 2021 the Fund Actuary Barry McKay of Barnett Waddingham provided a detailed **Actuary Report and Presentation** to the Board covering the nature of a Valuation; how Liabilities are valued; how Assets are valued; how Employer Contribution rates are set; key issues affecting the LGPS including "McCloud," Cost Management, Exit Reform, Covid, Climate, Future Inflation. Following the presentation there were a number of observations/questions to the Fund Actuary including in respect of events since the last Valuation in 2019, and possible future circumstances.

The Board had previously received a number of reports and training sessions that have been concerned in whole or part with LGPS Investment Pooling. These have however been concerned primarily with the context and overall approach to investment pooling within the LGPS. Therefore, it was most helpful and appropriate that at its meeting on 17 March 2022 the Board received a presentation entitled **LGPS Pooling Update – Presentation by LGPS Central.** The LGPS Central Pool is part owned by Nottinghamshire County Council and is the organisation that provides investment pooling services to the Nottinghamshire Fund. This presentation from Colin Pratt, Investment Director and Lee White, Communications Manager at LGPS Central included an overview of the background to pooling and its principles; the role of LGPS Central and the products it offers; developments in Responsible Investment and Engagement. Colin Pratt emphasised that the purpose of the LGPS Central Pool is to meet the investment needs of the eight LGPS Funds, including Nottinghamshire, that are co-owners of the pool. Colin Pratt responded to a range of questions from Board Members including in relation to returns, responsible investment and engagement, and the Russian invasion of Ukraine.

As in previous years the Advisor to the Board provided **LGPS Update** reports to the Board on major developments across the LGPS to help enable the Board to fulfil its role under the LGPS Regulations and its Terms of Reference as set by the County Council and also to assist Board Members meet their knowledge and skills obligations under the Public Service Pensions Act 2013 and CIPFA guidance. At the meeting held on 30 September 2021 an Update was provided in respect of:

1. Awaited LGPS investment related Consultations

2. Age Discrimination in the LGPS (commonly referred to as “McCloud”)

3. The Pension Regulator’s (TPR) Consultation on new Code of Practice

4. Increase in the Normal Minimum Pension Age from 6 April 2028

At the meeting held on 17 March 2022 the Update covered the following issues:

1. Creation of the Department for Levelling Up, Housing and Communities (DLUHC) and appointment of new Minister responsible for the LGPS

2. Levelling Up White Paper and the LGPS in England & Wales

3. LGPS Consultations and responses

4. Cost Control mechanism

5. Review of 2019 Actuarial Valuations by the Government Actuary

These Update reports explained the nature, context, implications, and progress in relation to the issues covered which spanned Governance, Pensions Administration, Investment and Actuarial related matters.

A report providing an outline of the **Pension Fund Annual Report and Accounts 2020-21** which included a link to the full document was presented to the 17 March 2022 meeting of the Board. Board Members raised questions as to whether changes in the investment value of the Fund had been reflected by the Actuary, and also regarding how close the Fund was to being fully (100%) funded.

A **review of the activity of the Pension Board during the period 1 April 2020 to 31 March 2021** was prepared by the Advisor to the Board and presented at the meeting held on 30 September 2021. This report and the presentation by the Advisor both emphasised the main activity at Board meetings during 2019-20 and the significance of the informal Pension Board Workshop held on 4 February 2021. This had resulted in a clear consensus that the number of Board meetings should ideally increase from 2 to 4 a year, that there should be an increased focus on training, and the desirability of greater interaction with the Pension Fund Committee.

At each of the three meetings of the Board held during 2021-2022 a **Pension Board Work Programme was** prepared by Officers/the Advisor to the Board. Each version of the Work Programme reflected previous observations and suggestions from Board Members and resulted in further observations and suggestions for the future.

Training and Development

Sufficient and effective Training and Development are clearly essential for Board Members to properly discharge their responsibilities. Furthermore, knowledge and understanding are specifically required of Pension Board Members by the Public Service Pensions Act 2013.

At the September 2021 Board meeting the Advisor to the Board presented a paper entitled **Pension Board Training Programme.** This provided the background to the requirements and expectations in relation to Knowledge and Understanding of Pension Board Members before proposing a broad ranging approach to the future provision of training. This updated approach included proposals for each Board member to undertake an annual Training Needs Analysis and for the future utilisation of a broader range of sources of training than previously. Whereas the Board had primarily relied on the Fund Officers and Advisor to provide training the new approach will also include opportunities for Board Members to attend external training events and in particular those (for example provided/facilitated by CIPFA) targeted specifically at Pension Board Members.

On 8 September 2021, the Advisor to the Board presented a Board training session on **Legislation, Governance, Roles & Responsibilities** which covered the first two of the eight “core” areas of Knowledge and Skills for Board Members as set out in the “CIPFA Local Pension Boards A Technical Knowledge and Skills Framework.” This was an updated version of training first provided in 2016.

In addition, during 2021-22 the Board received a detailed presentation on Actuarial Valuations by the Fund Actuary, a presentation from LGPS Central on investment pooling, two broad ranging LGPS Updates from the Advisor, as well as reports/presentations from Officers in respect of Governance, Administration, and Investment issues. These all provided Board Members with knowledge and understanding of LGPS Governance, Administration, Investment and Actuarial issues from both a national (England and Wales) and Nottinghamshire specific perspective.

Attendance by Chair of the Pension Fund Committee

The Board was pleased to welcome Councillor Eric Kerry Chair of the Nottinghamshire Pension Fund Committee to the Board meeting held on 17 March 2022. The Board is keen to promote closer working with the Pension Fund Committee which is the decision-making body for the Nottinghamshire Fund. It was therefore both positive and appreciated that Councillor Eric Kerry attended the March 2022 Board meeting. The Board hopes that the Chair of the Committee will attend the Board again in the future and that further links between the Board and Committee can be developed going forward.

Support for the Board by the Administering Authority 1 April 2021 - 31 March 2022

The effectiveness of the Board is dependent not only on the approach and contribution of its Members but also that of the Administering Authority. Throughout the period covered by this review the Board received positive support, advice, and guidance from the Officers of the Nottinghamshire Pension Fund with responsibility for the Governance, Administration, and Investment aspects of the Fund.

Meetings of the Board were also supported and attended by the Advisor to the Board who provided independent support and an external viewpoint on the Officers reports, in addition to presenting papers to the Board.

John Raisin
Advisor to the Nottinghamshire LGPS Local Pension Board
8 June 2022

Nottinghamshire County Council

Report to Pension Fund Committee

1 September 2022

Agenda Item: 6

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

PENSIONS AND LIFETIME SAVINGS ASSOCIATION (PLSA) LOCAL AUTHORITY CONFERENCE 2022

Purpose of the Report

1. To report on the PLSA Local Authority Conference 2022 held in the Cotswolds.

Information

2. The PLSA Conference 2022 was held on 13th to 15th June 2022 at the De Vere Cotswold Water Hotel in Gloucestershire. In accordance with prior approval and as part of the Fund's commitment to ensuring those charged with decision-making and financial management have effective knowledge and skills; the conference was attended by Councillor Eric Kerry and Mr Nigel Stevenson (Service Director – Finance, Infrastructure and Improvement). The theme of this year's conference was 'Local Government, Global Impact'.

3. ***Pre-Conference Meetings***
   The conference commenced with a number of sessions covering topics ranging from Net Zero 2050 portfolio alignments, private equity investment strategies and investing in the energy transition. These included presentations from abrdn, Foresight and Greencoat Capital. The presentation on Net Zero 2050 was particularly interesting as it set out the barriers to meeting this ambition, including transition strategies, the global trajectory heading for 3% rather than 1.5% and the significant gaps in data. Together these may measuring alignment of portfolios to net zero goals is challenging and may lead to unintended consequences if portfolios focus too much on carbon targets rather than solutions.

