

10 December 2020
Agenda Item: 7

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 September 2020.

Information

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 Some information relating to this report is not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.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 September 2020 in comparison with the benchmark, together with the comparative position 3 and 12 months previously. The benchmark was reviewed and changed early in 2019. This is a long-term target and it will take some years to achieve it.

	Latest Quarter		Long term	Previous Quarter		Previous Year	
	30 September 2020		Benchmark	30 June 2020		30 September 2019	
	£m	%		£m	%	£m	%
Equities							
Quoted	3,169	57.1%	56%	3,107	56.7%	3,389	59.6%
Private	552	9.9%	12%	546	10.0%	505	8.9%
Property	683	12.3%	15%	721	13.2%	733	12.9%
Bonds							
Gilts	210	3.8%	2%	213	3.9%	193	3.4%
Other Bonds	677	12.2%	10%	676	12.3%	687	12.1%
Credit	47	0.8%	3%	46	0.8%		
Cash	213	3.8%	2%	169	3.1%	181	3.2%
	5,551	100%	100%	5,478	100%	5,687	100%

4. Within Equities (both quoted and private) and Other Bonds are investments in Infrastructure assets amounting to £325.9m or 5.9% of the fund. Including infrastructure commitments made but not drawn down gives a total amount of 6.4% of the fund. There is a long term target for investments in infrastructure to be 8% of the fund.

5. The table below shows the detailed breakdown by portfolio of the Fund as at 30 September 2020 together with the total value of each portfolio at the previous quarter end.

	Core Index		Schroders		LGPS Central		Kames S		Aberdeen		Specialist		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
UK Bonds														
Gilts					210.0	31%	0.0	0%					210.0	4%
Corporate Bonds							145.6	100%					145.6	3%
					210.0	31%	145.6	100%					355.6	6%
Overseas Bonds														
Corporate Bonds					316.8	47%	0.0	0%					316.8	6%
					316.8	47%	0.0	0%					316.8	6%
Inflation Linked											213.5	15%	213.5	4%
UK Equities	471.9	38%	750.1	49%	8.1	1%					44.7	3%	1,274.8	23%
Overseas Equities														
North America	296.6	24%	454.2	29%							1.3	0%	752.1	14%
Europe	188.7	15%	121.9	8%							110.9	8%	421.5	8%
Japan	113.0	9%	73.4	5%							115.8	8%	302.2	5%
Pacific	102.9	8%	43.5	3%									146.4	3%
Emerging Markets	75.1	6%	71.6	5%	93.1	14%					0.0	0%	239.8	4%
Global	0.0	0%			32.5	5%					0.0	0%	32.5	1%
	776.3	62%	764.6	50%	125.6	19%					228.0	16%	1,894.5	34%
Private Equity					6.9	1%					219.8	16%	226.7	4%
Infrastructure											325.9	23%	325.9	6%
Credit											46.5	3%	46.5	1%
Property														
UK Commercial									383.2	70%			383.2	7%
UK Commercial - Local									22.0	4%			22.0	0%
UK Strategic Land									4.4	1%			4.4	0%
Pooled - UK									28.0	5%	132.9	10%	160.9	3%
Pooled - Overseas									111.9	20%	1.0	0%	112.9	2%
									549.5		133.9	10%	683.4	12%
Cash/Currency	4.8	0%	28.9	2%	0.3	0%	0.0	0%	0.0		179.0	13%	213.0	4%
Total	1,253.0	23%	1,543.6	28%	667.7	12%	145.6	3%	549.5	10%	1,391.3	25%	5,550.7	
Previous Qtr	1,244.8	23%	1,483.7	27%	659.2	12%	157.6	3%	589.1	11%	1,343.9	25%	5,478.3	

6. The Fund investments have increased by £72.4 million (1.3%) since the previous quarter as the market has continued to recover. However, Fund investments have decreased by £136.4 million (-2.4%) over the last 12 months which indicates the depth of the market shock experienced in March.