4. ***Emma Douglas, Chair, PLSA***
   The main conference began with Emma welcoming everyone to the Conference and setting the tone for the event.

5. ***Launch of the England & Wales Scheme Advisory Board Annual Report 2021***
   This session also saw the launch of the Scheme Advisory Board's Annual Report. Following a period of uncertainty, the annual report examines the health of the scheme, considers the 2022 triennial valuation for England & Wales and sets the scene of some of the themes that will dominate future work, including the levelling up agenda, good governance, responsible investment, and next steps for McCloud. This session included presentations from John

Bayliss, from the Government Actuary's Department, Councillor Roger Phillips, Chair of the Scheme Advisory Board and Joanne Donnelly from the Local Government Association.

Here are some key LGPS highlights for 2021:

- Total membership of the LGPS grew by 66,624 (1.08%) to 6.226m members in 2021 from 6.160m in 2020
- The total assets of the LGPS increased to £342bn (a change of 23.4%). These assets were invested in pooled investment vehicles (66.2%), public equities (13.4%) bonds (4.6%), direct property (2.3%), as well as other asset classes (8.7%)
- The Local Authority net return on investment over 2020/21 was 20.56%. This was reflective of the market conditions during the year and set against the UK equities return of 30%
- The scheme maintained a positive cash-flow position overall, including investment income
- Over 1.8m pensioners were paid over the year
- CoViD-19 significantly impacted life expectancy - with a drop of 0.9 years and 0.5 years for males and females respectively (2019 figures v 2020)
- Total management charges increased by £196m (+12.9%) from £1,517m. This was primarily driven by a £193m (14.9%) rise in investment management charges, while administration and oversight and governance costs remained broadly stable.
- As at the 31st March 2019 (the date of the last triennial fund valuations), the LGPS liabilities were estimated at £291bn indicating an overall funding level of 98%

6. ***You ask - we deliver: Presenting our new LGPS project***
The LGPS community responded to a PLSA research survey, allowing them to offer recommendations on how the LGPS could take on a variety of issues including operational sustainability, relationships with employers, helping savers, regulatory mapping, communication, talent management, and long-term sustainability. This session included presentations from Robert Branagh, CEO of the London Pensions Authority, Rachel Brothwood, West Midlands Pension Fund, Euan Miller, Greater Manachester Pension Fund and Jo Quaterman, Norfolk Pension Fund.

The presenters set out the main insights and recommendations based on the 4 themes of Regulatory and Operating Environment, Employers, Scheme Members and Operational Sustainability. Although there were many findings the key challenges appeared to be:
a) The need for one single champion to represent the LGPS
b) Ongoing staff recruitment and retention issues
c) Increasing number of scheme employers and their understanding of the LGPS
d) Communicating with scheme members
e) Regulatory change, uncertainty and complexity

7. ***Concurrent Sessions***
A number of concurrent sessions were delivered:

a) *Enabling the transition - shifting the mindset in fixed income from risk to opportunity*
Green bonds will be of key importance in addressing the environmental challenges confronting both public and private markets for many years to come. This session discussed the definition of green bonds, their relevance in asset allocation, ratings, the importance of verification, how to measure expected outcomes and more. It also discussed the role that unlabelled bonds can play in achieving outcomes and included presentations from Daniel Loughney, Boarder to Coast Pension Partnership and Rhys Petherman, Jupiter. In essence the evolution of the market promotes standards but pitfalls remain

which require more active verification processes both from the issuer and purchaser of such bonds but these do provide opportunities for engagement for enabling transition to sustainable objectives.

b) *Investing for a new regime*
The past two years have accelerated a shift to a new regime of higher and more volatile inflation. This matters for investors. This session gave the macroeconomic ‘view from the bridge’ and explain what it means for portfolios. This session included presentations from Matt Hopson, Tri-Borough/Westminster City Council and Jamie Dannhauser and Jos North, Ruffer. Jos begain with harking back to when Paul Volcker was appointed as the Chair of the Federal Reserve in 1979 who was then widely credited with having ended the high levels of inflation seen in the United States throughout the 1970s and early 1980s. The question would be whether we would be returning to these hawkish approaches? The conclusion put forward was the drivers of inflation now significantly different to then and raising interest rates would simply be the same as putting the brakes on a dark, foggy night. For the LGPS it would mean the need to invest more in the transition to net zero infrastructure investments; more able to prepare for large negative supply shocks and require substantial capex.

c) *Evaluating your fund's physical climate risk*
As the severity of climate change grows, its physical risk becomes more acute. Understanding physical risk management across listed equity, fixed income and private equity investments is crucial for investors needing to produce returns over the long term. Case studies are able to demonstrate how this works in practice. This session included presentations from Julie Delongchamp, Welligton, and Marion Malony, Environment Agency.

The session began with how physical climate is already impacting the world, e.g. 18 of the 19 warmest years on record have occurred since 2000, and continued with how Wellington uses investment analysis tools based on physical risk and transition risk. This strategy enables investment decisions to be based on defence, offense and engagement strategies to be deployed; including investment requirements in infrastructure areas like drainage/flood defence/water efficiency as well as engagement with companies on their approaches to transition.

8. ***Complying with TCFD for pensions requirements in the LGPS***
Local Authority pension funds will soon need to meet new requirements to report on climate change, similar to the regulation being phased in for private sector schemes. This session discussed how TCFD actually works, how funds and pools can plan to report and lessons learned from the private sector. The presenters included Nick Stones, Pinsent Masons and Tom Harrington, Greater Manchester Pension Fund (GMPF).

Tom set out his experience from the GMPF’s voluntary compliance with TCFD for over 5 years. There had been significant challenges, more notably, determining the metrics to use, agreeing targets, data quality and consistency across Regulators. Whilst Nick set out the current climate change governance and reporting obligations which will extend to schemes with assets over £1bn in October 2022.

9. ***Concurrent Sessions***
A number of concurrent sessions were delivered.

a) *New developments in sustainable equity investing*
UK pension funds have seen capital shift to climate-focused sustainable strategies with a view to Paris alignment, addressing climate related risks and reporting requirements. This session looked at Natural Capital, the compelling investment opportunity of nature and where local authority funds can play a leadership role, diversifying portfolios while targeting returns.. The presenters included Alina Donets, Lombard Odier Asset Management and Gustave Loriot, London CIV.

b) *ACS pooled securities: rights and duties of beneficial owners*
What are shareholder rights to legal redress in the US and UK when fraud is committed? How does this look vis a vis voting, split voting rights and stock lending? This session gave practical advice on identifying beneficial ownership rights within the ACS world of rented or owned operators and depositories.. The presenters included Mark Soloman, Robbins Geller Rudman & Dowd, Sarah Wilson, Minerva Analytices and Alex Younger, Norfolk Pension Fund.

c) *The life-changing magic of tidying up... governance*
Inspired by international tidying guru Marie Kondo, this session discussed how to get the most out of your governance arrangements, what to expect next, and the practical benefits good governance brings. The presenters included Susan Black, Hymans Robertson, and Geoff Cleak, Bath and NE Somerset Council (Avon Pension Fund).

This session was a presentation based on the outcomes from the Good Governance Project, which includes the need for a robust conflict management policy in place, an enhanced governance compliance statement, effective scheme member and employer represenation policy and training plans for key individuals.

10. ***Debate: Is the Local Government Pension Scheme sustainable?***
“This House believes that the Local Government Pension Scheme is not sustainable”. The first day of the Conference concluded with a team of talented student debaters from Debate Mate joining industry experts to thrash out this question in full. The industry experts included Robert Branagh, Lodon Pension Fund Authority, and Euan Miller, Greater Manachester Pension Fund. Although the motion was lost, with the conference attendees agreeing the LGPS is sustainable, this was a highlight of the day as four young people demonstrated their debating skills to the conference attendees.

11. ***What to expect when you're implementing: The McCloud judgement***
Day two of the Conference began with John Bayliss, GAD, Lorraine Bennett, LGA, Heather Chambers, Tyne and Wear Pension Fund, and Melanie Durrant, Barnett Waddingham setting out their thoughts what funds can expect as they prepare to implement the McCloud judgement. With more members in scope and changes made to future underpin protection, the government’s recent amendments to the McCloud judgement add yet another layer to an already complex set of calculations and challenges for LGPS administrators. This included the brief history leading up to the judgement through to the issues Funds will face in implementation, from obtaing historical data from employers, staffing requirements to modifications to current software.

12. ***Driving the pensions dashboards for the LGPS***

Local Authority funds will need to connect to the pensions dashboards between October 2023 and April 2024. From ensuring employers are up to speed to engaging with various providers, there is much to do. Here, the presenters, Chris Curry, Money and Pensions Servioce, John Burns, Lothian Pension Fund, and Richard Smith, PLSA offered both an overview of the dashboard project and potential solutions for stretched administrators.

Richard gave a brief background to the programme and a short demonstration what the dashboard may look like. Which in turn was followed by Chris who gave us further information on the overall programme, setting out the develoipmewnt work on the central architecture (or "ecosystem"), the regulatons and standards that were to follow. Ending with John, who set out the preparation work required of LGPS funds. The aim being to provide consumers one place, either through a pension provider or banking app or government website, to collate details of all their pensions information, including their state pension. This is an ambitious programme of work that is set to transition to business as usual in 2024. LGPS funds must therefore progress with data cleansing activity during 2022, procure an Integrated Service Provider (ISP), prepare to connect to the "ecosystem' with the appropriate data required from consumers using the dashboards during 2023/24.

13. ***The future of LGPS asset pooling***
The latest asset pooling consultation from DLUHC is expected to drop in Autumn 2022. The likely direction of travel for both the funds and pools includes decisions about investment and governance structures, reporting, the likelihood of additional consolidation and discussion of what more pools can do for their constituent funds. This session included presentations from Teresa Clay, DLUHC, Sian Kunert, East Sussex County Council, and Mike O'Donnell, London CIV.

Teresa noted that we have come along way since 2016, but there was more to be done. This inc;uded the role of Pension Funds in Levelling Up, reporting on climate risks, lower costs and better investment performance and improved transparency. She set out a number of proposed consultations through autumn 2022, which would include the above together with acceleration of transition of investmentrs into Pools and setting the direction for greater scale and collaboration.

14. ***Opinions, attitudes and values - what is changing, and what is staying the same***
Covid. Brexit. War in Ukraine. Social media. Home working. Just a cursory look at the news demontrates how much the world is transforming, and rapidly. But do these trends represent structural change, or merely passing fancies? A global authority on trends and behaviour provides a roadmap to tell the difference. The Conference concluded with the views of Ben Page, Global CEO, Ipsos Mori, with the opening line from his presentation being most predictions are wrong.

Statutory and Policy Implications

15. 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 Pension Fund Committee members continue to attend appropriate conferences to enable members to be kept up to date with the main national topics relating to pension administration and investments.

2) That Members consider if there are any actions they require in relation to the issues contained within the report

Nigel Stevenson
Service Director - Finance, Infrastructure & Improvement

For any enquiries about this report please contact: Nigel Stevenson

Constitutional Comments (CEH 27/07/22)

16. Pension Fund Committee is the appropriate body to consider this report.

Financial Comments (NS 21/06/22)

17. There are no 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

Nottinghamshire County Council

Report to Pension Fund Committee

1 September 2022

Agenda Item: 7

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

LOCAL AUTHORITY PENSION FUND STRATEGIC INVESTMENT FORUM 2022

Purpose of the Report

1. To report on the LAPF Strategic Investment Forum 2022.

Information

2. The LAPF Strategic Investment Forum 2022 was held on 4th to 6th July 2022 in Hertfordshire. In accordance with prior approval and as part of the Fund's commitment to ensuring those charged with decision-making and financial management have effective knowledge and skills; the conference was attended by Councillor Eric Kerry, Councillor Graham Chapman and Mrs Tamsin Rabbitts (Senior Accountant – Pensions and Treasury Management).

3. This was the second time Nottinghamshire have attended this conference, and it continues to be excellent. This was a well organised conference with an intense programme of relevant investment topics.

4. ***John Harrison, Interim CIO, Border to Coast***
   The conference began with John welcoming everyone to the event.

5. ***The state of the world, James Ashley, Goldman Sachs***
   An excellent session providing a perspective on current market developments, focusing on inflation, invasion and infection. To summarise, James feels that most bad news is already in the price, but unfortunately he believes it is going to get worse before it gets better.

6. ***Emerging Markets – opportunities and threats Panel session Anthony Corrigan, Vontobel, Ian Smith, Newton Investment Management, Peter Wallach, Merseyside Pension Fund, Tim Mpofu, Haringey Council***
   The panel reflected on the poor performance of emerging markets in recent years, certainly relative to the US. Panel members are anticipating strong performance in EM equities over the next 10 years, but were less convinced by EM debt.

7. ***Infrastructure opportunities Interview Abigail Rayner HarbourVest Partners***
Infrastructure was discussed as a beneficial asset class while inflation was high. Particular areas of interest included energy transition and digital infrastructure. The importance of sector and regional diversification was emphasised.

8. ***Global Real Estate Panel session Tom Collier, Pimco, Peter Hobbs, bFinance, Matt Hopson, Westminster City Council, Doug Rowlands, Invesco Real Estate***
The panel discussed the advantages of global real estate investment, recognising that for most LGPS funds this has been typically a domestically focussed (and often directly held) asset class. It was recognised that UK property valuations are very volatile compared with other regions, and that including global property diversifies risk and widens opportunities. The risks of operating in unfamiliar regimes, and the additional costs of global investment were also recognised.

9. ***Evolving governance regulation in the LGPS***
A roundtable discussion discussing four questions relating to governance:-
    1. Should Committee members be required to have training every year, and what should this entail?
    2. Would the 'professional trustee' model work in the LGPS?
    3. When considering local investments, how do committees deal with perceived or actual conflicts of interest?
    4. Is one generalist adviser sufficient, or are more specialist advisers required given a more complex and evolving investment environment? Should pools be used more for advisory services?

10. ***Buy to Rent: Solving a national problem with a local solution Dan Batterton LGIM Real Estate***
Clean power generation has been at the centre of the debate on achieving the Paris climate targets and the efforts to limit global warming. The presenter discussed whether this was sufficient and other options for investors.

11. ***Financing the energy transition: seeking stable yield, inflation protection and equity like returns Claudio Vescovo Nuveen***
Unfortunately the presenter was unable to join the conference in person and presented remotely which meant attendees were unable to view the slides. His recommendations for energy security were for the building of more renewables as these were both faster and cheaper to build than the alternatives, and for investment were to invest in areas of adaptation for less power use such as the insulation of buildings.

12. ***Finding the best relative value in Infrastructure across the economic cycle, Paul Barr, Pantheon***
In a wide-ranging interview Paul believes that value can be found. Currently much infrastructure investment will be benefitting from inflation. The importance of diversification was emphasised. A question of interest to Nottinghamshire was on listed infrastructure. As we have observed, valuations can be impacted by market sentiment, but over the longer term prices will be driven by investment returns. Listed infrastructure is more liquid, but there is a risk that its value may be deflated just when you want to sell. A particular advantage is that listed investments can provide access, and quicker access, to otherwise hard to access areas.

13. ***2022 Market Forecasts Andrew Pease Russell Investments***
An engaging presentation with optimistic predictions that the US recession will be mild, and that inflation will be temporary. Andrew felt that US equities are approaching fair market value, that FTSE 100 offers the best value, and that gilt yields have peaked. He feels that lots of the bad news is baked in. A historical perspective is that a bear market averages a 35% decline (at time of speaking this was 24%) and takes 1 ½ years to fall, and a year to recover. He finished with a reminder to be optimistic – "The bears sound smart, but the bulls make money."