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

Summary Fund Account	Q2 2020/21 £000	Full Year 2019/20 £000
Employer contributions	(95,652)	(137,261)
Member contributions	(21,165)	(47,906)
Transfers in from other pension funds	(2,836)	(9,655)
Pensions	89,525	171,375
Commutation of pensions and lump sums	14,595	35,699
Lump sum death benefits	2,775	5,050
Payments to and on account of leavers	4,157	13,657
Net (additions)/withdrawals from dealings with members	(8,601)	30,959
Administration Expenses	89	2,176
Oversight & governance expenses	247	1,460
Investment Income	(26,239)	(130,410)
Profits & losses on disposals & changes in value	(84,404)	483,224
Taxes on income	129	247
Investment management expenses	909	4,995
Net Returns on Investments	(109,605)	358,056
 Net (increase)/decrease in net assets	 (117,870)	 392,651

Core Index Portfolio

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

	30 September 2020			30 June 2020	
	Portfolio	B/Mark		Portfolio	
	£000	%	%	£000	%
UK Equities	471,935	37.7%	40.0%	485,703	39.0%
Overseas Equities:	776,392	61.9%	59.5%	754,478	60.6%
North America	296,614	23.7%	18.0%	283,845	22.7%
Europe	188,730	15.0%	18.0%	186,035	15.0%
Japan	113,025	9.0%	9.0%	110,457	8.9%
Pacific Basin	102,895	8.2%	9.0%	102,077	8.2%
Emerging Markets	75,128	6.0%	5.5%	72,064	5.8%
Cash	4,757	0.4%	0.5%	4,604	0.4%
Total	1,253,084			1,244,785	

9. The table below summarises transactions during the quarter.

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

There were no purchases or sales this quarter.

Schroder Investment Management Portfolio

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

	30 September 2020			30 June 2020	
	Portfolio £000	%	B/Mark %	Portfolio £000	%
UK Equities	750,105	48.6%	50.0%	710,900	47.9%
Overseas Equities	764,631	49.5%	49.5%	760,617	51.3%
North America	454,235	29.4%	28.9%	441,283	29.7%
Europe	121,852	7.9%	8.3%	129,452	8.7%
Japan	73,409	4.8%	4.7%	71,330	4.8%
Pacific Basin	43,521	2.8%	3.0%	44,220	3.0%
Emerging Markets	71,614	4.6%	4.6%	74,332	5.0%
Cash	28,917	1.9%	0.5%	12,213	0.8%
Total	1,543,653			1,483,730	

11. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
UK Equities	42,344	16,892	25,452
Overseas Equities			
North America	47,201	63,650	-16,449
Europe	21,147	3,854	17,293
Japan	3,934	30,428	-26,494
Pacific Basin	0		0
Emerging Markets	0	6,533	-6,533
Totals	114,626	121,357	-6,731

LGPS Central

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

	30 September 2020		30 June 2020	
	Portfolio		Portfolio	
	£000	%	£000	%
UK Passive	8,115	1%	8,354	1%
Global equity	32,530	5%	31,394	5%
EM equity active	93,113	14%	89,240	13%
Corporate bonds	316,824	47%	311,592	47%
Gilts	209,996	31%	212,709	32%
Private Equity	6,905	1%	5,639	1%
Cash	279	0%	269	0%
Total	667,762		659,197	

13. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Bonds			
Gilts	661	0	661
Corporate Bonds	0		0
Equities			
UK	0	0	0
Emerging Markets	0		0
Global	0		0
Private Equity	617		617
Totals	1,278	0	1,278

Aberdeen Standard Investments (ASI)