14. ***Fixed Income Opportunities panel Quentin Fitzsimmons, T. Rowe Price, Harald Henke, Quoniam Asset Management, Lloyd Thomas, Border to Coast, Bola Tpbun, London Borough of Enfield***
In contrast to the previous session this was a more downbeat view of fixed income investment. The worst half year for government bonds since 19th century, accompanied with poor performance for MAC investments and increased risk of defaults and increased costs arising from inflation. There was a feeling that the credit risk was being priced in, and spreads are top quartile with some positivity around Investment Grade.

15. ***Fixed Income – reducing carbon, not return Kris Atkinson, Fidelity International***
An excellent presentation looking at the role that bond investors play in influencing organisations across the world in terms of their decarbonisation strategy, and the importance of directing capital to institutions taking these issues seriously to help enable real world emissions reduction while maintaining a balance in terms of diversification and return. There was a major criticism of Paris aligned benchmarks for their exclusion of energy and utility companies and consequent failure to reflect the real world. Ideally would choose to invest in an improving company (e.g. Orsted) and then reinvest once improved, although it was recognised that we need to better evidence the impact of engagement. It was observed that Green bonds usually pay worse returns. Fidelity has kindly provided us with a recent paper they have written on the importance of bond investors in the fight against climate change called 'The sleeping giant'.

16. ***Strategic asset allocation***
Andrien Meyers from Sutton and Kington presented four interesting roundtable discussion topics relating to asset allocation:-
    1. Will funds de-risk in response to improving funding levels?
    2. Will the government mandate increased pooling and if so will this drive 'super pools'?
    3. Should the LGPS have one target net zero date or should each Fund / Pool have their own?
    4. Levelling up – should this be through one pool, or should each fund do this outside the pool?

17. ***Global timberland investment Steven King, Campbell Global (an affiliate of J.P. Morgan)***
This interview looked at the features of timber investment which provides long term yield from harvesting timber and some capital growth from tree growth. The investment does provide some carbon offset and there is a requirement to replant after harvesting. The biggest risk is market risk, but physical risks of fire, insects, disease and hurricanes are also significant. For new investors a global PE fund was the recommended route into the asset class.

18. ***Opportunistic credit Kerry Hugh-Jones, Cheyne Capital***
The presentation outlined this issues for businesses due to the limited access to financing through bank lending, and the contribution private debt can provide. Opportunities can also arise from bond issues where liquidity challenges in the market can cause some issues to become underpriced.

19. ***Real estate sustainability and place-based impact investing Nick Montgomery, Schroders***
All Schroders Real Estate investment is now looking at achieving net zero and improving social impact. This may contribute to levelling up. Town centre retail may now be an opportunity.

20. ***Investing in social good through affordable housing Chris Jeffs, M&G***
The challenges of access to housing in the current economy were outlined. Chris stated that the average person buying an average house would need 21 years to save up a minimum deposit. The proposed solution was an increase in shared ownership to enable occupants earlier access to owned property and hence lower lifetime costs, and to provide index linked and relatively secure cash flows for an investor.

21. ***How to address climate change in your portfolio Ben Yeoh, RBC***
A look at the central outlook for climate scenarios, this presentation outlined the progress as ten years ago the world was heading for a 3.9° temperature rise, whereas the median scenario is now 2.7°. However the consequences of such a change would be catastrophic across the planet so much more improvement is required. The important consideration is whether companies have a plan to reach net zero as changes need to impact the real economy, not just divest from difficult industries.

22. ***How effective is engagement and when should we consider divestment? Jane Firth, Border to Coast, Philip Pearson, Hymans Robertson, Nick Spooner, Robeco, James Tarry, Aviva***
The panel was generally positive about the impact of engagement. The impartance of ensuring a company is aware of why you vote the way you do was emphasised as communication is vital to impact and effect change. Some studies have evidenced outperformance in portfolios where engagement is taking place. It is important to focus on specific issues to make progress. It can be difficult to measure outcomes. The process of engagement with private markets is different – a larger share investment can provide more influence and there may be more opportunity to specify requirements in specific ways.

23. ***Finding opportunities in global equities David Herro, Harris Associates***
The last three years have been volatile – every time things seem to seltte down something disrupts the trend. Harris (who manage part of Central's Global Equity Fund) were persistant underperformers due to the exaggerated values of tech stocks. Harris look for good quality businesses with good cashflow and consistent performance. Despite inflation and energy prices, Harris are still fairly optimistic, feeling that equities are at the low end of the range with much of the bad news already in the valuations. First half earnings are holding up, and the global consumer is well positioned with high employment levels, and demand for many products exceeding supply.

24. ***Working with in house funds panel Jill Davys, Redington, Anthony Fletcher, Independent Adviser, George Graham, South Yorkshire Pension Fund, Chris Rule, LPP***
This was a wide ranging conversation which demonstrated differing views. Some pools are directly managing investments and this can reduce costs, increase transparency, and provide more control over a portfolio, however this requires significant long term allocations and works best for simpler mandates with less ambitious outperformance targets. The perception is that passive investment requires scale and pools cannot complete with managers like LGIM on performance.
Recruitment and retention of resources is a challenge with LGPS requirements for transparency an additional challenge in meeting market rates, and widespread recognition that local government pay rates are significantly lower than the market, even after the increases achievable through pools. Other issues with in house investment can be difficulties in moving from an in house team in the event of underperformance, increased reputational risk, and ensuring sufficient internal controls.

Statutory and Policy Implications

25. 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 Nottinghamshire Pension Fund Committee members continue to attend appropriate conferences to enable members to be kept up to date with the main national topics relating to investments.

2) That Members consider if there are any actions they require in relation to the issues contained within the report

Nigel Stevenson
Service Director - Finance, Infrastructure & Improvement

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (KK 19/08/22)

26. Nottinghamshire Pension Fund Committee is the appropriate body to consider this report.

Financial Comments (TMR 26/07/22)

27. There are no 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

Nottinghamshire County Council

Report to Pension Fund Committee

1 September 2022

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 22 July 2022 and makes recommendations as follows:-

    1) Take a report to Pension Fund Committee proposing the use of derivatives in the Schroders Active Equity portfolio, and the LGPS Central Gilts segregated mandate.

Information and Advice

2. The Working Party met on 22 July 2022. The agenda and attendees are listed in Appendices A and B, and details of the discussions and recommendations for each item are set out below.

Proposal on Derivatives use in the Schroders segregated mandate

3. Olivia Docker and Paul Duncombe presented a proposal for the use of derivatives in the Schroders segregated mandate to improve the effectiveness and efficiency of the regional overlay applied by the multi asset team.

4. Members were able to question Schroders on the advantages and associated risks of using derivatives on this mandate.

Proposal on Derivatives us in the LGPS Central gilts segregated mandate.

5. Gordon Ross and Vania Clayton presented a proposal for the use of gilt futures in the gilts mandate for the purposes of efficient portfolio management.

6. Members were able to question LGPS Central on the advantages and associated risks of using derivatives on this mandate.

Voting principles and strategy training

7. Training was provided by LGPS Central on the topic of voting. LGPS Central provide Responsible Investment training to the committee at least twice a year as committed in our Climate Risk Action Plan. This training was part of our general responsible investment training and was requested by committee members to help them understand how voting principles are set, and how Central can use voting to achieve objectives as engaged shareholders. This was an interesting and interactive session.

Statutory and Policy Implications

8. 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) Take a report to Pension Fund Committee proposing the use of derivatives in the Schroders Active Equity portfolio, and the LGPS Central Gilts segregated mandate.

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 19/08/2022)

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

Financial Comments (TMR 15/08/2022)

10. 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: Friday 22nd July 2022, **1.00 p.m.**
Location: Rufford Suite

1. Proposal on Derivatives use in the Schroders and Gilts segregated mandates

   Background – Tamsin Rabbitts

   Schroders proposal – Paul Duncombe and Olivia Docker, Schroders

   LGPS Central proposal – Vania Clayton and Gordon Ross, LGPS Central

2. Voting principles and strategy training – Valborg Lie and Patrick O'Hara, LGPS Central

NOTTINGHAMSHIRE PENSION FUND COMMITTEE
WORKING PARTY ATTENDANCE SHEET

RUFFORD SUITE

MEETING HELD ON: FRIDAY 22 July 2022 1:00

MEETING CLOSED AT:

COUNTY COUNCILLORS

Name	Signature	Name	Signature
Eric Kerry (Chairman)	In attendance	Mike Introna (Vice-Chairman)	In attendance
Andre Camilleri	In attendance	Eddie Cubley	In attendance
Sheila Place	Apologies	Bethan Eddy	In attendance
John Clarke	In attendance	Lee Waters	Apologies Due to work commitment
Stephen Garner		Francis Purdue-Horan	In attendance
Tom Smith	~~Apologies~~		[redacted]

CITY COUNCILLORS

Name	Signature	Name	Signature
Graham Chapman	Attended	Sally Longford	Apologies
Zafran Khan	Apologies		

DISTRICT COUNCIL REPRESENTATIVES

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	Apologies	Mr C King	In attendance

SCHEDULED BODIES

Name	Signature	Name	Signature
Sue Reader	Apologies		

PENSIONERS REPS

Name	Signature	Name	Signature

OTHER COUNCILLORS

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

OFFICERS

Name (Block Caps)	Signature	Name (Block Caps)	Signature
Jo Toomey		Nigel Stevenson	In attendance
Keith Palframan	In attendance	Tamsin Rabbitts	In attendance
Ciaran Guilfoyle		Sarah Stevenson	
Jon Clewes		Marj Toward	

OTHER ATTENDEES

Name (Block Caps)	Signature	Name (Block Caps)	Signature
William Bourne	In attendance		
Patrick O'Hara		Valborg Lie	

Nottinghamshire County Council

Report to Pension Fund Committee

1 September 2022

Agenda Item: 9

REPORT OF THE SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

DERIVATIVES USE IN SCHRODERS ACTIVE EQUITIES AND LGPS CENTRAL GILTS SEGREGATED MANDATES

Purpose of the Report

1. To approve the use of derivatives in the Schroders Actives Equities and LGPS Central Gilts segregated mandates for the purposes of efficient portfolio management.

Information

2. As recorded in the Investment Strategy Statement, the Pension Fund is permitted to invest in a wide range of assets and strategies, which includes using derivatives. However the Fund will not invest directly in derivatives, including currency options, without the prior approval of the Pension Fund Committee.

3. Both Schroders and LGPS Central believe it would be beneficial to the performance, cost and efficiency of the mandates if such derivative use was permitted. For both mandates use would be for the purpose of efficient portfolio management only.

4. Schroders proposes to use derivatives to adjust equity and currency exposures. Specifically, exchange traded equity index futures may be used to adjust equity exposure whilst forward foreign exchange contracts may be used to adjust currency exposures. In the case of equities, exchange-traded futures are centrally cleared and, as such, have minimal counterparty risk. In the case of FX forward, these are implemented through over-the-counter ("OTC") instruments, where counterparties are solely those approved by Schroders' credit and risk teams.

5. Both equity and currency derivatives may be used to increase or decrease exposures to equities / currencies, either for hedging purposes or to efficiently implement overweight positions, subject to three limitations:

   a. The net exposure of physical regional positions and derivatives will be limited to a maximum 3% above or below the benchmark (for example, if the Japan weight within the benchmark is 3.5% then the Japanese equity and Yen exposures are bounded between 0.5% and 6.5%);

   b. Derivatives may not be used to create a net short in an equity region or currency (for example, if the Australia weight within the benchmark is 1% then the manager may not sell more than 1% of Australian equity index futures or AUD FX forwards to create a net short);

c. Derivatives may not be used to increase net market exposure above 100% (for example if the portfolio owns 99% in physical equities then the manager cannot buy more than a net 1% in equity index futures as that would take net exposure above 100%).

6. In all cases, the manager may assume that the exposures of the regional subportfolios are in line with benchmark. This will ensure that the Schroders Multi-asset team do not hedge-out intentional stock selection tilts implemented by the regional equity managers.

7. Use of these derivatives would enable Schroders to implement Tactical Asset Allocation views on regional equity markets in a way which is much cheaper and quicker to execute than to deal in pooled funds or individual equities, and without disturbing regional equity sub portfolios managed by Schroders regional equity team.

8. LGPS Central proposes to use Exchange Traded UK gilt futures only, and use is limited to 20% of the total portfolio notional value.

9. Use of gilt futures would enable the Fund to access additional liquidity and short-term positioning at reduced cost compared to holding the underlying investments. LGPS Central would use this capability to better manage duration risk

10. The practical operation of derivative use will need to be confirmed with both managers to ensure it can be implemented within our current resourcing.

11. Use of derivatives in this way is standard industry practice.

Financial implications

12. The costs of using these financial instruments as an overlay to the portfolio will be cheaper than achieving the same market exposures solely through holding the underlying investments.

13. Implementation will be carefully controlled to minimise risk.

14. The Investment managers believe that performance after costs would be enhanced through the use of derivatives.

Other Options Considered

15. There is no requirement to use derivatives, but our investment managers believe the Pension Fund mandate performance after costs would be enhanced by including this option.

Reason/s for Recommendation/s

16. The use of derivatives in these mandates for efficient portfolio management enables investment managers to better implement their tactical market views.

Statutory and Policy Implications

17. 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. Nottinghamshire Pension Fund Committee approves amendments to the investment mandates for these two segregated mandates to permit the use of derivatives as set out in the report for the purposes of efficient portfolio management.

Nigel Stevenson
Service Director for Finance, Infrastructure & Improvement

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (KK 19/08/2022)

18. Nottinghamshire Pension Fund Committee is the appropriate body to consider the content of this report.

Financial Comments (TMR 18/08/2022)

19. The financial implications are included 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

Electoral Division(s) and Member(s) Affected

- All

Independent Adviser's Report for Nottinghamshire Pension Fund Committee

William Bourne

17th August 2022

Market commentary

1. In May I warned that the chances of stagflation, i.e. lower growth and sustained inflation, were getting higher and that this was not a comfortable environment for pension funds.

2. The most pressing problem for the authorities is inflation. The latest data shows no sign of consumer inflation peaking, and the IMF forecasts that advanced economy inflation in 2022 will average 6.6% and developing economies 9.5%. June consumer inflation was 9.1% in the U.S. and 9.4% in the U.K. Japan is the only exception, where inflation remains at around 2%.

3. Central banks and bond markets are both forecasting that inflation will fall sharply on the back of the much tighter monetary policy conditions (i.e. interest rate rises). However, the supply blockages in food and energy caused by the war in Ukraine may well result in it remaining stickily high.

4. Europe is especially hostage to restrictions on gas flowing through the Nordstream1 pipeline. At the time of writing, the flow is 20% of normal volumes, which is exactly the level at which Germany will run out of gas in spring 2023. It is hard to believe that the Russian decision to cut supplies to this level is coincidental.

5. Elsewhere countries are adjusting to the new normal, looking to increase energy production from renewables, nuclear power, and fossil fuels. It will take time to put this in place and energy prices are likely to remain elevated for some time to come. The bigger problem is food inflation. Here a combination of Russia's blockade, lack of rain in Europe, and the higher costs of energy required to produce fertilizer is likely to result in inadequate supplies for at least the next 12 months.

6. The authorities appear determined to tighten policy to lower inflation rates. The E.U. central bank has finally raised its core interest rate above zero, U.K. rates have risen to 1.75% after the most recent rise, while U.S. rates are now 2.5%. The U.S. Federal Reserve has also withdrawn over 1 trillion dollars of liquidity from bond markets.