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

Date	Property	Transaction
09/07/2020	Homebase, Woodgate Drive, Streatham	Sale of property
28/07/2020	Forward Drive, Harrow	Wayleave Agreement
29/07/2020	21 Leicester Street, Northwich	Licence for Alterations
30/07/2020	Woodyard Lane, Wollaton, Nottingham	DS1 removal of Charge
30/07/2020	20-24 Kirby Street and 99-103 Saffron Hill, Holborn, London	Wayleave Agreement
17/08/2020	Homebase, Woodgate Drive, Streatham	Sale of property
21/08/2020	Unit 14, The Interchange, Huntingdon	Engrossment lease Licence to access premises
28/08/2020	Gala Bingo, Banbury	Rent concession
17/09/2020	20-24 Kirby Street, London	Rent concession
25/09/2020	Unit 1, Brooke Park, Handforth, Cheshire	Deeds of assignment
28/09/2020	Queen Street, Cardiff	Rent concession
30/09/2020	Unit 3, Technology Retail Park, Rugby	

Specialist Portfolio

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

	30 September 2020		30 June 2020	
	£000	%	£000	%
Private Equity	219,800	18.1%	219,900	18.5%
Infrastructure	325,900	26.9%	321,100	26.9%
Credit	46,500	3.8%	45,900	3.9%
Property Funds	133,900	11.0%	131,900	11.1%
Kames DGF	213,500	17.6%	206,200	17.3%
Equity Funds	272,700	22.5%	266,600	22.4%
Total	1,212,300		1,191,600	

16. The table below summarises transactions within the quarter.

Sector	Purchases £000	Sales £000	Net Purchases £000
Private Equity	2,694	1,079	1,615
Infrastructure	500		500
Credit			0
Property Funds	1,336	0	1,336
Kames DGF	0		0
Equity Funds	73		73
Totals	4,603	1,079	3,524

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

Date	Investment	Transaction
05/08/2020	Phico Therapeutics transfer to BGF Fund	Limited Partnership agreement, share certificate indemnity and stock transfer forms

Responsible Investment Activity

18. 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.

19. 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>.

20. 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. During the quarter officers have worked with LGPS Central to provide more detail on voting activity. The first detailed

report has now been published on our website and this format will be continued in future quarters. This can be found here <https://www.nottspf.org.uk/about-the-fund/investments> .

21. LAPFF have engaged with a number of companies during the quarter (principally Rio Tinto, BHP, Tesco, Sainsbury, ArcelorMittal and National Grid). More information can be found in their quarterly engagement report which can be accessed on the Fund's (or on LAPFF's) website. LAPFF have also responded to consultations on ending the sale of new petrol, diesel and hybrid cars and vans, revisions to IAS1, PRI Human Rights Framework, proposal on climate-related disclosures and the IIGCC Paris Aligned Investment Initiative: Net Zero Investment Framework. The detailed responses can be found on the LAPFF website. In addition, a policy statement has been issued on deforestation. An officer attended the LAPFF business meeting on 15th July. This was reported to committee in October.
22. Responsible investment considerations run through everything done by the Fund and there have been many specific actions taken during the quarter. Members and officers attended the LGPS Central Responsible Investment Summit. A number of officer meetings have been held to develop the LGPS Central Infrastructure Fund which will include some investment in renewable energy generation. There was an officer meeting with FTSE Russell and LGPS Central to better understand the Climate Multi Factor fund. Officers attended a webcast on the results of TRIG (The Renewable Infrastructure Group). The Climate Risk report produced by LGPS Central required detailed review and training was provided by LGPS Central at a Working Party meeting in September for the whole committee and officers. Introductory sessions and quarterly monitoring meetings were held with the investment managers who will be on the West Midlands Sustainable Equities framework, attended by an officer and the independent adviser. As reported at the October meeting, the LAPF Investment Forum was attended in August and included a number of sessions on responsible investment.

Statutory and Policy Implications

23. 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

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

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

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Constitutional Comments

24. 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 18/11/2020)

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

Background Papers

None

Electoral Division(s) and Member(s) Affected

All