7. The Fed. has started to signal a slightly less aggressive approach to monetary policy and will certainly reverse course when they believe inflation is tamed. It is likely that the West at least is already in recession, but even so, I doubt they are ready to change direction in the next six months. The table below gives current IMF growth forecasts for growth and inflation over the next 18 months.

GDP Real Growth (%)	World	U.S.	China	E.U.	U.K.	Developing	*Inflation*
2020	-3.1	-3.4	2.2	-6.3	-9.3	-2.0	*3.2*
2021	6.1	5.7	8.1	6.8	7.4	6.8	*4.7*
2022	3.2	2.3	3.3	2.6	3.2	3.6	*8.3*
2023	2.9	1.0	**4.6**	1.2	0.5	3.9	*5.7*

Source: IMF July 2022 World Economic Outlook

8. Since the April IMF report 2022 and 2023 growth forecasts have come down by 0.4% and 0.7% respectively, and the numbers for advanced economies' inflation have risen by 0.8% and 1%. Projected growth in the West is well below the trend at between 0.5% (U.K.) and 1.2% (Europe). The IMF comments that the risks to 2023 growth are skewed to the downside, and I agree. If Chinese growth fails to meet the 4.6% forecast (highlighted in the table), the numbers will look even grimmer.

9. In the first half of 2022, the U.S. equity market experienced its second worst January to June fall ever, as sky-high valuations corrected. Since then, markets have recovered ground: possible reasons for hope are that the sell-off has gone too far; resilient corporate earnings; or anticipation that the Fed will change tack soon. For example, U.S. companies' 2nd quarter earnings were about 10% higher than in (admittedly COVID-affected) 2021. But even within the same industry, there have been different experiences(e.g. Credit Suisse vs Citibank, Alphabet (Google) vs Microsoft.

10. Consumers are clearly in for a hard time: their disposable income will fall as more goes to food and energy; governments will be looking to find a way to raise money from the tax base and higher interest rates will result in larger mortgage payments. There will be some positive offset from greater public and private investment. For example, in the U.K. the Government is focusing on infrastructure but is also going to have to invest in other areas such as national defence and security. I suspect the level of 'on-shoring' i.e. bringing production back to the U.K. will also increase.

11. These may well be the long-term trends to follow, but in the short-term, I doubt they will be in place in time to prevent another leg down in equity markets, particularly if I am right about low economic growth. It would be normal behaviour if bond yields were to fall back further (i.e. prices rise) as investors look for safe havens.

12. Closer to home, Boris Johnson's resignation had little impact on markets. However, the choice of his successor may be more important. Truss seems to be prepared to gamble on higher growth based on tax cuts and more borrowing. Sunak would provide more comfort to markets as, despite his largesse over COVID, he is seen as – more financially responsible, but at the time of writing looks unlikely to win.

13. As I commented last quarter, the Fund should brace itself for lower returns over the next few years, and quite probably negative real returns from listed equities (53.5% allocation) at a time when the cash pay-outs to pensioners will be rising faster with inflation. However, the policy the Fund has taken over the last seven years of steadily diversifying into private markets such as infrastructure will help to mitigate both the risks of lower growth and higher inflation.

Nottinghamshire County Council

Report to Pension Fund Committee

1 September 2022

Agenda Item: 11

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.

Other Options Considered

4. None.

Reason/s for Recommendation/s

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

Statutory and Policy Implications

6. 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:
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Tel: 0115 977 4506

Constitutional Comments (HD)

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

Financial Comments (NS)

8. 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 (updated 22 August 2022)

Report Title	Brief summary of agenda item	Report Author
10 November 2022		
Climate risk metrics	Analysis from LGPS Central on position as at 31/3/22	Tamsin Rabbitts
Review of progress on the Climate Risk Action plan	6 monthly report	Tamsin Rabbitts
Proxy Voting	Summary of voting activity	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
Treasury Management mid-year report 21/22	Summary of TM activity to 30 September 2022	Ciaran Guilfoyle
Pensions Administration – Tracing Service		Sarah Stevenson / Jon Clewes
Pension Administration and transformation update report		Sarah Stevenson
Pension Dashboards	An update on Pension Dashboards	Jon Clewes
8 December 2022		
Fund Valuation & Performance – Qtr 2	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance	Independent Adviser
Fund Valuation & Performance	Detailed review of quarterly performance (exempt)	Tamsin Rabbitts
Managers Presentations	Presentations by Fund Managers (exempt)	LGPS Central and LGIM
12 January 2023 – Nottinghamshire Pension Fund Annual General Meeting		
Actuarial Issues	Barnett Waddingham LLP presentation	
Management and Financial Performance	Financial management presentation	
Investment Performance	Pensions and treasury management presentation	
Pensions administration	Presentation from the Pensions Administration team	

Presentation of the Pension Fund accounts	Formal presentation of the Pension Fund accounts to Committee before the AGM	Tamsin Rabbitts
2 March 2023		
Fund Valuation & Performance – Qtr 3	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance	Independent Adviser
Fund Valuation & Performance	Detailed review of quarterly performance (exempt)	Tamsin Rabbitts
Managers Presentations	Presentations by Fund Managers (exempt)	Schroders and Abrdn
Strategic Asset Allocation Working party report	Report on the discussions and any decisions arising from the January working party meeting on our Strategic Asset Allocation and Investment Strategy and any other issues discussed	Tamsin Rabbitts
Treasury Management Strategy 23/24	Strategy for forthcoming financial year	Ciaran Guilfoyle
Conferences and training report	Planned training and conferences for 22/23	Tamsin Rabbitts
27 April 2023		
Review of progress on the Climate Risk Action plan	6 monthly report	Tamsin Rabbitts
Climate Stewardship Report	Progress on the Fund's climate stewardship strategy	Tamsin Rabbitts
Treasury Management outturn 22/23	Summary of TM activity for year ended 31 March 2023	Ciaran Guilfoyle
Proxy Voting	Summary of voting activity	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
Report on the LAPFF conference	Report on the presentations attended at the LAPFF conference in December	Keith Palframan
Results of the triennial valuation	Report on the outcome of the triennial valuation	Tamsin Rabbitts / Jon Clewes

8 June 2023		
Fund Valuation & Performance – Qtr 4	Summary of quarterly performance	Tamsin Rabbitts
Independent Adviser's Report	Independent Adviser's review of performance	Independent Adviser
Fund Valuation & Performance	Detailed review of quarterly performance (exempt)	Tamsin Rabbitts
Managers Presentations	Presentations by Fund Managers (exempt)	LGPS Central
13 July 2023		
Proxy Voting	Summary of voting activity	Ciaran Guilfoyle
LAPFF Business Meeting	Report from LAPFF Business Meeting	Ciaran Guilfoyle
LGPS Central Pooling Update		
Annual Administration Performance Report		Jon Clewes
Local Pensions Board Annual Report		
To be placed		
Review of Work of the Pension Fund Committee and Pension Board	*Review to be conducted during Autumn 2022 with the aim of an outcome by the end of the year, subject to any impacts which may need to be addressed as a result of Government response to the Good Governance in the LGPS proposals*	Heather Dickinson / Marjorie Toward
McCloud Judgment update report		Jon Clewes
Results of GMP reconciliation		Jon Clewes
Pension Fund Review of Cyber Security – Pension Regulator Requirement		Sarah Stevenson / Jon Clewes

Nottinghamshire County Council

Report to Pension Fund Committee

1 September 2022

Agenda Item: 12

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 30 June 2022.

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 30 June 2022 in comparison with the benchmark, together with the comparative position 3 and 12 months previously. The benchmark is a long-term target which the fund will move towards over the next year.

	Latest Quarter		Long term	Previous Quarter		Previous Year	
	31 March 2022		**Benchmark**	**31 March 2022**		**30 June 2021**	
	£m	%		£m	%	£m	%
Growth	3,683	58.6%	60%	3,985	60.6%	4,208	65.9%
Inflation Protection	1,660	26.4%	28%	1,583	24.1%	1,307	20.5%
Income	649	10.3%	10%	699	10.6%	632	9.9%
Liquidity	292	4.6%	2%	311	4.7%	241	3.8%
	6,283	**100.0%**	**100%**	**6,578**	**100.0%**	**6,388**	**100.0%**

4. Liquidity includes the Fund's short bond portfolio which is designed to return cash to the Fund over the next few years as commitments to less liquid investments are called.

5. Within Inflation Protection are investments in Infrastructure assets amounting to £421.0m or 6.7% of the fund. If funds committed but not yet drawn down are included, the allocation to infrastructure would total 9.7% of the fund. Following the decisions made by Pension Fund

Committee in March 22 there is a long-term target for investments in infrastructure to be 9.8% of the fund.

6. The table below shows the detailed breakdown by portfolio of the Fund as at 30 June 2022 together with the total value of each portfolio at the previous quarter end.

	Core Index		Schroders		LGPS Central		Aegon S		Abrdn		Specialist		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Growth														
UK Equities	413.6	35%	647.2	40%	0.0	0%					0.0	0%	1,060.8	**17%**
Overseas Equities														
North America	237.6	20%	556.1	34%							0.0	0%	793.7	13%
Europe	221.7	19%	113.5	7%							152.9	10%	488.1	8%
Japan	113.1	10%	56.6	3%							72.2	5%	241.9	4%
Pacific	117.9	10%	48.3	3%									166.2	3%
Emerging Markets	80.6	7%	97.4	6%	133.1	12%					0.0	0%	311.1	5%
Global	0.0	0%	64.6	4%	318.7	29%					0.0	0%	383.3	6%
	770.9	65%	**936.5**	57%	**451.8**	41%					**225.1**	14%	**2,384.3**	**38%**
Private Equity					19.4	2%					218.3	14%	237.7	**4%**
Inflation protection														
Property														
UK Commercial									427.1	65%			427.1	7%
UK Commercial - Local									38.3	6%			38.3	1%
UK Strategic Land									32.7	5%			32.7	1%
Pooled - UK									36.4	6%	225.9	14%	262.3	4%
Pooled - Overseas									118.9	18%	31.4	2%	150.3	2%
									653.4		**257.3**	16%	**910.7**	**14%**
Infrastructure					44.4	4%					376.7	24%	421.1	**7%**
Inflation Linked											327.7	21%	327.7	**5%**
Income														
UK Bonds														
Gilts					147.8	13%							147.8	2%
Corporate Bonds														
					147.8	13%							**147.8**	**2%**
Overseas Bonds														
Corporate Bonds					301.9	27%							301.9	5%
					301.9	27%							**301.9**	**5%**
Credit					138.0	13%					61.5	4%	199.5	**3%**
Liquidity														
Cash/Currency	0.0	0%	54.3	3%	0.1	0%	0.0	0%	0.0		105.1	7%	159.5	**3%**
Short bonds							132.1	100%					132.1	2%
Total	**1,184.5**	19%	**1,638.0**	26%	**1,103.4**	18%	**132.1**	2%	**653.4**	10%	**1,571.7**	25%	**6,283.1**	
Previous Qtr Totals	1,274.5	19%	2,065.6	31%	854.6	13%	149.4	2%	652.1	10%	1,581.8	24%	6,578.0	

7. The value of the Fund's investments has decreased by £294.9 million (4.5%) since the previous quarter as inflationary fears and central bank activities impacted confidence. Over the last 12 months the value has increased by £104.9 million (1.6%).

8. The table below shows the first quarter Fund Account for 2022/23 with the unaudited full year figures for 2021/22.

Summary Fund Account	Q1 2022/23 £000	Full Year 2021/22 £000
Employer contributions	(31,899)	(165,539)
Member contributions	(7,226)	(51,127)
Transfers in from other pension funds	(2,240)	(5,859)
Pensions	49,634	186,770
Commutation of pensions and lump sums	10,149	34,297
Lump sum death benefits	1,640	6,945
Payments to and on account of leavers	4,512	8,893
Net (additions)/withdrawals from dealings with members	**24,570**	**14,380**
Administration Expenses	**7**	**3,246**
Oversight & governance expenses	**(240)**	**1,531**
Investment Income	(5,242)	(100,016)
Profits & losses on disposals & changes in value	299,006	(1,069,819)
Taxes on income	205	295
Investment management expenses	104	5,457
Net Returns on Investments	**294,073**	**(1,164,083)**
Net (increase)/decrease in net assets	**318,410**	**(1,144,926)**

Sustainable investments and fossil fuels

9. The Pension Fund has been asked to publish figures showing the Fund's direct and indirect holdings of fossil fuel companies together with the Fund's investments in Sustainable equities and renewable energy.

10. This data is published together with detailed caveats below. It is anticipated that these figures will show a gradual increase in investment in Sustainable equities and renewable energy. It is further anticipated that investments in fossil fuels will decrease as a proportion of the Fund over time. However fossil fuel holdings will vary from quarter to quarter in Schroders (direct) portfolio as investments are made based on Schroders assessments of market opportunities. Valuations will also change from quarter to quarter in both categories due to changes in share prices which are highly correlated to the oil price. Consequently this downward trend is unlikely to be smooth.

	Latest Quarter		Previous Quarter		Previous Year	
	30 June 2022		31 March 2022		30 June 2021	
	£m	% of Fund	£m	%	£m	%
Schroders Fossil fuel	102.9	1.56%	129.4	1.97%	71.4	3.66%
Other Fossil fuel	85.3	1.30%	82.1	1.25%	84.4	1.32%
Total Fossil fuel	188.1	2.86%	211.5	3.21%	155.7	2.44%
Sustainable & Renewable	747.6	11.37%	486.4	7.39%	257.0	4.02%

11. In the most recent quarter oil and gas supply continues to be constrained, which has increased energy prices globally. In the longer term this should speed the transition as a high oil price incentivises alternatives and investment to reduce consumption. However in the short term this has increased prices and hence valuations of both Oil and Gas holdings and renewable energy investments in the Fund. Despite reducing their total holding Schroders gained just over £1m on their Oil and Gas holdings during the quarter.

12. Schroders hold a number of Oil and Gas companies within the Active Equity portfolio. Sustainability forms part of their criteria in assessing companies for investment. For example one of their holdings, Equinor, develops not only oil but gas, wind and solar energy.

13. The 'Other Fossil fuel' category is almost entirely the Energy sector in our passive portfolio and will reflect the share of the index relating to Energy. Despite the removal of Russian shares from the index and the write off of holdings in some the Oil majors, the increased oil price has increased the value of our passive holdings. It should be noted that the Energy sector includes any renewable energy companies within the index, and that some oil and gas producers are also involved in the production of biofuels, hydrogen, wind power and solar energy, so have a renewables element. As a result of these two factors the figure for fossil fuels is likely to be overstated, and the figure for renewables understated.

14. Equally there will be some companies such as those in the mining sector which do not fall within this category but may produce for example coal which would not be included in these figures.

15. For this reason, while the data provided should show the Fund's exposure to fossil fuels reducing over time, it can only be an indicative part of our risk monitoring and does not provide the full picture.

16. A more thorough assessment of the Fund's equity investments is provided by LGPS Central's 2021 carbon risk analysis which assesses the carbon footprint and weight in fossil fuel and coal reserves. The metric for exposure to clean technology is less informative as most of the Fund's investment in this area is through infrastructure funds which are not covered by the analysis. The analysis confirmed that our carbon footprint and fossil fuel and coal reserves are lower than the benchmark. As the Fund implements our long-term investment strategy these figures are projected to reduce, reflecting some further mitigation of climate change risk.

17. The 'sustainable and renewable energy' investment figure contains more estimates. The figure includes nine specific investments – the Renewables Infrastructure Group, Impax Environmental, Aegon Sustainable Diversified Growth Fund, the three LGPS Central Global Sustainable Equity funds which were new investments during the quarter, and four renewable energy infrastructure investments – Capital Dynamics Clean Energy Infrastructure VIII, Green Investment Bank's Offshore Wind Fund, Langar Lane Solar Farm and the LGPS Central Infrastructure fund where the first investment is in a renewable energy infrastructure fund.

18. An estimate of the renewable energy investments within the Fund's other infrastructure funds was added to these identified investments. Not all funds identified this as a sector in their reporting so this data is incomplete. Furthermore because of the longer reporting cycle for unlisted investments the estimate was based on both valuations and percentages from earlier in the year, so this figure can only be considered indicative, but is likely to be an underestimate.

19. It can be seen that the Fund's investments in Sustainable Equities and Renewable Energy is now several times higher than those in Fossil Fuel investments. A gradual increase in the amount invested in this area has been demonstrated over the last year and this will increase as our Strategic Asset allocation is implemented. A step change has occurred this quarter as the LGPS Central Global Sustainable Equity funds were launched.

20. Because of the way they are calculated, these numbers will only ever be indicative, but are helpful for the pension fund in identifying risk and progress.

Core Index Portfolio

21. 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).

	30 June 2022			**31 March 2022**	
	Portfolio		**B/Mark**	**Portfolio**	
	£000	**%**	**%**	**£000**	**%**
UK Equities	413,624	34.9%	35%	435,415	34.2%
Overseas Equities:	770,808	65.1%	65%	839,065	65.8%
North America	237,574	20.1%	20%	262,857	20.6%
Europe	221,717	18.7%	20%	243,048	19.1%
Japan	113,067	9.6%	10%	121,170	9.5%
Pacific Basin	117,856	10.0%	10%	129,086	10.1%
Emerging Markets	80,594	6.8%	5%	82,904	6.5%
Cash	0	0.0%	0%	0	0.0%
Total	**1,184,432**			**1,274,480**	

22. The table below summarises transactions during the quarter.

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

Schroder Investment Management Portfolio

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

	30 June 2022			**31 March 2022**	
	Portfolio		**B/Mark**	**Portfolio**	
	£000	**%**	**%**	**£000**	**%**
UK Equities	647,150	39.5%	40.0%	924,559	44.8%
Overseas Equities	936,494	57.2%	59.5%	1,090,544	52.8%
North America	556,054	33.9%	36.3%	641,504	31.1%
Europe	113,513	6.9%	7.0%	138,607	6.7%
Japan	56,577	3.5%	3.5%	69,171	3.3%
Pacific Basin	48,266	2.9%	2.9%	54,530	2.6%
Emerging Markets	97,446	5.9%	5.8%	107,687	5.2%
Global Small Cap	64,638	3.9%	4.0%	79,045	3.8%
Cash	54,341	3.3%	0.5%	50,526	2.4%
Total	**1,637,985**			**2,065,629**	

24. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	9,965	259,930	-249,965
Overseas Equities			
North America	71,380	93,247	-21,867
Europe	17,588	27,450	-9,862
Japan	4,096	12,545	-8,449
Pacific Basin	0	3,638	-3,638
Emerging Markets	0	4,230	-4,230
Global Small Cap	0	6,704	-6,704
Totals	**103,029**	**407,744**	**-304,715**

The net sales shown reflect the transition from the Schroders portfolio to the LGPS Central Global Sustainable Equity funds.

LGPS Central

25. The table below summarises the valuation by asset class of investments managed by LGPS Central. The proportional holdings are also shown. However the 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 March 2022 Portfolio £000	%	31 March 2022 Portfolio £000	%
Global equity	318,695	29%	42,112	5%
EM equity active	133,131	12%	117,113	14%
Corporate bonds	301,882	27%	299,247	35%
Gilts	147,836	13%	193,725	23%
Private Equity	19,419	2%	19,243	2%
Infrastructure	44,376	4%	32,500	4%
Credit	137,980	13%	150,585	18%
Cash	107	0%	89	0%
Total	**1,103,426**		**854,614**	

26. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	3,290	32,576	-29,286
Corporate Bonds	30,000		30,000
Equities			
UK	0		0
Global	321,667		321,667
Emerging Markets	20,000		20,000
Private Equity	-435		-435
Infrastructure	9,925		9,925
Credit			0
Totals	**384,447**	**32,576**	**351,871**

There were a number of movements during the quarter reflecting the investment in the Global Sustainable Equity fund, some rebalancing from gilts to corporate bonds, an additional investment in Emerging Market Equities to offset our underweight, and another £9.9m of the Infrastructure fund commitment has been drawn. A further commitment was made during the quarter. The remaining committed capital will be drawn over the next few years.

Abrdn (previously Aberdeen Standard Investments)

27. 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
07/04/2022	Second Floor, Finlay House 10-14 West Nile Street, Glasgow	Assignation and Variation
07/04/2022	Bensons for Beds, Unit 3 Technology Retail Park, Rugby	Deed of Surrender
21/04/2022	Concorde Park, Segensworth, Fareham	Rent Deposit Deed
22/04/2022	Sheepscar Way, Leeds	Sale of property
27/04/2022	Land and Buildings on the South Side of Brookside Way, Huthwaite	Licence to Underlet
13/05/2022	Unit 3 Richardson Way, Coventry	New lease
18/05/2022	201 and 202 Bridlesmith Gate	Dilapidations Settlement Agreement
19/05/2022	202 and 202 Bridlesmith Gate	Sale
30/05/2022	Concorde Park, Segensworth, Fareham	New lease
14/06/2022	Macon Way, Crewe	Rent Concession
29/06/2022	Concorde Park, Concorde Way, Fareham	Additional Electricity Substation

Specialist Portfolio

28. 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.

	30 June 2022		31 March 2022	
	£000	**%**	**£000**	**%**
Private Equity	218,300	14.9%	278,800	19.0%
Infrastructure	376,700	25.7%	358,300	24.4%
Credit	61,500	4.2%	55,600	3.8%
Property Funds	257,300	17.5%	193,000	13.1%
Aegon DGF	327,700	22.3%	346,600	23.6%
Equity Funds	225,100	15.3%	238,000	16.2%
Total	**1,466,600**		**1,470,300**	

The reduction in Private Equity is largely the result of the reclassification of the Darwin funds at the beginning of the new year. The Darwin Bereavement fund is now categorised as infrastructure and the Darwin Leisure funds are now included in property as agreed at the Pension Fund Committee meeting in March.

29. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	1,406	1,810	-404
Infrastructure	-5,500		-5,500
Credit			0
Property Funds		1,271	-1,271
Aegon DGF	20,000		20,000
Equity Funds	-30		-30
Totals	**15,876**	**3,081**	**12,795**

30. A further investment was made in the Aegon Sustainable Diversified Growth Fund to reflect the increased strategic asset allocation to Inflation linked funds approved by committee in March.

Responsible Investment Activity

31. 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.

32. 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 .

33. 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 .

34. LAPFF (Local Authority Pension Fund Forum) have engaged with a number of companies during the quarter. More information can be found in their quarterly engagement report which can be accessed on the Fund's (or on LAPFF's) website. LAPFF business meetings were attended.

35. Responsible investment considerations run through everything done by the Fund and there have been many specific actions taken during the quarter. The transition into the LGPS Central Global Sustainable Equity Active Fund took place.

36. Regular investment monitoring meetings included a review of responsible investment by the funds being scrutinised.

Statutory and Policy Implications

37. 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) It is recommended that Members consider whether there are any actions they require in relation to the issues contained within the report.

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Constitutional Comments

38. 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 18/08/2022)

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